BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

- - -

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 Monday, June 16, 2014.

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VOLUME X

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1 Monday Morning Session,
2 June 16, 2014.
3 - - -
4 EXAMINER PARROT: Let's go on the record.
5 Good morning, everyone. Let's start with brief
6 appearances starting with Ohio Power Company and
7 working our way around the table.
8 MR. NOURSE: Thank you, your Honor. On
9 behalf of Ohio Power Company, Steven T. Nourse,
10 Matthew J. Satterwhite, Daniel R. Conway.
11 MR. BERGER: Good morning, your Honor.
12 On behalf of the Office of the Ohio Consumers'
13 Counsel, Tad Berger, Joe Serio, and Maureen Grady.
14 Thank you.
15 MR. DARR: On behalf of IEU-Ohio, Frank
16 Darr and Matthew Pritchard.
17 MR. PARRAM: Good morning, your Honor.
18 On behalf of the staff of the Public Utilities
19 Commission of Ohio, Devin Parram, Werner Margard, and
20 Katie Johnson.
21 MR. KURTZ: Good morning, your Honors.
22 For OEG Mike Kurtz.
23 MS. BOJKO: Good morning, your Honors.
24 On behalf of Ohio Manufacturers' Association, Kim
25 Bojko, Rebecca Hussey, and Mallory Mohler.

MS. PETRUCCI: Good morning. On behalf of Retail Energy Supply Association, Exelon Generation, LLC, and Constellation NewEnergy, M. Howard Petricoff, Stephen Howard, and Gretchen Petrucci.

EXAMINER PARROT: Thank you, everyone.

Please raise your right hand.

(Witness sworn.)

EXAMINER PARROT: Have a seat, thank you.

Mr. Kurtz.

MR. KURTZ: Thank you, your Honor.

- - -

STEPHEN J. BARON

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

DIRECT EXAMINATION

By Mr. Kurtz:

Q. Would you state your name for the record, please.

A. Yes, Stephen J. Baron.

Q. And your business address?

A. 570 Colonial Park Drive, Suite 305, Roswell, Georgia 30076.

Q. Mr. Baron, do you have in front of you your direct testimony as modified by the Commission's

1 motions to strike various portions of your testimony?
2 A. Yes, I do.
3 Q. Was that testimony prepared by you or
4 under your direct supervision?
5 A. Yes, it was.
6 Q. If I were to ask you the same questions
7 as those contained therein, would your answers be the
8 same?
9 A. Yes, they would.
10 MR. KURTZ: Your Honor, could we have
11 this marked as OEG Exhibit 2, and I'd move for the
12 admission of Mr. Baron's testimony subject to cross.
13 EXAMINER PARROT: The exhibit is so
14 marked.
15 (EXHIBIT MARKED FOR IDENTIFICATION.)
16 EXAMINER PARROT: Thank you, Mr. Kurtz.
17 Any questions, Ms. Petrucci?
18 MS. PETRUCCI: No questions.
19 EXAMINER PARROT: Ms. Bojko?
20 MS. BOJKO: I do, your Honor.
21 - - -
22 CROSS-EXAMINATION
23 By Ms. Bojko:
24 Q. Good morning, Mr. Baron. My name is Kim
25 Bojko and I represent the Ohio Manufacturers'

1 Association here today.
2 A. Good morning.
3 Q. On page 7 of your testimony you state
4 that there are three large customers currently
5 participating in the IRP-D for AEP Ohio. Do you see
6 that?
7 A. Yes.
8 Q. And that, sir, was based on
9 Mr. Spitznogle's testimony in his chart on page 2 of
10 his testimony; is that true?
11 A. Is there a particular reference?
12 The answer is it was based on some
13 testimony and discovery but I'm aware I think as of
14 January there will only be two customers -- or, there
15 are only two.
16 Q. Sir, do you know whether AEP is bidding
17 the IRP load into the PJM capacity auctions?
18 A. Well, in the past until this most recent
19 auction AEP Ohio was an FRR company and so the
20 interruptible load was credited with PJM but,
21 essentially, it was credited as a resource for AEP to
22 use in their -- as an FRR resource, is my
23 understanding.
24 With respect to the most recent auction,
25 I don't know.

1 Q. And your understanding is that the
2 Commission directed AEP in the ordering paragraph
3 that you cite from the ESP 2 order, 11-346-EL-SSO, on
4 page 8 of your testimony, it's your understanding
5 that the Commission ordered AEP to bid that
6 additional capacity resource into the base residual
7 auction?
8 A. Yes. And because -- it's my
9 understanding that AEP has done the equivalent of
10 that in recognition of their prior FRR status.
11 Q. Okay. Is it --
12 A. Or their current, really their FRR status
13 today.
14 Q. Is it your understanding that AEP will
15 get compensated for that?
16 A. It's my general understanding that
17 there's an implicit compensation in the sense that
18 AEP can make use of that capacity to meet its FRR
19 obligation. I don't -- I'm not -- I don't believe,
20 but I'm not a hundred percent certain, but I don't
21 believe that under the FRR arrangement the company
22 would actually bid it into -- they would not bid it
23 into the BRA and, therefore, there would not be
24 dollar transfers but, essentially because the company
25 is able to make use of that capacity to meet its FRR

1 obligation, there's an implicit benefit.
2 Q. And if the company does bid it into the
3 base residual auction as ordered by the Commission
4 and as stated on page 19 of your testimony, you would
5 expect that any compensation received by AEP would be
6 in turn credited to the rider where the IRP credit is
7 collected.
8 A. Yes. Absolutely. In fact, I'm
9 recommending that that be credited as an offset to
10 the cost of providing the credit so that, yes, any
11 revenues AEP should -- my recommendation would be
12 that AEP maximize the value of that interruptible
13 load with respect to the PJM program, demand response
14 programs and other opportunities, and that those
15 revenues be credited to offset the costs of the
16 program, of funding the credit, and those revenues
17 would come in as a credit, an offset, in the EE/PDR
18 tariff or any other mechanism where those
19 interruptible credits or costs are being recovered.
20 Q. And at the time that you drafted your
21 prefiled written testimony, that was your assumption,
22 that they were bidding it into the base residual
23 auction and that they were receiving payment for such
24 and that they then in turn would credit it against
25 the rider.

1 A. I don't remember. I think that probably
2 is the case, but I now understand that because of the
3 FRR mechanism the company essentially, under the FRR
4 AEP has an obligation to meet certain capacity
5 requirements, and to the extent that PJM recognizes
6 the interruptible load as credited capacity,
7 interruptible or demand response capacity, that can
8 be used to offset that obligation. So it's
9 essentially the same thing. It means that the
10 company has additional capacity to meet its
11 obligation.
12 But I -- so that is something that I
13 recently did learn. But going forward under ESP 3
14 the company would be in a position to monetize
15 credits for -- or maximize the use of that
16 interruptible load and those revenues should be
17 credited.
18 Q. Where, sir, is AEP collecting the current
19 IRP credit from other customers? In what mechanism
20 do they -- do they obtain that recovery for that
21 credit?
22 A. My recollection is that the Commission in
23 the ESP 2 order, I don't know whether they ordered
24 the company but there was a discussion of recovering
25 that through the -- those credits through the EE/PDR

1 mechanism.
2 Q. Okay. And is it OEG's position that they
3 should continue to collect that IRP credit from the
4 EE/PDR rider?
5 A. Yes. Though OEG would not object if a
6 portion of the credit, cost of the credit, would be
7 collected in another AEP rider such as the economic
8 development rider, because to some extent there are
9 elements, you know, clearly we recognize that there
10 are elements of the -- of our proposal to continue an
11 interruptible credit mechanism that have economic
12 development features for Ohio.
13 AEP Ohio would -- if there was no
14 mechanism as we're proposing, AEP Ohio would be the
15 only major electric utility in Ohio that does not
16 have some interruptible load program. FirstEnergy,
17 as I discussed in my testimony, has a program and
18 it's my understanding that many if not all of the
19 large arc furnace loads, for example, are on that
20 program. Duke Energy has a program that I discussed
21 in my testimony. So this would be consistent with
22 the Commission's prior policies.
23 Q. And we can get to those later but I'm
24 trying to focus on the recovery mechanism, and I
25 believe that you heard or you stated that a portion

of it should be collected through the economic development. I mean, as I read your testimony, you're recommending that it be collected from the EE/PDR and now you're stating a portion may be collected through the economic development rider. How about the totality of the rider be collected from an economic development rider?

A. The recommendation that I made in my testimony was to recover the entirety of it through the EE/PDR. What I said, I think, in answer to your question, or at least I intended to say, was that OEG would not object to some portion -- if the Commission chose to do that, it would certainly not object to some portion of that, instead of a hundred percent, being collected in the EE/PDR, a portion could reasonably be collected in another rider such as the economic development rider.

Q. And would you or OEG object to a hundred percent being recovered through an economic development rider?

A. No.

Q. You keep saying a portion so I don't --

A. To the best of my knowledge, I don't think OEG would object to that. The principle, obviously -- our principle concern is that the

1 Commission adopt the policy and the recommendation to
2 continue an interruptible credit.
3 Q. And, sir, you have testified on this
4 issue in the last AEP ESP case, 11-346-EL-SSO; is
5 that correct?
6 A. Yes.
7 Q. And in that proceeding it's my
8 understanding that OEG was a signatory party to a
9 stipulation that it signed in September 7th, 2011,
10 where it recommended the same IRP credit of $8.21 a
11 kW; is that correct?
12 A. Yes.
13 Q. And is it your understanding that that
14 stipulation recommended that only incremental costs
15 associated with the IRP credit be collected from
16 customers through the economic development rider?
17 A. I don't have it in front of me so I
18 can't -- I'd have to review it to answer that
19 question.
20 Q. Do you have a recollection of the
21 estimate that the signatory parties made at the time
22 of the stipulation that the IRP was going to
23 equate -- the credit would be approximately
24 $5 million per year?
25 A. Again, I don't have a recollection of

1 that. I'm not disputing it, I don't have -- I
2 haven't reviewed that.
3 Q. But it's your understanding that OEG
4 supported that settlement of that IRP credit and the
5 mechanism that was contained in the stipulation; is
6 that accurate?
7 A. Yes, it is.
8 Q. Okay. Are you aware, sir, that AEP
9 recently filed a rider proceeding to collect the IRP
10 over that ESP 2 period 2012 through 2014 and the
11 costs were equivalent to $45 million?
12 A. I have been informed of that, yes, I
13 have.
14 Q. Is it your understanding, sir, that --
15 A. Well, the 45 million, as I understand it,
16 just to clarify, was the accrued accumulated
17 deferrals associated with the credits, but I have not
18 read the filing.
19 Q. Well, since you modified your answer --
20 A. Well, I was trying to clarify it to make
21 sure that we were not talking about an annual amount
22 but I -- that's my understanding.
23 MS. BOJKO: I'm sorry. We had an
24 exhibit, I was trying to locate the prior exhibit, if
25 you'll give me just one minute.

I'm sorry. It's OMA Exhibit 5. I had a whole stack of them last week.

MR. DARR: I've got mine.

MS. BOJKO: Thank you. That would be helpful.

May I approach, your Honor?

EXAMINER PARROT: You may.

MS. BOJKO: Let the record reflect I'm handing the witness what has been previously marked as OMA Exhibit 5.

Q (By Ms. Bojko) Does this appear to be the application you just referenced from AEP regarding the rider rates?

A. I haven't read this, but I can certainly accept it. If you want me to --

Q. Well, I guess I'm concerned that you're testifying about what you believe is in the application but yet --

A. Well, why don't you --

Q. -- you're not familiar with the application.

A. -- let me have a minute to just --

Q. Sure.

A. -- quickly review it.

MR. KURTZ: Your Honor, could we go off

1 the record for just two minutes?
2 EXAMINER PARROT: Yes.
3 (Off the record.)
4 EXAMINER PARROT: Let's go back on the
5 record.
6 A. Well, I see on Schedule 1 there's a
7 revenue amount of 45 million. I believe the
8 question -- you asked me about the application and
9 the 45 million, and I think I answered that I
10 understood that was the case. So I wasn't testifying
11 about the application. You asked me about that.
12 Q. Okay. But you did testify on your
13 understanding of the recovery of the costs, so if you
14 could turn to -- first of all, looking at Schedule
15 1 -- no. Actually, it might be better to see it
16 in -- it's Schedule 4. Page 1 of 1, Schedule 4.
17 A. Yes, I have that.
18 Q. It's entitled "Allocation of the IRP-D
19 Credits."
20 A. Yes.
21 Q. And it has a first block saying "Actual
22 2012 to 2013 Costs," and that equates to
23 $25.7 million. 25.8 rounded.
24 A. I see that. I have to study this
25 further. It looks like about 8.8 million of it is

1 residential, which may be referring to something
2 other than the 8.21 credit.
3 Q. This is the allocation of the collection
4 of the IRP-D credit, is it not?
5 A. Oh, okay, the allocation of the credit,
6 yes, I see.
7 Q. 8.8 million is attributed to residential
8 customers?
9 A. Yes.
10 Q. They pay for that.
11 A. Okay. I understand.
12 Q. And then the second block is a forecasted
13 number for 2014.
14 A. Yes.
15 Q. And that is approximately 20 million?
16 A. Yes.
17 Q. Okay. So the total at the bottom, it
18 states here that these IRP credits are for 2012 to
19 2014, is that your understanding of this chart that
20 you have in front of you?
21 A. Yes. I think that's consistent with what
22 I answered in my question. You asked me about the
23 45 million, and I think I clarified that it was my
24 understanding that that's the accumulated amount. I
25 think that's what this shows.

Q. Okay. Maybe I misunderstood your response. My question asked you whether it was the accumulated amount for the last ESP 2, which was from 2012 to 2014. And I thought you responded that it was something different than that.

A. No.

Q. It was deferrals.

A. No, my response was -- I just wanted to clarify that wasn't an annual amount.

Q. Oh, okay, thank you.

A. So --

Q. I misunderstood you. My question said 2012 to 2014 and I thought you were going beyond that.

A. No. No. No.

Q. Okay.

A. No. I understood that it was accumulated for that period.

Q. Okay. Thank you for that clarification.

And I believe I started asking you this question, but then we jumped backwards, is it your understanding that IRP customers can also receive a discount off of their energy rate through reasonable arrangements?

A. It's my understanding that a reasonable

1 arrangements customer can participate in the IRP
2 program.
3 Q. And that's your recommendation as I
4 understand your testimony going forward too if the
5 IRP is continued.
6 A. Yes. But I thought that was part -- that
7 would be the case. I mean, to the extent that a
8 reasonable arrangement includes some special discount
9 or arrangement off of a customer's bill, to the
10 extent that customer is a -- would otherwise be
11 taking service under firm service and interruptible,
12 then there would be no reason to -- this is -- a
13 customer who participates in an interruptible program
14 is subject to interruption and that provides a
15 benefit to the system for which they should be
16 compensated.
17 The reasonable arrangement is, to some
18 extent, independent of that, it's designed to
19 recognize that certain customers for the --
20 consistent with state policy, should be able to
21 receive a lower -- a discounted charge to continue
22 operations or other factors.
23 Q. Okay. And that's my question, is that
24 your proposal here today? The company is proposing
25 to eliminate the IRP, correct?

A. Yes.

Q. Okay. And you're proposing to continue, and we'll get into this a little more, continue or modify the current IRP; is that correct?

A. To continue to -- I'm proposing a continuation of an interruptible credit program. It's not the IRP-D rate.

Q. I'm asking you under your proposal to continue, as you just stated, that there would also not be a prohibition against participating in a reasonable arrangement; is that right?

A. That's correct.

Q. Okay.

A. I don't recall that I said one or the other, but certainly I would agree with that, yes.

Q. Okay. And, sir, your footnote No. 1 on page 8 talks about the capacity of the IRP load. Without getting into confidential numbers do you know the value of bidding that load into PJM?

A. I haven't made any such calculation.

Q. So you wouldn't know the magnitude or level of any compensation that AEP would then receive.

A. I haven't done that.

Q. Okay.

A. I don't have the information as to what the total megawatts that would be among the two customers that are on the rate.

Q. Okay. On page 9 of your testimony, the last Q and A on the page, you're talking about OVEC here and is this discussion, is it your position that the IRP credit is appropriate because AEP is maintaining the OVEC entitlement and, thus, they're not completely a wires company? Is that the point of that paragraph?

A. It was the -- that's not the reason for the IR -- for the continuation of an interruptible program, but I simply pointed out that because -- that AEP is not only a wires-only company, because of the OVEC arrangement, but that's not the basis for -- certainly it's not the support for the continuation of interruptible credit.

To my knowledge, FirstEnergy and Duke Energy don't have OVEC, they have -- FirstEnergy has divested. It's my understanding that Duke Energy has fully divested. And I was simply responding to AEP's argument in its testimony that because we're a wires-only company, there should be no interruptible rate.

Q. I'm sorry. Did you just tell me that you

do not believe that Duke Energy Ohio has an OVEC entitlement?

A. That -- no, I don't know whether they do or not. My understanding is that they're divesting their capacity.

Q. And so if Duke did have an OVEC entitlement and -- they would be in a similarly situated position than AEP; is that right?

A. I don't know what arrangement Duke has made with respect to OVEC, if they have.

Q. But you just said that Duke was fully divested and it's your understanding that if they maintain this OVEC entitlement just like AEP, your comments on page 9 would be the same, that they're not completely a wires-only company; is that right?

A. I -- my understanding is that Duke is in the process, I don't know whether they have fully divested. If they have OVEC capacity, I don't know whether there would be some special arrangement for OVEC for Duke or not.

Q. Okay.

A. So I can't answer your question in that regard.

Q. Okay. Thank you.

On page 13 you talk a little about PJM

1 and the use of interruptible programs. Isn't it true
2 that customers can choose to participate in PJM DR
3 programs without the AEP IRP schedule?
4 A. Yes, that's my understanding.
5 Q. Okay. So the customer could either
6 participate on their own in such programs and be
7 compensated for their participation in PJM or they
8 can participate through a third-party aggregator or
9 curtailment service provider; is that your
10 understanding?
11 A. Yes. In exactly the same manner that
12 customers on FirstEnergy and Duke could as well.
13 Q. Okay.
14 A. But that, obviously, is not a rationale
15 for the Commission -- for a policy to exclude an
16 interruptible rate offering for AEP Ohio when the
17 Commission's policy has been to approve such
18 arrangements for FirstEnergy and Duke.
19 MS. BOJKO: Your Honor, at this time I'm
20 going to move to strike everything after that's my
21 understanding. I was asking him if it was possible
22 for customers to participate. I didn't ask him about
23 state policy and I didn't ask him about FirstEnergy
24 or Duke.
25 MR. KURTZ: Your Honor, that answer was

1 directly responsive to the question.
2 EXAMINER PARROT: I agree that it
3 completes his answer, so the motion to strike is
4 denied.
5 Q. Okay. And so at the beginning of your
6 answer you said the customers can participate on
7 their own or they can participate through a third
8 party aggregator, curtailment service provider, and
9 the customers would receive compensation under those
10 scenarios; is that correct?
11 A. That would be my understanding, yes.
12 Q. Okay. And you do know that there are
13 customers today that do participate in that, the
14 two -- the customers other than the two that are in
15 AEP's IRP service territory, right?
16 A. I don't know specifically whether there
17 are or not.
18 Q. That's certainly a possibility since
19 there are only two customers on AEP's IRP today.
20 A. I would agree it's a possibility, yes.
21 Q. On page 13, line 6 of your testimony you
22 talk about coal retirements. Do you see that?
23 A. Yes.
24 Q. And from this discussion are you
25 suggesting that it's good for Ohio and for the region

1 to diversify their supply and not be reliant on one
2 energy source such as coal?
3 A. The purpose -- well, I think as a general
4 matter that's a true statement. That wasn't the
5 purpose of my discussion in this regard. The purpose
6 of my discussion in this regard was to point out that
7 there could be and likely will be reliability issues
8 in the region including Ohio, including AEP Ohio, as
9 a result of coal capacity retirements, and that that,
10 all else being equal, that provides -- that
11 demonstrates the need for additional reliability that
12 interruptible load can provide.
13 Q. And then --
14 A. That was the purpose of that portion of
15 my testimony.
16 Q. Okay. And you would agree with me that
17 there are other ways to assist with reliability
18 during coal retirement such as the use of different
19 generation, different sources of generation,
20 renewable energy sources, natural gas generation,
21 energy efficiency programs, things of that nature; is
22 that right?
23 A. Yes. I certainly wouldn't dispute the
24 idea, the concept of a portfolio of resources reduces
25 risk. The issue that I was raising here was a

1 different issue and that had to do with the potential
2 reductions in reliability and the value of
3 interruptible load in light of that.
4 Q. And what percentage of the two customers
5 on IRP is of AEP's total load?
6 A. I'm sorry. What are you asking me?
7 Q. What percentage of the IRP load, so what
8 percentage can be interrupted in order to help with
9 your reliability concerns with these two customers on
10 IRP? What percentage of AEP's total load is that?
11 A. Well, you're asking me to do -- well,
12 first of all, I don't have the total on AEP's load,
13 but I think you're asking me something that has
14 been -- the numerator of that calculation would be
15 the amount of interruptible load. Correct?
16 Q. I'm asking you if you know the percentage
17 of the assistance that can be provided for
18 reliability purposes which is what you just testified
19 to.
20 A. I haven't done that calculation, but I
21 think it's self-evident that if the number were a
22 hundred megawatts or 500 megawatts, then that would
23 be a contribution to increasing the reliability in
24 the AEP Ohio and Ohio general area. It's
25 self-evident. I haven't done a planning analysis to

1 determine the impact of that, if that's what you're
2 specifically asking, but it's self-evident that large
3 interruptible customers, in addition to other
4 benefits that an interruptible program provides, can
5 provide reliability benefits.
6 I think in the past three years there
7 were nine emergency interruptions in this area for
8 these customers and three of them weren't even in the
9 summer months. So there's clear benefits to
10 interruptible load in terms of improving and
11 increasing the reliability of the area. I think
12 that's self-evident.
13 Q. But I think my question was did you do an
14 analysis or study, and I believe you said no; is that
15 correct?
16 A. I did -- that's correct, I said "no."
17 Q. Okay. And, similarly, did you do a
18 forecasting, or planning I think you called it,
19 analysis with regard to the specific discussion of
20 coal units and any potential replacements for those
21 coal units? Generation resources.
22 A. I haven't looked at that, no.
23 Q. Okay. Then on the bottom of page 13 you
24 talk about what I'll call anticompetitive behavior.
25 Do you see that? Would you agree that your

1 discussion on the bottom Q and A is about
2 anticompetitive behavior? If the program's offered
3 in one area of the region, it would be
4 anticompetitive not to offer it to a similarly
5 situated customer in another part of the region.
6 A. Well, I don't recall using the word
7 "anticompetitive." What I was referring --
8 discussing was that it does create a competitive
9 disadvantage to customers in the AEP Ohio service
10 area to the extent that similar types of customers,
11 for example arc furnace loads in northern Ohio on the
12 FirstEnergy system, have the ability to take service
13 under FirstEnergy's interruptible rate. And,
14 clearly, when you operate an energy-intensive
15 business like an arc furnace load, that the price of
16 electricity is significant. And it's my
17 understanding that all of the arc furnace loads in
18 Ohio are either on a reasonable arrangement or
19 interruptible credit program or both.
20 Q. Well, and that's my -- it was my word,
21 anticompetitive. I'm sorry, I thought I told you
22 that. So you used the word instead competitive
23 disadvantage so let's use that.
24 So you would agree -- just from your
25 statements, you would agree --

1 MR. KURTZ: I'm sorry, Counsel.
2 Competitive? He says economic advantage.
3 MS. BOJKO: No, he used in his response
4 it would be a competitive disadvantage to offer it in
5 one region or another.
6 MR. KURTZ: Excuse me.
7 Q. Is that what you just testified to, sir?
8 I don't want to put words in your mouth.
9 A. Yes, a significant economic advantage I
10 connote to the same issue that it places customers in
11 one area of the state at an economic disadvantage
12 relative to the others.
13 Q. Okay.
14 A. And it clearly, in an energy-intensive
15 business, that can be life-threatening.
16 Q. Okay. So would you then agree with me,
17 sir, that providing any discounts on energy costs in
18 one region that are not similarly offered in another
19 region would be an economic disadvantage to one and a
20 competitive advantage to another? Right?
21 A. Well, it depends on what the price of
22 electricity is in that region. So I don't know the
23 answer to your question.
24 Q. Well, then that would be the same with
25 regard to the IRP situation that you testify, it

1 would depend on the price in that region; isn't that
2 correct?
3 A. Yes. I think that's correct. And in the
4 case of -- it's my understanding, for example, that
5 an arc furnace customer in Ohio would have a very
6 difficult time operating in any of the major electric
7 utilities without some type of interruptible program
8 or other special rate.
9 I understand that Warren Steel in
10 northern Ohio is actually shut down now because it
11 doesn't have such a program and so it's just -- from
12 an economic standpoint, it is the absolute price that
13 a customer pays. I agree with you on that. But
14 given the general market price of electricity today
15 these types of interruptible credits are really
16 essential in maintaining these types of industries
17 and the jobs that they provide.
18 Q. And the Warren Steel Company that you
19 just spoke about, they -- is that the same company
20 that recently did file an application for a
21 reasonable arrangement?
22 A. That's what I heard, yes.
23 Q. And wouldn't you also agree, then, you
24 mentioned that some customers have an IRP credit,
25 some of those arc furnaces have reasonable

1 arrangements, some have both. So depending on the
2 price, as you pointed out, there could potentially be
3 economic disadvantages to one customer over the other
4 if they had one or both of those discounted programs;
5 is that correct?
6 A. As a matter of accounting, that's
7 certainly the case. And I'm not here testifying that
8 the Commission's responsibility is to make sure that
9 every customer similarly situated in Ohio pays
10 exactly the same rate. That's not my testimony.
11 My testimony is that it's reasonable for
12 the Commission to approve an interruptible program
13 for AEP Ohio that, A, provides reliability benefits
14 and, B, provides an opportunity for large
15 energy-intensive customers to compete. That is my
16 testimony.
17 Q. But you're certainly not here testifying
18 the converse, that the Commission should do or
19 approve programs that could result in an economic
20 disadvantage to other customers; is that right?
21 A. I don't know -- that would not be my
22 recommendation but I'm not sure what you mean by that
23 so I'm a little hesitant to answer yes, that's what I
24 agree with. I don't know what you mean by that.
25 Q. Well, let's turn to page 14. You go back

1 to talking about the PJM program and I just want to
2 be clear that it is true that customers can
3 participate in incremental auctions today; is that
4 correct?
5 A. Yes. They can participate and I think if
6 you looked at my testimony and my exhibits, you could
7 see that the capacity -- that the revenues, the
8 prices they would receive for subjecting themselves
9 to interruptions couldn't, under some of these
10 interim auction results, would clearly not be
11 rational. No customer -- no customer would operate a
12 business where they have to shut down the business,
13 send their employees home for 3-cents-a-kilowatt
14 month credit.
15 Q. Sir, I just asked if they could
16 participate in incremental auctions, I'm not asking
17 you about the value of that participation. Can they
18 participate in the incremental auctions?
19 A. If they're not an IRP customer, yes.
20 Q. Okay. And, similarly, can customers
21 currently today participate in base residual or
22 incremental auctions through a third-party aggregator
23 or a CSP?
24 A. That's my understanding. Certainly going
25 forward, though, the '17-'18 year, planning year for

PJM auction, has already occurred.

Q. Well, but customers that aren't participating in IRP currently today could have already participated in that auction; isn't that true?

A. If they were not in the IRP program --

Q. Right.

A. -- they would have the opportunity to do that is my understanding.

Q. And since there are only two IRP customers in AEP, that is the majority or the situation that we have in front of us where they could have participated because they're not part of the IRP program.

A. Well, if you're talking about the majority of industrial customers at AEP as a -- thousands of customers versus two, yes, I assume the thousands had a right to do that.

Q. Okay. Now, let's talk a little bit about your proposals and your options. Is it your proposal that AEP will have two IRP programs or are you just giving the Commission two options to choose from to have one IRP program?

A. The latter.

Q. Okay.

A. Two options.

Q. Two options but only -- there would only be one IRP program.

A. Correct.

Q. Okay.

A. That's my --

Q. And this IRP program, just so I understand --

A. I mean the Commission, I mean, I'm sorry to interrupt you but I suppose the Commission -- I certainly wouldn't object if the Commission approved both programs and allowed the customers to elect one option or the other, but either way.

Q. I'm just trying to understand your proposal and your two options. And so it's my understanding that one option, with the caveat that you just stated that you wouldn't object to multiple programs, but it's your thinking when you wrote your testimony that there would be one IRP option available to customers and, as I understand your testimony, that one IRP option would replace, then, the existing IRP schedule; is that correct?

A. Yes. The existing IRP schedule is -- would go out, yes.

Q. So I think we said earlier continuing the

1 IRP program, and that's not really the case, because
2 this would replace the IRP program.
3 A. Yes. I think -- I tried, to the best
4 extent I could, to refer to it as continuing the
5 interruptible program.
6 Q. Okay. So you're saying continue a
7 interruptible program, not the one that's currently
8 in place, just a program.
9 A. Yes.
10 Q. Okay. And so as I understand your first
11 option it's limited to ten interruptions in the
12 summer months only and there will be no emergency
13 interruptions allowed; is that accurate?
14 A. It would follow the protocols of the PJM
15 limited emergency program which involves customers
16 being subject to up to ten emergency interruptions
17 called by PJM during four summer months. That's the
18 PJM program. That's as -- my understanding that's
19 the program that is in -- that the Commission has
20 approved for Duke.
21 Q. Okay. So you're saying -- then I did
22 misunderstand your first option. I thought your
23 first option said no emergency interruptions.
24 A. No.
25 Q. Okay.

A. It would be -- under the PJM limited emergency program emergency interruptions can be called during the four summer months. Outside the four summer months, the other eight months, PJM can call for voluntary interruptions by customers.

Q. Okay. I'm sorry. I think I did, I reversed myself on that. Okay. So no, under your program there are ten emergency interruptions, period, there are no required discretionary interruptions for your option 1.

A. That -- yes.

Q. Okay.

A. That's correct. Under the Duke program it is patterned after the PJM limited emergency demand response program.

Q. And that's distinguished from the current program that allows a certain number of discretionary interruptions and emergency interruptions; is that right?

A. That's correct.

Q. Okay. So under your program of emergency interruptions only during the summer months, AEP could not interrupt one of the IRP customers during January; is that correct?

A. Under the option that is patterned after

1 the Duke Energy program, which in turn is patterned
2 after the PJM limited emergency program, that's
3 correct.
4 Q. Okay. So let's -- that's -- so under
5 your proposal of an AEP program option 1, under
6 Duke's program currently adopted by the Commission,
7 and under PJM's limited emergency demand, under these
8 three programs the company would not be able or PJM
9 would not be able to interrupt for -- during the
10 month of January; is that correct?
11 A. That's correct. Under PJM's limited
12 emergency program those customers can voluntary --
13 it's not a mandatory interruption outside the four
14 summer months.
15 Q. Okay. And so if it's not a mandatory
16 interruption, then those three programs would not
17 assist PJM in the polar vortex context that you
18 discuss in your testimony; is that correct?
19 A. Well, they could assist to the extent
20 that customers participate in requests for
21 interruptions, but it would not be a mandatory
22 interruption. That's the standard feature of the PJM
23 program.
24 Q. Okay. So no mandatory interruptions
25 during the polar vortex but they could have

1 discretionary interruptions at the choice of
2 customers; is that correct?
3 A. Well, yes. I wouldn't call them
4 discretionary, I'd call it following the PJM
5 protocols which calls for an interruption but it's
6 not mandatory --
7 Q. Okay.
8 A. -- under that option 1.
9 Q. Okay.
10 A. And I'm sure you're going to ask me about
11 option 2 so I won't --
12 Q. I will. Let's stay on option 1 just a
13 few more minutes.
14 In the first option you're also proposing
15 to expand the IRP program to cover all customers,
16 shopping and nonshopping; is that correct?
17 A. Yes. Consistent with the
18 Commission-approved Duke Energy tariff.
19 Q. Okay. And from your discussion a little
20 bit ago it would be your proposal, then, that under
21 option 1 AEP be required to bid the interruptible
22 load into PJM base residual auction or incremental
23 auctions; is that right?
24 A. Yes, that is correct.
25 Q. Okay. And so --

A. And credit the revenues through the EE/PDR or other mechanism.

Q. Okay. Thank you. That was my next question.

Okay, now let's turn to your second option. In this option AEP can only interrupt for emergencies; is that accurate?

A. Yes. And it would be consistent -- there would be no limitation on the emergency interruptions anytime during the year, both those called by PJM and any other, if there were such interruptions that AEP would require to meet local conditions, but I presume that PJM would also invoke an interruption for that as well.

Q. Okay. So under your second option, you're interrupting for emergencies and there are no discretionary interruptions again; is that correct?

A. That's correct. There would be no discretionary interruptions but it would be an unlimited amount of emergencies anytime during the year.

Q. Okay. And this differs from the current program, the current program has unlimited emergency interruptions and a specified amount of discretionary interruptions; is that correct?

A. Yes. I think there -- yes, there are a specified number of discretionary interruptions.

Q. And I take it, sir, you're looking at --

A. Yeah, I was just trying to see --

Q. -- the IRP schedule.

A. I was trying to see if I could find the specifics but the answer is "yes."

Q. So and this option differs from the current program in that it eliminates the specified amount of discretionary interruptions but the unlimited emergency remains the same; is that correct?

A. Yes, that's correct. Under the proposal that I'm making there would not be discretionary interruptions.

Q. Okay. So you're limiting the types and number of interruptions but your proposal for option 2 retains the $8.21 kilowatt-hour per month credit; is that accurate?

A. Yes, that's correct.

Q. Okay. And you also reference a ten-minute notice provision in this paragraph on page 17, line 7, but I thought in earlier testimony you stated that the emergencies were immediate and no notice was required. I thought that customers only

had to provide evidence of a ten-minute interruption, I didn't think that they actually had to receive ten-minute notice.

A. Under the current IRP?

Q. Yes.

A. I think that's correct.

Q. Okay. So is that a change to this second option, that you would like them to have a ten-minute notice guarantee?

A. Could you give me the reference, the line number on that?

Q. Sure. I am looking at page 17, line 7 when you talk about ten-minute --

A. Yes, I see it.

Q. -- but previously when you were discussing the existing IRP program, you said no notice necessary, only evidence of ten-minute given. I can find that reference if you'd like.

A. I think the proposal that I'm making would be consistent with the type of notice that was required in the prior tariff, the IRP-D. I think PJM has certain requirements to -- for interruptible load in terms of the customers, that they have to meet that standard in order to qualify as interruptible load and that certainly should be the prime

1 criterion --
2 Q. Okay.
3 A. -- that customers would have to meet. In
4 order for AEP to be able to utilize the interruptible
5 load in the PJM market, it would have to meet the PJM
6 standard, and I certainly would recognize that that
7 would be the appropriate criterion.
8 Q. Okay. So your testimony for your option
9 2 wasn't meant to change the existing protocols or
10 criteria for the existing notice provision.
11 A. My primary recommendation on this issue,
12 as I said, is that the interruptible notice be
13 consistent with the requirements of PJM qualifying
14 facilities under a demand response. And that, from
15 my thinking, that is the -- that's the most important
16 criterion because that's the criterion that PJM as a
17 system believes is necessary to provide reliability,
18 and AEP, the customers on this proposed -- on this
19 interruptible rate should have to meet that standard
20 and AEP should be able to rely on it and also it's
21 necessary in order for AEP to qualify that
22 interruptible load in PJM.
23 Q. Okay. And under this option, your second
24 option, does AEP also -- would they be required to
25 bid it into PJM?

A. That AEP would be required, yes.

Q. Okay. And so --

A. And, in addition, I mean, it would even go beyond that. AEP should be required as a standard to maximize the revenue benefits that the interruptible load on this tariff can provide, subject to the terms and conditions of the tariff.

So the object is to offset -- you asked me earlier about all, you know, the accrued credit amounts, the money. The purpose of this is for AEP to maximize the revenue benefits that they can achieve from the interruptible load to credit the EE/PDR costs or the economic development rider if that's the mechanism, whatever, so that to minimize the impact on other customers.

Q. Okay. And to that end, just to complete the loop here then, your second option would also recommend that crediting of the revenues back to the rider, I believe that's what you just said, correct?

A. Yes.

Q. Okay.

A. Correct.

Q. And, also, sir, this second option, does it also apply to both nonshopping and shopping customers?

A. Yes. There's no reason why that wouldn't be reasonable.

Q. And if you'd turn to page 18 of your testimony, starting on line 4, this Q and A, you talk about a cap. Doesn't imposing a cap on the number of customers that participate have the same economic disadvantage, competitive advantage, whatever you want to call it, that we discussed earlier today to other customers allowing some customers to take advantage of these interruptible credits but allowing other customers not to take advantage? Wouldn't that have the same -- wouldn't you have the same concerns you stated to me previously about arc furnaces not being on the same playing field?

A. As a theoretical matter I think the answer is yes, but as a practical matter most utilities have limitations. I believe the Duke program has a cap on the participating megawatts, but it's -- simply including a cap on the total megawatts provides some boundaries that the company can use for its planning purposes. That's really the reason.

Q. Okay.

A. I believe -- yes, I -- I'm sorry.

MS. BOJKO: Okay. If you give me one moment, I think that's all I have.

1 That's all I have. Thank you.
2 EXAMINER PARROT: Mr. McDermott?
3 MR. McDERMOTT: No questions, your Honor,
4 thank you.
5 EXAMINER PARROT: Mr. Darr?
6 MR. DARR: Very briefly, your Honor.
7 - - -
8 CROSS-EXAMINATION
9 By Mr. Darr:
10 Q. Good morning, Mr. Baron.
11 A. Good morning.
12 Q. Could you turn to page 9 of your
13 testimony, OEG Exhibit 2. And I want to look at the
14 question and answer that begins on line 11 on page 9.
15 You indicate there that you're looking at the OVEC
16 generation as it appears to be generation as opposed
17 to a hedge. Could you explain what you mean by
18 "generation" in this context?
19 A. Well, I think that was just sort of a
20 generic reference to the arrangement being proposed
21 by the company. It's my -- I mean, I'm not -- as you
22 know, I'm not -- OEG has another witness on this
23 issue, but what I was referring to was the energy and
24 capacity from the OVEC project.
25 Q. Is it your understanding that the PPA

1 rider would charge customers for the generation from
2 the OVEC facility?
3 A. No. It's a financial hedge only.
4 Q. Is it fair to say that your understanding
5 is that customer, under the company's proposal for
6 the PPA rider, would be charged or credited for the
7 difference between the cost charged to AEP Ohio and
8 the price recovered by AEP Ohio for putting that
9 generation into the PJM markets?
10 A. Yes. And that would be the function --
11 that would be the hedge function of the proposal.
12 Q. And, based on that, you're not suggesting
13 that this power entitlement, whatever it is, would
14 result in an ability by AEP to provide standby,
15 backup, or supplemental power service, correct?
16 A. Not related to OVEC. As we just
17 discussed, it's a financial hedge. Notwithstanding
18 that, it does provide energy and capacity into the
19 PJM market and at a local area.
20 Q. But by that you're not suggesting that
21 the AEP Ohio customer could identify a particular
22 claim to OVEC generation entitlements, correct?
23 A. That's -- I'm not suggesting that, no.
24 MR. DARR: Very good. That's all I have.
25 Thank you.

EXAMINER PARROT: Mr. Berger?

MR. BERGER: No questions, your Honor.

EXAMINER PARROT: Mr. Conway?

MR. CONWAY: No questions, your Honor.

EXAMINER PARROT: Mr. Parram?

MR. PARRAM: No questions, your Honor.

EXAMINER PARROT: Any redirect?

MR. KURTZ: Yes, thank you, your Honor.

- - -

REDIRECT EXAMINATION

By Mr. Kurtz:

Q. Mr. Baron, the OMA Exhibit 5, the financial document, do you have that in front of you?

A. Yes. I do have that now, yes.

Q. Is it your understanding that the $45 million there is three years' worth of interruptible costs?

A. Yes. '12 through '14.

Q. Okay.

A. 2014.

Q. And that number, that 45 million, reflects no offset from bidding the interruptible capacity into the base residual auction because AEP was using that capacity as part of its FRR resource.

A. That's my understanding. It does not

1 reflect any revenues that might -- that would through
2 PJM mechanisms be used as a crediting mechanism.
3 Q. But on a going-forward basis when there
4 would be such crediting or maximizing the value of
5 the interruptible product as you described it, that
6 $15 million per year number would be significantly
7 less; would it not?
8 A. Yes. I would expect that it would be
9 less. And also it's my understanding that to -- at
10 least through December 31, 2013, the 45 million
11 reflected three customers in the IRP program. At the
12 present time there are only two.
13 Q. So the gross number of $15 million per
14 year will be less because there's two not three
15 customers; is that correct?
16 A. All else being equal, yes, that's
17 correct.
18 Q. And the net number going forward would be
19 less because there would be this crediting of the
20 maximum value that AEP can achieve.
21 A. Yes. Because of the crediting of the
22 revenues that, as I understand it, have not occurred
23 because of the FRR mechanism.
24 Q. The FRR expires May 31, '15, exactly when
25 ESP 3 starts.

1 A. Yes.
2 Q. Okay. Now, does that -- do the numbers
3 on that page reflect the value of the, I think you
4 testified nine emergency interruptions over the past
5 36 months?
6 A. No. There's no -- this is simply a
7 revenue -- this is simply the cost of the credits
8 paid and it does not balance the potential benefits
9 in terms of reliability benefits that were provided
10 and would provide going forward of interruptible
11 load, nor does it really reflect the, which is
12 probably more difficult to conceptualize, is the
13 economic value to the Ohio -- the state of Ohio and
14 certainly the region that AEP Ohio serves of
15 providing -- keeping potential customers in business
16 and operating and the jobs and so forth. So that's
17 more of a -- a more different type of economic
18 balance to weigh against this but it's real.
19 Q. How -- do you know if any of the nine
20 emergency interruptions over the last three years
21 occurred during the polar vortex?
22 A. Yes. My understanding, that of the nine
23 emergency interruptions three of them occurred
24 outside of the --
25 Q. Mr. Baron --

A. -- summer months and those three were in the -- at the time of the polar vortex in early-2014.

Q. I think you may have your three and your six mixed up. Six occurred -- I'll let you just restate your answer. Six occurred outside of the PJM four summer months. Do you have a schedule or a document?

A. I thought it was the other way, but --

Q. We'll leave your answer.

But, in any event, they did occur during times when PJM could not have called emergency interruptions during their limited demand response program because they occurred outside of the summer.

A. Correct. That's correct. Under the -- an annual program AEP would be able to interrupt as a mandatory requirement at any time during the year, and did so during this period.

Q. Do you know whether or not the PJM limited demand response programs has a two-hour notice window versus the ten minutes under the AEP program?

A. I -- that is my recollection, that the PJM -- I don't have the specific terms of the program in front of me now, but I think there's an intent to provide two hours' notice.

Q. All else equal, ten-minute notice is more valuable to provide reliability than two hours?

A. Absolutely. Ten minutes is the -- is usually a standard in a reliability region for being, spinning reserve, for example.

Q. Or quick start capacity --

A. Yes.

Q. -- like a gas combustion turbine?

A. Yes.

Q. Now, you were asked questions about the other electric arc furnace loads in Ohio. Do you recall those?

A. Yes.

Q. Do you know what the interruptible credit on the FirstEnergy system is?

A. Yes. It's $10 per kW month.

Q. Versus what are you recommending here?

A. $8.21.

Q. You said that not having an interruptible program could be life-threatening to steel, an electric arc furnace steel company, do you recall that?

A. Yes.

Q. Life-threatening.

A. Yes.

Q. Do you know if Warren Steel is the only electric arc furnace steel company in Ohio without either a reasonable arrangement or a Commission-approved, PUCO-approved interruptible credit?

A. That's my understanding.

Q. And how's that worked out for them so far?

A. My understanding is they are --

MS. BOJKO: Objection, your Honor.

A. -- currently shut down.

Q. Thank you.

Do you know the number of electric arc furnace operations that have grown and developed in Ohio because of the traditionally low electric rates?

MS. BOJKO: Objection, your Honor. This is beyond the scope of my cross.

EXAMINER PARROT: Response?

MR. KURTZ: There was a lot of discussion about the economic competitiveness and about the anticompetitive or uneconomic impacts to central Ohio if there is not an interruptible program for AEP, whereas the evidence shows that there is a more beneficial program in FirstEnergy with a $10 credit versus 8.21 and that Duke has a program as well. So

I think it's directly within the scope of that cross-examination.

EXAMINER PARROT: Mr. Baron, you may answer the question.

THE WITNESS: Could you repeat the question again.

Q. (By Mr. Kurtz) Do you know the number of electric arc steel companies that have located and grown in Ohio and I said because of the traditionally low and stable electric pricing that has been offered here?

A. I don't, I'm sorry.

MR. KURTZ: Thank you, your Honor.

EXAMINER PARROT: Any recross, Ms. Petrucci?

MS. PETRUCCI: No.

EXAMINER PARROT: Mr. McDermott?

MR. McDERMOTT: No, ma'am, thank you.

EXAMINER PARROT: Ms. Bojko.

- - -

RECROSS-EXAMINATION

By Ms. Bojko:

Q. Briefly, the Warren company, we're going to touch on that for a minute. Do you know whether they ever filed a reasonable arrangement or not?

A. Previously?

Q. Yes.

A. I do not know.

Q. Right, so you have no idea of their history of whether they've had a reasonable arrangement in the past or whether this is the first time they're seeking a reasonable arrangement.

A. I haven't studied that.

Q. Okay.

A. What I understand is they are shut down.

Q. Are you a witness in the Warren application case? Are you a hired consultant on that case?

A. No.

Q. So you talk about -- your counsel just asked you about the FirstEnergy credit and then they asked you about the AEP credit. Let's do the full circle, what's the Duke credit currently?

A. The Duke credit is based, as I discuss in my testimony, at one-half of what's referred to as net CONE in PJM and it's -- it is 5 -- I think it's currently 5.36 a kW month.

Q. 5.36.

A. Yes.

Q. And you --

A. But it is only for a limited -- under the limited -- protocol of the limited-term program -- limited emergency program which is the four summer months.

Q. Right. And that's your option 1; is that correct?

A. Correct.

Q. Okay. Now, you talked a little bit about the polar vortex. Under your two programs, as I asked you previously, under your two programs AEP would not be able to interrupt during January; is that correct? The two that you're proposing.

A. As a mandatory interruption that's -- under the -- following the Duke option they would not because it would be patterned after the PJM limited emergency program. Under the option 2 there would be unlimited interruptions, emergency interruptions, which would be -- AEP would be able to interrupt anytime during the year.

Q. Okay. And so --

A. Including January, February, cold months.

Q. Just so we're clear, when you just had a discussion with your counsel about the number of interruptions during January, it was under the existing program, not under your options, right? It

1 was under the program today.
2 A. Well, it was under the existing program,
3 but it would also -- all else being equal, it would
4 be a similar ability to interrupt by AEP under option
5 2, which would be unlimited emergency interruptions,
6 that would also permit the company to interrupt at
7 any time during the year.
8 Q. Okay. But not option 1.
9 A. Option 1 follows the PJM limited
10 emergency.
11 Q. Okay. And you talked about cost a little
12 bit. Is it your understanding that the costs --
13 well, let's look at Schedule 4 since you discussed it
14 with your counsel. You talked about two customers
15 versus three customers. Let's look at the three
16 customers versus two customers scenario. And in your
17 scenario on three customers it's 25.7 million on
18 Schedule 4; is that correct? For two years.
19 A. That's what it shows, yes.
20 Q. Okay. So presumably one year would be
21 half of that; is that fair?
22 A. I suppose that would be fair for purposes
23 of discussions.
24 Q. So that would be 12, 13 million dollars;
25 is that correct?

1 A. Yes.
2 Q. Now look at 2014, four months' actual,
3 eight months' forecasted for two IRP customers, so
4 the 12 million goes to 20 million under your comment
5 to Mr. Kurtz, that you assumed that there would be a
6 reduction because we went from three to two
7 customers. That doesn't seem to be how it has panned
8 out in this filing; is that correct?
9 A. Well, the only thing I know, the numbers
10 are what they are. I haven't studied the basis for
11 the numbers. What I do know is that pursuant to, I
12 think it was a data response, that there are only two
13 customers as of January. Perhaps the loads of those
14 customers subject to the program have changed and
15 that is the basis for this; I don't know.
16 Q. Okay. So you can't make the statement
17 that you made to Mr. Kurtz that you presumed that the
18 costs are going to be lower when we go from three
19 customers to two customers; is that correct?
20 A. Well, first of all, all else being equal
21 I would assume that there will be revenues credited
22 pursuant to AEP maximizing the revenues. That is
23 going to have an effect of reducing the revenues.
24 With respect to the two customers versus
25 three customers, I -- logic would dictate that the

1 loads of two customers would be lower than three
2 customers. Obviously, if one of those remaining two
3 customers were to have increased their load during
4 this projected period, which I haven't studied, that
5 would change that calculation. It would really
6 depend on the amount of load that was subject to the
7 program in any given year, but I still stand by the
8 logic that three customers, all else being equal,
9 would have lower load than two.
10 Q. And I understand that logic, but that's
11 not the reality at least in AEP's filing as it
12 appears, the numbers are the numbers as you say, and
13 the costs have increased with two customers not
14 decreased; is that correct?
15 A. The numbers show that 19.9 million is
16 greater than one-half of 25. I can agree with that
17 arithmetic.
18 Q. Okay.
19 A. Beyond that, I haven't done an analysis
20 of the underlying assumptions.
21 Q. Okay. And under your proposal, I
22 understand -- do you know for certain the Commission
23 order language that you cited to talks about the
24 requirement to bid into PJM, does anywhere in the
25 previous Commission order talk about the requirement

1 to offset the PJM revenues to the recovery mechanism
2 that you just discussed?
3 A. I did not see that language. That is my
4 recommendation --
5 Q. Okay.
6 A. -- in this case, that the company be
7 required to offset those with whatever revenues they
8 are able to achieve through maximizing the benefit,
9 the revenue benefit, those need to be credited to
10 customers.
11 Under the FRR mechanism, which was
12 applicable to ESP 2, it may not, the Commission's
13 language actually is sufficient because there would
14 not be a revenue transfer per se.
15 Q. Okay. I'm just trying to understand your
16 testimony. You said earlier in response to Mr. Kurtz
17 that the $45 million would be reduced by PJM capacity
18 revenues. And my question to you is: That is your
19 assumption or your recommendation under the proposal,
20 that's not a guaranteed fact as things stay today.
21 A. It's my recommendation of -- the OEG
22 proposal includes a provision that the company, A,
23 maximize the revenue value from the interruptible
24 load under the program going forward, and, B, credit
25 those revenues to offset the cost of the

1 interruptible payments through the EE/PDR or whatever
2 other mechanisms.
3 Q. Okay. Thank you.
4 And you are recommending that only the
5 incremental costs associated with the IRP program be
6 recovered from customers; is that also accurate?
7 A. Well, if you mean by "incremental costs"
8 the net of the pay -- the cost of paying the credits,
9 interruptible credits, net of revenues that AEP
10 achieves from the interruptible load, yes. If that's
11 what you mean by that.
12 Q. Well, I would also mean net of any costs
13 incurred to run the program. Customers should not be
14 charged the cost to run the program; is that right?
15 A. I don't know what costs there are to run
16 the program, but that -- I think that would be,
17 considering that the program -- this is not just a
18 gift the company would be providing, this is a
19 resource, a reliability resource, and it would seem
20 reasonable that the company would be entitled to
21 recover any incidental expenses associated with
22 those -- that resource the same as they would any
23 other resource.
24 Q. Okay. I'm not talking about what the
25 company -- I'm saying what is collected from

1 customers. So if the company is entitled, then, I
2 guess what you're saying is that customers -- all
3 customers should pay for both the IRP credit plus the
4 cost to run the program.
5 A. I don't know whether the ESP program
6 would have a provision for that. I don't know what
7 those costs would be. I would assume they would be
8 extremely minimal, but I just don't have any
9 information on that.
10 Q. But you do understand that there are
11 other providers out there that offer similar
12 comparable programs, you just don't know at what cost
13 that they offer those programs at; is that right?
14 A. I'm not sure what you mean.
15 Q. I mean there are other third-party
16 aggregators, CSPs, there are other companies out
17 there that would offer similar programs that AEP is
18 offering; is that right?
19 MR. KURTZ: Your Honor, I'm going to
20 object at this point.
21 THE WITNESS: The $8.20 --
22 MR. KURTZ: Excuse me.
23 This is really not responsive to my
24 redirect. This is going back to counsel's original
25 cross-examination of the witness. I don't

1 particularly care if you allow this latitude but I do
2 think it's out of bounds.
3 EXAMINER PARROT: Response?
4 MS. BOJKO: I'm actually just responding
5 to the cost issue that the witness just responded to.
6 So he responded to costs and what's charged to
7 customers. I'm exploring what he thinks is charged
8 to customers because it seems to be different than
9 what's in the filing that he and Counsel Kurtz
10 referenced, so I'm trying to understand the costs and
11 who provides those costs.
12 MR. KURTZ: No, that's not where she was
13 going. This was about curtailment service providers
14 and alternatives.
15 EXAMINER PARROT: I'm going to overrule
16 the objection.
17 Mr. Baron, you may answer. Do you need
18 us to reread it?
19 A. I'm not familiar, as I think I indicated,
20 you handed me this filing, this was the first time I
21 ever saw it, I have not had a chance to go through.
22 You reference -- any specific entries or the support
23 or what those numbers mean, you're now asking me
24 questions about costs and what you mean by those
25 costs are, well, what was in the filing. I haven't

1 read it. I simply don't know -- I don't think it
2 would be reasonable for you to ask me -- or, for me
3 to answer on how cost is being treated that I'm not
4 familiar with. I just don't know.
5 Q. Actually that wasn't my question and I'll
6 rephrase -- if you think that was, I'll rephrase. My
7 question is under your proposal what are you
8 requesting to be recovered from customers, and I
9 asked if you, under your proposal, you are requesting
10 incremental costs to be recovered from customers and
11 if that would include costs to run such a program was
12 my initial question, the foundation question to my
13 next one. So maybe we need to get on the same page
14 so let's step back and answer that question and then
15 I can reask my next one.
16 A. To the extent that the program was an
17 EE/PDR program and it was designed -- in other words,
18 the interruptible program as part of the EE/PDR
19 program, it's my understanding that the company is
20 entitled to collect its program costs through the
21 rider. If that's what you're referring to, then I
22 would assume that that would be collectible but I
23 honestly don't know.
24 Q. And then so my follow-up question to that
25 was do you know what AEP's cost would be and could

they be provided by a different source at a lesser amount? That was my question.

A. I don't know whether they -- I don't know what AEP's costs are. I assume they're very minimal for a program like this. I assume, based on logic, that you could always find some third party that you could pay to provide administration of some program. Whether that would be lower than AEP, I don't know. To my knowledge, the interruptible rate that OEG is proposing is not being offered by third-party providers, if that was the implication of your question.

Q. No.

A. That's not realistic.

Q. I'm merely trying to understand what exactly you're going to ask customers to pay for and so what I understand your response to be, in your proposals under option 1 and 2 you would require the customers to pay for the $8.21 under option 2 or the lower amount under option 1 plus program costs; is that accurate?

A. To the extent that those program costs, assuming that they exist, are legitimately recoverable through EE/PDR because the program would be part of the EE/PDR program, then I would think it

1 would be reasonable. I don't know whether -- my
2 expectation would be that the cost to implement a
3 program like this are, as I indicated in a prior
4 answer, would be very, very minimal. You're talking
5 about the ancillary costs over and above the credits.
6 We're talking about potentially two
7 customers following protocols that are dictated by
8 AEP -- by PJM, so I -- you're asking me to speculate,
9 but let's assume there are some minimal costs and, to
10 the extent that this capacity -- this interruptible
11 program is a legitimate part of the EE/PDR program,
12 then I would assume that it's recoverable. If that's
13 what you're referring to.
14 Q. Actually, you keep saying if it was
15 reasonable and if it's part of the EE/PDR program.
16 I'm asking under your two options, your proposal,
17 because the company is proposing to eliminate the IRP
18 so I'm asking under your proposal would you allow,
19 recommend recovery of that incremental cost or that
20 cost whether it's minimal or not? I'm just saying
21 would your proposal be to recover those costs?
22 A. Yes, it would be --
23 Q. Okay.
24 A. -- if it's part of a program to acquire
25 interruptible load for the utility that's going to --

that provides resource value.

Q. Okay.

A. Why wouldn't you do that.

Q. I'm asking if it's contained within your proposal.

A. I think I just answered it is.

Q. Yes. So then next you keep referencing two customers, it would only be a cost for two customers. Isn't it true under both of your options you are expanding the interruptible program to shopping customers so more customers may be able to take advantage of the IRP now?

A. That's potentially true, yes.

MS. BOJKO: Okay. I have nothing further, thank you, your Honor.

EXAMINER PARROT: Mr. Darr?

MR. DARR: No questions.

EXAMINER PARROT: Mr. Berger?

MR. BERGER: No questions, your Honor.

EXAMINER PARROT: Mr. Conway?

MR. CONWAY: Just one question, your Honor.

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CROSS-EXAMINATION

By Mr. Conway:

Q. Mr. Baron, minor point, do you recall the portion of your conversation on redirect -- or, recross where the Schedule 4 of the OMA Exhibit No. 5 was discussed?

A. Yes.

Q. And if you had said in the course of that discussion that the load of two customers would be greater than the load of three customers or conversely that the load of three customers is smaller than the load of two customers, would you have actually meant to have said the opposite of that?

A. If the logical -- yes, I think that's true.

MR. CONWAY: Okay. Nothing further, your Honor.

EXAMINER PARROT: Mr. Parram?

MR. PARRAM: No questions, your Honor.

EXAMINER PARROT: Thank you, Mr. Baron.

THE WITNESS: Thank you, your Honor.

EXAMINER PARROT: All right. I believe that Mr. Kurtz has already moved for the admission of OEG Exhibit 2. Are there any objections?

(No response.)

EXAMINER PARROT: Hearing none, it is admitted.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER PARROT: Let's go off the record.

(Recess taken.)

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

Mr. Berger, call OCC's next witness.

MR. BERGER: Yes, OCC would call Jonathan Wallach to the stand. Mr. Wallach has already placed himself there for our convenience. I have copies of his testimony for the court reporter.

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

(Witness sworn.)

EXAMINER SEE: Thank you.

Continue, Mr. Berger.

- - -

JONATHAN WALLACH

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

DIRECT EXAMINATION

By Mr. Berger:

Q. Good morning, Mr. Wallach.

A. Good morning, Mr. Berger.

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

A. Yes, my name is Jonathan F. Wallach, I'm Vice President of Resource Insight, 5 Water Street, Arlington, Massachusetts.

Q. And have you caused to be prepared in this proceeding direct testimony on behalf of the Office of the Ohio Consumers' Counsel?

A. I have.

MR. BERGER: Your Honor, at this time I'd like to have marked for identification OCC Exhibit 14, Mr. Wallach's direct testimony.

EXAMINER SEE: The exhibit is so marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

MR. BERGER: And at this time may I provide a copy to the court reporter and your Honors? Do you have a copy, your Honor?

EXAMINER SEE: We're fine, thank you.

MS. BOJKO: I'm sorry. Which number was that?

EXAMINER SEE: OCC Exhibit 14.

MS. BOJKO: Thank you.

Q (By Mr. Berger) Mr. Wallach, was this testimony and the attachments thereto prepared by you or under your direct supervision?

A. They were.

Q. Do you have any changes, additions, or corrections to your testimony at this time?

A. I do not.

MR. BERGER: Your Honor, with that I would offer Mr. Wallach's testimony in the record subject to appropriate motions and cross-examination.

EXAMINER SEE: Okay. Mr. Borchers?

MR. BORCHERS: No questions, your Honor.

EXAMINER SEE: Mr. McDermott?

MR. McDERMOTT: No questions, your Honor, thank you.

EXAMINER SEE: Ms. Bojko?

MS. BOJKO: Yes, your Honor, thank you.

- - -

CROSS-EXAMINATION

By Ms. Bojko:

Q. Good afternoon -- or good morning, I guess it's still morning. Good morning, Mr. Wallach.

A. Good morning.

Q. My name is Kim Bojko, I represent the Ohio Manufacturers' Association in this proceeding.

1 I just have a few questions for you, sir.
2 It's my understanding your testimony
3 isn't with regard to the Commission should or should
4 not approve the distribution riders you discuss, it's
5 just if they do approve them, then you have some
6 recommendations as to allocation of costs; is that
7 correct?
8 A. That's correct.
9 Q. Okay. And your testimony is to -- is
10 actually recommending a reallocation of costs that is
11 different from the company's application with regard
12 to these distribution riders; is that correct?
13 A. Yes. I proposed for four of the
14 distribution riders, specifically those riders being
15 the distribution investment rider, the enhanced
16 service reliability rider, the storm damage recovery
17 rider, and the sustained and skilled workforce rider,
18 those are all a mouthful, my recommendation is that
19 costs collected through those riders be allocated in
20 a different fashion than as proposed by the company.
21 Q. And you are also recommending -- your
22 recommendation is a different allocation methodology
23 than as it currently exists for the riders that
24 actually currently exist; is that accurate?
25 A. That's correct. For the continuing

1 riders, they are currently -- costs collected through
2 those riders are currently allocated in proportion to
3 distribution revenues and I am recommending a
4 different allocation approach.
5 Q. Okay. So you --
6 A. Go ahead.
7 Q. I'm sorry.
8 So you're asking the Commission in this
9 proceeding to modify its previous order regarding the
10 collection of those costs and assign them in a
11 different manner; is that accurate?
12 A. Yes. It's fair to say that I'm shining a
13 light on this issue and asking the Commission to
14 consider an alternative cost allocation approach
15 which I believe is more consistent with cost
16 causation principles.
17 Q. And your reallocation for the existing
18 riders -- or, allocation for the new riders, that
19 will result in a reduction to the small and large
20 industrial customers and an increase to the large
21 commercial customers; is that correct?
22 A. If we turn to Table 1 on page 10 of my
23 direct testimony, you will see the allocators that
24 I'm proposing for each of the major customer classes.
25 Q. Okay. But if you turn to Table 2 of your

1 testimony, which is on page 12, on this table you are
2 demonstrating whether there will be an increase or a
3 decrease to the company's application; is that
4 correct?
5 A. Yes.
6 Q. Okay. So you're comparing the company's
7 application to your allocation methodology and in
8 that comparison rider -- or, Table 2 demonstrates
9 that your reallocation or allocation methodology will
10 result in a reduction to the small and large
11 industrial customers but will result in an increase
12 to large commercial customers, electric heating
13 customers, and streetlighting customers; is that
14 correct?
15 A. Yes. The predominant increase would be
16 to the GS-3 customers.
17 Q. Okay. And the magnitude of that increase
18 on those GS-3 commercial customers would be
19 approximately $31 million for the entire term of the
20 ESP; is that correct?
21 A. That's my estimate, yes.
22 Q. And it's about $555,000 for the electric
23 heating customers --
24 A. That --
25 Q. -- and 7.3 million for the lighting

1 customers?
2 A. 7.4.
3 Q. I'm sorry, 7.4.
4 A. To round the numbers. Thank you.
5 Yes.
6 Q. And, sir, in this recommendation did you
7 conduct any analyses as to the effect of the increase
8 that this will have on the classes of customers
9 receiving the increase?
10 A. I'm sorry, the increase?
11 Q. Yes.
12 A. Well, the increase is as shown here.
13 Q. Did you do any further analysis on what
14 effect that will have on the customers, the customers
15 receiving an increase?
16 MR. BERGER: Objection and request for
17 clarification. Do you mean in terms of the
18 percentage increase or are you asking in terms of the
19 affordability of the increase to those customers?
20 I'm not sure what the question is.
21 MS. BOJKO: Obviously there's a table to
22 the first part so it's going to the second part. Has
23 he done any analysis to determine the impact or the
24 effect on the customers that are receiving an
25 increase.

A. Other than the dollar impact that I'm showing in Table 2, I did not do any further analysis.

MS. BOJKO: Thank you, your Honor. I have nothing further.

EXAMINER SEE: Mr. Kurtz?

MR. KURTZ: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Kurtz:

Q. Good morning, Mr. Wallach.

A. Good morning.

Q. Do you agree that the costs you are addressing in your testimony, the allocation of the costs, that those costs are distribution-related expenses?

A. They are all part of the company's provision of distribution service, yes.

Q. If the company's existing distribution -- when were the existing distribution rates made effective? In other words, when was the last rate case's effective date?

A. I believe it was 2010-2011.

Q. If those rates that are currently in effect accurately reflect the allocation of

1 distribution expenses on the company's system,
2 wouldn't the company's methodology mathematically be
3 correct? In other words, if we assume that the
4 existing distribution rates accurately reflect
5 distribution cost causation, allocating additional
6 distribution expenses proportional to the existing
7 rates would mathematically properly allocate those
8 costs.
9 A. No. I disagree with that. The bottom
10 line allocation of distribution revenues is a product
11 of a detailed cost allocation process which looks at
12 a number of plant -- distribution plant accounts and
13 other cost accounts which are each allocated using
14 specific classification allocation schemes, and so --
15 and those individual allocations then add up to the
16 bottom line allocation of overall distribution
17 expenses.
18 What I'm recommending is that the
19 costs -- the particular costs that are being
20 collected through these four riders be allocated in
21 the same fashion as they would be if they were
22 collected through base rates which would be a
23 function of a detailed cost allocation scheme
24 specific to that particular cost, the cost being
25 collected through those riders.

1 Q. All those elements you just described go
2 into the setting of distribution rates that were, in
3 fact, done in the last rate case, were they not?
4 A. Well, my understanding is actually that
5 there -- there were cost-of-service studies done for
6 those rate cases, but my understanding is that there
7 was a stipulation which resolved the various issues
8 associated with that case, so yes, those costs were
9 allocated in a previous rate case but they didn't
10 necessarily flow through to the final bottom line
11 rates.
12 Q. Well, it looks like you're proposing to
13 do a new cost-of-service study for these new
14 incremental costs. Is that essentially what you're
15 doing?
16 A. No. I'm recommending that those costs be
17 allocated using the most recent cost of service, the
18 allocators in the most recent study cost-of-service
19 which was 2010-2011 case.
20 Q. Do you agree that as a matter of law or
21 regulatory principal that the existing distribution
22 rates are deemed to be fair, just, and reasonable?
23 A. Well, I'm not a lawyer, but those rates
24 were approved by this Commission.
25 Q. And those are the fair, just, and

1 reasonable distribution rates, correct?
2 MR. BERGER: Objection, your Honor. It's
3 unclear whether he's asking whether they're the fair,
4 just, and -- he already answered the question as to
5 whether those rates that were already set are deemed
6 reasonable for purposes of present charges, but it's
7 unclear whether he's asking him whether they can be
8 changed as part of this proceeding.
9 EXAMINER SEE: Mr. Berger, could you
10 slide the mic just a little closer to you, you have a
11 tendency to fade out so sometimes it's difficult to
12 hear you.
13 MR. BERGER: I'm sorry.
14 EXAMINER SEE: Mr. Kurtz, did you have a
15 response?
16 MR. KURTZ: I'll just rephrase if counsel
17 didn't like that question.
18 Q (By Mr. Kurtz) Do you agree as a matter
19 of regulatory policy that the existing rates approved
20 by the Commission on the tariff sheets of AEP have to
21 be deemed to be fair, just, and reasonable?
22 MR. BERGER: Objection, your Honor. He's
23 already answered that question as to whether the
24 rates are deemed to be just and reasonable.
25 MR. KURTZ: I'll ask it differently.

Q. Do you think the existing distribution rates of AEP Ohio are unjust and unreasonable?

MR. BERGER: Objection, your Honor. That's the same question.

MR. KURTZ: He hasn't answered it once. I mean --

MR. BERGER: I disagree.

MR. KURTZ: No, I think what counsel for OCC wants to stay away from is the point that existing rates are reasonable and they want to do a new cost-of-service study.

MR. BERGER: I'm not going to argue with Mr. Kurtz as to what OCC wants to do. We're talking about setting proposed rates here and that's what Mr. Wallach is addressing. He's not addressing whether rates should -- the rates that are currently in effect are just and reasonable. He's talking about the proposed rates.

EXAMINER SEE: Just a moment.

MR. KURTZ: I will move on to a different question, if that's okay.

EXAMINER SEE: That's fine.

Q (By Mr. Kurtz) Would you agree that if the Commission approved a dollar of additional cost for the distribution investment rider for example,

1 and that one dollar was allocated proportional to the
2 existing distribution rates, that whatever
3 relationship currently exists between the customer
4 classes would be maintained?
5 A. The relationship between the
6 distribution -- the allocation of distribution
7 revenues would be the same, yes.
8 Q. So that relationship would be maintained
9 if the Commission continues with the proportional
10 allocation of those costs based upon existing
11 distribution revenue?
12 A. It would maintain the same allocation
13 base distribution revenues plus rider revenues as is
14 currently in effect for base distribution revenues,
15 yes.
16 MR. KURTZ: Okay. Thank you.
17 EXAMINER SEE: Mr. Darr?
18 MR. DARR: Thank you, your Honor.
19 - - -
20 CROSS-EXAMINATION
21 By Mr. Darr:
22 Q. Mr. Wallach, I'm Frank Darr, I'm here on
23 behalf of Industrial Energy Users of Ohio.
24 A. Good morning.
25 Q. Good morning.

1 I want to clear up something that
2 Mr. Kurtz asked you. For purposes of assigning rate
3 responsibility am I correct that you went back and
4 you pulled the cost-of-service study filed by the
5 company in Case No. 11-351?
6 A. That's correct.
7 Q. And this would be the cost-of-service
8 study that had a date for the completion -- its
9 completion as May 31st, 2011?
10 A. I'm sorry. The date of completion?
11 Q. It's for a period that ended May 31,
12 2011.
13 A. I don't recall, actually, what the end
14 date was.
15 Q. Do you have a copy of --
16 A. I do not.
17 Q. -- the studies?
18 A. I do not.
19 MR. DARR: May I approach, your Honor?
20 EXAMINER SEE: Yes.
21 Q. If you'd take a look at this and see if
22 it refreshes your recollection.
23 A. Yes, it's for a test year that ends
24 May 31, 2011.
25 Q. And am I also correct that you did not

1 attempt to update any of the assumptions with regard
2 to plant expenses or revenue outcomes from that
3 cost-of-service study? Is that correct?
4 A. That's correct, I have not done an
5 updated cost-of-service study.
6 Q. And from the use of that cost-of-service
7 study you developed the allocators which are
8 contained in your testimony which is OCC Exhibit 14,
9 correct?
10 A. That's correct.
11 Q. In response to an earlier question you
12 indicated that you understood that that
13 cost-of-service study was not adopted by the
14 Commission as the basis for the rates resulting from
15 Case No. 11-351, correct?
16 A. My understanding is that that case was
17 resolved through stipulation.
18 Q. And as part of that stipulation, is it
19 also your understanding of the parties proposed and
20 the Commission adopted a revenue neutral distribution
21 rate design for demand-metered customers?
22 A. I'm not aware of that. I have not read
23 the stipulation.
24 Q. You haven't reviewed the stipulation at
25 all.

A. No.

Q. So I take it from that you have also not reviewed the Attachment Z which contained the rate design that was attached to that stipulation.

A. I have not reviewed the stipulation or any part of it.

Q. Now, am I correct that the cost-of-service studies that you did review would have resulted in total distribution revenue for Columbus Southern Power and Ohio Power of about $752 million annually?

A. That's correct.

Q. And are you aware that OCC requested distribution revenues for the period ended June 30th, 2013?

A. Excuse me?

Q. Are you aware that OCC requested through discovery a determination of distribution revenues ended June 30th, 2013?

A. Through discovery, yes, we asked for base year -- base distribution revenues for the current year.

Q. And do you have in front of you what is OCC Set 7, Request for Production 73, Supplemental Attachment 1?

A. Yes, I do.

Q. And am I correct that the base distribution revenues as of June 30, for a period ending June 30, 2013, were $642 million?

A. That is what it says, yes.

Q. And that would indicate to you that the revenues derived from the existing rates are approximately $110 million below what was used or what was the result of the cost-of-service study, correct?

A. That's correct.

Q. I'd like to turn to your testimony, specifically Attachment Wallach 2 which is attached to OCC Exhibit 14.

A. I'm there. Excuse me.

Q. And if I understand it correctly, what you've attempted to do is provide a comparison of the effects of your proposal as compared to the company's proposal on the revenues of the four riders -- or, excuse me, three riders that you address; is that correct?

A. That's correct.

Q. Let's take a look at the period June 2016 to May 2017 and I want to point your attention to the GS-3 tariff. And let's just focus on the DIR for the

1 time being.
2 A. Very good.
3 Q. Now, if we look at that particular line
4 for June 2016 to May 2017, you indicate a change in
5 revenue responsibility of 4 percent, correct?
6 A. That's correct.
7 Q. And that 4 percent is calculated by
8 taking the difference or change in column 3 and
9 dividing that by the total retail revenue, correct?
10 A. That's correct.
11 Q. In terms of the percentage change for the
12 GS-3 customer under the DIR, an alternative way of
13 calculating this would be to take the difference
14 between the AEP proposal and the OCC proposal,
15 correct?
16 A. That's correct.
17 Q. And if we do that and compare it to the
18 AEP proposal, we would see a net change in revenue
19 responsibility of 24 percent, correct?
20 A. Approximately, yes.
21 Q. And we could go through this same
22 exercise for each of the rates to determine what the
23 effect of your proposal is compared to the AEP
24 proposal with regard to the revenue effects that
25 would be the result of your proposal, correct?

A. Yes, you certainly could.

Q. Now, as I understand it from your testimony and from your discussion with Mr. Kurtz, that you do not agree that simply applying a percentage to the existing rate design does not result in a just and reasonable result; is that correct?

A. Simply applying a uniform percentage of base distribution revenues is not appropriate, that's correct. Not reasonably consistent with cost causation.

Q. And that's the fundamental problem that you identified, correct, that it's not tied to cost causation.

A. That's a fairly straightforward proposition that -- whether those costs are recovered through base distribution revenue rates or riders, they should be allocated consistently with cost causation.

Q. Now, you've testified and your résumé indicates a wide range of activities that you testified in. You testified last year in a case involving Wisconsin Public Service Corporation; is that correct?

A. That's correct.

Q. And you provided direct, rebuttal, and surrebuttal testimony in that case, correct?

A. I'll have to go back and check my résumé, but I believe I provided all three, yes.

Q. And the subject matter of your testimony in that case was on behalf of the Citizens Utility Board, correct?

A. That's correct.

Q. And in Wisconsin the Citizens Utility Board I believe represents both residential and small commercial customers?

A. That's correct.

Q. As part of that testimony, you provided rate design -- provided a rate design, correct?

A. I testified both on cost allocation and rate design issues as well as issues relating to their pilot decoupling mechanism.

MR. DARR: I'd like to have marked as an exhibit IEU Exhibit 11, the rebuttal testimony of Jonathan Wallach in Case No. 6690, a case before the Public Service Commission of Wisconsin.

(EXHIBIT MARKED FOR IDENTIFICATION.)

EXAMINER SEE: Mr. Darr.

MR. DARR: Yes, ma'am. Sorry.

Q. Do you have in front of you what's been

1 marked as IEU Exhibit 11?
2 A. I do.
3 Q. And can you identify this as your
4 rebuttal testimony in Case No. 6690-UR-122 which is
5 styled In Re: The Application of Wisconsin Public
6 Service Corporation for Authority to Adjust Its
7 Electric and Natural Gas Rates?
8 A. That's correct.
9 Q. And this is testimony you submitted to
10 the Wisconsin Public Service Commission, correct?
11 A. That's correct.
12 Q. And, as you indicated earlier, a portion
13 of this testimony addressed how to allocate the
14 revenue increase if the Commission increased the
15 total revenue amount from the revenue that was
16 allocated by the staff cost-of-service study,
17 correct?
18 A. That's correct.
19 Q. And if we turn to page 5 of your
20 testimony, you describe the methodology going -- page
21 5 going on to page 6 you describe the methodology
22 that you used to allocate that increase above what
23 would be applicable under the cost-of-service study,
24 correct?
25 A. That's correct.

Q. And am I correct that in this example you took the current revenues, which were estimated at $966 million, assumed a $10 million increase as the incremental portion; is that correct?

A. That's correct.

Q. And under your proposal you allocated the incremental portion by a straight percentage of 1.03 percent, correct?

A. That's correct.

Q. And that 1.30 -- excuse me, that 1.03 percent was calculated by dividing the $10 million increase by the $965 million or $966 million in current revenues, correct?

A. That's correct.

Q. And you applied that 1.03 percent increase to each customer base thereby increasing that customer base incrementally by that percentage.

A. Yes. And so just to get to the nub, I recommended that that hypothetical increase be allocated in proportion to distribution revenues and there was very good reason for that, because in this particular instance, unlike what we're talking about here in the instant proceeding, is that there was no clear cost causation associated with that hypothetical increase. And lacking clear cost

1 causation my recommendation is that it would be
2 reasonable to allocate based on distribution
3 revenues.
4 Q. I have described your -- in my question I
5 did describe currently the methodology that you used
6 to increase the base distribution rates for the
7 incremental change of your hypothetical proposal,
8 correct?
9 A. That is correct.
10 MR. DARR: Nothing further. Thank you,
11 your Honor.
12 EXAMINER SEE: Mr. Poulos?
13 MR. POULOS: No questions, your Honor.
14 EXAMINER SEE: Mr. Conway?
15 MR. CONWAY: Thank you, your Honor, just
16 a few questions.
17 - - -
18 CROSS-EXAMINATION
19 By Mr. Conway:
20 Q. Good morning, Mr. Wallach.
21 A. Good morning.
22 Q. Attached to your testimony, as I
23 understand it, hopefully what I'm looking at are a
24 number of attachments; is that correct?
25 A. There are two attachments to my

1 testimony.
2 Q. Just two? Did you attach to your
3 testimony spreadsheets indicating the particulars of
4 the cost-of-service study, particularly Schedule
5 E-3.2 from the 2011 rate case for each of the two
6 companies that were then comprising AEP Ohio,
7 Columbus Southern Power and Ohio Power?
8 A. I provided those as part of my
9 workpapers.
10 Q. Okay. So those are part of your
11 workpapers.
12 A. Yes.
13 Q. Do you have those with you?
14 A. I do, other than that one sheet which is
15 the cost-of-service summary page. However, I have
16 been handed that information already.
17 Q. I have a few questions to ask you about
18 the Schedule E-3.2 for each of the companies. Do you
19 have that workpaper with you?
20 A. I do not have that workpaper.
21 Q. Okay. Let me do it this way, let me give
22 to you --
23 MR. CONWAY: If I might, your Honor,
24 approach the witness.
25 EXAMINER SEE: Yes.

MR. BERGER: If he only has one copy there, I'd like to have a copy made.

MR. CONWAY: It's your witness.

MR. BERGER: Yes, I would like to see those.

MR. CONWAY: You don't have those workpapers with you?

MR. BERGER: I don't have that workpaper with me.

MR. CONWAY: I don't have any more copies with me other than the one I brought with me.

MR. BERGER: Your Honor, can we get a couple copies made before we continue this cross-examination?

MR. CONWAY: If he wants to stand up here and look over Mr. Wallach's shoulder, that would be fine with me. I just have some questions to ask him in a narrative fashion about the values that appear on the workpapers, and I think I can do it without getting into any particular numbers. They're more -- they're more conceptual about the way cost-of-service studies work and Mr. Wallach used them in his preparation of his testimony so I assume he'll be familiar with the workpapers.

EXAMINER SEE: Okay. Just a minute.

Let's go off the record.

(Discussion off the record.)

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

MR. BERGER: May I approach?

EXAMINER SEE: Yes.

MR. BERGER: Thank you.

A. I'm having a little difficulty reading this, it's rather small, small type.

Q. What I do when I find I'm having that problem, Mr. Wallach, is I take my glasses off.

A. As I'm doing, but you'll have to bear with me if I can't read all these numbers.

MR. CONWAY: Are we back on the record, your Honor?

EXAMINER SEE: Yes, we are.

Q. Mr. Wallach, you're looking at a copy of a workpaper that supported your testimony that involves the cost-of-service study for Ohio Power Company; is that right? If you look at the heading at the top of the page.

A. My workpapers, there were separate cost-of-service studies for Ohio Power and for CSP.

Q. And I kept the -- thank you, and I kept the one for Columbus Southern Power myself, for

1 myself, and I'm asking you questions about the Ohio
2 Power Company cost-of-service study. But is your
3 point that you also looked at the cost-of-service
4 study --
5 A. Yes, I relied on both the Ohio Power and
6 the CSP cost-of-service studies and they're both in
7 my workpapers.
8 Q. And the workpapers are similar in nature,
9 correct?
10 A. The two cost-of-service studies are
11 similar in format and nature, yes.
12 Q. Each of them has information from
13 Schedule E-3.2; is that correct?
14 A. I believe that was the schedule
15 reference, yes.
16 Q. Is that the indication on the copy of the
17 workpaper you have in front of you?
18 A. I don't see any such indication.
19 MR. CONWAY: Excuse me, your Honor, may I
20 approach again?
21 EXAMINER SEE: Yes, you may.
22 Q. If you look at the top of the workpaper,
23 the heading to the workpaper at the top of the first
24 page --
25 A. Yes.

Q. -- does it not say "Ohio Power Company" on the top line of the title?

A. It does.

Q. Okay. And then below that does it say "Class Cost-of-Service Study" --

A. It does.

Q. -- "-Schedule E-3.2"?

A. It does not. That's -- it does not give a schedule indication. That's what seems to be missing.

Q. Would you mind handing it back to me for a second.

Let me do this a different way. Let me give you the workpaper for Columbus Southern Power Company, okay?

A. Very good.

Q. And, Mr. Wallach, does that workpaper for Columbus Southern Power Company, does it indicate that the information on that workpaper is from the Schedule E-3.2?

A. It does.

Q. And does it indicate that it's from a 12-month period ending May 31st, 2011?

A. It does.

Q. Okay. Mr. Wallach, if you look at that

1 workpaper, and in particular at the rate base plant
2 in-service portion of the workpaper and in particular
3 the distribution accounts that are reflected in that
4 cost-of-service study in the upper left-hand corner
5 of the spreadsheet.
6 A. I see it, yes.
7 Q. Okay. And, again, this is for Columbus
8 Southern Power Company is the version of the
9 information that you're looking at at this point,
10 right?
11 A. That's correct.
12 Q. And is it accurate that in your testimony
13 you looked at the version that was also applicable to
14 Ohio Power Company?
15 A. Correct.
16 Q. Is it your understanding that the two
17 companies were not combined at the point in time when
18 the cost-of-service studies were conducted and the
19 rate case was prosecuted back in 2011?
20 A. That's my understanding.
21 Q. So back to the upper left-hand corner
22 under the heading "Distribution" which is under
23 "Plant In-Service" which is under "Rate Base," do you
24 see that series of plant accounts that are reflected
25 there?

A. I do.

Q. And in your testimony your recommendation is that for riders such as the distribution investment rider a net plant in-service allocator should be used to allocate responsibility for the capital costs of the investments made and collected through that rider, right?

A. That's correct.

Q. Okay.

A. And, in fact, that information -- the information that I used to generate those proposed allocators are on the second page of what you handed me.

Q. Let me ask you a few questions about what's on the first page, all right? Does that indicate to you that for -- as an example, for each of the -- well, as an example, for the line that is -- line item which is for poles, towers, and fixtures which is Account 384, that there's a specific amount of dollars in the cost-of-service study that are assigned to that account and that there is a specific allocator for the costs in that account?

A. Yes. It's actually Account 364, not 384.

Q. Thank you.

1 And then for the -- as another example,
2 for Account 365, which is headed "Overhead Lines"
3 There's also reflected in the cost-of-service study
4 in Schedule E-3.2 an amount of costs that are
5 accumulated within that account and also indicating
6 that there's a specific indicator for that
7 distribution plant account.
8 A. That's correct.
9 Q. So would you agree with me that in the
10 last cost-of-service study for Columbus Southern
11 Power Company in the last rate case that there wasn't
12 one composite allocation factor for distribution net
13 plant in-service, but rather there were a series of
14 allocation factors that were used to allocate
15 distribution plant in-service costs?
16 A. That's correct, although they were
17 primarily all driven by noncoincident peak demand.
18 Q. And would you agree with me that your
19 approach to allocating the costs, the net plant
20 in-service costs, of those investments made pursuant
21 to the DIR relies on a composite allocation factor,
22 not broken down into specific allocation factors for
23 particular subcategories of distribution to plant
24 in-service?
25 A. That's correct.

1 Q. Okay. And do you know what the
2 allocation factor is, for example, for the two
3 accounts that we just discussed, the Account 364 for
4 poles, towers, and fixtures, and for 365, overhead
5 lines?
6 A. Again, I believe that they are both
7 driven by noncoincident peak demand.
8 Q. And can you read from the copy of the
9 Columbus Southern Power Company version of the
10 spreadsheet what -- under "Allocation Factor," it
11 indicates what the description is of that factor for
12 Accounts 364 on the one hand and 365 on the other
13 hand?
14 A. Yes. It's distribution poles -- well, it
15 says DIST, underscore poles and DIST underscore OH
16 lines.
17 Q. Would you be able to infer from that that
18 perhaps the factor for poles, towers, and fixtures is
19 related to the number of poles involved, as opposed
20 to the basis that you just described before as your
21 understanding of how each of these factors is
22 developed, that is, being some coincident peak basis?
23 A. Again, my recollection is that they were
24 allocated on the basis of -- they were all considered
25 to be demand related and allocated on the basis of

1 noncoincident peak demand but I would have to go back
2 and do the details of the cost-of-service study to
3 verify whether that recollection is correct or not.
4 Q. So you're not sure sitting here today
5 that your understanding, which was the basis of your
6 prior answer, was accurate?
7 A. As I said, my recollection is that it was
8 noncoincident peak demand, however, I would have to
9 go back and verify that.
10 Q. So your position is unverified, then.
11 Correct?
12 MR. BERGER: Objection, your Honor. He's
13 answered the question.
14 MR. CONWAY: He didn't answer that
15 question.
16 MR. BERGER: He did answer the question.
17 MR. CONWAY: If he said it is unverified,
18 I'll move on.
19 MR. BERGER: He answered the question
20 what his recollection was.
21 MR. CONWAY: And I'm asking him whether
22 the assumption that he used and that he provided me
23 in connection with his original answer, then, is
24 unverified. I think I'm entitled to an answer.
25 MR. BERGER: Your Honor, he answered that

to further verify it, he would have to go back, he doesn't have the papers available to him.

MR. CONWAY: Okay. I'll take counsel's --

MR. BERGER: He indicated he reviewed it at the time.

MR. CONWAY: I'll take from counsel's objection that his answer is it's unverified and I'll move on.

EXAMINER SEE: Go ahead and move on, Mr. Conway.

Q (By Mr. Conway) Then for the next account, 365, can you explain to me under the heading "Allocation Factor," what the description of that allocator is?

A. 365, it says DIST underscore OH lines.

Q. And what do you suppose that might mean or indicate?

A. That indicates that that's the name that's used for that particular allocator.

Q. Is OH lines? That's what it indicates to you, what its name is is OH lines?

A. That's --

MR. BERGER: Objection, your Honor. He just answered the question, that that was what it

1 indicated to me, that that was the name of the
2 allocation factor.
3 Q. Do you think that it's possible that the
4 allocation factor for that account is based on some
5 formulation that depends upon the distance of the
6 lines involved like miles?
7 A. The allocation among customer classes?
8 Q. That's correct.
9 A. Again, my recollection is that the
10 allocation among customer classes was primarily a
11 function of demand, noncoincident peak demand.
12 Q. But that's not a verified assumption,
13 correct?
14 A. I would have to go back to my workpapers
15 to confirm that recollection.
16 Q. And from that I take it that the answer
17 to my question is yes, it's not verified at this
18 point and I would have to do what you just described.
19 Is that your answer?
20 MR. BERGER: Objection, your Honor. The
21 witness has already characterized the fact that he
22 has a recollection, but he would have to go back to
23 his workpapers to further confirm it.
24 MR. CONWAY: Your Honor, I don't believe
25 he answered the question.

MR. BERGER: I believe he did, your Honor.

EXAMINER SEE: I understand that you two disagree.

MR. CONWAY: If I can take from that that the answer is yes, it's not Verified, then my cross-examination is complete.

EXAMINER SEE: The objection is sustained and we can move from there, but let's go off the record for a second.

(Discussion off the record.)

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

Mr. Conway, continue.

MR. CONWAY: Thank you, your Honor. That completes my cross-examination.

Thank you, Mr. Wallach.

THE WITNESS: You're welcome.

EXAMINER SEE: Staff?

MR. PARRAM: No questions, your Honor.

EXAMINER SEE: Any redirect, Mr. Berger?

MR. BERGER: Can we have about five minutes, your Honor?

EXAMINER SEE: Sure.

MR. BERGER: Thank you.

(Recess taken.)

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

Mr. Berger, redirect?

MR. BERGER: Yes, thank you, your Honor.

- - -

REDIRECT EXAMINATION

By Mr. Berger:

Q. Mr. Wallach, Mr. Conway asked you a number of questions regarding your workpapers that supported your position regarding the proposed revenue -- or, proposed cost allocation for the four riders, do you recall that?

A. I do.

Q. And he asked you whether particular allocators that were in the cost-of-service studies and that were included in certain workpapers were, in fact, allocated not on the basis of noncoincident peak, as you had indicated, but were allocated on another basis. Do you recall that?

A. I do.

Q. Since he asked you whether you had verified that, have you had a chance to verify that since he did his cross-examination?

A. I have.

Q. And what was your -- what did your review indicate?

A. My review indicates that those two allocators do generally allocate to customer classes the costs recorded in those accounts in proportion to class demand.

Q. So it's consistent to what you had -- your recollection and what --

A. That is correct.

Q. -- you indicated on --

A. That is correct.

MR. BERGER: Thank you. That's all I have, your Honor. Thank you.

EXAMINER SEE: Thank you.

Any recross, Mr. Borchers?

MR. BORCHERS: No, your Honor.

EXAMINER SEE: Mr. McDermott?

MR. McDERMOTT: No, thank you, your Honor.

EXAMINER SEE: Ms. Bojko?

MS. BOJKO: No, your Honor.

EXAMINER SEE: Mr. Kurtz?

MR. KURTZ: No, your Honor.

EXAMINER SEE: Mr. Darr?

MR. DARR: No, thank you.

EXAMINER SEE: Mr. Poulos?

MR. POULOS: No, your Honor.

EXAMINER SEE: Mr. Conway?

MR. CONWAY: Thank you, your Honor.

- - -

RECROSS-EXAMINATION

By Mr. Conway:

Q. Mr. Wallach, I take it from the introduction to your redirect that since you had to go back and attempt to verify the correctness of your assumption regarding the allocation factors that applied to the various categories of accounts on the workpaper that we looked at that, in fact, going into the cross at least your assumption was unverified, then, right?

MR. BERGER: Objection, your Honor. He's already answered these questions before.

MR. CONWAY: It's within the scope of redirect, your Honor. I don't think I ever did get an answer originally, I agreed to move on, but I think it's pretty clear now.

EXAMINER SEE: You can answer the question, Mr. Wallach.

A. At the time you asked the question I could not verify my recollection. I have since that

1 point verified that my recollection was accurate.
2 Q. Mr. Wallach, is it your testimony that
3 each of the categories of accounts within the
4 distribution plant category reflected on your
5 workpapers, in fact, have -- rely upon the same
6 allocation factor numerically for plant in-service?
7 A. Not every single one, no. In fact, I
8 highlight meters and services are allocated
9 essentially on a direct assignment and, as a result,
10 the allocation to residential -- the residential
11 class is much higher for those -- for the costs
12 collected in those accounts than for the average of
13 all net plant.
14 Q. And did you confirm in your review that
15 the allocation factors for each of the two categories
16 you talked about, in fact, is different than the
17 composite allocation factor that you referred to in
18 your testimony?
19 A. The allocation -- my recollection is that
20 the allocation percentage for those two accounts to
21 the residential class is similar but not exactly
22 equal to -- for gross plant because I -- for net
23 plant you don't -- the cost-of-service study does not
24 break it out by plant account for depreciation and
25 amortization, but for gross plant the allocation

1 factor for poles and overhead lines to the
2 residential class is similar, very close to the
3 bottom line gross plant allocation over all those
4 plant accounts.
5 It should be something -- for those
6 accounts, two particular accounts, the allocation to
7 the residential class, the percentage allocator
8 should be something less than the overall percentage
9 allocation because of the effect of meters and
10 services in the total allocator.
11 Q. And I believe you mentioned the meters
12 account and the value of the dollars in that account
13 being allocated on a different basis than your
14 noncoincident peak allocator that you referred to in
15 your testimony.
16 A. That's correct. It's a much higher
17 percentage allocator to the residential class for
18 meter and services accounts and so that if you did
19 not include -- if you were to allocate just using the
20 poles or overhead lines or other demand-related
21 allocators, you would end up with a lower allocation
22 to -- less of an allocation of cost to the
23 residential class than you do using the overall
24 allocator.
25 Q. So your view is that the portion of meter

1 costs that should be allocated to the residential
2 class is greater than whatever your composite
3 allocator factor will indicate, right?
4 A. That is the case in the cost-of-service
5 studies that I relied on.
6 MR. CONWAY: Thank you, Mr. Wallach.
7 I have no further questions, your Honor.
8 EXAMINER SEE: Staff?
9 MR. PARRAM: No questions, your Honor.
10 EXAMINER SEE: Thank you, Mr. Wallach.
11 THE WITNESS: Thank you.
12 EXAMINER SEE: Mr. Berger, I cannot
13 recall, did you already move for the admission of --
14 MR. BERGER: I did, your Honor.
15 EXAMINER SEE: Okay. Are there any
16 objections to the admission of OCC Exhibit 1?
17 MR. CONWAY: No, your Honor.
18 MR. BERGER: Did you say "1"?
19 EXAMINER SEE: I'm sorry. I can't read
20 my own writing. It's 14.
21 MR. CONWAY: No, your Honor.
22 (EXHIBIT ADMITTED INTO EVIDENCE.)
23 EXAMINER SEE: Mr. Darr?
24 MR. DARR: I move the admission of IEU
25 Exhibit 11.

EXAMINER SEE: Any objections?

MR. BERGER: No objection, your Honor.

EXAMINER SEE: IEU Exhibit 11 is admitted into the record.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER PARROT: Next witness.

MR. BERGER: Yes, OCC calls James Wilson to the stand.

EXAMINER PARROT: Mr. Wilson, please raise your right hand.

(Witness sworn.)

EXAMINER PARROT: Please have a seat.

MR. BERGER: Your Honor, at this time we'd ask -- well, let me ask.

- - -

JAMES F. WILSON

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

DIRECT EXAMINATION

By Mr. Berger:

Q. Good morning, Mr. Wilson.

A. Good morning.

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

A. James F. Wilson, 4800 Hampton Lane, Suite

200, Bethesda, Maryland 20814.

Q. And, Mr. Wilson, have you caused to be prepared in this proceeding testimony which consists of both a public version and a confidential version in this case?

A. Yes, I have.

Q. And that would include various exhibits and attachments; is that correct?

A. Yes.

MR. BERGER: Your Honor, at this time I'd ask that the confidential version of Mr. Wilson's testimony be marked as OCC Exhibit 15 and that the public version be marked as OCC Exhibit 15A.

MR. NOURSE: Your Honor, can I just inquire or verify that the public version is the version that was subsequently filed by me and not the original version?

MR. BERGER: Yes, it's the version that was filed by you on June 6th.

MR. NOURSE: Thank you.

EXAMINER PARROT: The exhibits will be so marked.

(EXHIBITS MARKED FOR IDENTIFICATION.)

MR. BERGER: And I'm going to provide the court reporter with a copy of each.

Q (By Mr. Berger) Mr. Wilson, do you have a copy of each version of your testimony?

A. Yes, I do.

EXAMINER PARROT: Mr. Wilson, can you turn your microphone on. It's the button at the bottom there.

Thank you.

Q. Mr. Wilson, was your testimony prepared by you or under your direct supervision?

A. Yes, it was.

Q. And do you have any changes, additions, or corrections to make to either version of your testimony at this time?

A. Yes, there is errata to the testimony.

Q. Okay. And is that to the public version? Would that information be in both the confidential and public version or is it confidential information?

A. It includes some confidential information.

MR. BERGER: Your Honor, at this time we would ask that -- do you want to do the confidential information first or last? The confidential errata.

EXAMINER PARROT: Are you asking in terms of marking?

MR. BERGER: In terms of going through

1 the corrections, marking the corrections.
2 EXAMINER PARROT: Let's go off the
3 record.
4 (Discussion off the record.)
5 EXAMINER PARROT: Let's go back on the
6 record.
7 Mr. Berger.
8 MR. BERGER: Your Honor, we'd like to
9 mark the errata sheet Mr. Wilson previously produced
10 as OCC Exhibit No. 16.
11 EXAMINER PARROT: So marked.
12 (EXHIBIT MARKED FOR IDENTIFICATION.)
13 MR. BERGER: Can we go off the record,
14 your Honor, while we --
15 EXAMINER PARROT: Yes. Let's go off the
16 record.
17 (Discussion off the record.)
18 EXAMINER PARROT: Let's go back on the
19 record.
20 Q. (By Mr. Berger) With the corrections
21 shown in the errata, Mr. Wilson, is your testimony
22 true and correct to the best of your knowledge,
23 information, and belief?
24 A. Yes, it is.
25 Q. If I asked you the questions contained in

there today, would your answers be the same?

A. Yes.

MR. BERGER: Your Honor, at this time we would offer OCC Exhibits No. 15, 15A, and the errata No. 16 as -- we would offer them into evidence subject to cross-examination. Thank you.

EXAMINER PARROT: Thank you, Mr. Berger.

Mr. Borchers?

MR. BORCHERS: No questions, your Honor.

EXAMINER PARROT: Mr. McDermott?

MR. McDERMOTT: No questions, your Honor, thank you.

EXAMINER PARROT: Ms. Bojko?

MS. BOJKO: Just for clarification, your Honor, is 15A confidential and 15B public?

EXAMINER PARROT: Exhibit 15 is the confidential version, 15A is the public version, and 16 is the errata.

MS. BOJKO: Thank you. I have no further questions.

EXAMINER PARROT: Mr. Kurtz?

MR. KURTZ: No questions, your Honor.

EXAMINER PARROT: Ms. Mooney?

MS. MOONEY: No questions.

EXAMINER PARROT: Mr. Darr?

1 MR. DARR: No questions.
2 EXAMINER PARROT: Mr. Poulos?
3 MR. POULOS: No questions.
4 EXAMINER PARROT: Mr. Nourse?
5 MR. NOURSE: Thank you.
6 - - -
7 CROSS-EXAMINATION
8 By Mr. Nourse:
9 Q. Good morning, Mr. Wilson.
10 A. Good morning.
11 Q. We've got a couple minutes left.
12 In my questions, I'm not intending to ask
13 you to reveal any confidential information. I think
14 we can get through all my questions on the public
15 record. However, if you have any reservations about
16 that or think that you need to discuss confidential
17 information, please let us know and we can go into a
18 closed session for that portion, okay?
19 A. Okay.
20 Q. Thank you.
21 Now, sir, do you have any experience in
22 dispatch modeling for generation assets?
23 A. Yes, I do. I have had a number of
24 assignments that involved dispatch modeling as part
25 of the assignment.

Q. Do you run the models yourself or have you run them in connection with any expert testimony?

A. I have not run them in connection with expert testimony, no.

Q. Okay. Including in this case, correct?

A. That's correct.

Q. Okay. Now, do you agree if inputs of a model change significantly, then you have to rerun the model to get a valid result?

A. I agree that if the inputs have changed significantly, that to have a result that's entirely consistent with all the inputs you would have to rerun the model, but sometimes you can instead make an estimate based on a much simpler approach.

Q. Okay. But to get valid results that are comparable with the original run you'd have to adjust your inputs and then actually rerun the model, correct?

MR. BERGER: Objection, your Honor.

EXAMINER PARROT: Grounds, Mr. Berger?

MR. BERGER: He's already answered that question. He just explained to you -- he just explained to all of us the circumstances under which a dispatch model would have to be rerun versus where some adjustments could be made and a determination as

1 to the reasonableness of the model's results
2 recalculated.
3 MR. NOURSE: Your Honor, I mean this is
4 going to take a lot longer if we have to go down this
5 route. He answered that he wants -- sometimes you
6 can do a different thing and take a simpler approach
7 so I wanted to get back to my question and have him
8 directly answer that.
9 EXAMINER PARROT: The objection is
10 overruled.
11 A. I wouldn't say that the results are
12 invalid. I would say that to have dispatch model
13 results that are fully consistent with the dispatch
14 model's inputs, if you change the inputs, you would
15 then rerun the dispatch model. But to have results
16 that are based on something a dispatch model did and
17 then some of those inputs changed, there can be more
18 simpler and straightforward approaches to adjusting
19 those results that are still valid. They're not an
20 exact reflection of what the dispatch model would
21 have said had you rerun it, but they may be very
22 close and they may be sufficiently valid depending on
23 the application of the analysis.
24 Q. So by that answer you're saying they
25 could be sufficiently valid but not necessarily

1 consistent; is my understanding correct?
2 A. The results of what the -- the dispatch
3 model's outputs reflect the dispatch model's inputs.
4 So if you change the inputs, you rerun the model and
5 you have a set of outputs that are directly
6 consistent with the inputs. But if you're using that
7 analysis for some purpose and applying it somewhere,
8 that analysis and that purpose can be sufficiently
9 consistent with the inputs by making a simpler
10 adjustment to the outputs, yes.
11 Q. And how do you determine whether the
12 outputs are sufficiently consistent if you don't
13 rerun the model to test that conclusion?
14 A. Well, you use your judgment. I mean, if
15 you're making fairly transparent and straightforward
16 changes to the results based on the inputs, I think
17 folks who are reviewing it can have their own
18 judgment about whether that sounds like a reasonable
19 approach or not.
20 Q. Okay. But unless you rerun the model you
21 really don't know, correct?
22 A. Unless you rerun the model, you don't
23 know exactly what different results the dispatch
24 model would have created based on those inputs,
25 correct.

1 Q. Okay. Now, with respect to the modeling
2 involved with your testimony, can you tell me what
3 were the main inputs into the modeling?
4 A. Are you asking about the model that AEP
5 ran in order to produce the PPA rider estimate that I
6 referred to that was IEU RPD 2-001, Attachment 1?
7 Q. Yeah, well, let's back up. So your
8 testimony is, as I understand it, is strictly related
9 to the quantification of the price impact analysis of
10 the PPA rider during the ESP term, correct?
11 A. That's one part of my testimony, yes.
12 Q. Okay. Are you testifying on other
13 matters for OCC in this testimony that don't relate
14 to the PPA rider price impact?
15 A. Yes.
16 Q. Okay. What other matters are you
17 testifying on?
18 A. I also testified about the structure of
19 the PPA rider as a regulatory mechanism, and I also
20 testified about the PPA rider and its potential
21 impact on stability of customer rates.
22 Q. Okay. The second one at least is part of
23 the price impact, is it not?
24 A. The price -- the potential impact on the
25 trajectory of prices, yes.

Q. Okay. Anything else?

A. I believe that those three were the main topics of my testimony.

Q. Okay. So in that context of the model, the AEP model that you modified in your testimony, can you explain the inputs into the model?

A. Well, I understand it was using a dispatch model and typically the inputs into a dispatch model are a representation of the transmission network in the relevant region that's being modeled, loads over time within that transmission network, probably hourly loads, the generating units available in the transmission network and all their characteristics which would include their maximum and minimum output, ramp rates, start-up times, their start-up costs, their dispatch costs, perhaps their fuel inputs, heat rates, many other characteristics go into these models.

Q. And is it your understanding that the AEP model, again we're talking about the AEP model you took and modified in your testimony, had all those inputs as part of it?

A. I didn't modify AEP's model. I modified the results that were reported. But my understanding is that, yes, their model likely had all those inputs

1 and many more.
2 Q. Did they likely have those or did you
3 determine what inputs were used in AEP's model?
4 A. I don't recall if there was discovery
5 about the specific input data to the model that was
6 used.
7 Q. Okay. But was your prior answer about
8 the inputs just a generic answer about your general
9 knowledge of dispatch modeling or was it based on the
10 specific review of the AEP model in this case?
11 A. The former, generic.
12 Q. Okay. So do you know what inputs were
13 used in the AEP modeling in this case?
14 A. Only to the extent there were questions
15 and answers through discovery which asked about such
16 things as market prices, coal prices, and such.
17 Q. Okay. And any others that you're aware
18 of?
19 A. I'd have to go through. I think there
20 probably were quite a few others, but I don't have a
21 list in front of me.
22 Q. Okay. Let's talk about the outputs from
23 the AEP model. What can you tell me about those?
24 A. Well, I suppose the modeling outputs
25 included hourly generation by the OVEC plants, that

1 was one that was actually provided; hourly prices,
2 the model would have also likely determined the
3 output levels on an hourly basis of all the other
4 plants that were being modeled; and those are the
5 main outputs, the prices, the output levels of the
6 various plants through the system through the
7 dispatch.
8 Q. You mentioned earlier Attachment 1 to IEU
9 Interrogatory 2-001. Do you recall that?
10 A. Yes.
11 Q. Okay. And if we could, let's just refer
12 to that as "Attachment 1." Are you with me?
13 A. Yes.
14 Q. And then is it your recollection there
15 was also an Attachment 2 and an Attachment 3 as well?
16 A. Yes.
17 Q. Okay. And for your testimony you rely
18 exclusively on Attachment 1, correct?
19 A. Yes. That's the one -- that's the only
20 one that was a PPA rider estimate.
21 Q. Okay. Well, did the annual information
22 in Attachments 2 and 3 also include the same type of
23 information as Attachment 1?
24 A. Yes.
25 Q. And so you could use the same information

to estimate the effect of the PPA rider under the two additional scenarios in Attachment 2 and 3, could you not?

A. No. It was annual information, the ESP period begins June 1 and ends May 15th, so that information was actually not usable to create a PPA rider estimate.

Q. And you're concluding that it's not usable because it was annual and not broken down by each of the specific months?

A. Well, that was -- that's the main reason. I didn't drill down on those two attachments because it was clear they weren't a PPA rider estimate. Perhaps if I had drilled down, I would have found other reasons, but that reason was enough for me to dismiss them.

Q. Okay. And Attachment 1 happened to also be the highest cost of the three estimates, correct?

A. I hadn't even gotten to that point, as a matter of fact.

Q. Okay. But your testimony, the three adjustments that you made were strictly to Attachment 1, correct?

A. That's right. I mean, I can't compare the results of the PPA rider estimate to the other

1 two because the other two did not provide information
2 that was correspondent to the ESP period so I can't
3 say whether -- which one was higher cost. It was not
4 possible to determine that.
5 Q. Okay. And you didn't ask for that
6 information through discovery?
7 A. No. It was clear from that submission
8 that Attachment 1 was a PPA rider estimate, had the
9 structure of the PPA rider estimate. The other two
10 attachments were other information that was also
11 provided that Witness Allen considered responsive to
12 the question.
13 Q. Okay. So it's your testimony that
14 Attachments 2 and 3 did not give a PPA rider
15 estimate.
16 A. That's correct.
17 Q. That those attachments did not give an
18 estimate for the ESP term.
19 A. That's correct, yes.
20 Q. And in doing your price impact analysis
21 relating to OVEC did you use all the information that
22 you had available?
23 A. Yes. I used -- well, I made three
24 changes. I'm not sure what you mean by "used all the
25 information available," but I reviewed the PPA rider

1 estimate reflected in Attachment 1, I identified
2 three particular areas where I felt that the
3 assumptions were unsupported, and I modified those
4 three assumptions. I wanted to keep my analysis
5 simple and transparent so used all the information, I
6 didn't change every piece of information that
7 possibly could have been updated. For instance, in
8 my testimony I discuss that I didn't change the
9 capacity price number even though it appeared to be
10 too high, and recent events have proven that it was
11 too high.
12 Q. Yeah, we'll get into that. But what I
13 meant by "all available," so did you review the
14 discovery that came in from the company, from the
15 parties, and use the most recent information that you
16 had available through discovery in doing your three
17 adjustments?
18 A. I believe I did, yes.
19 Q. So and is it fair to say that you, beyond
20 the three adjustments that we'll get into in more
21 detail, you determined that the remaining assumptions
22 in AEP's modeling were well supported?
23 A. Yes. We're close enough that either they
24 were as accurate as seemed to be required by the
25 nature of the analysis or that any update to them

1 would probably have made a very small impact.
2 Q. Okay. Since you mentioned the capacity
3 price, let's talk about that. So on page 19 of your
4 testimony, again, we don't need to get into the
5 confidential data, I just want to try to ask you some
6 questions about it. On page 19 you indicate the
7 value that AEP used, correct?
8 A. For the capacity price?
9 Q. Yeah.
10 A. Yes.
11 Q. And that's in line 14, correct?
12 A. Yes.
13 Q. Okay. And then you also indicate the
14 price that you use -- you used?
15 A. We're talking about 2017-2018 I believe.
16 Q. Yes, I'm sorry. The base residual
17 auction results for planning year 2017 and 2018.
18 A. Yeah, I made no change.
19 Q. Okay. And you reference an expectation
20 or a forecast by UBS there.
21 A. Yes, I did.
22 Q. And as you understand the actual auction
23 results that have occurred since the time of your
24 testimony, would you agree that UBS was off by
25 50 percent?

A. Maybe 33-1/3 percent. Their number was 80, the actual number was 120.

Q. Okay.

A. Yeah.

Q. And is that -- would you consider that grossly inaccurate?

A. No.

Q. In fact, would you agree that for RPM that's not too bad?

A. Well, 80 to 120, it's not terribly surprising. The values have moved around quite a bit year to year.

Q. And do you recall at your deposition stating for RPM that's not too bad?

A. Not too bad, okay.

Q. Okay. Now, is it also accurate in this context that AEP's estimate was only off by less than 5 percent?

A. Yes.

Q. Now, did you rerun the model using the correct 2017-2018 BRA value?

A. No, I didn't.

Q. Directionally would you agree that it would lower your net PPA rider cost, all else being equal?

A. If I were to change the number that I used to the actual number, it would actually raise the PPA cost.

Q. And the net -- I'm asking about the net impact of the PPA rider.

A. It would raise the cost to consumers of the PPA rider if I were to make that update.

Q. Okay. All else being equal.

A. Yes.

Q. Okay. Next area I'd like to ask you about is the LEAN cost reductions, and I'm talking about LEAN the acronym which is a cost-cutting, cost-managing program. You're familiar with that?

A. Yes. L-E-A-N.

Q. Yes. I've got IEU Exhibit 8 that's been marked in this proceeding.

MR. NOURSE: Counsel, do you have that?

Q. So I'm going to hand you two documents --

MR. BERGER: I have it. Thank you.

Q. -- OMA Exhibit 3 as well, confidential version, and this is IEU Exhibit 8. So I want to work with you on these two documents and ask you a couple questions.

So let's first refresh the record on what these are. OMA Exhibit 3 includes Attachments 1, 2,

1 and 3 as we've been referring to them, correct?
2 A. Yes, apparently so.
3 Q. And IEU Exhibit 8 is the OVEC ICPA
4 billable cost summary for 2014 through 2018, correct?
5 A. Yes.
6 MR. BERGER: I just want to remind the
7 witness, your Honor, that both of these exhibits are
8 confidential.
9 MR. NOURSE: Right.
10 MR. BERGER: So that any references to
11 any numbers on them in particular he has to be
12 cautious about. Thank you.
13 Q. And, again, I will try to go about it --
14 if we have to get into confidential, we'll circle
15 back and do it at the end, okay?
16 All right. So can you turn to -- in
17 Attachment 2 within OMA Exhibit 3, and there's a
18 summary page basically at the beginning of that
19 Attachment 2. Do you see that? It says "OVEC Total
20 Summary Financial Statement."
21 A. Okay. On which page of Attachment 2?
22 Q. I think it's the first page.
23 A. Okay. What am I looking for again?
24 Q. Just let me know if you're there on the
25 same page. Are you there?

A. I'm on page 1 of Attachment 2, left side.

Q. Yes. Yes. Thank you.

A. Okay.

Q. All right. So under -- let's look at the year 2016 and I'd like you to go down to the "Total Projected Demand Costs," and do you see that figure? You don't need to say it.

A. Give me a hint where on the page.

Q. There's columns with the years, 2015 is the first one --

A. Yes.

Q. -- and I'm asking you about 2016, and two-thirds down it has a "Total Projected Demand Cost."

A. Okay, I see that, yes.

Q. Okay. So just keep that number in mind. I'm going to ask you to do a calculation so I don't know if you have a notepad or a calculator with you as we go through this. I just want to discuss the total or the outcome of the calculation if we can do this on the public record. It's slightly awkward but I just want to try to keep everything on the public record that we can.

A. I'll give it a try.

Q. Are you with me? Okay. So if you want

to write that number down.

A. Okay.

Q. Then the next number is the "Total Transmission Cost" in the same column, 2016, same page --

A. Yes.

Q. -- of that.

A. Yes.

Q. So if you add those two together, then you have the -- what I would call the total demand cost for that year.

A. Okay.

Q. Now, let's take that number and go to IEU Exhibit 8, the other document I gave you earlier.

A. Okay.

Q. And under the "2016" heading, again, we have "Total Projected Demand Costs." Do you see that?

A. Where are we again, please?

Q. On IEU Exhibit 8.

A. Yes.

Q. And have you seen IEU Exhibit 8 before?

A. Yes.

Q. Okay. And under "2016," the "Total Projected Demand Cost." Do you see that?

A. Yes.

Q. Okay. So let's take the value we -- the total value that we had from Attachment 2 a few moments ago and subtract the "Projected Demand Costs" that were updated here in this discovery response for 2016.

A. Subtract.

Q. And that would represent the difference for the updated number, correct?

A. Okay.

Q. Do you have a delta --

A. Yes.

Q. -- calculated? Okay. And so that number would be the difference between the original actual -- excuse me, the original projection from Attachment 2 to the updated OVEC budget information that's provided in IEU Exhibit 8, correct?

A. I don't know what the timing was of Exhibit 8 relative to Attachment 2. I didn't use either of these numbers.

Q. Okay. Well, but before we got into this line of questioning I asked you about whether you used information provided in discovery as it was updated, and you said you thought you used the most current information. So that's fine.

1 And so I want to go through this
2 calculation and then get back into the discussion
3 about your LEAN adjustment.
4 A. Okay.
5 Q. So the delta of the two numbers, you have
6 that number calculated?
7 A. Yes, I do.
8 Q. Okay. And that would be the total for
9 OVEC, correct? That's not all for AEP Ohio at this
10 point.
11 A. Okay.
12 Q. Is that your understanding?
13 A. Yes, this is the OVEC total.
14 Q. Okay. And is it your recollection that
15 AEP Ohio's allocation or share of OVEC is
16 approximately 19 percent?
17 A. Yes.
18 Q. Okay. So if we were to take 19 percent
19 of that differential number, do you have that
20 calculation?
21 A. Yes.
22 Q. Okay. And is that 13.2 million?
23 A. That's close to that, yes.
24 Q. Okay. Now, in your -- in your LEAN
25 adjustment you took out -- I'm sorry, you added

1 $10 million back in to the company's projected demand
2 cost based on your belief that there was a lack of
3 certainty around those savings occurring, correct?
4 A. No.
5 Q. Okay.
6 A. I used the OVEC demand charges that were
7 provided in response to our discovery question which
8 were not exactly 10 million added back in. They were
9 slightly different from that.
10 Q. Okay. And your discovery question was to
11 indicate the demand charge without the LEAN savings,
12 is that essentially what it represented?
13 A. I think we should take a look and see
14 exactly what it is.
15 Q. Okay. Go ahead and tell me what you're
16 referring to.
17 A. It's one of my attachments.
18 Q. Yeah.
19 A. It's Attachment JFW-2, page 1 of 18.
20 Q. Go ahead. I'm with you.
21 A. And in A we identify the demand charge
22 projections from OVEC, and the numbers provided in
23 response are the numbers that I used in my estimate.
24 Q. And the question says that OVEC demand
25 charges -- the "OVEC demand charge has been decreased

1 10 million to reflect LEAN," correct?
2 A. Yes.
3 Q. Okay. So, again, the effect of your
4 adjustment on this, one of our three adjustments, was
5 to add in or not reflect the LEAN projected savings,
6 correct?
7 A. Well, I used the demand charge
8 projections from OVEC and, yes, it's my understanding
9 that the only difference in the PPA rider estimate
10 that you had provided was that you had subtracted
11 something based on LEAN improvements. I used those
12 numbers in Interrogatory 11-272 Part A.
13 Q. Again, as that interrogatory you just
14 referenced indicates, there was a $10 million
15 reduction associated with LEAN, correct?
16 A. Well, when I compared the numbers, as I
17 recall, it was not exactly that difference, but yes,
18 it was approximately that. Yes.
19 Q. And so the $13.2 million calculation that
20 we just did, that we just walked through, would
21 represent a -- basically a swing of 13.2 million in
22 the numbers that you used for the OVEC demand charge,
23 correct?
24 A. No. In that calculation we took the
25 numbers that were in Attachment 2 and compared them

1 to, which I didn't use, and compared them to another
2 interrogatory which I didn't use.
3 Q. Yeah, that's my whole point. You didn't
4 use the updated OVEC budget information that
5 reflected the actual plans to implement the LEAN
6 savings; is that correct?
7 A. Well, I didn't know whether that --
8 MR. BERGER: Object -- objection, your
9 Honor. It hasn't been established what IEU 8 is in
10 terms of it being an updated budget or how the data
11 was prepared or what it reflects, so this is asking
12 Mr. Wilson to answer a question based on facts not in
13 evidence.
14 MR. NOURSE: Well, your Honor, we talked
15 about that a few moments ago and he said he had
16 already reviewed it and we talked about the
17 $10 million reduction and all the rest of it, so I
18 think it's a little late to be objecting on that.
19 But I was -- my current question simply
20 relates to clarifying what he just said in his
21 answer.
22 MR. BERGER: Your Honor, again, my
23 objection goes not to what Mr. Wilson already
24 answered which was simply to do a calculation based
25 on two exhibits that were given to him, but that

1 Mr. -- that this is being represented by Mr. Nourse
2 to be something that it's not -- it's not in evidence
3 that it is. All we know is that it's IEU 8, it
4 doesn't say when it was prepared, how it was
5 prepared, who prepared it, or anything of that sort.
6 So Mr. Wilson cannot testify whether it's the more
7 updated or not the more updated.
8 EXAMINER PARROT: I'm going to ask you to
9 rephrase your question, Mr. Nourse.
10 MR. NOURSE: Okay.
11 Q. Well, let's go back. We can go back and
12 review this again. So if you have OMA Exhibit 2 --
13 Exhibit 3, excuse me, Attachment 2 that we've been
14 discussing, do you know the vintage of that
15 projection?
16 A. No, I don't.
17 Q. I'm looking for the date here. You've
18 got OMA 3, my copy. You can't see the September 2013
19 vintage for Attachment 2?
20 A. Are we talking about IEU Exhibit 8?
21 Q. No, we're talking about OMA 3, which is
22 the Attachments 1, 2, and 3 that we were discussing.
23 A. Okay.
24 Q. Talking about Attachment 2, and can you
25 tell whether the vintage is September 2013 from the

exhibit I handed you?

A. I think that sounds approximately correct.

Q. If you look at page 2, do you see the -- it says market date, the source there. Does it have a date written on there?

A. I think you're referring to where it says base nominal 2013 underline 09 underline 27.

Q. Yeah. What is that? Does that suggest September 2013?

A. It does suggest that.

Q. Okay. And then if you look at IEU Exhibit 8, the other exhibit we've been discussing, does that have a date, a vintage date, up in the upper left-hand corner?

A. I think you're referring to the V11-23-13?

Q. Yes. It would that indicate to you that it's November 22nd, 2013?

A. It might.

Q. Okay. And earlier you said that you reviewed Exhibit 8. You had seen it in discovery.

A. I have seen it in the last few days. I don't know if I had reviewed it carefully when it appeared in discovery.

1 Q. Okay. Have you reviewed any of the
2 transcripts in this proceeding thus far, Mr. Allen's
3 testimony in particular?
4 A. Yes, I have.
5 Q. Okay. Do you recall his testimony about
6 the -- this information reflecting updated OVEC
7 budget data?
8 A. I don't recall specifically.
9 Q. Okay. So, again, we'll let the record
10 speak for itself on that, and presuming the record
11 does demonstrate that this information is updated
12 OVEC budget information, it's fair to say you did not
13 incorporate that into your testimony or any of your
14 analysis of the modeling, correct?
15 A. Are you referring to IEU Exhibit 8?
16 Q. I'm referring to IEU Exhibit 8 concerning
17 the updated budget projection, yes.
18 A. I mean, my understanding is that this
19 differs from the numbers I used by approximately the
20 LEAN improvements, approximately the 10 million --
21 I'm not supposed to say the number, right? Sorry.
22 And so to the extent I found from my
23 analysis that those LEAN improvements were -- there
24 was no commitment to make them -- there was no
25 commitment to reduce the demand charges if they

1 didn't occur and, if the PPA rider implemented, there
2 would be no incentive to do them, but I think it
3 comes out to the same. The numbers I use or these
4 numbers if they were adjusted for the LEAN
5 improvements comes out very close to the same.
6 Q. Okay. Well, I don't understand how you
7 reached that conclusion because what I asked you a
8 few moments ago was whether the fact that you did not
9 reflect the LEAN improvements as compared to IEU
10 Exhibit 8, we walked through a calculation where we
11 saw $13.2 million difference in the total demand
12 charge for 2016, correct?
13 A. Again, you compared Attachment 2, which I
14 didn't use, and IEU 8, so that difference is not a
15 very meaningful number to me because I didn't work
16 with the Attachment 2 numbers. I have not compared
17 them to the numbers I used.
18 Q. Okay. So you didn't use Attachment 2,
19 you didn't use Attachment 3, you didn't use IEU
20 Exhibit 8, correct?
21 A. I used the numbers that were provided in
22 discovery.
23 Q. All those things were provided in
24 discovery.
25 A. I used numbers you provided in response

1 to our discovery question about what were the numbers
2 that OVEC provided you for demand charges, yes.
3 Q. Okay. All right. I think you answered
4 my questions on that.
5 Do you have your workpapers with you?
6 A. I do.
7 Q. Okay.
8 MR. NOURSE: I'd like to mark, your
9 Honor, AEP Exhibit 22.
10 (EXHIBIT MARKED FOR IDENTIFICATION.)
11 Q. Mr. Wilson, does this appear to be a page
12 out of your workpapers?
13 A. It could be, yes.
14 Q. Well, it could be, but it also says
15 "Wilson Workpaper based on IEU Set 2 RPD-2-001,
16 Attachment 1," does it not?
17 A. Yes.
18 Q. You said you had your workpapers with
19 you, correct?
20 A. I don't have every page of the hourly
21 data, no. But otherwise I have my workpapers, yes.
22 Q. Let me do it this way: I'm going to give
23 you a printout, it's a partial printout but it's got
24 many days and many hours for your reference here,
25 from your workpapers, and this is a public version so

1 I've removed the actual days but can you see from
2 this excerpt that it's January 2016 and it's 24
3 hours, so it's one day. Do you see that?
4 A. Yes.
5 Q. Okay. Have you been able to find the
6 corresponding reference in your full workpapers?
7 A. No. I'm not sure that's necessary,
8 but --
9 Q. Well, let me give you this to make sure
10 we're on the same page. You have a confidential
11 version of the same thing, this might help you with
12 the information to be able to locate. You're still
13 not with me?
14 A. Okay.
15 Q. I want to make sure we're looking at your
16 workpapers and ask you some questions about that.
17 Okay. So does AEP Exhibit 22 represent
18 an excerpt from your workpapers?
19 A. I believe it does, yes.
20 Q. Thank you.
21 Now, again, let's just do this without
22 divulging confidential information. If we need to,
23 then you can let me know, we'll deal with that.
24 Okay. So let me just walk through this
25 briefly and see if I've understood this workpaper

1 correctly. So on the left-hand column you've got
2 hour begin and each of those line items represents an
3 hour on a particular day, correct?
4 A. Yes.
5 Q. And then there's a column OVEC MWs.
6 A. Yes.
7 Q. And is that the company -- the hours of
8 dispatch that the company had reflected in its
9 modeling?
10 A. Yes.
11 Q. Okay. Then you have the year and the
12 month. And then you have the hour ending which is 1
13 through 24 in this day example.
14 A. Yes.
15 Q. And then NERC holiday. Can you explain
16 that, the meaning of that column?
17 A. Well, I needed that in order to identify
18 and distinguish between peak and off-peak hours so I
19 had a formula that I had used before to distinguish
20 the NERC holidays.
21 Q. So in some cases you might have a Monday
22 which would normally be a regular business day but if
23 it's a holiday, then it would perhaps be off-peak, is
24 that --
25 A. Yes.

Q. Okay. So then you have weekday and you have peak hour question mark. A zero means no and a 1 would be yes; is that correct?

A. Yes.

Q. And then you have your -- these are your updated price forecasts, correct?

A. These are the AD Hub futures prices that I used in my analysis, yes.

Q. And these were -- excuse me. These were updated to when, the time you did your testimony?

A. I believe I used May 6th, 2014.

Q. May 6th.

A. Or -- I believe it was that week, yes.

Q. Okay. And, okay, so then you have peak and off-peak prices and then you have applicable price, right?

A. Yes.

Q. So in this case on this day all the hours were off-peak so you have the off-peak price listed here for this particular day.

A. Yes.

Q. Okay. And then you have the next column, P times Q, so that's price times quantity is a revenue amount there; is that correct?

A. Yes.

1 Q. Now, the next two columns, I want to talk
2 a little bit about this, you have peak hour
3 reduction, off-peak hour reduction, so you have an
4 allocator that you developed to -- in the case of
5 peak hour reduction, you're reducing the number of
6 hours dispatched by 20 percent?
7 A. That's correct.
8 Q. Okay. And then in off-peak you're
9 reducing the hours of dispatch by 40 percent.
10 A. Yes.
11 Q. And this is because you used a baseline
12 period of 2012 and '13 for dispatch and you believe
13 the company's dispatch was too optimistic that it
14 used in its modeling?
15 A. Well, as I explain in my testimony, the
16 gigawatt-hours in the PPA rider estimate were
17 significantly higher than OVEC had actually realized
18 in 2012 and 2013, so I reduced them by these factors
19 because I felt like that was more reasonable. And
20 that resulted in generation numbers that were, you
21 know, still higher than what you were projecting for
22 2015, for instance.
23 Q. Okay. So you used a -- this allocation
24 generically for each peak hour at 20 percent and
25 off-peak hour 40 percent?

A. That's correct.

Q. Okay. Do you agree that the energy prices in 2012 and '13 were lower than they are today going forward?

A. Going forward? I haven't compared that, no.

Q. Okay. Are they lower than they are today?

A. That's kind of a vague question. Which "today" do you mean? I haven't made that comparison.

Q. Are the energy prices in 2013 and 2012 that you based your allocation reduction factor on, are those generally lower than the current energy prices that you used for purposes of your testimony today?

A. I didn't use 2012 and 2013 prices, no. Your premise is incorrect.

Q. That wasn't my premise. I'm asking you if today's prices are higher than what you based your allocation reduction on, the time period that you --

A. I didn't base my allocation on any prices. I only compared the generation.

Q. Yeah. And in order to probe that allocation factor that you've adopted and you reduced, you know, off-peak hour production by

40 percent, a very substantial reduction, would you agree that the energy prices back then are much lower than they are today?

A. I -- okay. Energy prices in 2012 and 2013 were what they were and you're asking to compare them to what?

Q. Today. For purposes of your testimony, did you look at energy prices for your modeling analysis?

A. I didn't compare 2012 and 2013 prices to today June 16th or, no, I didn't make any comparisons.

Q. How about the forward prices that you used in these columns here in the middle of this sheet?

A. No, I didn't compare them.

Q. Okay. Well, I gathered that you didn't compare them but would you agree that the prices, energy prices, were lower in '12 and '13 than these prices you have on this page?

A. I'd have to take a look.

Q. Okay. Sitting here today you don't recall whether energy prices were lower two years ago?

A. Than?

Q. Today.

MR. BERGER: Objection. Or, your Honor, can we have clarification what he means by today's prices? Does he mean today's prices being forward curves or a certain period of time --

MR. NOURSE: Yeah.

MR. BERGER: -- or the actual price today in the energy market at the AD Hub?

MR. NOURSE: Your Honor, I think I just clarified that, I'm talking about the numbers in the middle of the sheet we're talking about.

MR. BERGER: The numbers in the sheet he's talking about -- you're talking about his May 6th numbers that are on the sheet being today's prices.

MR. NOURSE: I've clarified that, yes.

A. So you're asking about January 2016 prices.

Q. The energy outlook that you used in your workpapers here.

A. Okay. The January 2016 numbers are undoubtedly higher than January's in 2012 and 2013 as I note in my testimony, the forward curve for January and February has risen quite a bit, but for other months the forward curve is lower than it has been in

1 some recent times.
2 Q. Okay. And so you don't -- you don't have
3 an opinion on whether the -- whether OVEC's
4 generation output in 2012 and '13 had any
5 relationship to low energy market prices during that
6 period; is that correct?
7 A. I think it was related to that and it was
8 related to some other factors, but that was
9 undoubtedly a driver of it, yes.
10 Q. So let's clarify that now that I finally
11 got there. So are you agreeing that because of low
12 energy prices in 2012 and '13 OVEC's hours of
13 production dispatch were also relatively low?
14 A. They undoubtedly would have been higher
15 had prices been higher, yes.
16 Q. Okay. And are you aware of any outages
17 or significant outages that OVEC had, the OVEC
18 facilities had during 2012 and 2013?
19 A. I've seen testimony recently that there
20 was also some downtime due to environmental
21 retrofits.
22 Q. So is it fair, then, to say that your
23 allocation reductions of 20 and 40 percent, based on
24 2012 and 2013, then perpetuate those conditions of
25 low energy prices and more significant outages, they

1 perpetuate that into the future based on your
2 modeling?
3 A. No. I used numbers that are actually
4 higher than 2012 and 2013, but lower than the
5 company's forecast. So I used numbers that were
6 higher than 2012 and 2013.
7 Q. Okay. Let's talk about your -- when you
8 say your numbers, you're talking about the AD Hub
9 prices in the middle of the page here we're
10 discussing?
11 A. No. I was actually talking about the
12 gigawatt-hours.
13 Q. The production dispatch?
14 A. Yes.
15 Q. Okay. We'll get back to that. But I'm
16 asking you about pricing right now.
17 So with respect to your prices in the
18 middle of the page here for off-peak and peak, is it
19 accurate that you did not -- did you not shape the
20 prices hourly?
21 A. No, I did not.
22 Q. Okay. Just to be clear, it is accurate
23 that you did not shape the prices hourly?
24 A. No, the PPA rider estimate only had a
25 single number per month and I was modifying the PPA

1 rider estimate. I replaced that number with a number
2 that was built up based on the hourly generation and
3 the monthly peak and off-peak prices.
4 Q. Are you maintaining that the AEP modeling
5 did not have hourly-shaped prices?
6 A. The underlying modeling did but the PPA
7 rider estimate that I was working with did not. It
8 had a single number per month.
9 Q. Okay. If you had done your own modeling
10 or rerun the AEP model based on your adjustments,
11 would you have done an hourly-shaped price?
12 A. That probably would have been part of it,
13 yes.
14 Q. Okay. So just to use an example here, if
15 there was a peak hour where the price -- the hourly
16 price was much higher, let's say, than the peak that
17 you're using here of 62.65, peak price -- are you
18 with me?
19 A. Yes.
20 Q. -- then the revenue associated with that
21 hour would be understated the way you've got it here
22 by just using 62.65; is that correct?
23 A. Yeah. I mean, if you hourly shaped the
24 prices, then in some hours it would be higher and in
25 some hours lower than the number I used, correct.

Q. Okay. Now, let's talk about in hour 24 in this example on AEP Exhibit 22. You see where the company's modeling had zero hours?

A. Yes.

Q. And under your model if the OVEC costs are lower, and this is an off-peak hour, excuse me, so if they were -- if the OVEC variable costs were lower than 42.30, then you would have dispatched the plant under your adjusted modeling, correct?

A. No.

Q. Okay. Do you know if that's how it works in the real world if the variable cost for OVEC is lower than the clearing price?

A. Well, again, I didn't rerun the dispatch model. I just modified the results that were available to me, which was the hourly generation.

Q. Okay. So in that -- in hour 24 the -- is it your expectation that the reason the company had zero megawatts for that hour was that the OVEC variable cost was above the LMP?

A. That could be one reason.

Q. What other reasons, an outage?

A. Could be planned forced outage, variable cost, could be start and shutdown times didn't make it worthwhile even though the variable cost was lower

1 than market prices.
2 Q. Okay. What your modeling didn't account
3 for is that startup or shutdown or any of those other
4 things.
5 A. No, I accepted your modeling and just
6 made the three simple adjustments.
7 Q. But, again, under your representation and
8 the calculations you did in your workpapers, even
9 though OVEC costs are below the clearing price and
10 would have otherwise been dispatched, you did not
11 assign any hours to that period of time, correct?
12 A. I mean, your analysis already reflects
13 that dispersion of prices and results in a
14 gigawatt-hour generation based on it. These forward
15 prices are sort of, you know, average or transacted
16 prices that reflect the period, so, you know, the
17 difference between that off-peak forward price and
18 the OVEC marginal cost multiplied by the off-peak
19 generation is probably a pretty good estimate.
20 Q. And if you look at any particular hour
21 and try to apply the rules of the way things really
22 work, there are -- you would agree there are
23 distortions in these results that are presented in
24 your workpapers; would you not?
25 A. Well, this is -- this workpaper is not an

1 attempt to re-create the hourly results. I took the
2 summary results as provided in the PPA rider estimate
3 and I adjusted them. This is not meant to be a
4 simulation of what would happen if the model were
5 rerun.
6 Q. Well, but, sir, you've calculated new
7 revenues and you've compared those to costs and come
8 up with an adjusted PPA rider impact, that's the
9 whole purpose of your testimony, is it not?
10 A. That's correct.
11 Q. Okay. But you didn't rerun the model
12 based on any of the changes you made.
13 A. I didn't have the model and I did not
14 rerun the model, correct.
15 Q. Okay. Let me ask you, switching topics,
16 a general question. Is it your opinion that
17 competition is a good thing for residential customers
18 regardless of whether it increases prices for
19 electricity?
20 A. In electricity I would never say
21 competition is necessarily a good thing. It
22 certainly can be. And there can be many impacts on
23 cost and other outcomes.
24 Q. Okay. So then you would agree that the
25 fully competitive option is not always a good thing

for retail customers?

A. Well, I can agree with that even though I'm not sure what you mean by the "fully competitive option."

Q. Okay. Now, would you agree that the market energy prices reached in the first quarter of 2014 were volatile?

A. Yes, they were.

Q. Is it your understanding that CRES providers operating in Ohio have absorbed those high volatile prices during the first quarter of 2014?

A. I think it depends on the arrangements they had with their customers.

Q. So are you aware -- do you have any knowledge or understanding about that?

A. My understanding is there are some fixed-price contracts and there are some more market priced deals so that you've got a -- you probably have a mix.

Q. Okay. If something's called a fixed-price contract, does that mean that there's no pass-through costs?

A. It should, yes. There may be some fine print, but if it's a fixed-price contract, it should mean that the provider absorbed it.

Q. Let me ask you to turn to page 20 in your testimony, in line 6 you make a statement "Coal prices are much more stable than electric energy or natural gas prices." Do you see that?

A. Yes.

Q. Okay. So by that do you agree that the fuel cost for a generation resource is a driver for volatility in energy prices?

A. Yes.

Q. And, Mr. Wilson, also as a general matter do you agree that a financial hedge can provide rate stability for retail customers?

A. It has that potential, yes.

Q. And is it your understanding that CRES providers in Ohio offer long-term hedges?

A. I'm not aware of what term they offer, no.

Q. Turn to page 28, please, line 4. So you indicate that future energy prices are uncertain due to factors such as weather, correct?

A. Yes.

Q. Okay. Is the uncertainty that you're referring to the same as saying volatility of energy prices is driven by unknown weather variations?

A. That's true.

1 Q. And you think that normal weather
2 assumptions embedded in the Attachment 1 that you
3 relied on are conservative?
4 A. I'm not sure. I don't know the details
5 of the, quote/unquote, normal weather assumptions
6 that were used in that.
7 Q. Okay. In general, would you expect
8 normal or normalization of weather data to actually
9 come through or occur over the three-year term of the
10 ESP?
11 A. What do you mean by "normalization"?
12 Q. Weather assumptions that are in the
13 modeling, normalized weather assumptions. Do you
14 know whether AEP's model that you used and modified
15 contained normalized weather data as an assumption?
16 A. I've seen discussion of that in
17 testimony. It's never been clear to me exactly what
18 was meant by that.
19 Q. Okay. Well, in load forecasts is it
20 typical to have a normalized weather assumption? Is
21 that fair?
22 A. Okay. Let me describe my understanding
23 of what probably was in the model but I don't know.
24 Typically, in a dispatch model on an hourly basis you
25 would have -- the load representation would reflect,

1 you know, a typical amount of heatwaves, cold spells,
2 you'd pick historical years that had variation in
3 weather and you'd build the case that you were going
4 to use for your analysis so that it had a kind of
5 representative amount of extreme weather in it. That
6 would be the way you'd build the load data for your
7 model so that your results corresponded to the types
8 of outcomes that you expect in the future.
9 Q. Okay.
10 A. Then you would forecast load, peak load
11 say, and if you expected it to increase by 2 percent
12 a year, you'd probably, you know, kind of adjust all
13 those results so that you still had the same, you
14 know, sort of normalized -- weather normalized peak
15 load in the model. That would be what I would expect
16 was going on inside the modeling.
17 Q. Okay. So do you think it's possible to
18 forecast extreme weather?
19 A. We have a lot of history about extreme
20 weather so it can be reflected in modeling. Can we
21 forecast extreme weather like what will happen in
22 August? That's difficult.
23 Q. Okay. Do you agree that extreme weather
24 such as cold winters and warm summers drive price
25 spikes in --

A. Yes, they can.

Q. -- in the energy market?

A. Yes, they can.

Q. And do you agree that extreme weather drives volatility more so than mild weather?

A. Well, in any dispatch model your supply stack typically reflects a lot of resources at moderate -- low and moderate prices and then at the very high end of the supply stack you have fewer resources at higher and higher prices. So in any dispatch model as you go to high load hours, you will see very high prices, and as you go to low load hours, you'll see somewhat lower prices. That's true of any dispatch model.

Q. All right. So is that a long way of agreeing with me or are you saying something different?

A. Well, that's just always true and it's reflected in the results of any dispatch model, yes, that high load outcomes often due to extreme weather raise prices more than low load outcomes, lower -- I mean that's reflected, for instance, in the PPA rider estimate.

Q. Well, you had me right up until the end there.

1 So it's your belief that the PPA
2 modeling, price impact modeling done by the company
3 reflects extreme weather assumptions?
4 A. Yeah, I expect that it would, that in the
5 hourly load data it reflected the fact that you can
6 have heatwaves and perhaps cold spells, although it
7 may have been more accurate for heatwaves which have
8 been more common, and I would expect that it
9 reflected that at those times high cost resources had
10 to be dispatched.
11 Q. And would you agree that the financial
12 hedge being offered by the company through the PPA
13 rider would be more valuable to customers during
14 periods of extreme weather?
15 A. The PPA rider hedge would be more
16 valuable in a month when market prices were very
17 high, yes.
18 Q. That would be particularly true if the
19 extreme weather was not part of the weather
20 assumptions done in the modeling, correct?
21 A. I don't really understand your question.
22 Q. Okay. Let me break it down. So what I'm
23 saying is let's assume, assume with me that the PPA
24 rider modeling done by the company incorporates
25 "normalized weather," okay? Can you make that

1 assumption?
2 A. I still don't know what anybody means by
3 normalized weather. I described what I understand is
4 probably in the model, but the way "normalized
5 weather" has been used in this hearing, I am never
6 really sure what you're talking about.
7 Q. It is a general term of art that's used
8 with load forecasting, but let me ask you this this
9 way: Do you think the polar vortex was predicted?
10 A. Not -- not to my knowledge.
11 Q. Okay. So if the polar vortex happens
12 during the ESP term, a second polar vortex, or even
13 extreme weather in the summer, we can call it a solar
14 vortex, do you think the value of the financial hedge
15 being offered by the company is enhanced under that
16 scenario?
17 A. It might be, but the reality is if the
18 polar vortex comes back next January, the outcome
19 will be entirely different because of many changes in
20 the market and in the various arrangements that are
21 occurring right now. That was a wake-up call. It
22 woke everybody up. We're fixing market rules. The
23 CRES providers are taking a more careful look at
24 their contracts and if that happens again, the
25 outcome will be entirely different and probably not

very interesting would be my expectation.

Q. Okay. So you think -- in your answer you just gave there you're referring to reforms that would happen in PJM and PJM markets between now and next January?

A. Yes. Among other adaptations, yes.

Q. And that would specifically cause the prices not to spike? Is that your testimony?

A. Yes, that would be the end result. Yes.

Q. So the next polar vortex will not see high prices; that's your expectation.

A. It might see high prices but it wouldn't be anything like what happened this January when it caught everyone unprepared.

Q. Okay. But would you agree there's also a fundamental economic aspect of supply and demand during a period such as the polar vortex?

A. Well, there is, but if you look at the fundamentals of supply and demand, PJM had a huge amount of capacity, if that capacity was available then that entire period would have been uninteresting. So if you look at fundamentals, if you run a dispatch model and you assume the generation is going to be available, which the market rules changes I think will create much stronger

1 incentives for it to be available, then I think you
2 would find a very small impact on price during that
3 circumstances.
4 Q. Can you list for me, I'm going to write
5 these down because I'm going to track this and I'll
6 check, maybe we'll talk a year from now, can you tell
7 me all the PJM reforms that you think are going to
8 happen between now and next January to fix things?
9 Specifically.
10 A. Well, I think a lot of generation owners
11 found some things out about their capacity that
12 surprised them and without PJM in action I think a
13 lot of them are going to be better prepared for that
14 kind of cold again. There's discussion of better
15 performance incentives for generation owners to be
16 sure they're available. There is a lot of
17 information -- there's a lot going on about
18 information including testing to make sure the
19 resources are ready for winter, communication between
20 resource owners and PJM so PJM can better understand
21 how the situation is evolving and will be in a better
22 position to make sure that it has, you know,
23 requested resources that it needs.
24 There's also going to be better
25 communication with neighboring regions, better

1 communication between the gas and the electric
2 industry. There were pipeline constraints; there's
3 pipeline enhancements underway. This period also
4 revealed some inflexibilities in the markets for
5 accessing natural gas supply. If we have another
6 polar vortex, it probably won't happen over Martin
7 Luther King weekend which is one of the main drivers
8 of the problems was just the very awkward way it ran
9 into the timing over a holiday weekend.
10 I think a lot of things will be different
11 even by next January, yes.
12 Q. Okay. Can you tell, let's just -- I
13 wrote down a couple of these, I think I captured them
14 all, but performance incentives was one thing you
15 mentioned. What specifically do you think is going
16 to be reformed before next January or even after next
17 January?
18 A. I'm not sure what exactly will be done.
19 There's at least two different PJM groups that are
20 working on that.
21 Q. Okay. And you have faith in them to come
22 up with something really good and solve it?
23 A. I'm pretty confident that everyone
24 recognizes the problem that occurred last January and
25 between the actions of generation owners on their own

to be better prepared and stronger incentives that will be put in place, that, yes, we'll see a result.

Q. Do you think that generation owners that had generation running during the polar vortex are upset by the whole incident?

A. I think they're not that upset. They actually did quite well through the incident.

Q. Okay. And these are the same ones you're saying are going to reform the system by next January?

A. Well, I mean, the reforms are put in place by a broad stakeholder group in the first instance, PJM proposes and they go through a broad stakeholder group.

Q. Another area you mentioned was better communication. So is it your belief that PJM can take action in realtime to resolve this kind of incident or crisis in the future if they just have better communication means?

A. It will assist them a lot if they have better visibility of what resources are likely to be available and unavailable looking forward so they can have a better idea of whether they're getting in trouble with more lead time, and then they can ask more resources to be available.

A lot of the problem this time was PJM didn't necessarily see what was coming at them until it got pretty close.

Q. And "see what's coming at them" refers to what, the weather?

A. Well, they had forecasted the weather, but then as the weather developed, I think they were caught by surprise in some cases when they called on the resources and the resources weren't there. So between testing, stronger incentives, and better communication I expect that PJM will have, you know, a much better position should something like this happen again to be able to see hours and days in advance whether they're likely to have the resources or not and to start making additional arrangements if things are tight.

I mean, last time they never even got to the point of asking neighboring regions for assistance. According to PJM executives they probably could have gotten another 2 or 3 thousand megawatts from neighboring regions if they asked for it but they never even got to that point.

Q. Right. So the existing rules and the tools that PJM has available were also available in the first quarter of 2014, were they?

A. The existing -- have any changes been made between then and June 16th, 2014, is that what you're asking?

Q. No. Are you saying they could have done more but they just didn't even under the current rules?

A. Yeah, there was more that they could do at that time.

Q. Okay. And isn't PJM already supposed to know what generation is available?

A. Yes. But that situation revealed that that information could be improved and that they could do more to have more accurate and further forward information about the likely resources that will be available.

Q. And so is that an internal PJM management issue, or are you referring to something else?

A. No. This is information back and forth between resource owners and PJM.

Q. And you believe that whole problem is going to be resolved as well by next January.

A. There's a group working on that, yes.

Q. Okay. And do you have any specifics to offer on that expected solution?

A. There's a lot of things under discussion.

I don't think resource owners like to surprise PJM by not being available when they were expected. I think there's a lot of interest in this situation working out more smoothly next time. So I think, yes, they will be able to put some changes in place.

Q. Okay. Are there other reforms that you believe need to take place in the PJM markets?

A. I think they're probably going to put in stronger performance incentives, penalties, or whatever, that apply to peak periods. I know that's on PJM's list. I'm not sure when that's going to be implemented, but I know they would like to have stronger incentives to be available when they're most needed.

Q. Anything else you can think of?

A. That's all I can think of right now.

Q. Anything in the area of demand response?

A. Some changes have already been made so that more of the demand response will be formally available in winter. During the polar vortex PJM called on demand response that was not contractually obligated to perform and quite a bit of and did, but they made changes last year and in the most recent auction we saw that quite a bit of the demand response is now annual, more of it is extended summer

1 and those are resources. The annual demand response
2 is contractually obligated now to perform.
3 Q. So you also believe there are reforms
4 needed in the demand response area and you're
5 expecting those to be resolved as well before next
6 year?
7 A. Well, I referred to ones that were
8 already in place, actually.
9 Q. And do you have -- do you think with
10 those already in place now we're golden on demand
11 response?
12 A. Well, we were talking about the winter
13 period and PJM doesn't rely on very much demand
14 response in terms of formally committed demand
15 response in the winter period. They clear through
16 their RPM capacity market sufficient capacity that is
17 contractually committed to perform during the winter
18 to meet what they believe to be their wintertime
19 requirements.
20 Q. Okay. So, again, you don't believe
21 there's any additional reforms needed for demand
22 response.
23 A. To address wintertime issues, no.
24 Q. I'm not just talking about wintertime.
25 We're talking about extreme weather. We talked about

1 the summer peaks as well earlier.
2 A. Last year we put in place changes so that
3 demand response would be a more operational resource,
4 by that we mean the lead time for calls and such. I
5 think that's pretty much done and in place and are
6 positive changes.
7 We also changed the maximum amount of the
8 limited and extended summer demand response that can
9 clear, so that's been done.
10 I think for the most part there's been
11 quite a few changes to demand response and that I
12 don't see anything further that's particularly
13 needed, no.
14 Q. Okay. Are you aware of the DC Circuit
15 decision regarding FERC Order 745?
16 A. Yes.
17 Q. And do you believe that's going to have
18 any impact in demand response programs through PJM?
19 A. I think it will have an impact on the way
20 these programs are arranged, but there are a number
21 of ways that demand response can be incorporated in
22 retail and wholesale markets and I expect that one of
23 those alternative approaches will be implemented and
24 that there won't be very much disruption to the
25 amount of demand response that is relied on both for

capacity and energy.

Q. You mentioned earlier performance incentives as being one of the reforms, do you expect those incentives to be in the form of payments to generators?

A. I think they may be in the form of penalties for nonperformance rather than payments for performance. For the most part generation -- PJM is committed to be available when called and that's through the RPM capacity market. And right now there are penalties for poor performance during -- during the year or during peak periods and I think those performance incentives will likely be strengthened.

Q. So would you expect that such incentives would be built into the price of capacity and energy by generators?

A. You would expect that such considerations would be reflected in offer prices to some extent and could be reflected in clearing prices, yes.

Q. So that added reliability will come with a price tag, correct?

A. Well, not necessarily. I mean, right now RPM was designed and reflects expectations for a level of performance much higher than we saw last January, okay, so in just getting to where our

1 expectations are, reasonable expectations of
2 performance are fulfilled, arguably RPM is already a
3 fair price for that.
4 Q. So it looks good on paper even though it
5 didn't work in January?
6 A. I think, as I suggested, that a lot of
7 resource owners were undoubtedly surprised by the
8 impact of those circumstances on their resources and
9 they'll likely be readier next time, they just hadn't
10 quite seen that situation before.
11 Q. Now, is it your understanding with
12 respect to the OVEC costs that they've been --
13 historically been recovered through the fuel
14 adjustment clause by AEP?
15 A. That's my understanding.
16 Q. And on page 35 you have a statement, I
17 guess it's lines 11 and 12 here, you're saying that
18 the OVEC costs are not appropriate for collection
19 through a tracker. Is that your testimony?
20 A. Yes.
21 Q. Okay. Now, would you agree that the
22 early retirement of coal plants could cause
23 reliability concerns?
24 A. The early retirement?
25 Q. Early retirement of coal plants.

1 A. What do you mean by "early"?
2 Q. Earlier than planned.
3 MR. BERGER: I'm sorry. I'd ask for
4 further clarification. Earlier than planned, by
5 whom? By what resource owners? For what period of
6 time? Are you talking about particular assets?
7 Q. Yeah, I think people know what we're
8 talking about when you say "early retirement."
9 You're not understanding my question, Mr. Wilson?
10 A. You said earlier than planned? Why are
11 they -- why are they retiring earlier than the owner
12 planned them to be retired?
13 Q. I didn't get there yet but my question is
14 general. Do you think early retirement of coal
15 plants that are on the network today could cause
16 reliability issues?
17 A. I still don't understand what you mean by
18 "early." Do you mean -- and through PJM's RPM
19 capacity construct PJM has three-year forward
20 visibility of the resources that it expects to rely
21 on to meet its needs, so what do you mean by "early"
22 in the context of PJM and the three-year forward RPM
23 capacity commitments?
24 Q. Okay. Are you aware of retirements that
25 have been announced by AEP and FirstEnergy, thousands

of megawatts of coal plant retirements?

A. Yes.

Q. Okay. And are there reliability issues created when that happens?

A. Okay. There's two types of reliability issues that can potentially arise when a plant is announced for retirement, and in those cases those plants were generally announced for retirement about the time of the RPM base residual auctions which means three years forward.

So FirstEnergy's retirements in particular were announced in February of 2015 before an auction -- well, okay. Let's not talk about specifically those.

But typically a retirement will occur in time so that those retirements can be reflected in the base residual auction to be held for a delivery year three years forward. So an announcement in early 2014 could be announced for the 2017-2018 period and those resources would not be offered into the base residual auction in May 2014, and through that mechanism by clearing RPM those resources are replaced for 2017-2018.

So those retirements don't raise any resource adequacy approaches because RPM takes care

of them. Now, so that's number one.

And for the most part I would say no, retirements don't raise reliability problems because RPM is ensuring very adequate capacity for every delivery year, okay. The other kind of reliability issue that can arise is the loss of that generation at that particular injection point in the network can cause problems and PJM almost always has to at least make some transmission upgrades and other changes in order to just deal with the hole that appears, unless there's other new capacity proposed at about that same injection point.

So PJM does a specific analysis of that resource at that location, determines the transmission enhancements it will have to make to deal with that particular retirement, and then if that retirement was announced for a period before those transmission enhancements can be completed, then PJM would typically ask the owner to maintain the plant for additional months or years under a reliability must-run cost recovery basis and that's how that particular reliability issue would be addressed.

Q. Yeah, okay. Good. So the RMR that you just mentioned, that is a -- well, first of all, PJM

has to approve the retirement of a plant that's existing, correct?

A. I don't think that's quite the right word. An owner requests or announces an intention to retire on a certain date, PJM does a study and if PJM sees a reliability problem, I think they actually can't require, I think they ask the owner to continue to operate until such time as they've been able to make the required transmission enhancements.

Q. So it's your belief that "must-run" means please -- please run if you feel like it?

A. No.

Q. Okay. Are generation owners obligated to continue running based on the cost-based rate that comes with RMR?

A. Well, typically PJM will request that the owner continue to operate until a particular date and they will enter into an agreement whereby the owner agrees to operate the resource until the agreed date and to be compensated on a cost basis. And once they enter into that contract, then yes, then they are obligated to operate.

Q. So it's your understanding that the generation owner can just say no, I'm not going to -- I'm not going to comply with the must-run order from

1 PJM and I'm going to retire my plant regardless of
2 whether PJM approves it?
3 A. Well, again, it's not a must-run order
4 from PJM. Typically it's a contract entered into
5 between the resource owner and PJM and, yes, once
6 that contract has been entered into, then I believe
7 the owner is more or less -- has agreed to continue
8 to operate that plant until the date.
9 Q. Yeah, that's not my question, though. So
10 do you believe a generation owner has an obligation
11 to continue running the plant that it wanted to
12 retire if PJM identifies a reliability issue that's
13 not going to be addressed in time?
14 A. I believe that --
15 MR. BERGER: Objection. Objection, your
16 Honor. He's answered. Mr. Wilson --
17 MR. NOURSE: No, your Honor.
18 MR. BERGER: -- has answered the
19 question. He has indicated what he believes to be
20 the case in terms of there is an agreement that is
21 entered between the parties, between PJM and the
22 resource owner, and once that agreement's in place,
23 then the resource must run according to the terms of
24 that arrangement.
25 MR. NOURSE: Your Honor, I'm not asking

about the contract so I appreciate his point about that but I'm asking before that contract that he's referring to is there an obligation.

A. I don't believe PJM can order a resource owner to continue to operate their resource. I think it always happens under this kind of contractual arrangement.

Q. Okay. And is it your belief that an owner, generation owner, can retire an existing asset without PJM permission?

A. I don't believe PJM has authority to not grant permission. I don't think this ever comes up because I think resource owners work with PJM to ensure that their retirement will not have a negative impact on the system.

Q. Okay. So back to your two types of reliability issues that can come up with plant retirements, number one, you said, essentially RPM takes care of it. Do you recall that?

A. Yes.

Q. And is that through the form of a higher price?

A. Not necessarily.

Q. For the BRA?

A. Not necessarily, no.

Q. Okay. So when a low-cost coal unit retires and RPM takes care of it, are you suggesting there be a lower BRA clearing price?

A. Well, the plants that are retired are typically not low cost, they're typically the high cost and they may have been plants that have been offered with use of the avoidable project investment recovery provision which means that they're able to take potential investments they would have to make in order to continue operation. They're allowed to amortize them and add them to their offer price.

So often the reason they didn't clear is because they were high cost, they would incur additional investments in order to continue operation, they offered into RPM at a very high cost and they didn't clear because there were new gas-fired plants demand response and other lower cost resources that were offered.

Q. But under your scenario for type one you're saying there was a plant out there that may have been offered in previously but didn't clear the auction presumably because it was too high cost, correct?

A. Often, yeah, generally if you didn't clear, it's because you were too high cost.

1 Q. And then you're saying those plants would
2 come on to fill the void and take care of it, but yet
3 you think the price is going to go down? Is that
4 your testimony?
5 A. I think your hypothetical is a little bit
6 confused. What I'm saying is the plants that don't
7 clear, including plants that will retire, are plants
8 that were offered at a high price that was higher
9 than the clearing price and they may have been
10 offered a high price because in order to continue
11 operation they would have to make investments and
12 they reflected those investments in their offer
13 price.
14 So those high-cost plants fail to clear
15 and other resources in order to meet the capacity
16 requirement do clear and those other resources will
17 often include new plants, sometimes those new plants
18 are offered as price takers or else they're offered
19 at very low price, demand response, other resources.
20 So the plants that fail to clear and will be retired
21 are generally the higher cost resources.
22 Q. Okay. Now, let's talk about type 2, in
23 your earlier answer you said there was a second type
24 reliability issue. That would be I guess something
25 that would be fixed by a transmission upgrade during

1 the period of time before the expected retirement is
2 scheduled; is that --
3 A. Yes.
4 Q. -- what you said?
5 A. That's the very local reliability issue
6 that can arise when a resource is lost at one
7 particular point in a network.
8 Q. Would you agree there's a price tag
9 associated with that transmission upgrade?
10 A. Yes.
11 Q. Okay. And the transmission fix could be
12 in the hundreds of millions of dollars, correct?
13 A. Yes, it could.
14 Q. Okay.
15 A. Of course, if new generation is built at
16 that location, then it can be much less or if the
17 existing generation is repowered rather than retired.
18 Q. But you haven't done a price comparison
19 to any of those alternative price tags in this case,
20 have you?
21 A. In this case?
22 Q. Right.
23 A. It's not of any relevance to this -- to
24 my work in this proceeding.
25 Q. Are you speaking to OVEC specifically or

1 to the so-called expanded PPA option under the PPA
2 rider?
3 MR. BERGER: Your Honor, his testimony
4 only addresses the OVEC. I don't know why he would
5 be asked any questions regarding the extended PPA
6 rider option so I object.
7 MR. NOURSE: Okay. Well, I'm clarifying
8 his statement. I can certainly explore the scope of
9 his testimony, your Honor.
10 EXAMINER PARROT: Proceed.
11 A. I didn't testify about the extended PPA
12 rider.
13 Q. Okay. Now, is it fair to say if the
14 Commission -- to your understanding, if the
15 Commission denies the PPA rider generally in this
16 case, that under that scenario that would preclude
17 the option for any expansion of the PPA rider for
18 other Ohio legacy plants?
19 MR. BERGER: Your Honor, I object.
20 Mr. Wilson is not here to testify about the
21 procedures for making a request with the Commission
22 for extension of the PPA rider and whether they can
23 be done in another proceeding, or at some future
24 time, or whether the denial of the PPA rider here
25 does something for the PPA rider in general.

MR. NOURSE: Your Honor, I think the witness can answer my question, I'm exploring probing the implications of his recommendation, and it's not a procedural question. It's a substantive question.

EXAMINER PARROT: The objection is overruled.

A. So can we have the question read back, please? Or can you ask it again?

MR. NOURSE: Go ahead and read it, please.

(Record read.)

THE WITNESS: For other Ohio --

THE REPORTER: Legacy plants.

A. Legacy plants? I don't know.

Q. And have you done any analysis in preparing your testimony or otherwise in connection with this case concerning the long-term benefits of OVEC beyond the three-year ESP term?

A. No.

MR. NOURSE: That's all I have, thank you, your Honor.

Thank you, Mr. Wilson.

EXAMINER PARROT: Mr. Parram?

MR. PARRAM: No questions, your Honor.

EXAMINER PARROT: Any redirect?

1 MR. BERGER: Can we have about ten
2 minutes, your Honor?
3 EXAMINER PARROT: Let's take a short
4 break. Go off the record.
5 MR. BERGER: Thank you.
6 (Recess taken.)
7 EXAMINER PARROT: Let's go back on the
8 record.
9 Any redirect, Mr. Berger?
10 MR. BERGER: No redirect, thank you.
11 EXAMINER PARROT: Thank you very much.
12 Thank you, Mr. Wilson.
13 EXAMINER PARROT: Mr. Berger, before we
14 deal with your exhibits I just want -- for clarity
15 sake, I think we marked as OCC Exhibit 16 the errata
16 sheet but just for, again, the sake of making sure
17 the record's clear let's mark as OCC Exhibit 16 the
18 confidential version of the errata sheet and then 16A
19 will be the public version of the errata sheet.
20 (EXHIBIT MARKED FOR IDENTIFICATION.)
21 MR. BERGER: All right. Thank you.
22 Thanks for that clarification.
23 EXAMINER PARROT: Yes. Thank you.
24 So with that are there any objections to
25 the admission of OCC Exhibits 15, 15A, 16, or 16A?

MR. NOURSE: No objections, your Honor, but I want to clarify that the confidential versions are going to remain under seal.

EXAMINER PARROT: That's -- yes, it was filed under seal, yes.

MR. NOURSE: Thank you, your Honor.

EXAMINER PARROT: With that, OCC Exhibits 15, 15A, 16, and 16A are admitted.

(EXHIBITS ADMITTED INTO EVIDENCE.)

EXAMINER PARROT: Mr. Nourse, your exhibit.

MR. NOURSE: Yes, your Honor. AEP moves for Exhibit 22.

EXAMINER PARROT: Are there any objections to the admission of AEP Ohio Exhibit 22?

(No response.)

EXAMINER PARROT: Hearing none, it is admitted.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER PARROT: All right. I believe that concludes our witnesses for today. We will reconvene at 9 tomorrow. Our witness lineup is OEG Witness Taylor and RESA Witness Bennett.

Thank you very much, everyone. We're adjourned.

(Thereupon, the hearing was adjourned at 1:45 p.m.)

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CERTIFICATE

I do hereby certify that the foregoing is a true and correct transcript of the proceedings taken by me in this matter on Monday, June 16, 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.

(75898-MDJ)

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Case No(s). 13-2385-EL-SSO, 13-2386-EL-AAM

Summary: Transcript in the matter of the Ohio Power Company hearing - Volume X held on 06/16/14 electronically filed by Mr. Ken Spencer on behalf of Armstrong & Okey, Inc. and Jones, Maria DiPaolo Mrs.