BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

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

In the Matter of the Application of Ohio Power Company for Approval of Certain Accounting Authority. : Case No. 13-2386-EL-AAM

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PROCEEDINGS

before Ms. Greta M. See and Ms. Sarah J. Parrot, Hearing Examiners, at the Public Utilities Commission of Ohio, 180 East Broad Street, Room 11-A, Columbus, Ohio, called at 9:00 a.m. on Thursday, June 5, 2014.

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VOLUME III

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ARMSTRONG & OKEY, INC.
222 East Town Street, 2nd Floor
Columbus, Ohio 43215
(614) 224-9481 - (800) 223-9481
FAX - (614) 224-5724

- - -

APPEARANCES:

American Electric Power
By Mr. Steven T. Nourse
Mr. Matthew J. Satterwhite
1 Riverside Plaza, 29th floor
Columbus, Ohio 43215-2373

Porter, Wright, Morris & Arthur, LLP
By Mr. Daniel R. Conway
41 South High Street
Columbus, Ohio 43215-6194

On behalf of the Applicants.

Vorys, Sater, Seymour and Pease, LLP
By Mr. M. Howard Petricoff
Mr. Stephen M. Howard
Ms. Gretchen L. Petrucci
52 East Gay Street
Columbus, Ohio 43216

On behalf of Constellation NewEnergy, Inc., Exelon Generating Company, LLC, and Retail Energy Supply Association.

FirstEnergy Service Corporation
By Mr. Mark A. Hayden
Mr. Jacob A. McDermott
Mr. Scott J. Casto
76 South Main Street
Akron, Ohio 44308

On behalf of FirstEnergy Solutions Corp.

Carpenter, Lipps & Leland, LLP
By Ms. Kimberly W. Bojko
Ms. Rebecca L. Hussey
280 North High Street, Suite 1300
Columbus, Ohio 43215

On behalf of Ohio Manufacturers Association.

APPEARANCES: (Continued)

Bruce J. Weston, Ohio Consumers' Counsel
By Ms. Maureen R. Grady
Mr. Joseph P. Serio
Mr. Edmund "Tad" Berger
Assistant Consumers' Counsel
10 West Broad Street, Suite 1800
Columbus, Ohio 43215-3485

On behalf of the Residential Ratepayers of Ohio Power Company.

Ohio Partners for Affordable Energy
By Ms. Colleen L. Mooney
231 West Lima Street
Findlay, Ohio 45839

On behalf of Ohio Partners for Affordable Energy.

Duke Energy Ohio, Inc.
By Ms. Elizabeth H. Watts
155 East Broad Street, 21st Floor
Columbus, Ohio 43215

Duke Energy Ohio, Inc.
By Mr. Rocco D'Ascenzo
139 East Fourth Street, 1303-Main
Cincinnati, Ohio 45202

On behalf of Duke Energy Ohio.

Bricker & Eckler, LLP
By Mr. Thomas J. O'Brien
Mr. Dylan F. Borchers
100 South Third Street
Columbus, Ohio 43215-4291

Ohio Hospital Association
By Mr. Richard L. Sites
155 East Broad Street, 15th floor
Columbus, Ohio 43215-3620

On behalf of Ohio Hospital Association.

APPEARANCES: (Continued)

Boehm, Kurtz & Lowry
By Mr. David F. Boehm
Mr. Michael L. Kurtz
36 East Seventh Street, Suite 1510
Cincinnati, Ohio 45202

On behalf of the Ohio Energy Group.

Thompson Hine, LLP
By Mr. Philip B. Sineneng
41 South High Street, Suite 1700
Columbus, Ohio 43215-6101

On behalf of Duke Energy Retail and Duke Energy Commercial Asset Management, Inc.

McNees, Wallace & Nurick, LLC
By Mr. Samuel C. Randazzo
Mr. Frank P. Darr
Mr. Matthew R. Pritchard
Fifth Third Center, Suite 1700
21 East State Street
Columbus, Ohio 43215-4288

On behalf of the Industrial Energy Users - Ohio.

Whitt Sturtevant LLP
By Mr. Mark A. Whitt
Mr. Andrew J. Campbell
Mr. Gregory L. Williams
88 East Broad Street, Suite 1590
Columbus, Ohio 43215

On behalf of the Interstate Gas Supply, Inc.

The Dayton Power and Light Company
By Ms. Judi L. Sobecki
1065 Woodman Drive
Dayton, Ohio 45432

On behalf of The Dayton Power and Light Company.

APPEARANCES: (Continued)

Environmental Defense Fund
By Mr. John Finnigan
128 Winding Brook Lane
Terrace Park, Ohio 45174

On behalf of Ohio Environmental Defense Fund.

Ohio Environmental Council
By Mr. Trent Dougherty
1207 Grandview Avenue, Suite 201
Columbus, Ohio 43215-3449

On behalf of Ohio Environmental Council.

Taft Stettinius & Hollister, LLP
By Mr. Mark S. Yurick
Mr. Zachary D. Kravitz
65 East State Street, Suite 1000
Columbus, Ohio 43215

On behalf of Kroger Company.

Direct Energy
By Mr. Joseph M. Clark
21 East State Street, 19th floor
Columbus, Ohio 43215

On behalf of Direct Energy Services, LLC and Direct Energy Business, LLC.

Environmental Law & Policy Center
By Mr. Nicholas McDaniel
1207 Grandview Avenue, Suite 201
Columbus, Ohio 43212

On behalf of Environmental Law & Policy Center.

Bricker & Eckler, LLP
By Mr. J. Thomas Siwo
100 South Third Street
Columbus, Ohio 43215-4291

On behalf of Paulding Wind Farm II LLC.

APPEARANCES: (Continued)

Spilman Thomas & Battle, PLLC
By Mr. Derrick Price Williamson
1100 Bent Creek Boulevard, Suite 101
1233 Main Street, Suite 4000
Mechanicsburg, Pennsylvania 17050

On behalf of Wal-Mart Stores East, LP and Sam's East, Inc.

Spilman Thomas & Battle, PLLC
By Ms. Tai C. Shadrick
300 Kanawha Boulevard East
Charleston, West Virginia 25301

On behalf of Wal-Mart Stores East, LP and Sam's East, Inc.

Ohio Poverty Law Center
By Mr. Michael R. Smalz
555 Buttles Avenue
Columbus, Ohio 43215-1137

On behalf of Appalachian Peace and Justice Network.

Thompson Hine, LLP
By Ms. Stephanie M. Chmiel
41 South High Street, Suite 1700
Columbus, Ohio 43215-6101

On behalf of Border Energy Electric Services, Inc.

Mike DeWine, Ohio Attorney General
By Mr. William Wright, Section Chief
Mr. Devin Parram
Ms. Katherine Johnson
Mr. Werner L. Margard III
Assistant Attorneys General
Public Utilities
180 East Broad Street, 6th floor
Columbus, Ohio 43215

On behalf of the Staff of the Public Utilities Commission.

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Thursday Morning Session,

June 5, 2014.

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EXAMINER PARROT: Let's go back on the record. Let's begin with brief appearances, names only, and on whose behalf you're here today.

We'll start with Mr. Nourse.

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

MS. GRADY: Thank you, your Honor. On behalf of the Office of Consumers' Counsel, Maureen R. Grady and Joseph P. Serio.

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

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

MR. KURTZ: For OEG, Mike Kurtz.

MS. BOJKO: Thank you, your Honor. Kim Bojko and Rebecca Hussey for OMA.

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

MS. PETRUCCI: For retail Energy Supply Association, Constellation NewEnergy, and Exelon

Generation, Gretchen Petrucci and Howard Petricoff and Steve Howard.

MR. McDANIEL: For the Environmental Law and Policy Center, Nick McDaniel.

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

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

EXAMINER PARROT: Anyone not seated at counsel table?

Mr. O'Brien.

MR. O'BRIEN: On behalf of the Ohio Hospital Association, Richard L. Sites, Thomas J. O'Brien, and Dylan Borchers.

EXAMINER PARROT: Anyone else?

MR. CLARK: On behalf of Direct Energy, Joe Clark.

EXAMINER PARROT: Anyone else?

(No response.)

EXAMINER PARROT: Okay, very good. Mr. Nourse.

MR. NOURSE: Thank you, your Honor. As directed yesterday, we filed the proofs of publication in the docket, did give the reporter the original copies, don't know if you'd like to mark those as an exhibit or if the reporter should hang on to them or not.

EXAMINER PARROT: I don't think it's necessary to mark them.

MR. NOURSE: We'll just give them to Docketing then.

EXAMINER PARROT: I saw they have been filed in the docket.

MR. NOURSE: Thank you.

EXAMINER PARROT: Thank you for doing that.

All right. Mr. Allen, I would remind you you are still under oath.

THE WITNESS: I understand that.

EXAMINER PARROT: And let's start with FES this morning.

MR. CASTO: Nothing from FES.

EXAMINER PARROT: Ms. Petrucci.

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CROSS-EXAMINATION

By Ms. Petrucci:

Q. Good morning, Mr. Allen.

A. Good morning.

Q. I'd like to start with a hypothetical.

Let's assume that rider PPA is approved for the OVEC generation and let's assume that there happens to be a zero cost for the OVEC generation. In that scenario is the maximum credit that would be given under the rider just 5 percent of the energy and capacity costs for the OVEC entitlement?

A. If the -- your hypothetical is if the OVEC cost is zero, is the maximum credit under the rider equal to the OVEC cost? Was that the hypothetical you gave?

Q. Would it be 5 percent of the energy and capacity costs for the customers.

A. No. It would be related to the energy and capacity revenues achieved from the sale of the OVEC entitlement.

Q. Would it be 5 percent of the revenues?

A. No.

Q. Now, my hypothetical had assumed that there were no costs to Ohio Power for the OVEC generation, and you would agree with me that that's extremely unlikely to occur during the ESP period; isn't that correct?

A. Yes.

Q. And, as we discussed a great deal yesterday, the PPA rider is intended to be the differential between the costs and the price, the market price of generation, correct?

A. The market revenues, correct.

Q. I'm sorry. Thank you.

And based on the conversations yesterday as well the differential that would be put into the PPA rider is -- well, let me start again.

The estimates that Ohio Power Company had prepared initially had assumed normal weather for purposes of estimating whether there would be a credit or a debit under rider PPA, correct?

A. Correct.

Q. And I think you also stated yesterday with the new calculation that you presented that it also assumed normal weather.

A. Yes, that's correct.

Q. And I believe you stated yesterday that weather is never normal. Do you recall stating that?

A. I generally recall that, yes.

Q. So as a result isn't it correct that the predictions or forecasts that have been presented are guesstimates and that during this ESP period the rider PPA's likely to be different?

A. The analysis we provided is an estimate and actual results will vary from those estimates.

Q. And a factor in changing those estimates is the volatility of weather.
A. That's correct. And, as I indicated yesterday, the impact of volatile weather would tend to make the PPA rider more valuable to customers.
Q. Is Ohio Power offering this as a weather normalization program?
A. No.
Q. Are you aware if the Public Utilities Commission has ever approved a weather normalization program as a pilot program?
A. The Commission has approved for AEP Ohio a revenue decoupling mechanism for residential and GS-1 customers, nondemand meter customers.
Q. Are you aware of any other type of weather normalization program that the Public Utilities Commission may have approved?
A. I don't know if they have or have not.
Q. Now, customers that might be interested in avoiding the volatility have the option to enter into fixed-price contracts with competitive retail electric service providers, correct?
A. Customers have the ability to sign contracts with competitive retail electric suppliers. Whether it reduces volatility for those customers or

not depends upon the terms of that contract and the duration.

Q. Would you agree, though, that a fixed-price contract would avoid volatility in pricing?

A. Only if the fixed-price contract extended for a very long period of time.

Q. So even during the contract term you don't think a fixed-price contract would avoid volatile market prices?

A. As we've seen recently, fixed-price contracts aren't always fixed price, and suppliers do try to pass through certain costs that resulted from volatile market prices to customers.

Q. Would the -- would such a contract typically apply to all of that generation that's purchased for the contract rather than just 5 percent of the generation?

A. A fixed-price contract would provide stability for a customer for the term of that contract. The company's PPA rider provides an element of stability for a longer period of time. So the stability rider provides -- the PPA rider provides stability for roughly 5 percent, as we've indicated, whereas a fixed price -- for a longer period of time, whereas a fixed-price contract would typically provide stability over a shorter period of time for 100 percent of the energy purchased for that customer.

Q. In that answer you're making an assumption as to what the length of the contract is versus the proposed length of the rider PPA, correct?

A. Correct.

Q. Besides Ohio Power Company has any other OVEC-sponsoring company requested to transfer its OVEC entitlement so that that particular company's relieved of its ongoing liabilities in OVEC?

A. My understanding is that several years ago FirstEnergy or its subsidiaries transferred some of their OVEC entitlement to another entity, would have been a sale of that entitlement.

Q. Can you think of any others?

A. That's the only one I'm aware of.

Q. Do you have a copy of IEU Exhibit 6 which is the 2012 annual report for OVEC there with you?

A. I have that.

Q. Thank you.

Can we turn to page 1.

A. I'm there.

Q. And if we look at the right-hand column, there are two different lists, one appears to be a list of the equity percentages and then the second is the participation -- percentages of participation.

A. Yes, I see that.

Q. Okay. If you look at the entities that are listed under each of those categories, they're not exactly the same, are they?

MS. GRADY: Your Honor, I'm sorry. Could I have a page reference? I missed that.

MS. PETRUCCI: Page 1.

MS. GRADY: Thank you.

A. They're not the same.

Q. And, in fact, there are some entities that have an obligation to purchase OVEC power that do not have equity ownership in OVEC, correct?

A. Do you have a specific one you're referring to or would you like me to do the cross-check myself?

Q. Well, how about the FirstEnergy Generation, LLC, they're listed in the second category of power participation but that entity is not listed as an equity owner. Am I correct?

A. The equity owners are Ohio Edison Company and Toledo Edison Company, both subsidiaries of FirstEnergy. FirstEnergy Generation, LLC, also an affiliate of FirstEnergy, if you sum the two, you have 4.85 percent for FirstEnergy Generation, LLC, and 4.85 percent for the combination of Ohio Edison and Toledo Edison Company.

Q. But they're separate legal entities; am I right?

A. That's my understanding.

Q. Okay. I wasn't comparing the percentages, I was looking at the separate entities. And I recognize --

A. They're affiliates of the same parent company.

Q. They're all in the same family, correct?

A. That's correct.

Q. Okay. And then -- now, also looking at the list with regard to the power participation, isn't it true that there is an obligation to take and sell OVEC power that is held by companies that are not public utilities? And I'm just pointing you to the second part of that column.

A. What is your definition of a public utility as we're discussing it here?

Q. Well, as you understand what a public utility is in Ohio, why don't you try and answer it to the best of your ability.

A. Many of these entities aren't Ohio entities, so the definition of a public utility would be different. I think all of the entities would be FERC-regulated entities to the extent that they make wholesale power transactions.

Q. Are there any that are not traditional rate of return regulated entities?

A. To the best of my knowledge, Allegheny Energy Supply Company is not a traditional rate regulated utility, at least not at a state level, as well as FirstEnergy Generation, LLC. Buckeye Power Generating, LLC serves co-op customers so I view them more in line with a traditional utility. So the rest of the entities, with the exception of Allegheny Energy Supply and FirstEnergy Generation, LLC, would be what I would think of as typical regulated utilities from a state perspective.

Q. Has Ohio Power informed the Public Utilities Commission as to what objection or objections were raised in response -- raised by the other sponsoring companies in response to its proposal to transfer the OVEC entitlement?

A. In the company's response -- or, in the company's filing in the corporate separation amendment the company described the actions that we took to transfer the OVEC entitlement and that that -- those actions weren't sufficient for the other sponsoring members to approve that transfer.

Q. Did Ohio Power Company provide any other information to the Public Utilities Commission as to what objections were raised, separate and apart from the publicly filed documents that you just referred to?

A. I don't know.

Q. If the Public Utilities Commission accepts rider PPA as -- in this proceeding, Ohio Power Company is not going to pursue efforts to transfer its OVEC entitlement; is that correct?

A. That's my understanding, yes.

Q. And if I understand also from what you stated yesterday, that the proposal for rider PPA is for the three-year or for the ESP 3 term but -- well, let me step back.

Did you also state that it's hopeful that rider PPA would be -- continue beyond the ESP 3 term?

A. Yes. I think that would provide additional customer benefits so, yes, that would be the company's intention.

Q. So if I understand you correctly, if the PUCO accepts rider PPA in this proceeding, the intention is to not pursue any further efforts to transfer the OVEC entitlement for as long as there is the rider PPA.

A. That would be my expectation.

Q. And Ohio Power is not presenting rider PPA to ensure any savings or credits to customers; is that correct?

A. The description of the PPA rider is to provide price stability to customers.

Q. But that's not my question. My question was whether you were presenting it to ensure savings or credits to your -- Ohio Power Company's customers.

A. The company is not presenting it to ensure credits to customers.

Q. And isn't it correct that rider PPA -- I'm sorry. Let me strike that.

Isn't it correct that the customers will pay much more than for -- let me start again. I'm sorry.

Each month isn't it true that customers pay much more than the energy and capacity that's reflected on their bills? There are other components to the customer bill each month; isn't that correct?

A. Yes, there are other elements to the customer's bill besides just generation costs.

Q. And rider PPA, if approved, would apply to just 5 percent of the energy and capacity costs, roughly, from what you've stated, correct?

A. No. The energy output of the OVEC units approximate 5 to 6 percent of the connected load of AEP Ohio.

Q. And then, therefore, as a result rider PPA will be a much smaller percentage than 5 percent of the energy and capacity costs for Ohio Power's customers, correct? Because it's the differential.

A. It would depend on what the market prices were. There could be situations where I think it could exceed that.

Q. In answering that are you thinking of a very extreme situation?

A. Yes.

Q. Okay. Has OVEC's 2013 annual report come out yet?

A. No. Not to my knowledge. It wasn't out yesterday.

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

EXAMINER PARROT: Mr. McDaniel?

MR. McDANIEL: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. McDaniel:

Q. Good morning, Mr. Allen.

A. Good morning.

Q. I'm Nick McDaniel. I'm with the Environmental Law and Policy Center.

Could you please turn to page 13 of your testimony.

A. I'm there.

Q. On lines 4 through 5 you say as of the end of October 2013, approximately 42 percent of AEP Ohio's retail load was taking service under the SSO and 58 percent was taking service from a CRES provider. Do you see that?

A. I do.

Q. That statement refers to the percentage of customer load which is different than the percentage of customers; is that correct?

A. That's correct.

Q. So the percentage of customers that are taking generation service under the SSO and the percentage of customers who are taking service from a CRES provider could be different.

A. Yes.

Q. The table that's below that statement on page 13, does that -- do those numbers also refer to the percentage of customer load?

A. Yes.

Q. Do you know what those percentages would be if they were in reference to the percentage of customers rather than the percentage of load?

A. For the residential class those numbers would be essentially the same because residential customers are fairly homogenous. For commercial and industrial customers the largest -- there are some large customers in the customer class that are not currently shopping so the percentage of industrial customers shopping would probably be larger than the percentage of load indicated here.

We have data for the commercial class, I just don't know it off the top of my head.

Q. And just so I understood what you said there, you said the residential customer class, the percentages, if this table referred to percentages of customers rather than load, would be essentially the same.

A. It would be comparable, yes.

Q. They'd be comparable.

And for the industrial class you'd expect the percentage of shopping customers to be potentially larger than that on the table?

A. That would be my estimate based upon the customers I know that aren't shopping.

Q. Do you recall a discussion you had yesterday with Mr. Darr about PUCO reports on switched or shopping rates for customers?

A. I do.

Q. And I think you said a couple things about those reports. I think you said they use a little different methodology than you use internally, but they show comparable trends and are generally within a few percentage points of your internal data; is that correct?

A. When I've looked at them historically, that's been the case, yes.

Q. And I think you also said that you were not familiar or hadn't reviewed those reports, am I correctly remembering that?

A. Yes.

Q. Do you recall a discovery request from ELPC that asked for what percentage of AEP Ohio's customers are nonshopping SSO customers versus shopping customers?

A. I think I recall that question, yes.

Q. Do you have your discovery in front of you?

A. No.

MR. McDANIEL: May I approach?

EXAMINER PARROT: You may.

MR. McDANIEL: Your Honors, I don't intend to mark this as an exhibit, but I'll give that to you.

Q. Mr. Allen, do you have in front of you the discovery request marked ELPC 1.6?

A. Yes.

Q. And that discovery request asked for the percentage of AEP Ohio total customers that are nonshopping, SSO customers receiving generation service from AEP Ohio, and the response there I think referred to these Commission reports; is that correct?

A. It does, yes.

Q. And are these the -- does this refer to the same reports that we were just discussing that you discussed with Mr. Darr yesterday?

A. Yes.

MR. DANIEL: Your Honors, may I approach again?

EXAMINER PARROT: You may.

MR. McDANIEL: May I have marked as ELPC

Exhibit 1 the PUCO report on customer switch or shopping rates.

EXAMINER PARROT: So marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Mr. Allen, is that one of the reports that is referenced in the discovery request?

A. Yes.

Q. Could you read the heading of that document for me, please?

A. "Summary of Switch Rates from EDUs to CRES Providers in Terms of Customers for the Month Ending March 31, 2014."

Q. And so this report, the distinction you made earlier between percentage of customer load versus the percentage of customers, this report refers to the percentage of customers; is that correct?

A. It does.

Q. Now, under the section dealing with AEP Ohio this report states that 28.4 percent of residential customers have switched or shopped. Do you see that?

A. I do.

Q. And it states that 46.75 percent of commercial customers have shopped and 49.01 percent of industrial customers have shopped.

A. That's correct. And so what that would indicate is that on the commercial side a large number of small commercial customers have not switched, and on the industrial side it would indicate as well that small industrial customers have not switched.

Q. And the final column deals with total customers and shows that 30.79 percent of AEP Ohio's total customers have shopped, correct?

A. That's correct.

Q. And so just to bring it back and make sure that I'm understanding this completely, this report shows that approximately 31 percent of AEP's customers have shopped but those customers represent 58 percent -- or, approximately 58 percent of the load according to your testimony on page 13, correct?

A. They're different dates, but the general concept is true.

Q. Assuming there's not a ton of variability between October and March, correct?

A. Yeah. That general trend would be consistent.

MR. DANIEL: Thank you, Mr. Allen. I have no further questions.

EXAMINER PARROT: Mr. Smalz?

MR. SMALZ: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Smalz:

Q. Good morning, Mr. Allen. I just have maybe just two or three questions. Turning to page 4 of your testimony beginning on line 16 where you discuss the extension of the residential distribution credit rider as part of the proposed ESP, is that distribution credit rider being proposed for extension exactly as it is now?

A. Yeah, the company's not proposing a change to that rider other than the extension of the date.

Q. Thank you.

Now, my understanding is that the existing residential distribution credit rider includes a commitment of $1 million per year to fund the Neighbor to Neighbor bill payment assistance program for low income payment troubled customers. Would that continue as part of the residential distribution credit rider?

A. The two are separate issues and the company has not proposed to continue the $1 million funding that you referred to.

Q. Okay. Even though it is part of the existing distribution credit rider.

A. As I indicated in my previous answer, they're not related. They're separate items.

Q. I see.

Turning to page 7 of your testimony --

A. I'm there.

Q. -- beginning on line 12, the sentence beginning on line 12 which states "In this case, Company witness Dr. Avera recommends an ROE of 10.65 percent which would result in a SEET threshold of 15.98 percent after applying a 50 percent adder." Do you see that?

A. I do.

Q. And do you also see references to a 15 percent figure on line 18 on that same page and on line 3 on the following page?

A. I do.

Q. Could you explain the difference between those two numbers, between 15.98 percent and 15 percent.

A. The 15 percent shown on line 18 and on line 3 on page 8 refers to a value that I think indicates a reasonable level below which significantly excessive earnings would not exist based upon the data that I've discussed throughout the remainder of that section of my testimony starting on page 5.

The 15.89 percent is just one element of that evaluation that I performed.

MR. SMALZ: Thank you, Mr. Allen. I have no further questions.

EXAMINER PARROT: Mr. Williams?

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

EXAMINER PARROT: Mr. O'Brien?

MR. O'BRIEN: No questions, your Honor, thank you.

EXAMINER PARROT: Mr. Clark?

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

EXAMINER PARROT: Is there anyone else who joined us?

(No response.)

EXAMINER PARROT: All right, very good. Staff.

MR. PARRAM: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Parram:

Q. Good morning, Mr. Allen. My name's Devin Parram, counsel on behalf of staff.

A. Good morning.

Q. I just had some clarifying questions regarding a document that was handed out yesterday by your counsel.

MR. PARRAM: And I guess, your Honors, I didn't know how you wanted to handle this procedurally. I just wanted to get some clarification about how you populated this document. I don't know if you prefer to do it now or --

EXAMINER PARROT: I'm guessing maybe do it in the confidential portion.

MR. NOURSE: Well, for the record, your Honor, I did indicate that I would be marking this during redirect. We do have a confidential and a public version, and I believe Mr. Allen indicated that the values on the first six lines are confidential, so depending on what you want to ask.

MR. PARRAM: Let me just try --

MR. NOURSE: If that's helpful.

MR. PARRAM: Let me try to ask generally based upon the questions I heard yesterday.

MR. DARR: I'm going to ask if we could please do this, could we have a record reference because otherwise the record would be a train wreck.

MR. NOURSE: Would you like me to just mark the exhibit and hand it out now?

EXAMINER PARROT: Yes.

MR. NOURSE: Okay.

Okay, your Honor, I'd mark this as AEP Exhibit 8 -- 8A would be the confidential version and 8B would be the public version.

EXAMINER PARROT: So marked.

(EXHIBITS MARKED FOR IDENTIFICATION.)

MR. DARR: I'm sorry, A is confidential?

MR. NOURSE: 8A is confidential, 8B would be the public.

Q. (By Mr. Parram) Mr. Allen, do you have a copy of AEP Exhibit 8B in front of you?

A. I do.

Q. And do you also have a copy of OMA Exhibit 3 in front of you? OMA Exhibit 3 is IEU Interrogatory 2-001.

A. Which attachment?

Q. I'm starting generally. My question was which one of the attachments did you use to populate 8B.

MS. BOJKO: I'm sorry. I couldn't hear the question.

MR. PARRAM: I'm sorry.

Q. Which one of the attachments did you use, 1, 2, or 3, to populate 8B?

A. The starting point was Attachment 2 as well as interrogatory -- OEG Interrogatory 2-004, Attachment 1.

Q. I'm sorry. What was the OEG interrogatory?

A. 2-004, Attachment 1, which is the OVEC operating budget that's defined as the Intercompany Power Agreement Billable Cost Summary dated 11/22/2013.

Q. Were there any other documents that were used to populate AEP Exhibit 8B?

A. For year 3 of the analysis the company replaced its estimated value for the BRA auction results with the actual results of $120 a megawatt-day that was recently announced.

Q. Is there any other information that you used to create Exhibit 8B?

A. No.

MR. PARRAM: I believe that's all I have, Mr. Allen. Thank you.

EXAMINER PARROT: All right. At this point let's go off the record.

(Discussion off the record.)

EXAMINER PARROT: Let's go back on the record. At this time we are entering the confidential portion of the cross-examination of Mr. Allen.

(XXXXXX = CONFIDENTIAL INFORMATION.)

EXAMINER PARROT: Mr. Kurtz, did you have any --

MR. KURTZ: No, I do not.

EXAMINER PARROT: -- questions? All right.

OCC?

MS. GRADY: Thank you, your Honor.

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FURTHER CROSS-EXAMINATION

By Ms. Grady:

Q. Good morning, Mr. Allen.

A. Good morning.

Q. First, I'd like to turn your attention to what was marked as OMA Exhibit No. 3, the Ohio Power Company's Response to IEU Discovery Request Interrogatory 2-001. Do you have that in front of you?

A. I do.

Q. I want you to turn to Attachment 1, if you could.

A. I'm there.

Q. And I want you to look at the line listed as "OVEC Capacity UCAP." Do you see that reference?

A. I do.

Q. Now, listed throughout the 2013 LRP forecast is the number 393. Can you tell me what that represents?

A. That would be the quantity of capacity that could be -- that was estimated to be included in the balancing residual auction.

Q. Now --

A. Or the base residual auction. I'm sorry.

Q. Thank you.

Now, if we go back to Attachment 2, page 1 of 4, if we look at the first line on that -- and that also says "Capacity Megawatt," do you see that?

A. I do.

Q. And for that period of time, 2015 through 2024, we see the figure being used of 438. Do you see that?

A. I do.

Q. Can you tell me what the difference is between the line shown on Attachment 1 for the OVEC capacity and the capacity shown on Attachment 2, page 1 of 4, and why the values are different?

A. The value on Attachment 2, the value of 438 megawatts, is the maximum capacity of the unit. That's the amount of capacity that the unit can produce.

The value on Attachment 1 is the UCAP value which is a number that's reduced from the total capacity based on forced outage rates and the like. So that's the amount that's available for the RPM auction.

Q. So if we went to the maximum capacity of the unit shown on Attachment 2, that would not necessarily be the -- or, it would not equate to the actual estimate of the load taking into consideration forced outages.

A. Those are different. The 438 is the maximum amount of capacity that the unit can achieve. The 393 value is the amount of capacity that can be bid into the RPM auction based upon PJM's rules.

Q. And those rules would apply to, on a going-forward basis, from 2015 through 2024?

A. Unless the rules are changed, but that would be the assumptions, and they'd stay the same.

MS. GRADY: At this time, your Honors, I would like to have marked as OCC Exhibit No. 4 the Interrogatory -- Ohio Power Company's Responses to OEG's Discovery Request Interrogatory 2-007.

EXAMINER PARROT: So marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Now, Mr. Allen --

MS. GRADY: May I represent for the record that counsel for AEP has agreed that this document is authentic and that we will not have to proceed along the authentication line with this document.

MR. NOURSE: So stipulated.

EXAMINER PARROT: Ms. Grady, does the Bench have a copy?

MS. GRADY: Yes, your Honor, that would be part of the packet --

MR. NOURSE: I'm sorry, there's one. I should have dropped one off there first.

MS. GRADY: Can we go off the record?

EXAMINER PARROT: Yes.

(Discussion off the record.)

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

Q (By Ms. Grady) Do you have before you, Mr. Allen, what's been preliminarily marked as OCC Exhibit No. 4, the Interrogatory 2-007, the response to OEG Interrogatory 2-007?

A. I have that interrogatory.

Q. Thank you. Now, if we turn to Attachment 1, and it's a five-page attachment, I want to direct your attention to the figure shown for 2023 for June of XXXXXX. Do you see that?

A. I do.

Q. And is that the capacity forecast price in 2023, if you know? For June.

A. That's what's indicated, yes.

Q. And that is XXXXXX a megawatt-day?

A. Yes.

Q. Now, if we turn to page 5 of that document, the last page, we will then see that -- in the column down toward the bottom we will also see that XXXXXX figure?

A. That's correct.

Q. And next to it we see the Figure XXXXXX percent. Do you see that?

A. Yes.

Q. Now, does this show, Mr. Allen, that the forecasted capacity price of XXXXXX is equal to half of net CONE?

A. Yes. That's a conservative assumption that the company uses for financial forecasting purposes.

Q. Thank you.

Now moving on --

MS. GRADY: At this point in time, your Honors, I would like to have marked OCC Exhibit 5, a single-page document entitled "OVEC Availability Factor: Peak and Off-Peak Periods by Month."

EXAMINER PARROT: So marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

MS. GRADY: Now, for the record, your Honors, I would note that this was a response to OCC Interrogatory 20 -- Set 22-389.

Q. Do you recognize this, Mr. Allen?

MR. NOURSE: Ms. Grady, could we go off the record for just a moment?

MS. GRADY: Yes.

EXAMINER PARROT: Yes.

(Discussion off the record.)

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

Ms. Grady.

MS. GRADY: Thank you, your Honor.

Q (By Ms. Grady) Mr. Allen, just briefly for a moment can we go back to OMA Exhibit No. 3 which was the response to IEU 2-001 with Attachments 1 through 3.

A. Okay.

Q. Now, we talked a little bit about the OVEC capacity under scenario 1, and we talked about the fact that that represented the UCAP. Do you recall that?

A. Yes.

Q. And we talked about that capacity figure being 393. We also discussed the maximum capacity figure used under scenario 2 of 438, correct?

A. Yes.

Q. Now, the revenues received from PJM for capacity are based on UCAP, correct?

A. They are, yes.

Q. And they are not based on the maximum capacity of your units; is that correct?

A. That's correct. That's why on Attachment 3 about three-quarters of the way down the page you see that the capacity revenues are listed as UCAP market value. So those would reflect the UCAP valuation of the capacity times the RPM clearing price.

Q. But that's not on Attachment 2, correct?

A. Yes, it is.

Q. Can you show me where UCAP is reflected on Attachment 2.

A. On Attachment 2, about three-quarters of the way down after it says "Other Incremental Margin" in bold, there's a line item that provides a valuation of the UCAP market value.

Q. And can you tell me which page you're on of that attachment.

A. Page 1 of 4.

Q. So would I see 393 somewhere on this document? Is that what I would see?

A. No. You'll see a dollar amount for annual revenues that were derived using a UCAP valuation of the capacity times the RPM clearing price for the two planning years that would exist in each one of these calendar years.

Q. I'm sorry. Could you give me a reference again. I'm having trouble following where your reference is.

A. So you're on page 1 of Attachment 2.

Q. Yes.

A. About three-quarters of the way down the page --

Q. Yes.

A. -- there's a value of $19.7 million to the right of the title that states "UCAP Market Value."

Q. Yes.

A. So that's the capacity revenue received from the RPM market using the UCAP value of the unit. It doesn't use the 438 megawatts of capacity that you see at the top. It uses what the UCAP valuation would be.

Q. Now, does the 438 megawatts capacity value that's shown at the top of that page, does that have any impact on the results under scenario 2?

A. Yes.

Q. And can you tell me what impact it has on the results?

A. It's one of the critical factors in the net generation that the units are capable of producing.

Q. And how does the net generation that the units are capable of producing have an impact on the results of scenario 2?

A. So what you would start with is the 438 megawatts is the nameplate capacity of the units. You would reduce that value for forced outages or derates of the unit or parasitic load of environmental retrofits on the units and hours when the unit dispatches.

The final result of the available megawatts after making the adjustments I just described, those megawatts would be sold into the market at the market clearing price? That would produce the market energy revenues in each hour.

Q. And the market revenues in each hour are shown on the "Revenues" line; is that correct?

A. Yes. The energy revenues are. So in 2015 the energy revenue number you would be looking to is the value of XXXXXX million.

Q. If we wanted to correlate scenario 1 with scenario 2, would we find a UCAP market value on scenario 1? And where would it be?

A. The comparable revenues would be the revenues shown on page 1 titled "Capacity Revenue." So for June of 2015 the value is $1,602,000. So that would be the line you would look to.

Q. Okay. Then if we added the revenues up for a year, would we get close to the 2015 value shown on scenario 2?

A. You would have to look to the RPM clearing price for the period January through May which doesn't show up on Attachment 1.

Q. Is it your understanding that there's some consistency between scenario 1 and scenario 2 as to the UCAP market value?

A. You would see those values being -- they should be consistent or close, relatively consistent.

Q. That is between the scenario 1 and scenario 2 with respect to the capacity revenue.

A. That's correct. Scenario 1 uses a constant UCAP value for the three years. Scenario 2 may include the actual UCAP values for each one of the years, so the values would be slightly different. UCAP changes from year to year based on historical forced outage rates. But in looking at the numbers they look like for 2016 they're within about $900,000, so pretty close.

Q. Thank you for doing that math.

MS. GRADY: I would like to now have marked as OCC Exhibit No. 5 a single sheet entitled "OVEC Availability Factor: Peak and Off-Peak Periods by Month."

EXAMINER PARROT: I believe it's been marked.

MS. GRADY: And, your Honor, I would represent that this is the, what was supplemented this morning, it was a supplement to OCC

Interrogatory 22-389.

EXAMINER PARROT: Thank you, Ms. Grady.

MR. NOURSE: Your Honor, if I could just make a statement on the record about this as well. The company just got information this morning during the hearing and this is actually a revised version of what we gave parties in discovery, so we can certainly supplement the discovery, but we just got it and we're providing access to the parties and I believe Ms. Grady's aware of that. I just wanted to make that clear for the record.

EXAMINER PARROT: Thank you, Mr. Nourse.

MS. GRADY: Thank you. I would say that the company has advised us that this is not confidential, so is there a -- before it was marked confidential and so that was why the cross-examination was saved for this part of the record. How do you want me to proceed?

EXAMINER PARROT: I think at this point we'll just keep going. We will expect the company to go through the transcript anyway and release any information that can be, so this would fall into that category.

MS. GRADY: Thank you.

MR. NOURSE: Thank you, your Honor.

MS. GRADY: And I will note that counsel for the -- or, counsel for the company has agreed to the authentication and identification of this document.

MR. NOURSE: So stipulated.

Q (By Ms. Grady) Mr. Nourse, you have OCC No. 5 in front of you, correct? Or, I'm sorry, did I call you by the wrong name?

MS. BOJKO: Excuse me, your Honor. It was my understanding that we were going to be explained since, it's not redlined, what the changes on Exhibit 5 were.

EXAMINER PARROT: Mr. Nourse.

MR. NOURSE: What I was indicating was I think Mr. Allen can explain what the error was in the first document, which everybody has from discovery, and this document while he's on the stand.

Q. (By Ms. Grady) Mr. Allen, why don't you go through that. Can you tell me -- earlier there was a discovery response to OCC Interrogatory 22-389, correct?

A. Yes, that's correct.

Q. And this document is a correction to the response to OCC Interrogatory 22-389?

A. That's correct.

Q. And can you go through with me what the corrections are on a line-by-line basis?

A. Sure. The correction that was made was that the data previously provided was a sum of the availabilities of each of the 11 OVEC units as opposed to an average. So they had summed the availability percentages for each of the units. And so what's presented here is the average percentage which is more usable by the parties to understand the availability of the units.

Q. And was that sum in terms of megawatt-hours or was that what the sum represented and this represents a percentage?

A. The sum was a sum of the percentages across each of the units. It was just an error in the spreadsheet.

Q. Okay. Thank you.

Now, when you used the term "availability factor," what do you mean by that? How do you define "availability factor"?

A. Availability factor would be the number of hours in a month that the unit was available to generate divided by the total number of hours available in that month. That's the general definition of "availability."

Q. So would you agree with me it's average hour availability that's shown on this exhibit?

A. Yes. Weighted across the units.

Q. Thank you.

And the availability reflects the ability to generate, is that correct, meaning capacity not on a forced or planned outage basis?

A. It's the ability to generate power during the month factoring in the forced or planned outages. So it reflects the number of hours the units could produce energy.

Q. Now, let's focus on, a moment, for the last line, the "Annual Average." Do you see that line?

A. I do.

Q. And do you see in 2011 it shows an 87.8 percent availability factor?

A. Yes.

Q. And --

A. For peak periods.

Q. Yes, for peak. And it shows 84.9 percent for off-peak?

A. Yes.

Q. And do you see that as you move out into 2012, 2013, and 2014, that that annual average availability both for peak and off-peak declines? Do you see that?

A. With the exception of 2014, there's a decline in each of the years. 2014 improves slightly over the 2013 values.

Q. And can you tell me why the availability declines in 2011, 2012, and 2013 for the OVEC units?

A. Generally, the reason for the reduced availability would be, one, the tie-in outages for the environmental retrofits that we spoke of previously.

(Discussion off the record.)

A. So the first factor would be tie-in outages in 2012 and 2013, and the second factor would be that in 2012 and 2013 we saw lower market prices and, generally, in periods of expected low energy prices power plants would make the decision to take planned outages in order to improve the future reliability of the unit. So you typically take planned outages during low market price periods and you would actually extend those planned outages because the financial incentive to bring in significant amounts of contract labor at higher rates, pay overtime pay, doesn't incent you to reduce those outage durations.

So generally I would expect forced -- or, I'm sorry, availability factors to decline during periods of lower market prices as we saw in 2012 and 2013.

Q. And so the slight increase from 2013 to 2014, would you say that's attributable to higher market prices as one of the factors in -- let me strike that.

So I understand what you just testified to as to there are two general reasons why the availability declines from 2011 through 2013. I wanted to focus on the 2013 to 2014 period, and you indicated that for those -- for the difference between those years there's a slight uptick in availability by peak and off-peak, correct?

A. That's correct.

Q. And can you tell me what that, if you know, what that increased availability is a factor of?

A. I don't know.

MS. GRADY: Thank you, Mr. Allen.

That's all the questions I have, your Honor, thank you.

EXAMINER PARROT: Thank you.

Mr. Darr.

MR. DARR: Thank you, ma'am.

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FURTHER CROSS-EXAMINATION

By Mr. Darr:

Q. Mr. Allen, before we get too far down the pike here there are, by my recollection, multiple versions of what's been marked as OMA Exhibit 3 and I was curious as to which version you have in front of you.

EXAMINER PARROT: Can we go off the record.

(Discussion off the record.)

EXAMINER PARROT: Go back on the record.

Mr. Darr.

MR. DARR: Thank you, your Honor.

Q. (By Mr. Darr) Mr. Allen, first things first. When you were responding to Ms. Grady's questions, you referred to page 1 of 4 of Attachment 2, and just so it's clear, in the version of OMA Exhibit 3 that you have in front of you that is listed as page 2 of 7 of Attachment 2, correct?

A. Yes.

Q. Thank goodness.

Okay. Let's deal with a couple of small problems. Do you have in front of you what's been marked as AEP Exhibit 8A?

A. Yes.

Q. And what I'm going to ask you to do here is to help us tie back the numbers which are contained in AEP 8A to Attachment 2, pages 2 and I believe 3 that are part of OMA Exhibit 3. And let's start with the number listed as "Total Revenues" on AEP Exhibit 8A.

A. Okay.

Q. That number ties back to the sum of lines marked "Revenues" on Attachment 2 of Exhibit OMA 3 and the line marked "Other Incremental Revenue," correct?

A. No.

Q. Okay. Then give me the way this ties back.

A. Sure. On Exhibit 8A, Ohio Power Exhibit 8A, the "Energy Revenues" line comes from the Revenues line on RPD 2-01 page 2 of 7. So the value of XXXXXX million -- you would take seven-twelfths of the XXXXXX million and add to that five-twelfths of the XXXXXX million near in the column "2016."

Q. And that gives you energy revenues for year 1, correct?

A. Yes.

Q. And for capacity revenues you would take five-twelfths of 19.7 million, which is listed as incremental margin, and seven-twelfths of $13.7 million on Attachment 2, sum those, and you get 19.6 million, correct?

A. No. The way that calculation was done was taking the 393 megawatts of UCAP times the capacity clearing price for the '15-'16 planning year. Those values change discretely with each year of the ESP term and so I did the calculations separately to more accurately reflect that change that occurs on a discrete basis at the conclusion of each planning year.

Q. Wouldn't you get exactly the same result by taking five-twelfths and seven-twelfths of the relatively planning years in terms of gross margin -- or, excuse me, other incremental?

A. No.

Q. Why not?

A. Because you have a different value of revenue for the seven months of the year that are part of the next planning year. So over a long period of time the average would be about the same as what you're describing, but in each year it would be somewhat different than that.

Q. So there would be some variation because there's not a perfect match between the months, but given that the prices were relatively close over these years it kind of worked out.

A. For the RPM price, they're not relatively the same from year to year, that's why I had to do that extra step, because they did double between the '16-'17 planning year and the '17-'18 planning year.

Q. Ironically this one, when I tried to back out your math, came out remarkably close, so I'll just have to take your word for that one.

132 is just the sum of the year 1 energy and capacity, correct?

A. Yes, that's correct.

Q. Okay. Now, how do we tie back the energy expense and demand expense that you've listed on AEP Exhibit 8A? What are those tied to?

A. So the energy expense would be done the same -- using the same methodology as the energy revenues but you would apply that mathematical construct to the values shown in the line entitled "Cost of Sales."

Q. Okay. And so is that a weighted average of the 2015 and 2016 cost of sales?

A. That's correct.

Q. And the demand expense?
A. The demand expense --
Q. And before you do that, unfortunately I didn't make that as clear as I wanted to. That would be the weighted average of cost of sales listed on Attachment 2 of OMA 3, correct?
A. Yes, that's correct.
Q. Okay. Great. Thank you.
And then the demand expense, what does that tie back to?
A. The demand expense ties back to OEG Interrogatory 2-004, Competitively Sensitive Confidential Attachment 1, page 1 of 1.
MR. DARR: May I have a document marked, please.
EXAMINER PARROT: You may.
MR. DARR: As IEU Exhibit -- I think we're up to 8.
(EXHIBIT MARKED FOR IDENTIFICATION.)
Q. Do you have in front of you what's been marked as IEU Exhibit 8?
A. I do.
Q. And could you identify this for us, please.
A. Yes. That's the company's response to

OEG Interrogatory 2-004, Competitively Sensitive Confidential Attachment 1, and it is the Inter-Company Power Agreement Billable Cost Summary dated 11/22/2013 from the Ohio Valley Electric Corporation.

Q. And is this the document that you used to calculate the demand expense listed on AEP Exhibit 8A?

A. Yes, it is.

Q. And for purposes of, let's use year 1, what in IEU Exhibit 8 is used to calculate the value of XXXXXX million?

A. To calculate that value you would take the value from the column titled "2015" and the row titled "Total Projected Demand Costs," the value being XXXXXX. You would take seven-fifths of that value, add to it five-twelfths of the value from the column entitled "2016" which has a value of XXXXXX, that value is approximately XXXXXX. You would then take that total Ohio Valley Electric Corporation number and multiply it by the Ohio Power power participation ratio of 19.93 percent, and you would come up with a value of XXXXXX million.

MR. NOURSE: Your Honor, could I have

just the answer reread.

(Record read.)

THE WITNESS: Should be "seven-twelfths."

MR. NOURSE: Thank you.

Q. Now, the calculation of the demand charge that you've indicated is exclusive of any transmission charges; is that correct?

A. No.

Q. Where are the transmission charges reflected?

A. You can see on line -- I'm sorry, you can see on the line entitled "Projected Transmission and Dispatch Costs (ICPA Component B)," and that's included within the total demand cost that I've described, and the value for 2015 is XXXXXX.

Q. That's total company?

A. Yes.

Q. So if we look down to the line captioned "Transmission Charge," we see a projected transmission charge of XXXXXX million and an offset of XXXXXX million. What does that reflect?

A. That reflects that the transmission charges have already been included in the line entitled "Demand Costs." That's why the total costs are zero.

Q. Well, I'm struggling a little bit with this which is why I asked the question. The transmission charge listed in line -- in the demand charge portion seems to be inconsistent with the transmission charge that's zeroed out below. Can you explain why that has occurred?

A. I can't explain why that's occurred but that's how OVEC always presents the data to us is with netted out in the transmission charge section and included in the demand charge section.

Q. The remainder of the table contained in AEP 8A, which is in the public version, is essentially a calculation of the credit or charge based on the first six lines, correct?

A. That's correct.

Q. And then to calculate a dollars per megawatt-hour you took an average connected load of 41.25 million megawatt-hours and divided that into the credit or charge in the prior line, correct?

A. That's correct.

Q. Then you performed what's described as sensitivity of Energy Plus $2 and Capacity Plus $60. Could you explain what the first line, Energy Plus $2, is meant to reflect?

A. That reflects the incremental margins that would be earned by liquidating the OVEC energy into the energy markets and market prices were assumed to be $2 higher than what was included in the company's forecast.  Or $2 lower.

Q.   And what was the working assumption for $2 as the -- as a basis for the sensitivity analysis?

A.   I just used $2 as a reference value, people could make their own determination as to what the right value is, it's just a reference value.

Q.   And you've also done something similar to that with regard to the capacity price by adding or logically reversing the numbers and subtracting $60 per megawatt-day; is that correct?

A.   That's correct.  And I chose that value because that was the change we saw from the 2016-'17 planning year to the '17-'18 planning year.

Q.   Now, the calculation that's contained in OMA Exhibit 3, Attachment 2, has an estimate been included for the LEAN improvements associated with OVEC that are reflected in Attachment 1 of OMA 3?

A.   Can you repeat that question?

Q.   Sure.  Have you -- is there a recognition in Attachment 2 of OMA 3 of the LEAN improvements contained in Attachment 1 of OMA 3?

A.   No.

Q. Now, you've indicated that there are anticipated to be LEAN improvements in the range of 10 to 12 million dollars at OVEC; is that correct?
A. What I've indicated is that there will be savings in that amount for LEAN initiatives or other cost savings initiatives.
Q. And is that a -- is that 10 to 12 million dollars, is that an annual savings over current or some other period?
A. That's an annual savings for the AEP Ohio share of OVEC as compared to what the expenses would have been otherwise.
Q. So when you say Ohio's share, what you're doing is basically taking the LEAN improvements and multiplying those by roughly .2; is that correct?
A. Times .1993, that's correct.
Q. So the total LEAN improvements would be in the range of 58 to 60 million dollars?
A. Yes. And you can see that result if you compare the total OVEC values on page 1 of 7 of Attachment 2 compared to the more current estimates that OVEC has presented to us.
Q. And could you point me to where I would find that on Attachment 2, page 1 of OMA 3, and IEU Exhibit 8?

A. So if you go to the column entitled "2016" from page 2 -- I'm sorry, page 1 of OMA Exhibit 3, Attachment 2, there's a value of XXXXXX million under the row titled "Total Projected Demand Costs" and then there's a line entitled "Total Transmission Cost" of XXXXXX million. You add those two values together, you get XXXXXX million.

Then comparing that value to the value on interrogatory 2-004 --

Q. IEU Exhibit 8, correct?

A. IEU Exhibit 8, thank you.

-- to the line that's entitled "Total Projected Demand Cost" where the value is XXXXXX, you can see in that case it's a $70 million reduction.

Q. So at this point what we're looking at are projected cost savings for 2016 and thereafter, correct?

A. There are similar cost savings in 2015 as well.

Q. That really wasn't my question. What we're looking at is projected cost savings from 2016 forward in the example that you just gave, correct?

A. I only described the cost savings in 2016. Those same types of cost savings are reflected in 2015 through 2018 as well from the data that I have in front of me.

Q. And would we expect the overall expense associated with OVEC, which is reflected in OMA Exhibit 3, Attachment 1, page 1, to continue to increase along the same lines as indicated in the total projected demand cost with a reduction of $60 million, is that what you're saying?

A. The savings would vary year by year, they wouldn't be exactly $60 million. You would replace the total projected demand cost on OMA Exhibit 3, Attachment 2, with the demand cost listed in IEU Exhibit 8.

Q. Well, what I'm asking is this -- or, is in relation to this: If we look at IEU Exhibit 8, it goes out to 2018, correct?

A. That's correct.

Q. If we look at OMA Exhibit 3, Attachment 2, page 1, it goes out to at least 2032, and what I'm asking is whether or not there is some sort of expectation, commitment, promise on the back of an envelope, anything that indicates that the expectation is, is that the $60 million in cost savings would continue beyond what's been projected here for 2018.

A. My expectation is that these cost reduction initiatives are ongoing in nature and as such would have a -- have the effect of reducing costs in the outer years as well as the more near-term years, so I think that would be a fair way of doing the analysis to look at the longer term.

Q. But in terms of the evidence provided by Ohio Valley Electric Corporation, at this point it extends exclusively through the period 2018, correct?

A. The data presented in response to the discovery request goes out through 2018. The data that the company may have received from OVEC may go beyond that. I don't have that in front of me.

Q. And it's not part of the record here today either, is it? You don't have that sitting around in your pocket someplace, right?

A. I don't.

Q. Okay. I'm sorry, that was a little bit glib, but after two days you and I both know this is getting kind of difficult.

Okay. Do you know whether or not OVEC is currently under any must-offer requirement for the energy that it produces? Let me back up a step because that's kind of starting in the middle of the question.

Do you understand what I mean by a must-offer requirement?
A. Yes.
Q. And would you describe for the record what a must-offer requirement is.
A. A must-offer requirement is a requirement that a unit must offer its available output into the day-ahead PJM markets.
Q. And do you know whether or not OVEC is under a current must-offer requirement? Is it treated as being bid into the market?
A. That's my understanding, yes.
Q. So what we're looking at when we look at the availability factor here on OCC Exhibit 5, does that reflect those days in which -- or, that percentage of the year or month where the facility is available under the must-offer requirement?
A. I think that's a reasonable interpretation of the data.
Q. And to the extent that the unit is down for a scheduled outage or an unscheduled outage, that would reduce the percentage of availability, correct?
A. Yes.
Q. Otherwise, if the unit is available, it has to offer into the LMP market, the day-ahead

market, the power that could be produced from that unit, correct?

A. That's my understanding.

Q. Now, if we look at the availabilities for 2013 and 2014, on average on peak the availability of the units was 78.8 percent, correct?

A. For the peak hours of 2013, that's correct.

Q. And if we look for the peak availability for January through March, it's about 79.7 percent, correct?

A. That's correct.

Q. And there was a slight uptick in January to 84.3 percent. Do you have any understanding as to why the availability of the unit improved in January versus, say, March where it dropped to 70?

A. No.

Q. You also made reference yesterday, and I think it was in regard to the current projected cost savings of OVEC with regard to the LEAN improvements, that there would be some evidence of that available to support your understanding of those improvements in the 2013 Ohio Valley Electric Corporation consolidated financial statements. Do I recall that correctly?

A. I don't think what you're recalling is precise. What we talked about there, LEAN initiatives as well as other cost savings initiatives, and what I indicated is that document provides evidence that some of the other cost-savings initiatives are being undertaken currently.

Q. And that should be reflected in an overall improvement of the net income for the Ohio Valley Electric Corporation, correct?

A. No. Cost reductions for OVEC don't have an impact on the earnings of OVEC, they have the impact of reducing the charges that OVEC charges to the sponsoring companies.

Q. Well, I think you've confused me with that response. The revenues that OVEC currently earns are essentially a combination of the demand costs and the energy costs that are charged to individual companies, correct? Individual sponsoring companies.

A. Yes, that's correct.

Q. At the end of the day we should see some overall improvement in the operating expenses through the initiatives that you described yesterday, correct?

A. That's correct. It would reduce the

operating expenses of OVEC.

Q. To the extent that it reduces the operating expenses, that should be reflected in lower revenues since those are tied together, correct?

A. Yes, that is correct.

Q. So if we went back into -- if we went to the income statements of OVEC and saw an increase in operating revenues and a decrease in operating expenses, is there some explanation as to how that can occur?

A. I think you've flipped the two. What would occur when you have a cost savings initiative is you would reduce the operating expenses as well as the operating revenues, and your earnings would remain essentially the same.

Q. That's what I would have thought from your answer too, but if the opposite of that or a variation of that occurred, is there some explanation for that?

A. I'd have to review the financial statements to understand what's occurring.

MR. DARR: Okay. I have nothing further, thank you.

Thank you, your Honor.

EXAMINER PARROT: Ms. Bojko?

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

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FURTHER CROSS-EXAMINATION

By Ms. Bojko:

Q. Mr. Allen, can I turn you back to what's been marked as --

MR. NOURSE: I'm sorry. I can't hear down here.

MS. BOJKO: My apologies. Can you hear me now?

MR. NOURSE: Yes.

Q. Mr. Allen, if you would look at AEP Exhibit 8A, I just have a couple clarifying questions of what you went through with Mr. Darr.

A. Sure.

Q. As far as the capacity revenue line that you discussed, you stated that 396 megawatts was UCAP; is that correct?

A. Can you restate that number?

Q. I thought you said 396. Is that not accurate?

A. 393.

Q. My apologies.

Okay. Can you just point me to a document that that number came off of so -- I don't think we tied that in the record to an actual document. Did it come off of Attachment 2?

A. It comes off of OMA Exhibit 3, the very first page, the very first substantive line, "OVEC Capacity UCAP."

Q. Thank you.

And what about the clearing, you said that that number is then multiplied by the RPM clearing price; is that correct?

A. It's multiplied by the RPM clearing price and the number of days in the year, yes.

Q. Where did you pull that clearing price? Do we have a document in front of us that that clearing price is contained on?

A. We do. It's on the same page that we've just discussed, the first page of OMA Exhibit 3, the line titled "RPM price for capacity dollars per megawatt-hour day" -- or "dollars per megawatt-day." That value is $136 for planning year 2015-'16. If you go to page 2 of 4, you can see that for planning year '16-'17 that starts in June of 2016, the value is $59 a megawatt-day, and then if you go to planning year '17-'18, the value included in -- on page 3 of that document provides a value of $125 a megawatt-day. I replaced that value with the $120 a megawatt-day that cleared in the most recent RPM auction for that planning year.

Q. Which was 120.

A. That's correct.

Q. And also under, we're still on Attachment 1, page 1 of 4, the number of days in the month is provided there for you as well; is that correct?

A. Yes. But since it's for an entire year I used 365 days a year for planning years '16-'17 and '17-'18, and 366 days for planning year '15-'16.

Q. Okay. And just so, again, the record is clear, you did not, though, use the energy revenue that is listed on that same page 1 of 4, Attachment 1 document; is that correct?

A. I did not. I used Attachment 2 which was the most recent forecast.

Q. Okay. And, similarly, you did not use the line at the bottom that's titled "OVEC Revenue (Capacity & Energy)" to get your total revenues listed on AEP Exhibit 8A; is that correct?

A. I did not.

Q. And also on AEP Exhibit 8A the "Connected Load" line, can you explain to me what the "Connected Load" is referring to?

A. It's the annual load of AEP Ohio's

customers, both shopping and nonshopping, it's approximately 41,250 megawatt-hours a year -- or, GWh a year, I'm sorry.

Q. AEP Ohio's total footprint in Ohio.

A. Yes.

Q. Total in Ohio.

Okay. I want to go back to, I had asked you a couple questions in the public record yesterday and some of the information was confidential so I want to go back, and I have to ask you a foundation question, but then get into those confidential questions, okay?

A. Okay.

Q. I was referring to Attachment 1 yesterday when I asked you isn't it true that AEP projects to collect approximately $52 million from the PPA rider for the net costs associated with OVEC; is that -- for the term of the ESP; is that correct?

A. That's what that projection indicated. The company's current projection would be what I included in Ohio Power 8A.

Q. Okay. I'm just asking about Attachment 1 for now.

And Attachment 1 for that projection of $52 million, that amounts to approximately $6.49 per megawatt-hour for generation produced by OVEC; is that correct?

A. I don't have a total value for OVEC energy over the three-year period. The values show up on that exhibit but, short of adding each of the numbers up, I don't have that value in front of me.

Q. Okay. Just explain your last statement so we can tie the record together. On which exhibit? Attachment 1 to OMA Exhibit 3?

A. Yes. Attachment 1, the second substantive line is titled "OVEC Energy (GWH)," you'd have to add up the 36 values to come up with a total OVEC energy output over the three-year period.

Q. And then you would have to walk through the next step then, to get the price per megawatt-hour, you would have to divide that by the $52 million; is that right?

A. No. It's the flip of that. You would take $52 million divided by the GWh to come up with the rate. That's different than the construct of the PPA rider, though.

Q. Okay. Thank you for that.

And if AEP were to -- would be able to seek recovery of additional PPAs from the Commission, the necessary costs for those could then be added onto the OVEC cost, whatever that might be per MWh; is that right?

A. The net effect of any additional PPAs would be added to the net effect of the OVEC PPA.

Q. Okay. And are you familiar with other witnesses' estimates in this proceeding that have filed testimony that estimate a range of $82 million to $117 million for the term of the ESP associated with the net cost or charge to customers?

A. I've reviewed those analyses and have some concerns with the analysis.

Q. Thank you.

But you understand those figures to be what is represented in those witnesses' analyses.

A. I know what the witnesses have included in their testimony. I don't necessarily agree with the methodology they employed.

MS. BOJKO: Okay. Those are all the confidential questions, thank you.

EXAMINER PARROT: Thank you.

Mr. McDermott?

MR. McDERMOTT: No questions for FES, thank you.

EXAMINER PARROT: Ms. Petrucci?

MS. PETRUCCI: No, thank you.

EXAMINER PARROT: Mr. Smalz?

MR. SMALZ: No questions, your Honor.

EXAMINER PARROT: Mr. Yurick has joined us. Do you have any questions --

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

EXAMINER PARROT: -- with respect to the confidential portion? All right.

At this point I think our plan would be to continue with redirect concerning the confidential session so we can continue in a closed session. So at this point do you need a five-minute break perhaps, or are you ready to proceed, Mr. Nourse?

MR. NOURSE: Yes, I need to sort out between confidential and nonconfidential briefly.

EXAMINER PARROT: Okay. Let's take a short break. We're off the record.

(Recess taken.)

EXAMINER PARROT: Let's go back on the record. Before we move back to the company, staff, I'm sorry, I inadvertently skipped you earlier. Do you have any questions on the confidential portion of the cross-examination?

MR. PARRAM: No, that's okay, your Honor. Thank you. We have no questions.

EXAMINER PARROT: Okay. Thank you,

Mr. Parram.

All right, Mr. Nourse, did you have any questions that need to be conducted under seal?

MR. NOURSE: Your Honor, I think we can do the redirect in the public session, and then I guess if parties have questions they think are going to be confidential again, we'll save those perhaps for a final confidential session.

EXAMINER PARROT: Okay.

MR. NOURSE: Hopefully we can get through without that.

EXAMINER PARROT: Okay, that sounds good. Let's go back on the open record. If someone in the back there could open the doors up for me, I would appreciate that.

(XXXXXX = CONFIDENTIAL INFORMATION.)

EXAMINER PARROT: Okay. Mr. Nourse.

MR. NOURSE: Thank you. Your Honor, I'd like to mark as an exhibit AEP Ohio Exhibit 9.

(EXHIBIT MARKED FOR IDENTIFICATION.)

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REDIRECT EXAMINATION

By Mr. Nourse:

Q. Mr. Allen, earlier you had some questions, I believe it was from OCC, Mr. Berger, in one of your responses you talked about the weather variation and the effect of extreme weather on energy prices. Do you recall that exchange?

A. Yes, I do.

Q. And so what I have -- do you have what I just marked Exhibit 9?

A. I do.

Q. Okay. And this is the supplemental discovery response that was distributed to the parties through the discovery process from the company, correct?

A. That's correct.

Q. And this is the analysis that you had overseen and relied upon in making your statements earlier; is that correct?

A. That's correct.

Q. Okay. And do you want to make any other observations based on the information in Exhibit 9 here?

MR. DARR: Objection as to form of the question.

MR. NOURSE: Well, I'll try to rephrase, your Honor.

Q. Mr. Allen, based on this discovery request and the data in the table that's here what is your description or summary of what's reflected in the table?

A. One of the points of discussion we had earlier in the proceeding was that the impact on market prices of weather volatility generally had a much more significant impact on increasing prices as opposed to the impact milder weather had on decreasing prices. And what this table indicates is that when weather is between normal and one standard deviation, that the price impacts are relatively similar between extreme weather and mild weather as indicated by the value of $2.94 per megawatt-hour for an increase between zero in one standard deviation severe and a $3.83 per megawatt-hour reduction when weather is between zero and one standard deviation on the mild side.

What we see when weather moves between one and two standard deviations to the extreme side, which in this case for the first five -- for the five winter months of 2013 and '14 showed that the prices increased by $31.17 per megawatt-hour, and when weather was mild to a comparable degree, that the reduction in prices was only $3.62 per megawatt-hour.

And the effect becomes even more extreme when you look at whether it's one standard deviation greater than normal or more severe than normal all the way to the most extreme weather, and in that case it indicated a deviation of $45.15 per megawatt-hour.

Q. Thank you, Mr. Allen.

And there's been a lot of discussion of AEP Ohio Exhibit 8A and B already, and I circulated this earlier indicating I would cover it through redirect. And in light of all the prior discussion I'll just ask you one question on this. Does AEP Ohio Exhibit 8A reflect your most current and most accurate, in your opinion, projection of the PPA rider during the term of the ESP?

MR. DARR: Objection. Leading.

MR. NOURSE: Well, it is redirect, your Honor.

MR. DARR: Has no difference, your Honor.

EXAMINER PARROT: Overruled.

MR. DARR: A party may not lead. It applies to direct or redirect.

A. Yes, it does.

Q. Thank you.

Next, Mr. Allen, I would like to cover a subject you discussed briefly with Mr. Yurick yesterday, and as part of an example I believe that he was putting to you, I think you made a statement that the PPA rider did not involve a generation of service as part of that exchange. Do you recall that?

A. I do.

Q. And what did you mean by saying it was not a generation service?

A. What I meant was that power was not being delivered to end-use customers as a result of the PPA rider.

Q. Okay. So you were not speaking to any legal or regulatory terminology of whether the PPA rider involves provision of a generation service or a generation-related service; is that accurate?

A. That's correct.

Q. Okay. Next I'd like to ask you about IEU Exhibit 8, I believe Mr. Darr had some questions in connection with that, that exhibit, and there was a discussion about some of the transmission-related charges that were included in the top half of the page in the demand charge and a question about reconciling or explaining the relationship to, in the middle of the page, where the transmission charge is backed out. Do you recall that exchange?

A. I do.

Q. And have you had an opportunity to

examine that issue and are you prepared to explain it now?

A. Yes.

Q. Please go ahead.

A. The value that I discussed that was the projected transmission and dispatch costs of $6.9 million for 2015 relates only to the O&M component of transmission. The capital components and other components such as ROE, debt cost would be reflected in other elements of the demand charge.

Q. Thank you, Mr. Allen.

MR. NOURSE: Your Honor, I'd like to mark a discovery response as AEP Ohio Exhibit 10.

EXAMINER PARROT: So marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

MR. NOURSE: And I'll note this is confidential, I'm not going to disclose confidential information in my questions, and I don't believe Mr. Allen will need to do so in his answers, but it will be distributed to authorized parties accordingly.

Q. Mr. Allen, do you have what's been marked AEP Ohio Exhibit 10?

A. Yes, I do.

Q. And this is what parties have referred to as Attachment 2 to the IEU Interrogatory 2-001; is that correct?

A. Yes, that's correct.

Q. And this is the PDF version that was distributed to the parties in discovery?

A. Yes, it is.

Q. And this Attachment 2, if I might shorten the reference, is the basis for your update that's reflected in AEP Ohio Exhibit 8A, correct? To the extent you explained?

A. To the extent I used it, that is the document, yes.

Q. And this doesn't change your explanation of what 8A is, I just wanted to get this in the record as a clean copy of Attachment 2 in PDF form.

A. That's correct.

Q. Thank you.

Mr. Allen, I think Mr. Darr also asked you, made an observation about the example where OVEC costs were being reduced and he asked you whether that would increase net income, and I believe your answer was more along the lines that it would reduce the demand charge passed through to the owners. Do you recall that?

A. I do.

Q. And can you explain why that example would not necessarily reduce net income?

A. Sure. If you refer to IEU Exhibit 6, which is the OVEC Annual Report for 2012, and refer to page 6 of that document, what you can see is that the total operating expenses from 2011 to 2012 were reduced from $654 million to $600 million. At the same time the operating revenues were -- shown above for 2011 were reduced from 717 million to 671 million dollars.

There's some additional changes in other line items that occur as you move down the page, but when you get to the "Net Income" line, you can see that the net income for 2011 was $2.7 million and the net income for 2012 was $2.3 million even though operating expenses were reduced by $54 million. So that supports the discussion I had that savings in operating expenses for OVEC do not have an impact on the operating income or the net income of OVEC.

MR. NOURSE: Thank you, Mr. Allen.

Thank you, your Honor, that's all the redirect.

EXAMINER PARROT: Mr. Kurtz, did you have anything?

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

Honor, very quickly.

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CROSS-EXAMINATION

By Mr. Kurtz:

Q. Just following up on what your counsel just asked you about, the net income and effect and so forth, what was the reason, what is the reason that OVEC is going to have a 60 to 70 million dollar reduction in their cost structure?

MR. DARR: Objection.

MS. GRADY: Objection.

EXAMINER PARROT: Mr. Darr?

MR. DARR: Outside the scope of the redirect, your Honor.

EXAMINER PARROT: Ms. Grady?

MS. GRADY: Friendly cross.

EXAMINER PARROT: Response?

MR. KURTZ: It's responsive to what counsel was just asking him about about changes in the income and the expense structure of OVEC.

Your Honor, I don't need to ask the question.

EXAMINER PARROT: I was going to say maybe make it more -- I think it was too broadly put to the witness maybe, maybe you can try to narrow it and tie it in to the redirect.

MR. KURTZ: Okay.

Q (By Mr. Kurtz) The reductions in OVEC's cost structure lead to lower prices to the sponsoring companies, but it will have no change, essentially, on OVEC's net income. Is that what you just went through?

A. Yes, that's correct.

Q. Why is OVEC experiencing such big reductions in its costs?

MR. DARR: Objection. Same basis.

EXAMINER PARROT: Response?

MR. KURTZ: Just a follow-up to that question, that was my only question.

MR. DARR: Doesn't matter if it's his only question or 76th question. It's still outside redirect.

EXAMINER PARROT: All right, Mr. Darr.

I'm going to sustain the objection. Again, if you want to try --

MR. KURTZ: No, that's it, thank you, your Honor.

EXAMINER PARROT: All right. OCC?

MS. GRADY: Thank you, your Honor.

RECROSS-EXAMINATION

By Ms. Grady:

Q. Mr. Allen, let's go for a moment to Exhibit 9, AEP Exhibit 9.

A. I'm there.

Q. You mentioned that this was a supplemental response. Do you know when this was distributed to parties in this case?

A. I don't know the specific date but in the last couple of weeks.

Q. Do you know if it was within the last week?

A. I don't recall the exact date that it was distributed.

Q. Can you tell me when the analysis was undertaken that you refer to here?

A. The analysis has been undertaken over a period of weeks. Due to the extreme volatility we saw in the first quarter I asked myself the question about whether or not utilization of a weather-normal forecast was most appropriate, and my belief was that it was not and that an evaluation of what temperature variations do to market prices would be a helpful analysis to undertake to provide additional evidence to the record and other parties supporting that price volatility when the OVEC units are dispatched completely into the market would have the impact of increasing their value.

MS. GRADY: Your Honor, may I have that answer reread, please? And the question, please.

(Record read.)

MS. GRADY: Your Honor, I would move to strike Mr. Allen's response after the first sentence. My question was very direct asking him when the analysis was undertaken and he went on to explain why the analysis was undertaken which was not responsive to my question.

MR. NOURSE: Your Honor, I believe the answer is actually recorded as a single sentence.

MS. GRADY: Well, then I would move to strike just the -- after he answered it. We can go to the words if you want.

MR. NOURSE: But, your Honor, you know, Ms. Grady asked when the discovery response was supplemented and when the analysis was done, so I believe Mr. Allen was simply explaining that, and why, which is a natural part of the implied question of why we did it now or why we did it before -- the week before the hearing.

EXAMINER PARROT: Motion to strike is denied.

Q (By Ms. Grady) When you said the analysis was undertaken over a period of weeks, can you tell me what weeks it was undertaken during?

A. My best recollection is that these -- this question came to mind probably in March of this year.

Q. Okay. And so your understanding would be that your analysis began in March of this year, March of 2014, and not before then?

A. That's my best memory, it may have occurred starting in February, I just don't recall the exact date that the question came to mind.

Q. And when you said a period of weeks, can you be more specific, how long? Two weeks? One week? Three weeks?

A. Several weeks.

Q. Two to three, then?

A. It feels like it took longer than that as I worked with individuals in our company to identify what data was available and what techniques could be used to both quantitively and ultimately quantitatively evaluate what those price -- what price variations occur as a result of weather deviation, so it took a period of time and discussions with individuals about what data was available and what would most accurately present this data to the parties.

Q. And that analysis, that several-week analysis, would you agree with me it would have been completed in March of 2014? If we add several weeks on to February, we're into March.

A. The analysis was completed within a day of when the discovery was provided to the other parties.

Q. When you mean completed, how do you define "completed"?

A. I completed the analysis and when I completed the analysis, I provided that analysis the next day to my counsel so it could be served to the other parties. It was requested that it be provided during my deposition. We discussed in my deposition that I had with Mr. Darr, as I recall, that the company was doing that evaluation and Mr. Darr requested that we provide that as a supplement to Interrogatory 2-001, and I indicated at that deposition that I would do so at the time that it was completed and the company followed through with that commitment.

Q. Were you deposed in February of 2014?

A. No. I was deposed after that, and in my deposition there was a discussion that the company was doing such an evaluation.

Q. And the evaluation began in February, took several weeks, and you were deposed in -- when were you deposed? In May?

MR. NOURSE: Your Honor, I object. I don't think that Mr. Allen's indicated that the analysis began February, I believe all he said was that he -- the question occurred to him and possibly as early as then.

MS. GRADY: Certainly he can clarify if that's the case.

EXAMINER PARROT: I agree. Overruled.

THE WITNESS: I'm sorry, can you repeat the question, please?

(Record read.)

A. The -- I'll define it as a thought exercise, began sometime in the February/March time frame. I don't recall the exact date that I started thinking about this concept. From that time forward I had discussions with individuals within the company, as I previously indicated, and we worked to develop an analysis that I've presented here today or that I've discussed here today and was given in discovery previously to the parties and that was ongoing at the time of my deposition.

Q. Did you direct an analysis to be made, Mr. Allen? Was it under your direction that this analysis was conducted, or was it under someone else's direction?

A. The analysis was done under my direction and portions of the analysis were done directly by myself.

Q. And the analysis that was done under your direction, when did you become aware that that was done, that what you had asked to be done had been completed?

A. The analysis was completed the day before the discovery response was served on the parties.

Q. And what day was that, Mr. Allen, if you know?

A. I don't know the date that the discovery response was served on the parties.

Q. And when you say the analysis was completed, are you talking about the analysis that you undertook or that you were directed to be undertaken?

A. So to be clear, I directed that the analysis be undertaken. I sought data from individuals. The data was summarized by individuals for me and I did the final analysis of the data that was presented in the discovery.

Q. Okay. So maybe if we break this down a bit, it might help. You say you directed the analysis to be done and then a document was produced, correct?

A. Data was produced to me.

Q. Data was produced. And do you know what time -- what date the data was produced by individuals working at your direction?

A. I don't know the date that the data was produced.

Q. Generally, was it produced in the month of May? Was it produced earlier?

A. I'd have to go back to my records to see when that was presented to me, but it took me a period of time to evaluate the data and determine what the meaning of the data was and how it supported the thought concept I had about how weather variations impact market prices.

Q. And how long would you estimate the period of time it took you to undertake that analysis? How many weeks?

A. I don't have a recollection of how long it took me to do that analysis. I've got quite a few different analyses that I do, cases that I manage across many states. This was one of the items I was looking into. I don't know how long it took from the date that the data was provided to me until I was able to complete the analysis.

Q. So you don't know the date that the data was provided to you, nor do you know how long it took you to analyze the data and put your input into the data; is that your testimony?

A. With the exception of the final statement about my input. My analysis of the data. I don't know how long it took for each one of those steps.

MS. GRADY: That's all the questions I have, Mr. Allen, thank you.

EXAMINER PARROT: Mr. Yurick?

MR. YURICK: Nothing, thank you, your Honor.

EXAMINER PARROT: Mr. Darr?

MR. DARR: Just want to follow up on one area from the redirect.

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RECROSS-EXAMINATION

By Mr. Darr:

Q. Mr. Allen, you provided some additional testimony based on IEU Exhibit No. 6. Do you recall that?

A. I do.

Q. And the point of that was to show that as expenses go down the sponsoring company's responsibility in terms of -- which is recognized in IEU Exhibit 6 on page 6 as operating revenues also goes down, correct?

A. That's correct.

Q. Now, if we look at operating -- total operating expenses on IEU Exhibit No. 6, year over year we see the amount going down from 2011 to 2012 by $54 million, correct?

A. Yes, that's correct.

Q. And year over year 2011 to 2012 revenues from sponsoring companies goes down from 705 million to 661 million dollars, or a change of about $44 million, correct?

A. Yes.

Q. So it's fair to say that there's no direct correspondence between the changes in total operating expenses and the operating revenues realized by OVEC; is that correct?

A. There is a direct relationship. One element that you failed to consider is the Department of Energy revenues that are in the line above, those revenues also align to the costs in the "Operating Expense" category.

Q. Well, how does that relate to the charges that are being made to an IEU sponsoring party if at all?

A. The Department of Energy also gets a share of the OVEC output. What's remaining after the Department of Energy takes energy from OVEC is available for the sponsoring companies.

Q. So would the better comparison be between total operating revenues --

A. Yes.

Q. -- and total operating expenses?

A. That would be a better comparison but it would be a partial comparison still.

Q. And that's -- and the reason you say that is that if we look at total operating revenues, the difference between 2011 and 2012 is $46 million, correct?

A. It's $46 million, that's correct.

Q. Which, again, indicates that there's not a direct one dollar to dollar difference between operating expenses and total operating revenues, correct?

A. What you're failing to factor in are the interest charges that are also an element of the charges to the sponsoring companies because, as we discussed earlier, OVEC is nearly entirely financed with debt.

Q. Right. And as -- and if we look at the items of interest charges, we note a significant increase in amortization of debt expense and interest expense year over year from 2011 to 2012, correct?

A. We do, and that would be associated with the additional environmental equipment being installed on the OVEC units.

MR. DARR: I'd like to have marked as IEU Exhibit No. 9 the Ohio Valley Electric Corporation and subsidiary company annual report for 2013.

EXAMINER PARROT: So marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Do you have in front of you what's been marked as IEU Exhibit No. 9?

A. I do, but I would like to clarify that it's not the OVEC annual report as you indicated. It's just a consolidating financial statement.

Q. Thank you for that correction. The annual report isn't available yet, correct?

A. That's correct.

Q. And do you know when -- well, first of all, can you identify this document as the OVEC financial statements that you referred to yesterday?

A. Yes, it appears to be.

Q. And this, again, is available on the OVEC website, correct?

A. It is.

Q. And do you know when this became available on the OVEC website as in like yesterday or the day before?

A. I don't know when it was available.

Q. Now, if we look at page 5 of IEU Exhibit 9 --

A. I'm there.

Q. -- this, again, contains the consolidated statements of income and retained earnings, correct?

A. Yes, it does.

Q. And this also contains a comparison of 2013 to 2012, correct?

A. Yes, it does.

Q. And if we look at the total operating revenues, which is the number that you want us to look at, we see that total operating revenues increase from 2012 to 2013 by approximately $5 million, correct?

A. They do.

Q. And if we look at total operating expenses, those moved from $599 million to $594 million, or approximately a $5 million decrease, correct?

A. They do.

Q. And so changes in operating expenses apparently have absolutely no relationship to the overall income in terms of directional movement one way or the other; is that a fair characterization for --

A. No, it's not.

Q. -- the period 2012 to 2013?

A. No, it's not.

Q. And in terms of the statement that you made a few minutes ago on my initial cross-examination, did you indicate to us that there was a direct relationship between the movement of the operating revenue and the operating expense?

A. No. Operating expenses have a direct impact on operating revenues. To evaluate what the total operating revenues are going to be, you have to consider the other elements that are included to come up with the operating revenues, items such as other income and expenses, interest charges, and the like.

Q. So changes affecting operating expenses such as reductions in maintenance, reductions in, for example, cost of coal on a unit basis, those may be offset by other expenses such as income -- or, excuse me, interest expense and amortization of debt, correct?

A. They're one element. Other elements may go in opposite directions, yes.

MR. DARR: That's all I have. Thank you.

EXAMINER PARROT: Ms. Bojko?

MS. BOJKO: Yes, just a couple quick ones. Thank you.

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RECROSS-EXAMINATION

By Ms. Bojko:

Q. Mr. Allen, you were handed what has now been marked AEP Exhibit No. 10, and just so I understand this exhibit, this is Attachment 2 that is duplicative except for form, PDF versus Excel, that is contained in OMA Exhibit 3; is that correct?

A. The same data also exists within the OMA exhibit that you referenced.

Q. Okay. But OMA Exhibit 3, just so we're clear, contains the additional attachments of 1 and 3; is that correct?

A. It does. And for what's been referred to as Attachment 2 it also includes a total OVEC value as opposed to just the AEP Ohio share.

Q. And so you're telling me that AEP Exhibit 10 is actually different, then, because it doesn't include a total value.

A. It's a subset of the information presented in the OMA exhibit.

Q. Okay. So you are saying they're different. AEP Exhibit 10, Attachment 2, is different because it contains less information than OMA Exhibit 3, Attachment 2.

A. Yes, it provides only the AEP Ohio share of the data.

Q. Okay. And, similarly, if we were to do a complete attachment to IEU Interrogatory 2-001, you would find Attachment 1 and an Attachment 3 that appears in the same form and that has less information than OMA Exhibit 3?

A. No. I think Attachment 1 to the interrogatory is the exact same set of data that's included in Exhibit OMA 3?

Q. Yes.

A. For Attachment 3 from the interrogatory the only difference in data would be that the interrogatory response includes the data for the

AEP Ohio share and OMA 3 also includes total OVEC data.

Q. For Attachment 3.

A. Yes.

Q. But AEP Exhibit 10 is only Attachment 2. You don't have that comparable data or Attachment 3 in AEP Exhibit 10; is that right?

A. AEP Exhibit 10 is only intended to show the data provided in response to the interrogatory which was Attachment 2 which is the most recent forecast the company had for OVEC.

Q. Okay. Thank you for that clarification.

And then I just wanted to ask you a couple of questions about Miss Grady was talking to you about a timeline with regard to AEP Exhibit 9. Do you know when the initial discovery response was submitted to the parties?

A. I do not.

Q. Was it before or after the vision you had in February to study this issue further?

A. It was responded to much before that. It was actually -- if you read the discovery response, it was one of the first responses the company provided because it was in response to discussions we had during the technical conference.

Q. Okay. So that's the other date I wanted to point out, the interrogatory actually says during the technical conference held at the Commission on January 8th, 2014. So there was a technical conference on January 8th, 2014, where this information was requested and then IEU put it in a formal discovery request as well and then you provided it to IEU subsequent to that; is that the timeline as you recall it?

A. We provided it to all the parties, yes.

Q. And then after you provided a response to the formal discovery request, then that's when you started revisiting the issue and studying a different aspect of the issue; is that right?

A. The -- I started thinking about the issue after the discovery response was provided here. The company included it as a supplemental response to IEU Interrogatory 2-001 at the request of IEU in my deposition. So that's really the only linkage between the two is that that was the request.

Q. So had IEU not requested it in your deposition, you wouldn't have submitted it? Is that what you just said?

A. I don't know, but that's why we included it within that discovery response is it was asked for and that's where they asked us to give it to them in.

Q. Okay. But it does modify data that was previously provided in response to Interrogatory 2-001; is that correct?

A. No. I think what it does is informs the interpretation of the data presented in that interrogatory. It doesn't change the data.

Q. Okay. The underlining assumptions it changes; is that correct?

A. No, it doesn't change the underlying assumptions, those still remain the same.

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

EXAMINER PARROT: Mr. McDermott?

MR. McDERMOTT: No questions for FES, your Honor.

EXAMINER PARROT: Ms. Petrucci?

MS. PETRUCCI: No questions.

EXAMINER PARROT: Mr. McDaniel?

MR. McDANIEL: No questions.

EXAMINER PARROT: Mr. Smalz?

MR. SMALZ: No questions, your Honor.

EXAMINER PARROT: Mr. Williams?

MR. WILLIAMS: No questions, your Honor.

EXAMINER PARROT: Mr. Parram?

MR. PARRAM: No questions, your Honor.
EXAMINER PARROT: Thank you, Mr. Allen.
THE WITNESS: Thank you.
MR. NOURSE: Your Honor, if I could move for the admission of AEP Ohio Exhibit No. 7, direct testimony of Mr. Allen; AEP Exhibit 8A, confidential version, and 8B, public version of Mr. Allen's OVEC table; AEP Ohio Exhibit 9 which is the supplemental response to IEU Interrogatory 2-001; and AEP Ohio Exhibit 10 which is the so-called Attachment 2 PDF version.
EXAMINER PARROT: Are there any objections to the admission of AEP Ohio Exhibits 7, 8A, 8B, 9, or 10?
(No response.)
EXAMINER PARROT: Hearing none, they are admitted.
(EXHIBITS ADMITTED INTO EVIDENCE.)
MR. NOURSE: Your Honor, can I just clarify, I didn't say this earlier, but 8A and 10 are confidential.
EXAMINER PARROT: Yes.
MR. NOURSE: Thank you.
EXAMINER PARROT: That's correct.
MR. NOURSE: Thank you.

EXAMINER PARROT: OCC?

MS. GRADY: Yes, your Honor, we'd move for the admission of OCC Exhibits 4 and 5.

EXAMINER PARROT: Are there any objections?

MS. GRADY: And, I'm sorry, No. 3 as well.

EXAMINER PARROT: Are there any objections to the admission of OCC Exhibits 3, 4, or 5?

MR. NOURSE: No, your Honor.

EXAMINER PARROT: They are admitted.

(EXHIBITS ADMITTED INTO EVIDENCE.)

EXAMINER PARROT: Mr. Darr?

MR. DARR: Move for the admission of IEU Exhibits 7, 8, and 9, your Honor.

MR. NOURSE: No objection.

EXAMINER PARROT: All right. Are there any objections to the admission from anyone else of 7, 8, or 9?

(No response.)

EXAMINER PARROT: All right, they are also admitted.

(EXHIBITS ADMITTED INTO EVIDENCE.)

MR. NOURSE: I'm sorry, did OMA --

EXAMINER PARROT: I haven't gotten to them yet.

MR. NOURSE: I apologize.

EXAMINER PARROT: OMA.

MS. BOJKO: I move the admission of OMA Exhibits 3 and 4, your Honor.

EXAMINER PARROT: Any objections?

MR. NOURSE: Your Honor, I would just ask on OMA 3, I believe some of the pages are not highly legible, if we could work with OMA to provide a fully legible copy of that. We can substitute it if that's acceptable.

MS. BOJKO: Sure.

MR. NOURSE: Thank you.

EXAMINER PARROT: Any objections?

MR. NOURSE: No.

EXAMINER PARROT: OMA Exhibits 3 and 4 are admitted.

(EXHIBITS ADMITTED INTO EVIDENCE.)

EXAMINER PARROT: Mr. McDaniel?

MR. McDANIEL: I move for the admission of ELPC Exhibit 1.

EXAMINER PARROT: Any objections?

MR. NOURSE: No.

EXAMINER PARROT: ELPC Exhibit 1 is

admitted.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER PARROT: All right. Let's go off the record.

(Discussion off the record.)

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

At this point we'll take a lunch break and reconvene at 1:15 with our next witness, thank you.

MR. DARR: Thank you, your Honor.

(Thereupon, at 12:36 p.m., a lunch recess was taken.)

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Thursday Afternoon Session,
June 5, 2014.

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EXAMINER SEE: Let's go on the record. Mr. Satterwhite.

MR. SATTERWHITE: Thank you, your Honor. The company would call Stacey D. Gabbard to the stand.

EXAMINER SEE: Since Mr. Satterwhite butchered it, can you please tell me your last name.

MR. GABBARD: Gabbard, g-a-b-b-a-r-d.

EXAMINER SEE: Mr. Gabbard, please raise your right hand.

(Witness sworn.)

EXAMINER SEE: Thank you. Have a seat. Mr. Satterwhite.

(EXHIBIT MARKED FOR IDENTIFICATION.)

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STACEY D. GABBARD

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

DIRECT EXAMINATION

By Mr. Satterwhite:

Q. Mr. Gabbard, can you please state your full name and business address for the record.

A. My name is Stacey D. Gabbard. My business address is 1 Riverside Plaza, Columbus, Ohio 43215.
Q. And by whom are you employed and in what capacity?
A. I am employed by AEP Service Company and I'm the Manager of Customer Choice Processes and Systems.
Q. And did you have testimony filed under your name in the docket of the case we're in on December 20th, 2013?
A. I did.
Q. And do you have in front of you what I previously marked and provided to the reporter as AEP Ohio Exhibit No. 11?
A. I do.
Q. Could you please identify this document for me?
A. This is my direct testimony in support of what I am sponsoring here today.
Q. And attached to your testimony are a few exhibits; is that correct?
A. That is correct.
Q. And was this testimony and the exhibits attached prepared by you or under your direction?

A. Yes, it was prepared by me or under my direction.

Q. And do you have any changes or corrections to anything in this testimony?

A. I do not.

Q. Do you accept this testimony as your sworn testimony for purposes of this hearing today?

A. I do.

MR. SATTERWHITE: Your Honor, at this point I would move AEP Ohio Exhibit No. 11 into the record pending cross-examination and tender the witness.

EXAMINER SEE: Mr. Smalz?

MR. SMALZ: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Smalz:

Q. Good afternoon, Mr. Gabbard. My name is Michael Smalz, and I represent the Appalachian Peace and Justice Network. I just have very few questions for you.

Turning to page 9 of your prefiled testimony, with the sentence beginning on line 10 you refer to the forecasted residential class late-payment fees proposed by Witness Spitznogle. I realize that Mr. Spitznogle was the company's principal witness on the late-payment fees. Have you looked at Mr. Spitznogle's testimony?

A. I have reviewed it in the past, yes.

Q. Okay. And are you aware that in his prefiled testimony he stated that customers enrolled in PIPP would not be subject to the late-payment fees?

A. That is my understanding.

Q. And do you know if that exemption would also extend to so-called graduate PIPP customers?

A. I do not know that.

Q. Okay. Are there any company witnesses other than Mr. Spitznogle who might know the answer to that question?

A. I believe Witness Spitznogle was sponsoring that testimony. I'm not aware of other witnesses coming up that would be aware of that.

Q. Okay. Thank you.

Turning to page 12, line 19, where you state "Therefore, the Company commits to purchase, as part of its POR program, other receivables the nonpayment of which would allow the Company to disconnect the customers' distribution service." I assume by "other receivables" you were referring to the transfer of the CRES providers' receivables to AEP Ohio; is that correct?

A. They would include the receivables that we would purchase at time of billing. When we implement the program, we would not purchase or transfer existing receivables on the books. This would only include those that would go forward when we implement on the first billing cycle afterwards.

Q. Okay. And after those receivables are transferred -- are purchased by AEP Ohio, AEP Ohio would be able to disconnect service for nonpayment for those customers who failed to timely pay their CRES providers' charges?

A. That's correct. We would include only, in the POR program, receivables that were approved by the Commission as disconnectable as a waiver in this proceeding or any future waiver. At the time of purchase they would be bucketed with the wires receivables and treated the same and so when the customer becomes delinquent on those receivables under the same timeline, if the customer fails to pay, then disconnection could be one of the outcomes.

Q. And under current law and practice can either AEP Ohio or the CRES providers disconnect service to residential customers for nonpayment of the CRES provider charges?

A. Under the current rules, and I'm not an attorney, but I do not believe that they can request disconnect for their receivables which is one of the reasons purchase of receivables programs have become a cornerstone for many of the northeast and midwest markets where it simplifies the process, not only for the customer in terms of understanding their bill amounts and making arrangements on those amounts via our AMP and Budget programs that I've put forth in my testimony but it also simplifies the process with the suppliers and it makes the market much easier for them to work with customers in.

Q. Now, Mr. Gabbard, has AEP Ohio done any studies or analyses as to the quantitative impact of this change on disconnections of service on the number of disconnections of service?

A. So I've looked at the, you know, the collection timeline, and as it stands today, we follow payment posting logic where when a customer becomes delinquent, those receivables that are owed to the CRES are paid first.

So, as an example, if a customer disconnect order is initiated, the wires charge is what initiates that disconnect and the customer, any dollars that they pay, actually goes to the CRES charges first.

Q. Okay. Well, Mr. Spitznogle -- maybe I should clarify my question. Has the company done any forecast of to what extent customer disconnections would go up or down as a result of this change?

A. As I was saying, because of the way the payment posting logic works today, the disconnect order is created at the same time it would be if the CRES's receivables were delinquent at the same time, and so we do not see any increase in the number of disconnect customers. On the contrary, we may expect to see fewer because we would be able to offer AMP and budget for those customers for their entire bill amounts which I think today we have almost 200,000 customers across AEP Ohio service territory that utilize AMP and Budget, they find it very valuable. Today the way the process works CRESs have to manage those receivables and offer AMP and budget on their own which is very confusing for the customer.

Q. Okay. But, Mr. Gabbard, has the company done any numerical projections as to the amount of increase or decrease in customer disconnections?

A. We have not, but we do not expect it to increase.

Q. Thank you.

A. All things being held in terms of weather and economic conditions, all things being held equal, we would not expect it to increase.

EXAMINER SEE: Mr. Gabbard, you used the term AMP. Can you Define that, please?

THE WITNESS: Yes, AMP is average monthly payment program.

EXAMINER SEE: Thank you.

Q. Turning to page 13 of your testimony, the sentence beginning on line 5 -- no, excuse me, it's the sentence beginning on line 6, "If non-disconnectable charges are allowed, they can be disputed by the customer and halt the collection process, which ultimately would increase costs to all customers." Well, even under the current system without any purchase of receivables by AEP Ohio can customers dispute their bills through the PUCO, their CRES provider charges?

A. They can.

Q. Okay. And if those receivables are purchased by AEP Ohio, wouldn't customers still have the right to dispute the amount of those charges?

A. I believe that they could, yes.

MR. SMALZ: Okay. Thank you,

Mr. Gabbard, that's actually all I have.

EXAMINER SEE: Mr. Williams?

MR. WILLIAMS: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Williams:

Q. Good afternoon, Mr. Gabbard. My name is Greg Williams, I'll be asking you some questions on behalf of IGS.

Referring to page 14, line 12 of your testimony, you testify to a fair and equitable administrative fee charged yearly to CRES providers utilizing consolidated billing, correct?

A. That's correct.

Q. Okay. By "consolidated billing" I assume you're talking about a practice whereby CRES provider charges are included on distribution customer bills; is that correct?

A. That's correct.

Q. And that's a practice that AEP currently employs today; is that right?

A. We offer both bill-ready and rate-ready consolidated billing.

Q. And CRES providers are not currently charged an annual fee for that consolidated billing;

isn't that correct?

A. That's correct. And we are not promoting a fee for the billing services here. What we are doing is recovering administrative costs for the purchase of receivable ongoing costs as well as initial implementation costs.

Q. Okay. Speaking of which, moving down to lines 15 and 16 of your testimony on the same page, you testify that this fee will initially have two components, one is the recovery of initial capital investment over five years and the second is an ongoing administrative fee; is that right?

A. That's correct.

Q. So I want to focus on the first component first, the one that talks about the capital investment. What type of capital investment does AEP have in mind?

A. We'll need to make changes to our systems to be able to support the functionality. Those systems include our customer information system as well as changes to our EDI functionality because when we purchase the receivables, the suppliers have to be given information on the purchase amount when we purchased it. So they're largely changes to our CIS system, though, because currently our CIS system tracks two receivable streams, one for our wires charges and one for the consolidated bill charges, and to be able to purchase those we have to make changes in our system so that we can offer AMP and Budget as well for those customers' receivables. So they're largely IT investment costs.

Q. Are there any other capital investment costs?

A. It's wholly IT system investment costs.

Q. Have those investment costs been quantified?

A. Yes. They are -- the estimates of those costs are in one of the exhibits and I think we estimated $1.5 million total cost for implementation.

Q. Okay. And recovery of those costs would end after five years; is that correct?

A. That is correct.

Q. Okay.

A. We amortize that over a five-year program.

Q. Moving on to the second component, the ongoing administrative costs. What are ongoing administrative costs? To what costs are you referring?

A. I believe that was also included in part in Exhibit SDG-03 of my testimony. Those include yearly process controls because we are managing those receivables and paying the CRESs for them, so there are controls necessary to manage those on a daily and monthly basis. There's IT maintenance and system support costs that are necessary to maintain the system over time. And as I mentioned earlier, there's also -- revenue reporting is another area that's included in that. Those are incremental costs that we have projected to support the program ongoing.

Q. Are there any costs that are not included on that exhibit?

A. No. Not in support of the program.

Q. Okay. To your knowledge, is the fee that AEP proposes to levy on CRES providers included in AEP Ohio's financial forecasts filed as a part of this proceeding?

A. I am not aware. I do not know that.

MR. WILLIAMS: Nothing further. Thank you.

EXAMINER SEE: Mr. Clark?

MR. CLARK: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Clark:

Q. Mr. Gabbard, my name is Joe Clark with Direct Energy. I have just a couple questions.

Specifically I want to talk about page 8, lines 5 to 7 of your testimony.

A. I'm there.

Q. As it stands today, AEP will bill and collect for a supplier's early termination fee, correct?

A. That's correct.

Q. And I wanted to clarify that based upon lines 5 to 7. If a supplier is using consolidated billing and it's a POR customer, then AEP would not bill at all for an early termination fee; is that correct?

A. That's the -- that's the program that I am testifying to and the way we structured it. We structured it very similar to the program that Duke has implemented in Ohio. Duke does not support those costs either. When we did research in other markets, we noted that early termination fees, as the markets begin to grow and the potential for slamming increases, if there are not strong controls in place, then -- from a regulatory perspective, then those early termination fees can become a point of debate with customers where we may be out on the doorstep trying to collect them and possibly disconnect the customer for a portion of that charge as well as other charges and they may say, well, I didn't even know I had switched and they're billing this early termination fee.

So in terms of customer protection we felt it appropriate that we not include these in our purchase of receivables program.

Q. And the same limitation would apply for any other sort of fee or charge that AEP would bill for that's not includable in POR, correct? So if there were any other types of charges that AEP might bill for like services or anything connected to your energy bill like let's say AC tune-up or other types of service, you wouldn't bill for that either because it's not includable in POR, correct?

A. I think we would consult with Commission staff in terms of new developments in the market. If you look at other markets surrounding Ohio where some of the services have, let me say, grown more because there are purchase of receivable programs, there are bundled type of services that the bill is actually for a per kWh type of fee but bundled within that may include, you know, like rental programs, as you say, checkups on water heaters, you know, controlled thermostats.

We expect, after this is implemented and as the Ohio market continues to grow, that those type of -- those type of offerings may be introduced into the Ohio market; however, in terms of what we would include in our purchase of receivable program, we would seek Commission approval and waiver for anything that we would include in the program.

Q. And then to be clear, a supplier, though, wouldn't be prohibited from billing and collecting an early termination fee separate and apart from the AEP bill, though, if you were to collect the energy charges through the POR, correct?

A. No. That's what we would expect.

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

EXAMINER SEE: Miss Petrucci?

MS. PETRUCCI: Just very briefly.

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CROSS-EXAMINATION

By Ms. Petrucci:

Q. With respect to your reference to seeking a waiver from the Commission, I'm not sure I totally understood what you meant. Can you maybe give me a better understanding of what type of situation you're envisioning would require a waiver?

A. It's my understanding that in order for us to purchase the receivables of suppliers that are unregulated and to be able to disconnect those charges, the Commission has to approve that in the form of a waiver. It's my understanding that that was required in implementing the Duke purchase of receivable program.

Q. So it's specifically with respect to a situation where a customer does not pay a charge that is specifically related to a nonelectric service that is being provided by -- as part of the CRES offering?

A. It's my understanding it's a waiver of the Administrative Code that prohibits a disconnect of supplier receivables. So we would be purchasing the generation and transmission charges and aging those the same way we age our distribution receivables, and if a customer does not pay those, they may become disconnectable and we may disconnect for them.

It's my understanding that we would have to have a waiver from the Commission to allow us to do that. So any type of receivables that we would purchase, we would have to have that waiver and be able to disconnect them.

MS. PETRUCCI: Thank you. That's it. That's all. Thank you.

EXAMINER SEE: Mr. McDermott?

MR. McDERMOTT: Yes.

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CROSS-EXAMINATION

By Mr. McDermott:

Q. Mr. Gabbard, I'm Jacob McDermott. I represent FirstEnergy Solutions Corp. I have a few questions for you today.

To start out with can you turn to your testimony, page 5, line 18 through to page 6, line 4.

A. I'm there.

Q. Okay. In that section of your testimony you list some of the benefits that you see in a POR program and specifically on page 6 at line 1 you note that CRES providers would not have to be involved in the collection of unpaid debt as a benefit of a POR program; is that correct?

A. That's correct.

Q. Do you know or has AEP Ohio conducted any analysis regarding a specific CRES provider's collection experiences?

A. Let me understand your question. In terms of their bad debt rate or in terms of their processes? I'm not clear on what you're asking.

Q. Their process and experience in collecting past-due debts from their customers.

A. Only what I have been exposed to in our RMI workshops. It's my understanding that it is somewhat of a challenge for them to manage their receivables, particularly if arrangements have been made on that receivable, which is, you know, why some enhancements are being encouraged based upon the RMI workshop order.

And ultimately they do not have much leverage because it's not a disconnectable receivable for the suppliers. For that reason they build that risk into the pricing, so they cover that in the terms of higher rates for a customer.

Q. When you speak of hearing from specific suppliers in the RMI process, that's not all suppliers, that's some suppliers?

A. Yes.

Q. And other suppliers may have a very different experience and you've done no specific analysis?

A. It's possible there may be other

processes or experiences, but this is based upon the conversations I've had with different suppliers in the workshops or in our yearly, we have a yearly workshop, AEP Ohio performs a yearly workshop with our suppliers.

Q. Okay. So no specific analysis.

A. No, we have not.

Q. Okay. Thank you.

Then turning to your testimony at page 7, lines 14 through 18.

A. Yes, I'm there.

Q. Okay. There you discuss what would cause the discount rate to increase from a zero level and the only thing you mention is the future cost to modify the POR program functionality not already recovered in rates as mandated and/or reviewed and approved for recovery through a discount rate by the Commission; is that correct?

A. That's correct, that's what I have in my testimony.

Q. Okay. And there's -- I would ask, do you have your deposition transcript with you up there?

A. I do.

Q. Could you turn to page 53 of your deposition.

A. Okay, I'm there.

Q. Starting at line 14 you describe discussions --

MR. SATTERWHITE: Your Honor, at this point I'll object. I don't think -- I don't think this is proper impeachment. He asked him what was in his testimony. Now he's asking him to read the deposition and make an opinion based on what's in his deposition. It's not proper use of a deposition. If he has a question, he can go ahead and ask the question.

MR. McDERMOTT: Your Honor, if I may.

EXAMINER SEE: Yes.

MR. McDERMOTT: What I'm directing the witness to in his deposition is in conflict with his immediate answer prior and I just need to clarify whether one or the other is the witness's testimony.

MR. SATTERWHITE: Your Honor, I guess you can finish but his question was: Is that what your testimony says? And the answer was: Yes.

EXAMINER SEE: That's true, Mr. McDermott.

MR. McDERMOTT: I can ask another question?

EXAMINER SEE: Yes, you can ask another

question.

Q (By Mr. McDermott) Is your testimony accurate that's the only thing that is likely to modify the discount rate in the POR in the future?

A. I will note that there have been investments in other markets where the discount rate for POR programs has been considered for -- to recover functionality that benefits the suppliers in the market, I believe in Pennsylvania or Connecticut within the last month I believe I saw, it was actually after my deposition I saw an article where some web functionality that streamlines the overall choice process between the suppliers and the customers was considered as potentially recovered through a discount mechanism.

Q. Considered but not granted?

A. To my understanding it has not been granted and, ultimately, any changes to the discount rate would be a transparent proceeding and approved by this Commission. It would not be a unilateral change that AEP Ohio would implement and seek recovery afterwards.

Q. Are you proposing that the discount rate in the purchase of receivables program proposed in this ESP be utilized for such purposes?

A. I am proposing that it may be a tool that this Commission may find valuable in the future as the Ohio market continues to evolve.

Q. Okay. In that case can I propose a brief hypothetical here for you? Let's assume that there are 29 CRES providers serving consolidated billing shopping customers in the AEP Ohio territory. Let's also assume that, say, two of those suppliers serve 70 percent of the consolidated billing shopping load. Now assume that the remaining 27 CRES providers advocate for a CRES provider enhancement that's opposed by the two CRES providers that serve the majority of the shopping consolidated billing load in AEP Ohio, and that, further, AEP Ohio maybe in consolidation with the Commission decides to implement that enhancement.

Recovering the costs for that enhancement through the POR discount rate would have the effect of those two opposing suppliers paying for 70 percent of the enhancement that they did not support; is that correct?

MR. SATTERWHITE: Can I have the question reread, it was kind of building and I want to make sure we get everything understood before he answers it.

(Record read.)

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

A. In my opinion, that would be based upon the Commission's discretion.

Q. If all of the suppliers that participate in consolidated billing under AEP's proposed POR must participate in the POR program, and two of those suppliers serve 70 percent of the load, they will bear 70 percent of any costs recovered through a discount rate?

A. The mathematical scenario you've put forth would be 70 percent, yes.

Q. Thank you.

I just have one more question. Other AEP Ohio witnesses, I believe Witness Vegas in his cross-examination, testified with respect to the bad debt rider that it's appropriate to recover those amounts from all customers in part based on the benefits of the POR program to shopping customers and also to nonshopping customers who have the option to take advantage of those POR benefits by shopping at some point in the future; is that correct?

A. That's correct.

Q. Would shopping and nonshopping customers benefit from CRES provider enhancements with nonshopping customers benefiting from the option to shop subject to whatever improvements that CRES enhancements bring to the CRES market in Ohio?

A. I think that was a two- or three-part question, I want to make sure I understand.

Q. Do you want me to read it more slowly? Or we can have it read back.

A. Let me read it back to you, make sure I understand.

Q. Sure.

A. If any enhancements were made, would both the shopping and nonshopping customer classes benefit from those enhancements, if you will. Is that the premise of your question?

Q. That is, similar to the benefits that justify the bad debt rider.

A. Yes. I think the Ohio market is fluid. Customers move in between shopping and nonshopping on a regular basis. I think you can look at other markets and see that that trend is the same and a customer that may be a default customer this year, next year they may choose to shop and reach the benefits of those investments where this year they may not. So in my opinion it benefits both customer classes which is why we put forth the model program that we have which really marries the bad debt rider and the purchase of receivable program that levelized the playing field in terms of bad debt and does not stick bad debt in one class or the other but removes that in terms of for a customer to decide do I want to shop or not because this CRES is carrying a lot of bad debt so their rates are higher. It really removes that barrier, and for those customers that currently may be dropped every month or when they are late on their bill, those customers still see the benefits of the Choice program because suppliers are more likely to market to those customers and remove any type of socioeconomic discrimination in terms of shopping.

Q. Okay. And I understand your answer, that went more to the bad debt rider, and my last question was really about any CRES provider enhancements that may be added to the AEP Ohio supplier services that benefit the CRES market in AEP Ohio and whether those would similarly provide benefits to both shopping and nonshopping customers under the same logic that the bad debt rider provides benefits to both shopping and nonshopping customers because of the option to always shop or not to.

A. Yeah. And my answer was the market is fluid, customers may shop -- may not be shopping today but they may choose to shop tomorrow.

Q. So is that a "yes," they --

A. Yes.

Q. -- would have that option to take advantage of any CRES provider enhancements?

A. Yes.

Q. That bring benefits to the CRES market in AEP Ohio --

A. Yes.

MR. McDERMOTT: Thank you, no further questions.

EXAMINER SEE: Thank you.

Ms. Hussey?

MS. HUSSEY: Nothing from OMA, your Honor.

EXAMINER SEE: Mr. Kurtz?

MR. KURTZ: No, your Honor.

EXAMINER SEE: Mr. Darr?

MR. DARR: I'm going to defer to Mr. Serio for the time being and if we can come back to me.

MR. SERIO: We're hoping it might cut it down a little bit.

EXAMINER SEE: Mr. Yurick.

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

EXAMINER SEE: Mr. Serio.

MR. SERIO: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Serio:

Q. Good afternoon, Mr. Gabbard.

A. Good afternoon, Mr. Serio.

Q. A couple of questions first to clear up some things and then stuff that I had here. As you've proposed it, the only thing that would be included in the purchase of receivables would be the actual cost of the commodity of electricity that a CRES provider provides to a shopping customer, correct?

A. I think my testimony states any commodity related type charges which could include capacity charges, energy, demand charges, and I also believe I have a caveat in there that this Commission may also choose in the future as the market evolves to include other types of services and charges that they deem disconnectable.

Q. But that would be what the Commission might do in the future. As far as the proposal right now it's just commodity-related costs.

A. That is correct.

Q. Okay. Now, in your mind does the company support expansion of the POR at some point to include deregulated costs, things beyond the commodity-related charges?

A. The company's position is, as a wires company in a choice state, one of our roles is to support choice and there may be enhancements evolving technology, as an example, if we implement an AMI network as has been done in other choice states, certainly additional services and products are often introduced into the market and our role is to support that as a wires company.

And so our position is, you know, we know this is what is being billed today through rate-ready or bill-ready bill, we do not want to define limits on where the Ohio market may go and we recognize that it will continually evolve.

Q. But as a wires company, would you support the use of disconnection for nonregulated services?

A. We would defer to the Commission's waiver in terms of what would be included on a disconnectable receivable that would be included in a

POR program.

Q. So that means the company wouldn't file a waiver, you'd wait for the Commission to rule on somebody else's?

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

Q. If the company proposes a waiver, does that mean the company would support it?

A. As we're proposing, we will -- it will be necessary to have a waiver for those products that are currently being included in the POR program. If any changes to the product offerings occur in the future that the suppliers would request that they be included in a POR program, we would seek approval or they would seek approval to include in the POR program with the Commission. We would not unilaterally decide to purchase something and disconnect it without the Commission's approval.

Q. Okay. I think in your answer there you got to what I was getting at. The CRES providers could go to the Commission and ask for a waiver, I understand that. My question is, as a wires company, would you go to the Commission and ask for waivers in order to allow deregulated services and other items to be something that customers could be disconnected for?

A. I don't know that we would personally. I think it would probably be more a function of the market development working group which was an outcome of the RMI order, and it is the -- and it is something that AEP supported, in fact, I think I was one that recommended it in some of the workshops, that that working group would help establish new functionality and new direction that the market may be going, and that is a conduit directly to the Commission. I would suspect it would come more from the working group than directly from AEP.

Q. As we stand here today, though, the company would -- the company today does not support non-commodity related charges being included in a POR, correct?

A. Well, what we are proposing today are those that I've listed in my testimony which are commodity related.

Q. I understand what you're proposing. I asked does the company support the inclusion of anything other than commodity-related charges in the POR.

A. As I said, I believe our role as a wires company is to defer to the Commission in terms of where the market may go in terms of what would be included and what could be disconnected.

MR. SERIO: Your Honor, I'm not getting an answer to the question. The company can support it and not be proposing it. What I'm asking is does the company support it. I think I should be able to get a "yes" or "no" answer to that.

MR. SATTERWHITE: Your Honor, I was about to object to the question as asked and answered. He's here testifying as to what the company is supporting and the fact that he's not using the exact same words Mr. Serio wants him to use does not mean he's not saying here is what the company supports and is proposing in this case, so I think it's asked and answered.

MR. SERIO: Maybe I can clarify, your Honor.

Q. Mr. Gabbard, if you use the word "propose" and the word "support," do you mean the same thing?

A. In what sentence?

Q. When you said the company is prosing a plan, if they're proposing the plan, is that the plan the company supports? Are they interchangeable?

A. When I said I proposed that, I'm talking about my testimony that is in an exhibit here, it's what we're proposing.

Q. You're proposing that it -- that the POR not include non-commodity related charges. Does the company support the inclusion of non-commodity charges even though they're not proposing it in this case?

A. We neither support or are against it. As a wires company, we are simply a system that supports the market and we recognize that the, even though CRESs are not regulated, their actions are under the purview of this Commission and what types of services and offerings that they may wish to put on a purchase of receivable bill in the future is within their purview.

Q. Okay. You indicated that in the future changes in functionality, those costs could end up in the bad debt rider, correct?

A. No. What I said, that changes in functionality could be recovered, those costs could be recovered through the discount rate which would be paid by the suppliers.

Q. And when you talk about functionality changes, you're talking about the changes in your billing system that would allow CRES providers to put different options out there for customers, correct?

A. Certainly that's something that could be considered by the Commission.

Q. Today a bad debt rider or bad debt is something that comes from a customer not paying their commodity charge, correct? For a CRES provider.

A. For a CRES -- CRES's bad debt, if a customer does not pay their commodity charge, we try to collect it and then charge it back to them and they may attempt to collect it. If they cannot collect it, then yes, it does become bad debt.

Q. And the bad debt the company has with nonshopping customers, that's only related to customers not paying the commodity portion of their bill, correct?

A. The bad debt for nonshopping customers?

Q. Yes.

A. That would include wires charges as well as generation charges, it's the traditional bundled bill.

Q. There's no nonregulated charges that are included in bad debt for the company today, correct?

A. I do not believe so. I believe the bad debt rate that's embedded in our discount rate is based upon our experience in our test year in 2010, I believe, which is in my testimony.

Q. And you indicated -- I think counsel for IGS asked you questions about the charge that you were going to make direct to CRES providers, and that was for capital costs and O&M costs. So if you have functionality changes, why wouldn't the costs related to functionality be part of that either capital or O&M charge? Why would that go into a bad debt rider?

A. It's not going into a bad debt rider. It's going to the place that you are recommending that it go. Any future enhancements to the programs that may benefit the CRESs and the customers, under the Commission's discretion, could become part -- be recovered through the discount rate.

The discount rate is a recovery mechanism that recovers those dollars from suppliers in the market.

Q. So it isn't the cost of implementing the functionality changes that would go into that. It would be any of the costs for services rendered that customers might not pay that could end up in the bad debt rider.

A. The bad debt rider includes any incremental costs for bad debt that AEP Ohio may experience above the $12.2 million that was in our distribution -- embedded in our distribution charges, incremental meaning that if we implement a purchase of receivables program and we see some increase in bad debt because of that, if the total amount is over $12 million, then that delta would be part of the rider. If our total bad debt exposure is $11 million, then that rider could become a credit over time.

As an example, the late payment fees that we're requesting could have a positive impact on our debt and it could over time improve our performance.

Q. The $12.2 million in bad debt that you have today, your baseline number, that's the bad debt associated with just SSO customers, correct?

A. Yes. In 2010.

Q. And roughly do you know how many customers are served by CRES providers in your service territory?

A. About four --

Q. Rough number is fine.

A. I think about 480,000.

Q. Okay. So if any of those 480,000 customers don't pay their bills, then that becomes bad debt, today that's something that marketers either have to recover through other means or they have to write off, correct?

A. Today, yes.

Q. And under a POR that additional bad debt would go to the company and then could eventually make its way into the bad debt rider, correct?

A. That is correct.

Q. And your testimony is that you don't anticipate the bad debt expenses going up even though there's going to be an additional 400,000 customers whose potential bad debt would now be included in the bad debt rider.

A. I didn't say whether it was going up or going down, which is why we are implementing it initially in 2015 at zero, and based upon the months of experience after implementation, you know, at which point we'll know how many suppliers decide to dual bill their customers instead or how many suppliers that may decide to dump all their dual billing into consolidated billing now. Those impacts as well as other factors we don't know, so we will establish our forecast and present it to the Commission for review at the end of 2015 for 2016 year.

Q. The $12.2 million, do you know roughly how many customers the bad debt covers, the number of actual customers?

A. I do not know. In 2010 the switching volume was much lower than it is today.

Q. And the $12.2 million is based on the 2010 numbers, correct?

A. I believe so.

Q. So if the switch rate is higher today, the $12.2 million is based on a larger base of SSO customers that exist today, correct?

A. Could you repeat the question?

Q. Sure. The $12.2 million is based on the number of -- the number of nonshopping customers in 2010. There are fewer nonshopping customers today, so proportionally it's a larger number than it would be today if you looked at the bad debt associated with the fewer number of nonshopping customers today, correct?

MR. SATTERWHITE: Objection, your Honor, the form. I don't think that holds together. I think that logic is actually backward.

MR. SERIO: I can try again, your Honor. I thought the witness understood.

Q. In 2010 you had a certain number of nonshopping customers that resulted in $12.2 million in bad debt. Today there's fewer nonshopping customers. Would you anticipate that if you looked at the bad debt numbers today, because there's fewer nonshopping customers, that that number would be smaller?

A. I do not have a projection.

Q. I understand you don't have a projection. I'm asking you based on numbers, would you anticipate that the number would be less?

A. I do not have a forecast or projection of what the numbers might be which is why we're proposing that after we look at the volumes after we implement it in late-2015, we'll have a better idea of what that rider would be.

Q. Do you have any idea how many shopping customers you had in 2010?

A. Not off the top of my head. It was much smaller, though.

Q. If you say "much smaller," would it be less than a hundred thousand?

A. I don't know.

Q. For sake of argument, if you had less than a hundred thousand customers in 2010 that caused the $12.2 million -- I'm sorry, if you had only 100,000 shopping customers so that would have left you 2 million, let's say 2 million customers that caused the $12.2 million, today with 400,000 shopping customers that would leave you with only 1.7 million nonshopping customers, would you anticipate that with that reduction in number of customers having bad debt that the number would go down?

A. Well, we have a little less than 1.5, 1.5 million customers in Ohio's service territory and, as I said earlier, those customers move in and out between shopping and nonshopping, so it's difficult for me to forecast what that amount would be after we implement it.

Q. I'm not asking you to forecast. I'm asking you based on the difference in the numbers would you anticipate that today's bad debt number for nonshopping customers would be less because the numbers are so much smaller?

A. I don't know.

Q. Your title is Manager of Customer Choice Processing and systems, Correct?

A. Customer Choice Processes and Systems.

Q. Processes and Systems. And you support business and operational functions?

A. Yes.

Q. How many people work under you? Rough number.

A. About 12 or 13.

Q. And --

A. One supervisor and several operators that operate our EDI processing and then several analysts.

Q. And who do you report to?

A. I report to Mark Coleman who is the Director of Customer Systems and Support.

Q. And you indicated that you represent AEP in working groups, correct?

A. That's correct.

Q. And in those working groups are policy matters discussed?

A. They often are.

Q. On page 11 of your testimony you discuss the company having the unilateral right to withdraw the POR if the ESP 3 was modified or rejected by the Commission. My question to you is: If the Commission would not approve a bad debt rider, would the company withdraw the POR?

A. That would be a decision that would be made by our team.

Q. Would your recommendation be to withdraw it?

A. I would defer to our team on that.

Q. Your team isn't testifying today, you are, sir. What would be your position?

A. I believe --

MR. SATTERWHITE: Objection, your Honor. The witness said what his position would be, he would defer to his team. Mr. Serio can't browbeat a position out of him if he says he's going to rely on his team.

MR. SERIO: Well, your Honor, the team isn't here, I can only ask the person who's here. He's got to have a position since he's the leader of the team.

MR. SATTERWHITE: Your Honor, it's normal course for business employees to rely on their team, to do discussions. He can't dictate based on a hypothetical what the witness would do if something in the future happened. The witness already responded he would rely on his team and that he can keep asking the question over and over again but --

EXAMINER SEE: Thank you, Mr. Satterwhite.

Mr. Gabbard, answer the question as best you can.

A. I believe the benefits of comparing a bad debt rider in a purchase of receivable program, ultimately that seeks to increase competition benefiting the residential customers, some customers of which who had credit challenges and may not be benefiting from Choice, I believe that the benefits of the two paired together really would lead me to recommend that they need to go hand in hand.

Q. In the course of the discussions with your team when it came time to determine whether the company would propose a bad debt rider, would it be your position to support the POR with the bad debt rider?

MR. SATTERWHITE: Just for clarification, is this previously or --

MR. SERIO: For this proceeding.

MR. SATTERWHITE: Thank you.

A. The program as it has been presented and, presented by our policy witnesses, was decided as a team and it was my responsibility to recommend systematic changes and the approach in which we implement it. It was a team decision in terms of how this was proposed. It was not a unilateral decision on my part.

Q. I did not suggest it was. What I'm asking is in the course of those discussions was your position to say "yes," we should have a POR, and the POR should have a bad debt rider?

A. I believe it was.

Q. And if the Commission does not allow the bad debt rider, is it your position, would it be your recommendation, that you should withdraw the POR?

MR. SATTERWHITE: Objection. Asked and answered.

MR. SERIO: Your Honor, I asked the question -- with the further clarification of the last two or three questions, I think now I'm entitled to an answer. He had a definitive position in developing the program, he should have a definitive position if the Commission were to change it. I understand it's not unilateral. I understand his team is going to have discussions. I just want to know what his position would be.

MR. SATTERWHITE: Your Honor, the witness stated earlier, when he asked the exact same question, that to make that determination he would want to work with his team. And, as I said before, Mr. Serio can try to browbeat and try to make him take a position but the witness has already indicated that's not how he does business and it would be inappropriate.

EXAMINER SEE: The witness has answered the question, Mr. Serio. Move on.

Q. (By Mr. Serio) Mr. Gabbard, as manager do you ever make any decisions in your job without discussing it with an entire team?

A. Daily operational decisions it is not uncommon for me to work with my team to make decisions and implement those decisions.

Q. I asked if you ever make decisions without discussing them with your team.

A. Yes.

Q. Under what circumstances do you make decisions on your own without discussing them with the team?

MR. SATTERWHITE: Objection. Beyond the scope of this proceeding. Now we're just getting -- now we're just fighting because he couldn't get an answer for what he wanted before. It's not moving the record forward at all.

MR. SERIO: I'm trying to understand the magnitude of his job as a manager and how it relates to his position as an expert witness in this proceeding where he's a witness proposing a purchase of receivable and bad debt rider. If he doesn't make any decisions and has no positions on anything, then I don't think he's the appropriate witness and I would move to strike his testimony and go forward from there and we can cut a couple hours out of the hearing.

MR. SATTERWHITE: With all due respect, your Honor, he said what he would do with these issues here. When we get into other areas is where we get far afield.

EXAMINER SEE: Thank you both.

Rephrase the question, Mr. Serio.

MR. SERIO: You know what, I'll go on, your Honor.

Q. (By Mr. Serio) Mr. Gabbard, did AEP Ohio offer a POR program when its Electric Choice retail market began?

A. It's my understanding that a purchase of receivable program was implemented early in the market as part of a stipulation and was in support of the limited market that existed at the time, that being I believe one customer. And when that customer exited the market, I don't believe we had any other activity. It was a manually supported program because it was for one customer.

Q. At the time did the POR program help jump-start competition in any way?

A. Since the program was for one customer I don't believe the intent was, at that time, to jump-start the market.

Q. What was the intent of offering a POR, then, if it wasn't to jump-start the market?

A. This was 13 years ago, I'm not aware of the intent of the program at the time.

Q. In the previous answer you said that you believed that it wasn't to do that so how can you have that belief if now you weren't there at the time and you don't know? So do you know why -- do you know, then, when the program began if POR was offered to jump-start the market?

A. I don't know that it was made to jump-start the market.

Q. Did the original POR include a bad debt rider?

A. I don't know.

Q. When the company Choice market expanded, why did the company not offer a POR at that time?

A. I was not in this position at that time, and I was not part of any discussions with regard to strategy, in terms of whether a program would be offered or not, so I can't answer that question.

Q. So is it your testimony that when you had these discussions with your team, no one on your team could answer the question as to why when the Choice program began to expand, the company did not offer a

POR at that time?

MR. SATTERWHITE: Objection. It's assuming that he had these discussions with his team which is not a fact that has been established.

MR. SERIO: Your Honor, if any fact's been established, it's that he talks to his team about virtually everything.

MR. SATTERWHITE: I don't think that's correct or appropriate, your Honor.

EXAMINER SEE: The witness can respond to the question.

THE WITNESS: Could you repeat the question, please?

MR. SERIO: I can reask it.

Q (By Mr. Serio) Did you have any discussions with your team as to why when the Choice program began to expand the company did not offer a POR at that time?

A. I did, and nobody was aware of that.

Q. Did you ask any of your superiors as to why the company was not proposing a POR at that time?

A. No.

Q. And why did you not ask any superiors if neither you nor your team knew the answer to that question at the time?

A. Because the program that I'm putting forth in my testimony is a program going forward. It is not looking backwards. It is a program that we're supporting as part of this ESP going forward that we feel has benefits that we'll bring to the market.

Q. As part of the RMI workshop, was it the company's position during the RMI workshop that it supported a POR?

MR. SATTERWHITE: Objection. Relevance.

MR. SERIO: I'll rephrase, your Honor.

Q. You participated in the RMI workshops, correct?

A. I did.

Q. And there was a discussion in the RMI workshops as to whether POR programs should be something that the Commission ordered as a result of the workshop, correct? Is that your understanding?

A. Yes, I was part of that, those workshops, as were you.

Q. And in the course of the discussions in the workshops numerous CRES providers indicated that they supported a POR, correct?

A. That's correct.

Q. And OCC and other parties indicated that they were opposed to a POR, correct?

A. Yes, that's my understanding.

Q. And EDUs participated in the project including AEP, correct?

MR. SATTERWHITE: I'll object again, your Honor, I don't know what the relevance is of what happened outside of this case where AEP Ohio's proposing a POR.

MR. SERIO: Well, your Honor, the witness indicated that they're proposing the POR in large part because coming out of the RMI workshop the Commission ordered the company to do so.

EXAMINER SEE: The objection is overruled.

Q. In the course of the RMI workshops was it your position representing the company that the company supported a POR?

A. We did not take a position in the RMI workshops as an EDU. At that time, based upon our ESP 2 order where we were requested to look at the merits of a program, we were still gathering information and evaluating it and at that time we had not yet taken a position.

Q. So it's not your recollection that the company ever indicated that they objected to significant costs that a POR program -- of a POR program.

A. AEP did not make any objections in that area. Our concern more is in terms of the benefits to the customers and, as I stated in those workshops, there are proper ways to implement a purchase of receivable program that we feel is represented in my testimony.

Q. And your testimony at pages 4 and 5 lists -- in 5, customer benefits that you've identified from a POR program, correct?

A. Yes.

Q. And the first one is that customers would most likely have more choices of providers and provider products, correct?

A. That's correct.

Q. And I believe you indicated during your deposition that the company currently has 29 CRES providers that are serving residential customers today, correct?

A. That is correct. There are 20 on the Apples to Apples website and we have 29 that are active.

Q. Do you know how many CRES providers serve residential customers in the Duke service territory?

A. 65 percent more than what we have. About

13 more than we have on the Apples to Apples website. There may be more serving customers that are not putting offers on the Apples to Apples website.

Q. That could be true in AEP also, correct? That there could be providers that aren't on the Apples to Apples chart?

A. We have nine that are not on there but --

Q. Okay.

A. -- twenty are on there.

Q. Let's stick to the Apples to Apples chart so we have something that's identifiable. Do you know how many are in the Dayton Power and Light service territory?

A. Fewer still than what is in AEP and Duke.

Q. Are you aware that in the 12-3151 docket that DP&L indicated the staff reported the number of CRES providers in their service territory as being incorrect?

A. I'm not aware of that, no.

Q. Did you read comments that the various parties filed in the 12-3151 docket?

A. I did not.

MR. SERIO: Could I approach, your Honor?

EXAMINER SEE: Yes.

MR. SERIO: Inasmuch as this is in the

Commission docket, I'm not going to identify it as an exhibit.

Q. I'm handing you the comments of the Dayton Power and Light Company in Docket 12-3151-EL-COI, they were filed on February 6th, 2014, and I'd like you to look at the top of page 4 where -- and then the footnote at the bottom of the page where it indicates that the Staff Report showed that there were 19 active CRES providers yet DP&L reported that there were 31. Do you see that?

MR. SATTERWHITE: Objection, your Honor. The witness has said he did not review these comments. This is comments, not even sworn testimony, from a workshop the witness is not familiar with. It would be inappropriate to enter them into an evidentiary hearing today. They're not sponsored by DP&L, and the witness has never seen them so there's no foundation to even ask him questions about it.

MR. SERIO: Your Honor, I wasn't going to enter them in evidence. I was going to ask for administrative notice since it's a Commission proceeding and it's the Commission proceeding that the company's identified as having given rise to the need for the POR in this proceeding, and to the extent that the witness's position is that service territories with a POR have more service providers than those without, the comments from Dayton directly contradict that. They were filed in the docket, and I think it's appropriate for the witness to look at it.

I mean, he's indicated he's very familiar with the Duke territory. It's unclear why he doesn't have the same level of familiarity with the other territories if he's comparing AEP to the other territories in Ohio.

MR. SATTERWHITE: If I may, your Honor, I appreciate the section of his brief that he wants to put in on this but he can ask the witness why he's not familiar with the DP&L territory if he wants. It would be -- I will oppose administrative notice of comments, not testimony, from a workshop where people were generally giving comments and there was no witness that AEP can ask questions about this. It's appropriate to ask the witness what he knows, but Mr. Serio can't just pull comments in from everywhere and testify for the record.

MR. SERIO: I'll get some foundation, your Honor, and my 90 minutes is not on the table anymore.

MR. SATTERWHITE: And I would point out --

EXAMINER SEE: Thank you both. Let's keep it moving.

Q (By Mr. Serio) Mr. Gabbard, in the course of looking at the Duke territory you're aware that there's 65 percent more service providers. Did you look at any other Ohio companies to compare AEP to the other companies in Ohio?

A. Yeah, I noted that on the Apples to Apples website that Duke had more service providers offering products or more registered suppliers in Duke serving residential customers than AEP and the other utilities.

Q. Did you look into why there were more service providers in one territory than others?

A. I did the analysis to look at the differences as a follow-up to staff's comments in the RMI workshops where they noted that purchase of receivables was clearly one of the drivers and they increased competition in the Duke service territory.

Q. Didn't the staff comments also indicate that there were other reasons, that there could be other reasons but the staff simply didn't go into them?

A. They noted that there could be other reasons, they also noted that the purchase of receivable program could not be overlooked as one of the factors.

Q. Did you look -- did you do any analysis on your own to determine if any of those other factors were in play?

A. No. I did review the, after our deposition I did review the Abacus Report, the annual baseline assessment of choice in Canada and the U.S. which notes that the states that have purchase of receivable programs surrounding Ohio all have much higher number of suppliers that are registered as well as product offerings.

And so from that -- and, in fact, they clearly -- one of the factors that they weigh in offering those rankings is how bad debt is handled in the market and whether purchase of receivable programs are offered. And Ohio ranked lower than most of those even though Ohio has more customers that have switched, only Texas and Illinois have more switched customers but Ohio ranks much lower than those other states for the reasons that I stated: Fewer product offerings, fewer CRES suppliers that are in the market.

Q. Okay. Let's look at product offerings. What product offerings are available in the Duke service territory that you could observe from the Apples to Apples?

A. It's my understanding that they're mostly commodity related. And, as I mentioned, the Abacus Report has different phases of the choice markets. Stage 1 is compete on commodity, stage 2 is compete on service, and stage 3 is compete on innovation, and it's my belief that at the very least the residential market in Ohio is still in stage 1 and, as you point out, the lack of some of those product offerings is a testament to that.

Q. Are there any product offerings in the Duke territory that CRES providers are not offering in the AEP territory?

A. I'm not aware of any other than more competition for the customers in terms of more suppliers.

Q. So the second prong of your first item that there would be more products, there's no indication when you look at the Duke territory, that the additional CRES providers have resulted in additional products being offered, correct?

A. Not as seen on the Apples to Apples

website, but it is noted in the Abacus Report that they are much more products and services offered in other states surrounding Ohio.

Q. Is the Abacus Report attached to your testimony?

A. It is not.

Q. Is it attached anywhere in the application?

A. It is not, because --

MR. SERIO: Your Honor, I simply asked a "yes" or "no."

MR. SATTERWHITE: Objection, your Honor. Let the witness finish his answer before he objects.

EXAMINER SEE: The witness needs to answer the question put to him.

Q. The question was: Is the report attached to your application?

A. It is not.

Q. Thank you.

Now, you also indicated that the number of residential customers shopping in Ohio is higher than virtually every other state except Texas and Illinois, correct? I think that's what you said.

A. And that's right, largely because of aggregations.

Q. Okay. So in the FirstEnergy service territories where they have fewer CRES providers than you do in AEP territory, there's higher levels of shopping, correct?

A. That's correct. Largely because, from my understanding, largely because of aggregations.

Q. Whether somebody is shopping because of aggregation or shopping in a bilateral one-on-one contract, is it your position that one is better than the other?

A. Yes. The Abacus Report, and the only reason I bring this up is because the line of questioning seems to be around how competitive Ohio market is, which was not the nature of my testimony that I filed, but the Abacus Report states that aggregations are a first step into choice but, ultimately, they can work against the development of innovative technologies and services because they lock those customers up and there's not as much competition for them.

MR. SERIO: Your Honor, I'm going to move to strike this references to the Abacus Report because it's pure hearsay. It's not attached to his testimony. I have no opportunity to look at it or determine anything about it. I'm just asking him questions about what's going on in our market and instead of answering the questions he's relying on something that isn't part of this record and it's pure hearsay.

MR. SATTERWHITE: I'll skip over the irony, your Honor, of what Mr. Serio is saying from earlier statements he made and skip right to where he asked an open-ended question of Mr. Gabbard of what else he relied upon for his opinion that he was making today, and he specifically mentioned this report as one of the things he relied upon. So Mr. Serio opened the door to Mr. Gabbard discussing this as something he relied upon.

And if it helps, at 14:39:10, if you look, "Did you do any analysis on your own to determine if any of those factors were in play," that's when the report came up.

EXAMINER SEE: When I look back at the transcript, Mr. Serio, you asked if there were any analysis that the witness did and he mentioned the Abacus Report and I believe you too have also mentioned the report, so...

Q (By Mr. Serio) Mr. Gabbard, did you personally do any analysis?

A. What type of analysis?

Q. To determine why aggregation is not preferable over bilateral one-on-one contracts.

A. I've not personally done any analysis. I'm only citing a yearly baseline assessment of the markets which is a fairly well held standard review of the markets in the U.S. and Canada.

Q. Is it the company's position that you prefer bilateral contracts over aggregation?

A. I don't believe that's our company's position.

Q. But that is your position.

A. I'm citing the --

Q. I'm asking your position now.

MR. SATTERWHITE: Objection, your Honor. Let the witness -- Mr. Serio continues to cut off the witness when he's trying to get out his answer. I would appreciate a direction to Mr. Serio to pause and allow Mr. Gabbard to finish his response.

EXAMINER SEE: Go ahead and finish your response, Mr. Gabbard.

A. Based upon what I've read and the impacts of aggregations and limiting the number of suppliers that may be interested in coming into a market where all the customers may be locked up, i.e., they're already in an aggregation, and the potential impacts on innovation and new services that are offered, I feel that it is, as I mention, a step towards choice, in fact, I think it is often referred to as a step above default service, but it is -- I don't think it's the same if you will.

Q. You understand that there's legislation that enabled communities to get into aggregation?

A. Absolutely. And it is a tool. It is clearly a tool that gets customers switching that may not have, but it is not the same as a very competitive market offering a lot of services that the customers may not have today.

Q. And you understand that the legislation sets the policy of the state which is that aggregation is an acceptable means of shopping for customers.

A. And I'm not disagreeing with that.

Q. Yet you're saying that the policy of the state through aggregation is limiting the growth of the competitive marketplace; is that your testimony?

A. I am saying that there is literature out there that I tend to agree with that aggregations is a -- aggregation is a step towards a more competitive market and it does get customers shopping and get them exposed to the market, and that was its design.

Q. To the extent that you might have more CRES providers in a service territory, have you personally done any analysis to determine if the resulting price from the addition of other CRES providers gives customers a better price?

A. I have not personally done any analysis in that area. I think the laws of economics, though, drive the more -- more suppliers that you have in a market, clearly, for them to survive they have to offer either the most competitive price for the commodity or offer interesting services which is what purchase of receivables programs have tended to create the environment for in other markets.

Q. What's the number of CRES providers necessary for you to believe there's a robust market?

A. So I believe that the industrial and commercial market in Ohio is fairly robust. Given that only 23 percent of AEP Ohio's customers, residential customers, have actively selected a supplier leads me to believe that there is still room to grow in terms of competition in Ohio, which is why we're offering this, to continue the evolution of the choice market in AEP Ohio service territory.

Clearly, there's no perfect number, but you can look at highly competitive markets such as in

Texas where, you know, I think we have close to 200 registered suppliers with us in Texas in our footprint alone. It leads me to believe there is room to grow. I don't have a perfect number or a set number that is what we are trying to achieve. What we are trying to do is offer this as part of our ESP that we believe benefits customers and sets the stage for the continued evolution of the market.

MR. SERIO: Your Honor, I'd move to strike everything in the answer that didn't give me the number that I asked for. If he can't give me a number, then a simple "I can't give you a number." But he went on and on about policy issues that -- I asked a very specific question and didn't get an answer.

MR. SATTERWHITE: Your Honor, I believe what the witness said was he talked about other jurisdictions within AEP that had 200 so he doesn't know what the exact number is and the analysis of why he can't give an exact number but there are numbers from other territories. It's highly within the scope of the question asked.

EXAMINER SEE: The motion to strike is denied but I'm going to caution the witness that he needs to answer the question put to him. His counsel will have an opportunity on redirect if they need to add or revise or expand on any of your answers.

MR. SATTERWHITE: Thank you, your Honor.

Q (By Mr. Serio) Mr. Gabbard, there are 65 CRES providers in the Duke service territory. Do you believe that the competition in that territory is robust?

A. I would agree with that.

Q. So for AEP the number's somewhere between 29 and 65; would that be fair?

A. It could be.

Q. Now, you indicated that there was a second benefit, that customers could be placed on the company's Budget or Average Monthly Payment program. Do you see that in your testimony?

A. Yes.

Q. Is there anything that would preclude a CRES provider from offering budget billing or average monthly payment programs to customers that they serve?

A. They do that today on their own charges, but it is not one bill for the customer and it is very confusing for the customer.

Q. My question was: Is there anything preventing them from doing that today?

A. They do it today.

Q. Okay. Thank you.

Is there any way to quantify the benefits of customers having the option of budget billing or average monthly payment programs?

A. I've noted that across AEP Ohio service territory we have almost 200,000 customers that are utilizing it and find it valuable. We've done no quantitative analysis or any type of surveys, though, to ask the questions what type of value they would get out of it.

Q. And you've done no analysis to determine what you think the value the customers get out of that service.

A. No.

Q. Have you done any analysis to determine the value, the qualitative value, of customers having to deal with only one entity in regard to billing questions for commodity charges, your third item?

A. I think defining a quantitative value for that would be very difficult so we have not performed any analysis in that area.

Q. Have you done any quantitative analysis for your fourth item, customers receiving just one bill in the mail and dealing with only one company if payments become past due?

A. Again, I would find that very difficult to perform any type of quantitative and, therefore, we did not perform any quantitative analysis for that.

Q. Did you do any qualitative analysis for the fifth item, that customers be free from duplicative credit checks and potential adverse impacts on their credit scores.

MR. DARR: Could I have that question read back again, please?

(Record read.)

Q. I misspoke. Did you do any quantitative analysis for that fifth item?

A. Again, it would be difficult to quantify any type of benefits so we did not do any type of quantitative, we did qualitative where we received feedback --

Q. Thank you.

MR. SERIO: Your Honor, I just asked...

Q. At the bottom of page 5 and the top of page 6 of your testimony you list the efficiencies that you believe CRES providers would get, correct?

A. Yes, that's correct.

Q. Are you able to quantify any of those

individual items as to the benefit that CRES providers would get?
A. These are all qualitative benefits, they're not quantitative benefits. The answer to your question is "no."
Q. Do CRES providers get any quantitative -- any quantitative benefits from the establishment of a POR?
A. My opinion is any type of quantitative benefits they would pass through in a reduction in their charges, that would go to the customer.
Q. Do you work for a CRES provider?
A. I do not.
Q. Then how is it that you know that a CRES provider would pass any savings that they would get from a POR program on to their customers?
A. I noted in testimony from other intervenors in this proceeding that any risks that, specifically to transmission charges but it applies to other risks, if they do no longer have to bear those risks, they pass those through to the customer.
Q. Other than reading other people's testimony do you have any personal knowledge that CRES providers would pass savings from a POR program on to their customers?

A. Only what has been shared from other suppliers in the RMI workshops.

Q. And to the extent that the other suppliers made those statements in the RMI workshops, do customers have any guarantees or assurances that CRES providers will actually pass those cost savings on to customers?

A. As I said before, CRESs are unregulated but they are within the purview, their actions are within the purview of this Commission. There's nothing that guarantees that they pass those savings on to customers, but customers shop with their feet and if they're not offering the most competitive product, they're unlikely to survive in a market.

Q. Is there any way to check after the fact and know with any certainty that CRES providers actually pass cost savings on to customers?

A. Not without opening up books of CRES suppliers. To my knowledge.

Q. So there's no way -- I'm sorry, were you done?

A. To my knowledge there's not.

Q. So there's no way to guarantee that they pass the savings on and short of opening their books there's no way to assure that they actually did it, correct?

A. As far as I snow.

Q. Today, if a CRES provider has a customer that doesn't pay their bill, that becomes bad debt that they either have to find a way to collect it or have to write it off, correct?

A. If it's a consolidated bill, we would try to collect on the account and if we cannot and it is disconnected, we charge it back to them after 35 days. They may continue to try to collect. Oftentimes they try to collect in parallel while we're collecting which is very frustrating to customers.

If they are unable to collect it, then they would charge it off.

Q. If a POR is implemented, then the cost that the CRES provider spends in trying to collect that unpaid balance, they no longer incur that cost, correct?

A. That's correct.

Q. So that would be a cost savings that could be quantified, correct?

A. It could.

Q. And then to the extent that they're unable to ultimately collect and they have to write it off, that's another amount that could be actually quantified, correct?

A. By the CRES, yes.

Q. Yes, by the CRES.

A. Uh-huh.

Q. Or by somebody looking at their books.

A. Yes.

Q. CRES providers offer a deregulated service, correct?

A. As I said, they are deregulated but they are within the oversight of the Ohio Commission.

Q. As far as the pricing of their product goes, the Commission doesn't have any oversight on pricing, do they?

A. I think as we've seen in the Pennsylvania market, that the commission has stepped in in cases where CRESs' pricing was not or billing practices were not in a manner that they approved of, specifically I think there has been jail time assigned to some CRES employees because of improper behavior.

Q. Did the Ohio Commission take action such as that?

A. Not the Ohio Commission. I think that's in the northeast market.

Q. Okay, I'm asking you about the Ohio Commission, not the Pennsylvania Commission. Does the Ohio Commission have any control, any regulation, over the price that CRES providers charge for the commodity?

A. I am not aware -- they do not regulate the price.

Q. To the extent that a POR would provide them with recovery of any bad debt, would you agree with me that that would be the kind of cost recovery certainty that you only see in regulated markets?

A. I don't know.

Q. Are you aware of any other deregulated markets where the providers of the service are guaranteed 100 percent recovery of any bad debt that they might incur?

A. Other than the majority of the midwest and northeast Electric Choice markets I'm not aware.

Q. And those are all regulated markets, correct?

A. That's correct.

Q. Okay. Now, you've mentioned that the Texas market has over 200 service providers I believe you said.

A. We have about 200 registered with us, in

AEP service territory.

Q. Other than the fixed rate options, the variable rate options, or the hybrid of some combination of fixed and variable, are there other product offerings in Texas that you don't see in either the Duke territory or the AEP territory?

A. Yes.

Q. Are they commodity-related products?

A. No.

Q. And those other products are only offered because the functionality of the billing system in Texas allows those other products to be offered, correct?

A. Not necessarily. There are offerings I think in Pennsylvania as well that are service related that are often bundled that exist in both markets.

Q. Is the current AEP Electric Choice program designed to be open to all CRES providers who are certified by the PUCO and meet AEP's creditworthiness standards?

A. There are two other provisions that must be met. They have to be registered with PJM and they have to pass functionality, EDI functionality testing with AEP. But within those provisions, yes, any CRES can, once certified with PJM and this Commission, they can register in our territory.

Q. Does the AEP Electric Choice program, does it have built-in barriers to entry to CRES providers who meet those four criteria that you just mentioned?

A. Only the barrier to entry that staff noted in their RMI recommendations as purchase of receivable was a barrier.

Q. So the company designed its program with a barrier to entry; is that what you're saying?

A. We designed the programmed -- the program as others had designed them at the time when we implemented it.

Q. That wasn't my question. My question was: When you designed your program, if the lack of a POR is a barrier to entry, then you designed your program with a barrier to entry, correct?

A. I guess you could see it that way.

Q. And to the extent that you've had the program in place for a number of years, it's been in place for a number of years with a barrier to entry built into it, correct?

A. I guess you could follow that logic.

Q. And if there's a barrier to entry, is that an anticompetitive behavior on the part of the company?

A. Is it? I'm sorry, is that what?

Q. Is that an anticompetitive action on the part of the company.

A. I don't believe so. We implemented programs that were consistent with the recommendations of this Commission and there were no intentions of being anticompetitive in any way.

Q. Did the Commission direct you, when you set up your program, not to include a POR program or was that a company decision?

A. I was not involved at the time so I can't speak to that.

Q. Are you aware of any PUCO order that told the company not to include a POR as part of its Choice program?

A. I'm not aware of any order.

Q. So if you're not aware of any order, would it be fair to assume that that was a decision made by someone within AEP?

MR. SATTERWHITE: Objection. I think he's misstating the previous testimony. The witness said I guess you could see it that way after staff defined it as a barrier to entry and now he's treating the question as if there was an actual addition made versus just now that it's been defined by staff that it could have existed at the time. I think it's an inappropriate line.

MR. SERIO: Your Honor, it's a very appropriate line because he's calling it a barrier to entry and we can argue in brief whether it existed in the past and whether the company is liable for it. My question right now is limited to did someone in the company make the decision at the time not to offer a POR.

MR. SATTERWHITE: As a barrier to entry is his point, and he's misrepresenting as if the company -- the witness already stated that there wasn't a conscious effort to do a POR as a barrier to entry and the questions are trying to insinuate that in every single question, and that's not the witness's testimony.

MR. SERIO: Your Honor, the last time I checked intent wasn't necessary if someone was going to raise a problem with the actions that somebody else was doing. So whether there's intent or not is irrelevant.

EXAMINER SEE: You've gone far afield of the question. Ask the question to the witness again.

Q (By Mr. Serio) To the extent that you're not aware of any PUCO order telling the company not to implement a POR, then would it be safe to assume that someone at the company made the decision not to include a POR in the Electric Choice program?

A. I don't think the decision was to not implement it. I think a decision has been made to implement one now.

Q. At the time that the company Choice program took off were there other utilities that had POR programs?

A. I don't recall when Duke implemented theirs so I can't answer that question. I don't know.

Q. But you're familiar with the Texas market. At the time that the Ohio AEP market took off were there other utilities that had POR programs?

A. In Texas?

Q. Anywhere that you're aware of.

A. I'm not aware of when all of them have been implemented in all the markets. In Texas purchase of receivables is not the standard. It is the exact opposite of the northeast and midwest markets.

Q. When was the purchase of receivables

implemented in the Texas market?

A. As I said, it wasn't -- it's -- the market is a supplier billing based market.

Q. So you're not aware of any other utilities that had POR programs when your Electric Choice program was revived?

A. I'm sure there was other programs in place in the other northeast and midwest markets, I just I don't know specifics in terms of when they were implemented. I'm sure they were implemented before we -- our volumes picked up such as in Maryland. I believe BG&E's program has been in place for several years.

Q. So there was nothing preventing the company from implementing a POR in the past based on the fact that other companies had them, correct?

MR. SATTERWHITE: Your Honor, now I'll object and say we're way beyond the scope of the purpose of, one, this proceeding, and two, what this witness is testifying to. I appreciate Mr. Serio picking up the arguments from the ESP 2-1/2 that many of the CRES providers were making, but what we have in front of us is a POR program moving forward not what happened in the past and whether it was a barrier or not a barrier.

EXAMINER SEE: Did you want to respond, Mr. Serio?

MR. SERIO: Well, your Honor, if it wasn't a barrier to entry and the company made the conscientious decision, I mean they want to have it both ways, if he considers it a barrier to entry and they didn't implement it in the past, then that means they put the barrier to entry in. They can't say it wasn't a barrier then but it is a barrier now.

MR. SATTERWHITE: I'm not sure what that even means, your Honor, but I'll --

EXAMINER SEE: Thank you very much. Move on, Mr. Serio.

Q (By Mr. Serio) Now, you indicated previously that you thought that the Duke market was competitive with 65 CRES providers, correct?

A. Yes.

Q. So if the number of CRES providers in the AEP territory increased to 65, how would I know that it resulted in lower prices for customers? What would be the analysis I could do to determine that there was an actual benefit from those additional service providers?

A. I would suspect you would see more CRESs fighting for your service and possibly either lower prices or eventually additional services to win you as a customer.

Q. How do I know that the lower prices are a result of competition and not changes in the market? Is there any way to do any analysis that I can pinpoint that's what caused any price reduction?

A. Not that I'm aware.

Q. Now, you indicated you participated in the RMI workshops and marketers indicated there a preference for POR. Do you know if any of the marketers who participated in the RMI workshop are marketers who do not currently participate in your Choice program?

A. I don't know. I did not know all of the marketers that were in the workshops.

Q. So it's possible that all the marketers that touted the benefits of a POR were marketers that are already in your service territory, correct?

A. It's possible. I don't know all of them that were there.

Q. Is it your understanding that PORs are generally used to jump-start competition in a choice market?

A. They have been used to jump-start competition in choice markets.

Q. Are you familiar with any other utilities where a POR program was instituted after the Choice market was implemented?

A. Could you repeat the question, please?

Q. Sure. Let me ask it this way: You've got approximately 29 percent of the residential market shopping today. Are you aware of any other utilities that implemented a POR program after a minimum of 25 percent of the residential market was already shopping?

A. I did not track the customer shopping trends for those that we looked at. We noted the benefits, but from a merit perspective as we were instructed in our ESP 2 and noted that even after markets have picked up, they have continued to be successful. Maryland's -- the public commission in Maryland issued another report I believe in January that further recognized purchase of receivables as being part of the success of their market.

Q. Have you done any studies or analysis, you, to determine the number of additional CRES providers that might come into the AEP service territory if a POR is implemented?

A. We have not reached out to any specific CRESs and done any analysis.

Q. Now, you've indicated that you thought that a POR program would help level the playing field on a socioeconomic basis, correct?

A. That's correct.

Q. And you're indicating that there's situations where you think that CRES providers would require additional deposits from customers in order to cover any potential bad debt without a POR, correct?

A. It's my understanding that CRES suppliers will do one of two things, either price the risk into their rates that they offer or secure the account.

Q. And by securing the account you mean requiring some kind of customer deposit.

A. A security deposit, that's correct.

Q. Are you familiar with the Ohio Administrative Code regarding electric utilities and their ability to request or collect deposits for nontariffed services?

A. I have not read it in some time but I'm somewhat familiar.

Q. Specifically, Section 4901 -- well, let me do it this way.

MR. SERIO: Can I approach, your Honor?

EXAMINER SEE: Yes.

MR. SERIO: I'd like to mark for purposes of identification as OCC Exhibit 6 -- well, I don't need to mark it, it's part of the Administrative Code. I guess I can get administrative notice but I have copies for you to look at.

Q. If you could turn to paragraph (G)(1) in particular. That enables an electric utility to require a deposit only for tariffed services, correct?

A. That's what this reads.

Q. And you don't disagree with that, do you?

A. I'm not in a position to disagree with this. It's my understanding, though, that our view of the code, and I am not an attorney, allows us to secure the portion of the receivables that we would purchase and that is consistent with how Duke has implemented it.

Q. Now, you indicated that you think that if customers have made deposits with a CRES provider, that they get refunded their deposit if a POR program is instituted, correct?

A. That's correct. I believe that is a standard practice that the suppliers are familiar with in other markets.

Q. Do you know how many customers currently have deposits being held by CRES providers in your service territory?

A. Not off the top of my head. I believe that was one of the interrogatories, though, that you have.

Q. And do you know if there's any assurance that with an institution of a POR that CRES providers will absolutely refund those deposits to customers?

A. As I stated before, the suppliers are not regulated but they operate under the purview of this Commission and I would expect that if a customer complained to the Commission about a deposit not being refunded them, I would expect that the Commission would follow up on that.

Q. So it's your understanding that absent some kind of complaint there is no assurances that the customer's going to get that deposit returned just because the CRES provider is taking it upon themselves to do so.

A. As I stated, I think it's a standard practice they do that and if they don't, then I think they would be -- it would be enforced by the Commission staff.

Q. Now, you indicated previously that the company was directed in the ESP 2 order to analyze the merits of a POR, correct?

A. That's correct.

Q. But the Commission didn't order the company to implement POR, just to determine the merits of it, correct?

A. That is correct.

Q. So the company could have looked at it and said we don't think it's worth doing and we're not proposing one.

A. That's correct. We believe this is a benefit of the ESP that we're proposing today.

Q. And you also indicated that as part of the 12-3151 working group that the staff made a recommendation that the companies that don't have a POR implement one, correct?

A. Yes. The staff recommended the adoption within I believe two years of all utilities, and the final order that came from the Commission was basically -- I think the word was "encouraged" all utilities to include in their next distribution case or SSO the inclusion of a purchase of receivable program which that came out after we filed our ESP so we had already -- we had already offered this program before that was ordered.

Q. The Commission staff also indicated that there were alternatives to a POR, correct?

A. Commission staff, I don't have the exact word in front of me, but I think in lieu of, if a program is not implemented, then there were other functionality that was necessary that should be implemented.

Q. Did the company do any analysis to determine if implementing those other functionalities would have been sufficient rather than implementing a POR?

A. Those other functionalities simply provide payment arrangement information with suppliers on a regular basis and don't provide the other benefits that I've stated in my testimony.

Q. Did the company, did you do any cost-benefit analysis to determine if the costs associated with implementing a POR and a bad debt rider were sufficiently greater than the costs of doing those other things that the staff recommended that it might be better to do those other things rather than implement a POR?

MR. SATTERWHITE: Objection to form. I just want to point out that the filing was made before staff promoted any of those so I don't know if you want to ask it in a different manner, but we couldn't have considered the staff recommendations from a report that came out after we filed.

Q. Were any of the recommendations in the Staff Report items that were not previously discussed in the RMI workshops?

A. No, they were most all -- all of them were discussions in the RMI workshops.

Q. And were you aware of those alternatives prior to the beginning of the RMI workshops? Those alternatives, had CRES providers ever raised those items with you as ways of improving your Choice program?

A. We had implemented a payment file that shares payment arrangements with suppliers, the outcome of that workshop was enhancements of that additional information, so that's functionality that we had already implemented, only difference is the frequency and additional information that we're providing in that file, and it's two very different things.

That is simply sharing information with suppliers in terms of the customers that are on the payment arrangements. Purchase of receivables program has many more benefits to the customers as well as to streamlining the market. So they're really apples and oranges.

Q. Did you do any kind of cost-benefit analysis to determine if one was a better option than the other?

A. We had already started the analysis of a purchase of receivable program and, as I said, we did not analyze the two because they're two very different things.

Q. Now, you indicated in Pennsylvania that the Commission took action because of charges coming out of the polar vortex, correct?

A. I'm not positive it's Pennsylvania. It's one of the northeast markets.

Q. And you indicated that that was an example of customers walking with their feet, correct?

A. The Pennsylvania market is an example of customers voting with their feet, yes, that's correct.

Q. Okay. Now, you've indicated previously that if the marketers didn't pass along savings from the bad debt rider or if they didn't refund back their customer deposits, that customers could go complain to the Commission or they could walk with their feet, correct?

A. Yes.

Q. Now, if a customer has a fixed rate contract with a CRES and that fixed rate contract currently includes the costs of bad debt and the risk that that marketer had, to the extent that the marketer chooses, then, to reduce their variable rates going forward is there any indication from the marketers that they would reduce rates for customers that were on fixed rate contracts to account for those cost savings?

A. Is there any indication that they would give the customer?

Q. That they would refund that money back to the customer. Are you aware of any indication, whether it's in the testimony that they filed or through your discussion with the marketers.

A. I have no direct feedback in terms of how that would be handled from a CRES's perspective.

MR. SATTERWHITE: Mr. Serio, is this a good point for -- can we go off the record for a second?

EXAMINER SEE: Yes.

(Discussion off the record.)

EXAMINER SEE: Let's take a ten-minute break.

(Recess taken.)

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

MR. SERIO: Thank you, your Honor.

Q (By Mr. Serio) Mr. Gabbard, you talked about the polar vortex situation, let me give you a scenario and you tell me how this would work. And you have customers that sign various contracts with the CRES providers and their contracts permitted the CRES provider to pass along cost increases in transmission as we saw occurred under the polar vortex. And as a result those customers got incredibly large bills, if they were unable to pay those or unwilling to pay those bills, those unpaid balances would become part of the bad debt rider that all customers would have to ultimately pay then, correct?

A. Any receivables that we're unable to collect and if they are not secured, so any customers that are a risk, we would, as we talked before, we would secure that. That would be charged off and go to the bad debt rider.

Q. So to the extent that customers might sign bad contracts, what previously, without a POR, would have been the risk that that customer takes under a POR would be a risk that all customers then have to take, correct?

A. Any type of chargeoffs incrementally above what we have in distribution rates would be part of the bad debt rider.

Q. And I think you indicated previously to the extent the CRES providers offered nonregulated products, then to the extent that a customer might go into default, then the CRES would probably still attempt parallel efforts to collect those nonregulated items, correct?

A. When you say "nonregulated items," are you talking about in a scenario where we have purchase of receivables and they're billing --

Q. Yes.

A. -- something else in parallel?

Q. Yes. Or termination fees, early terminating fees.

A. It is possible that they would collect those on their own, yes.

MR. SERIO: Mr. Gabbard, I'm glad you'll be happy to hear that's all I have. Thank you very much.

EXAMINER SEE: Mr. Pritchard?

MR. DARR: Mark?

MR. YURICK: No questions.

EXAMINER SEE: We already asked Mr. Yurick.

Mr. Darr.

MR. DARR: Pardon me for not remembering, your Honor, it's been a while.

CROSS-EXAMINATION

By Mr. Darr:

Q. Okay. Mr. Gabbard, my name is Frank Darr, I'm here on behalf of IEU.

A. Good afternoon.

Q. In Mr. Allen's testimony he indicates that one of the benefits of the ESP is this proposal to have a POR with a bad debt rider. Do you recall that?

A. Yes.

Q. And, in fact, I think you repeated that earlier today in discussions with Mr. Serio, that this is being proposed as a benefit of the ESP, correct?

A. It is a package.

Q. And we've also established so far that you have not identified any quantitative benefit associated with the package of the POR with the bad debt rider, correct?

A. Not quantitatively, only qualitative as we were -- the merits, if you will.

Q. And the qualitative benefit that you've identified is that it effectively lowers the bar of entry and increases the opportunity for competition to develop here in Ohio, correct?

A. That's one. There are others.

Q. And those other benefits that you've identified all address various improvements in terms of contact between the customer and the provider of the service, correct?

A. As well as payment options for customers such as AMP and Budget which is very popular and allows the customers to manage their receivables.

Q. Again, what we're talking about is improving the relationship in various ways between the customer and the holder of the receivable which in this case would be AEP Ohio, correct?

A. That's correct.

Q. And there are some side benefits that you identify with regard to the ability of CRES providers to provide services to enter the market -- and to enter the market, correct?

A. Yes. Suppliers often take several things into consideration, from what I understand in meeting with them, in terms of which market they enter next, and one of those is whether a purchase of receivables program exists.

Q. Basically you outline all of these items in your testimony on pages 4 through 6; is that fair?

A. Yes.

Q. Now, going back to this notion of the POR with the bad debt rider lowering the bar to entry, you indicated in cross-examination with Mr. Serio, or in response to cross-examination by Mr. Serio, that Duke with its 65 CRES providers was an example of what I believe you described as robust competition; is that fair?

A. I think I did state that.

Q. And the number that you and Mr. Serio shared with regard to the number of CRES providers active in the AEP Ohio service territory was 29. Did I understand that correctly as well?

A. We have 29 that have customers currently. Twenty that are on the Apples to Apples website. And that's specific to residential customers.

Q. Now, with regard to the number of CRES providers who are actually certified to provide service in the AEP Ohio service territory, that is a subset that you just described, correct?

A. We have a larger number that are actually registered, but not active.

Q. And, in fact, you have 46 customers [verbatim] that have one or more active switched customers enrolled with them; is that correct?

A. I believe that's one of the interrogatories. Are you speaking from an interrogatory?

Q. No, I'm just asking you at this point if you recall.

A. That sounds right. That would include suppliers that are also marketing to commercial customers but not residential customers.

Q. And is it also true that you, in fact, have 69 registered CRES providers who are eligible to serve customers in the AEP Ohio service territory?

A. They are registered and they could.

Q. But I've got the number right, correct?

A. That sounds correct. That's subject to check. We have a number that are registered but are not active.

Q. Just so we close the circle, you provided a response to an interrogatory, OCC 10-190. Would that help refresh your recollection?

A. Those are the numbers we just discussed.

Q. Right, that there are 69 registered CRES providers that are certified to provide service in the AEP Ohio service territory, correct?

A. That's correct.

Q. And 46 which currently have switched customers.

A. Right. And 29 have residential customers.

Q. Now, when we're talking about the POR with the bad debt rider, we're probably -- or, we are talking about a benefit that mainly goes to competition in the residential market; is that fair to say?

A. Not wholly. Purchase of receivables are tracked more by CRES participants and of those some of those may also wish to market to commercial, industrial, manufacturing customers.

Q. Is there any outstanding demand for a POR program among CRES providers that you know of so that they can serve large industrial customers?

A. Not that I'm aware of.

Q. The -- how about for large commercial customers?

A. Not that I'm aware of.

Q. Now, you and Mr. Serio discussed at some length the fact that AEP Ohio participated in the electric retail service market investigation conducted by the Commission; is that correct?

A. Yes.

Q. And you're aware of the fact that part of your proposal here today with regard to the POR and bad debt rider is to lower bars to entry by competitive retail electric service providers; is that correct?

A. Yes.

Q. Are you aware that AEP Ohio has taken the position that the existing Ohio market design does not have artificial, unlawful, or unreasonable barriers to entry for retail CRES providers?

A. Can you repeat that, please?

Q. Sure. Are you aware that AEP Ohio has taken the position that the existing Ohio market design does not have artificial, unlawful, or unreasonable barriers to entry for retail CRES providers?

A. When we discussed barriers to entry earlier, I was referencing the Staff Report that noted purchase of receivables is a barrier to entry. There are many barriers to entry such as a CRES being able to come up with capital requirements to -- for collateral, either with PJM or with AEP Ohio, so there are several barriers to entry, but it's not our position that there are -- we do not believe there are unlawful barriers to entry for AEP Ohio.

Q. Okay. So you're drawing a distinction between there being some sort of economic barrier to entry and unlawful or unreasonable barriers to entry; is that the distinction you're trying to derive here?

A. I believe so.

Q. So is it your position that barriers to entry are minimized and retail competition has developed at a fair -- or, excuse me, in a fair and reasonable pace?

A. I believe that the competition in Ohio has developed at a fair pace. I think, as I mentioned earlier, there are various stages of market evolution and it's our position that the AEP Ohio market will continue to evolve, and we're providing as part of this ESP several components that support the continued evolution of the Ohio market and the purchase of receivable and bad debt rider is one of those.

Q. So if I understand it correctly, the baseline for robust competition is around 65 competitors, you have 69 in the market, you got 29 that are active with residential customers and 46 that are already -- have some switched customers, and it's the position of AEP Ohio that the market is developing in a fair and reasonable manner.

A. It's developing and we continue -- we propose to continue to support the evolution of the market and, as I mentioned, there's components within our ESP that we believe continue that evolution.

Q. And it's fair to say, though, that with regard to the POR and bad debt rider AEP Ohio has not prepared a forecast on the increase that it expects in the number of CRES providers if AEP implements a POR program, correct?

A. We have not prepared a forecast.

Q. And no CRES providers, not currently certified to participate in the AEP Ohio service territory, has indicated -- let me start that again.

No CRES provider not currently certified to participate in the AEP Ohio service territory has indicated that it would participate if AEP Ohio implements a POR program; is that also correct?

A. I can't state that definitively because I don't know all of the suppliers that were represented in the RMI workshops that expressed interest in a purchase of receivable program and whether they were, in fact, in our market or not.

Q. Mr. Gabbard, do you have with you your response to Interrogatory 4-37 that you provided in response to OCC data requests?

A. Yes, if you'll give me a second.

I have it.

Q. And let me see if you agree that I'm reading this correctly. Question: Have any CRES providers who are not currently certified to participate in your service territory indicated that they will participate if you were to implement a POR program?

And the response is: No. Generally speaking, CRES providers do not contact the electric utility until they begin certification process -- begin the certification process in their respective service territory.

Did I read that correctly?

A. I believe so. The context in which I responded to that was CRESs reaching out specifically to us and having that conversation.

Q. Now, as part of the discussion that you had with Mr. Serio you had a series of questions with regard to the treatment of various charges and the return of security deposits, that sort of thing, and

I believe you indicated that there was nothing governing the behavior of the CRES provider except market pressure; is that correct?

A. No. I believe I suggested that they are unregulated but they are under the jurisdiction and are monitored by the Ohio Corporation Commission and it is not uncommon for the Ohio Corporation Commission to follow up with them with any concerns that customers may have.

Q. I'm not familiar with the Ohio Corporation Commission. Are you referring to the PUCO?

A. Yes, I'm sorry. I apologize.

Q. No reason to apologize, it's referred to as the Corporation Commission in a number of states so --

A. Yeah.

Q. -- not surprising that you would use that term.

Well, in fact, no utility can predict the product offerings, forward-looking CRES provider pricing, or other services that may evolve in a market, correct?

A. I think that's fair.

Q. And it's also true that you have no idea at this point what the bad debt rider expense may end up being; is that also correct?

A. We do not know at this point. As I mentioned earlier, the number of CRESs that may go to dual billing or may move customers that are currently dual billed into consolidated can play a factor in that as well as rates that are charged at the time; we don't know.

Q. Now, is it your understanding that all of the other electric distribution utilities have bad debt riders?

A. Of all electric?

Q. Yes.

A. It's my understanding in Ohio that all do except AEP Ohio.

Q. And one of the reasons that you're supporting the adoption of a bad debt rider is that would provide consistency among programs across the state, correct?

A. Yes. What we are promoting is very consistent with what Duke has implemented and the suppliers have noted consistencies in markets as well as other publications drives efficiencies in the market and those efficiencies are usually costs that are driven towards reduction in rates for customers.

Q. Well, that goes back to my prior question. You can't, as the utility, guarantee that result, correct?

A. I cannot guarantee that, no.

Q. Right. And in terms of the consistency, the one rider that you looked at with regard to bad debt is that of Duke; is that correct?

A. Yes.

Q. And with regard to Duke's bad debt rider you've only looked at it at a high level, correct?

A. That is correct.

Q. And you can't speak to the specifics of the Duke bad debt rider, correct?

A. Yes.

MR. DARR: That's all I have, your Honor, thank you very much.

EXAMINER SEE: Ms. Mooney.

MS. MOONEY: No questions.

EXAMINER SEE: Mr. Sineneng?

MR. SINENENG: Sineneng. No questions, your Honor, thank you.

EXAMINER SEE: Thank you.

Mr. Parram.

MR. PARRAM: Just a few questions, your Honor.

EXAMINER SEE: Go ahead.

CROSS-EXAMINATION

By Mr. Parram:

Q. Good afternoon, Mr. Gabbard. My name's Devin Parram, I'm counsel on behalf of staff, I have just a few questions for you today.

A. Okay.

Q. First, I'd like to start in your position at AEP. Are you generally familiar with AEP's collection practices?

A. My area of responsibility is in choice processes such as the day-to-day EDI transactions, new functionality, any type of systematic issues that evolve, as well as the daily and monthly PJM carve-out process for settlement. I do have some experience in collections, but that is not my daily responsibility.

Q. And in constructing your POR proposal and your proposal for the bad debt rider did you give any consideration to the collection practices of AEP Ohio currently?

A. When you say "considerations," what do you mean?

Q. Well, did you consider at all what are any standards or criteria that AEP Ohio may have as it relates to how it collects -- currently collects uncollectible expenses?

A. Not -- not beyond our decision to implement AMP and Budget as a part of this program that allows customers to manage their receivables which allows CRES customers to also manage their bill as a whole. So that was the extent of any type of credit collections review that I did.

Q. Are you aware if AEP Ohio currently uses any outside collection agencies to help collect with unpaid collectible debts?

A. I know that it is not an uncommon practice. I don't know which of our operating companies do that, but -- so I can't speak in great detail on that.

Q. Do you know if there's any particular witness that will be testifying in this proceeding that has more familiarity with the collection practices of AEP Ohio?

A. I can consult with our team and my attorney and determine if somebody else can speak to any of that. I'm not aware.

Q. Would it be possible to find out today who we could possibly ask if there's going to be someone testifying during this proceeding that may have more familiarity with the collection practices? I just don't want you to not point to someone that's going to be actually testifying in this proceeding. I need to ask somebody some questions.

EXAMINER SEE: Let's take a brief recess.

(Discussion off the record.)

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

MR. SATTERWHITE: And the company can stipulate that Andrea Moore did answer some limited discovery in this area and can provide, to some extent, some answers in this area so she would be more appropriate and can provide some direct from AEP Ohio's point of view.

MR. PARRAM: Thank you very much.

Q. If you can turn to page 9 of your prefiled written direct testimony.

A. I'm there.

Q. On page -- starting at line 7 you talk about approximately $12 million that are currently in base distribution rates. Do you see where I'm at?

A. Yes. I'm sorry.

Q. So my understanding is that as the way you have -- the way you propose the bad debt rider is that any bad debt expenses, that if the Commission approves the bad debt rider, any bad debt expenses that go above that approximately $12 million there that are currently in base distribution rates would be included in the bad debt rider; is that correct?

A. Any increases or decreases. If it were less than that, then it would be a credit to customers.

Q. Okay. And are you currently familiar with the level of bad debt associated with customers taking service from CRES providers over the past few years?

A. I believe we had an interrogatory on that. I don't have the numbers off the top of my head, though.

MR. PARRAM: Your Honors, may I approach the witness?

EXAMINER SEE: Yes.

MR. PARRAM: I'd like to have marked as Staff Exhibit 2 AEP Ohio's response to OCC Interrogatory 10-250.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Mr. Gabbard, do you have Staff Exhibit 2 in front of you?

A. I do.

Q. And what is Staff Exhibit 2?

A. I'm sorry?
Q. What is Staff Exhibit 2?
A. That is OCC Interrogatory 10-250, the response to a request for total amount of bad debt associated with customers taking service from CRES providers '11, '12, and '13. The numbers we provided are what we refer to as charge-back information. Charge-back information is the revenues that we bill, being consolidated billing, that we were unable to collect through our collection practices and charged off and it could come from a customer switching and going to another supplier, or a customer being disconnected for nonpayment, and after a period of time where we were unable to collect we charged that back. Basically in an EDI transaction we let the CRES know that we're no longer collecting on that and it's their responsibility.
Q. You prepared the response in Staff Exhibit 2, correct?
A. It was prepared under my direction. The response was mine, I prepared it, it was based upon a query that employees in my organization ran.
Q. And the bad debt associated with customers taking CRES, as indicated in Staff Exhibit 2, increased from 2011 to 2012 and then 2013 was

ultimately 3.1 million; is that correct?

A. That is correct. I would point out that this does not necessarily represent any deposits that would have been applied by the supplier so we do not know if the suppliers actually charged this off on their books.

As an example, if we were to bill these receivables through our POR program, for customers that do not meet our credit criteria, they may be subject to a security deposit, so the net amount that could be charged off would be something less than this.

Q. You don't have an approximation of what that net would be?

A. No, I don't, because I don't know which customers made this up and whether they were customers we had a security deposit on on our receivable or not.

Q. So I want to, just so I understand about how the bad debt rider would be structured and how it would be either a charge or a credit to customers if it were adopted by the Commission, I want you -- if you would assume that prior to 2013 the Commission had granted your request, if you had a bad debt rider in place as proposed by AEP and there was already the

$12 million in uncollectible expenses that are incorporated in base distribution rates, would the incremental $3.1 million that is indicated on Staff Exhibit 2, would that be included in the bad debt rider as a charge to customers?

A. If the number that you're noting in 2013 was actual bad debt experience, we would first apply any security deposits towards that. And if that actual experience in total with our experience with our distribution nonswitched customers as well in aggregate was more than 12 million, that delta above the 12.2 million would be part of the rider.

Q. Okay. And I think you mentioned earlier, and it's in your testimony, I don't have a page reference, but you looked at Duke Energy Ohio's experience as it relates to their bad debt rider?

A. I did not look at their experience per se in terms of debt or collections. We looked at it structurally in terms of the combination of a purchase of receivables program with a bad debt rider and how any cost recovery for our implementation costs and ongoing costs, the methodology that we would recover those -- that cost.

Q. Are you aware of Duke Energy Ohio before they had their bad debt rider if they had a discount rate in place?

A. I remember meeting when we were doing our research with Duke and I do not recall if they said that they started with a discount rate or not.

Q. Are you aware if Duke Energy Ohio's bad debt rider arose from a stipulated case?

A. It's my understanding that both the rider and their, I believe their POR program were part of a stipulation.

MR. PARRAM: That's all the questions I have, your Honor.

EXAMINER SEE: Redirect, Mr. Satterwhite?

MR. SATTERWHITE: If I could literally just have one minute, I think that's all I need to confer, then we can get right back to redirect.

EXAMINER SEE: Okay. Let's take a very brief recess. We're off the record.

(Recess taken.)

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

MR. SATTERWHITE: Thank you, your Honor.

EXAMINER SEE: Mr. Satterwhite.

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REDIRECT EXAMINATION

By Mr. Satterwhite:

Q. Mr. Gabbard, let's start with Staff Exhibit 2 that was just handed to you. Do you still have that in front of you?

A. I do.

Q. And there's three numbers represented on here from 2011, '12, '13, correct?

A. That's correct.

Q. Is there a possibility that in these numbers are any charges that would not be eligible to be recovered through the purchase of receivables and potentially subject to the bad debt rider as proposed by the company?

MR. DARR: Objection. Requires speculation on the part of the witness.

MR. SATTERWHITE: If I may, your Honor.

EXAMINER SEE: I didn't hear, all I heard was a piece of it. Speak up, Mr. Darr.

MR. DARR: I apologize, your Honor. The way that question was phrased it requires speculation on the part of the witness. "Could it possibly be." Well, a lot of things could possibly be. So both as to form and as to substance it's speculative.

MR. SATTERWHITE: Your Honor, I believe I was asking the witness if there are charges in here that wouldn't be charged under the program.

MR. DARR: That is not the question he asked. If that's the question, then I'm fine with it.

EXAMINER SEE: If he can answer the last question as it was put to him.

A. As we discussed earlier, early termination fees are something that we have been including in our consolidated billing program and something that we would not include in our purchase of receivables program, so those are receivables that may not be in the program that could be in these numbers.

Q. And also the numbers have increased each year. How does that correspond to the number of increased shoppers within AEP Ohio's territory?

A. That's consistent with what we've seen in our shopping trends. Our distribution rate case in 2010 had a very low number of shopping customers at the time and as -- over the years they have migrated from standard service offer to OAD, open access distribution, and so the numbers that were likely in that original 12 million are customers that are now shopping.

Q. I'd like to ask you and follow up to

something the Bench asked you earlier just to make sure the record's clear. I'm going to ask you to play Webster's just a second with some of the acronyms you used just so it's clear in the record. Obviously you know all of these because you deal with it every day. You mentioned "EDI" several times. Can you tell us what you mean by "EDI"?

A. Yeah, I apologize. "EDI" is electronic data interchange, it is for all the developed markets, the -- communication as well as banking and other industries, the standard of communication between participants in markets and it's how transactions are effectuated across markets.

Q. You also were asked questions when talking about capital investments and you said "CIS." What does that acronym stand for?

A. "CIS" is customer information system. All utilities have some type of customer information system that is used to bill customers, track receivables, you know, send service orders, keep tariff information. It is typically the largest system that most utilities have that manages receivables and the customer accounting information.

Q. And the last one, you mentioned "RMI" multiple times, what is that acronym?

A. That is retail market investigation. That's a fairly common term used in different markets where Commissions or regulators bring key stakeholders and market participants together to review market performance, understand issues and how the markets can continually evolve.

Q. Do people typically refer to the 3151 case as the RMI in Ohio?

A. I believe so. The "3151 case" throws a curve to me. I just refer to it as the RMI working group so the "RMI" word.

Q. I understand. The attorneys live by case numbers; you live by reality, I understand.

Let's talk about the hypothetical that Mr. McDermott talked to you about from FirstEnergy Solutions. Do you remember his hypothetical dealing with 70 percent of the customers with two providers and the concern that they would have 70 percent of the costs then?

A. Yes.

Q. Is there any way that the purchase of receivables program that's been proposed by the company would help alleviate the concern that two providers might have 70 percent of the cost?

A. Yeah, I believe purchase of receivables, as we've mentioned, lowers the bar of entry and encourages additional participants in the market. We've seen that in multiple other markets in the northeast and the midwest, and additional market participants bring in more competition.

Q. So the level of cost for that charge is really a relation to market share?

A. Yes.

Q. And a POR could potentially decrease the market share of those two customers?

A. In the scenario we talked about after the implementation of purchase of receivables program we could see additional market entrants which would increase the denominator of the number of suppliers that would share those costs.

Q. Now, you had a discussion with Mr. Darr about an interrogatory that talked about the number of suppliers that are registered in AEP Ohio's territory. Do you remember that?

A. Yes.

Q. Do you consider the numbers that you discussed the basis of a robust market in AEP Ohio's territory?

A. I do not. As I mentioned, we have many registered but they're not active, as well as some of them that do have customers, there are several that only have one customer. We have a few industrial users that are their own supplier and there's other suppliers that only serve less than two or three customers on the residential level.

Q. So what's the distinction then? When you were talking with Mr. Serio, you said you thought in Duke's territory 65 was adequate, what's the difference between the numbers that you talked about for AEP Ohio?

A. I believe they have more active market participants, it's a more robust market for that region.

Q. And in comparison to AEP Ohio that has 69 registered and I believe you said 29 offering to more than one customer, so what's the difference if there's 69 registered? Why isn't that robust like you considered Duke's?

A. Because they're not active at all.

Q. So it's the level of activity of those?

A. Yeah.

MR. SATTERWHITE: Okay. Thank you, your Honor.

Thank you, Mr. Gabbard, that's all I have.

EXAMINER SEE: Any cross, Mr. Williams?

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

EXAMINER SEE: Mr. Clark?

MR. CLARK: No questions.

EXAMINER SEE: Ms. Petrucci?

MS. PETRUCCI: No questions.

EXAMINER SEE: Mr. McDermott?

MR. McDERMOTT: Yes, your Honor, one question.

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RECROSS-EXAMINATION

By Mr. McDermott:

Q. Mr. Gabbard, Mr. Satterwhite just asked you about the hypothetical we talked about. I'd like to repropose the hypothetical to you and just change the numbers a little bit.

If in AEP Ohio zone or territory 20 suppliers had 70 percent of the load under consolidated billing shopping customers and the remaining 9 suppliers advocated for a particular market enhancement, and that particular market enhancement were opposed by the 20 suppliers yet that particular market enhancement was implemented and the costs recovered through the discount rate on the POR program, would those 20 suppliers pay for 70 percent of that market enhancement? Because they serve 70 percent of the load.

A. Assuming that it was approved by the Commission, based upon the math, that's correct.

MR. McDERMOTT: Thank you, no further questions.

EXAMINER SEE: Ms. Hussey?

MS. HUSSEY: Nothing further, your Honor.

EXAMINER SEE: Mr. Kurtz?

MR. KURTZ: No questions.

EXAMINER SEE: Mr. Darr?

MR. DARR: I get to go first? That's fine. We went a different order the last time. I apologize.

EXAMINER SEE: So long as you're each given an opportunity.

MR. DARR: Thank you, your Honor.

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RECROSS-EXAMINATION

By Mr. Darr:

Q. Going back to Staff Exhibit No. 2, Mr. Gabbard, in response to Mr. Satterwhite's question about whether or not there were late fees embedded in this, you responded they could be in the numbers. Do you recall that answer?

A. I do.

Q. By that answer are you indicating that you don't know whether or not it's -- late fees are embedded in those numbers?

A. I'm indicating that I do know that that is -- those are line items that we receive and process currently from suppliers and if any of those customers that receive that fee charged off, then it could be in those numbers.

Q. Again, you used the word "could be." Of the $3,119,000 in chargebacks, do you know how much of that contains embedded late fees?

A. I do not have that number in front of me.

Q. How about for the $2,094,000 charged back in 2012, do you know how much of that was -- has embedded late fees?

A. I do not have those numbers in front of me nor have we done that analysis.

Q. Now, with regard to your statement now that there is not robust competition in the current market, you're not saying that there are legal barriers to those 69 CRES providers that are certified in the AEP Ohio service territory that prevent them from soliciting customers, are you?

A. No, I'm not suggesting that at all.

Q. And you're not suggesting that they are unreasonable barriers put up by AEP or the Commission or anybody else to prevent those service providers -- CRES service providers from soliciting, correct?

A. I don't know why they are not active.

MR. DARR: That was my point. Thank you, your Honor.

EXAMINER SEE: Mr. Yurick?

MR. YURICK: Nothing, your Honor, thank you.

EXAMINER SEE: Mr. Serio.

MR. SERIO: Thank you, your Honor. Just a couple of questions.

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RECROSS-EXAMINATION

By Mr. Serio:

Q. On Staff Exhibit 2 you indicated you didn't know if there's early termination fees in those numbers; is that correct?

A. I indicated that I have not done an analysis to calculate the amount of early termination fees that could be in those numbers.

Q. You indicated that this number had grown from 2011 to '12 to '13 because more customers are

shopping now, correct?
A. That's right.
Q. So as more customers shop, there are fewer that are no longer shopping, correct?
A. That's correct.
Q. So as this number grows would you expect the bad debt associated with the nonshopping customers to shrink?
A. Independent of any type of weather or economic situations, possible. But there are many other factors that play into bad debt rates and whether customers can pay their bills or not.
Q. I understand the other factors, but you indicated you assumed as the number grew, it grew in part because the number of shopping customers grew.
A. Yes.
Q. So under that logic if the bad debt for nonshopping -- for shopping customers grew as the number of shopping customers grew, you would assume that the bad debt associated with nonshopping customers would shrink as the number of nonshopping customers shrinks, right?
A. This amount comes from what would have been a nonshopping customer so yes.
Q. So in 2013 you could take the

12.2 million and subtract 3.1 million from it to get a more accurate bad debt number for the actual shopping that's occurring in 2013, correct?

A. I think there's other factors that would have to play into that calculation because, as I mentioned earlier, that $3 million is -- does not include any type of deposits where we would secure the account that might have been applied by a CRES. For our receivables we secure them. These receivables, we don't know if CRESs secured them or not --

Q. And there's --

A. -- so the net of what would become an actual chargeoff for us if this were our receivable we were purchasing would likely be much lower.

Q. We have no evidence in the record that indicates that this number should, in fact, be lower because of deposits, correct?

A. No. Because I do not have information with regard to all the CRESs that serve those customers and whether they had security deposits on that receivable or if they were able to collect it after we charged it back to them.

Q. And, in fact, none of the CRES providers that provided testimony in this case provided testimony that would give you that kind of number, did they?

A. Not that I've seen.

Q. You indicated that there were 65 marketers in the Duke service territory that are certified, correct?

A. I think somebody asked me a question and presented that number. I'm not sure I stated that there were that many. The numbers that I have stated are with regard to what's on their Apples to Apples website.

Q. And that was 65 percent more than the 29 you've got.

A. On the Apples to Apples website for residential customers Duke has 65 percent more CRESs that are offering products to customers in their market territory.

Q. So is it approximately 38 or 39 CRES providers?

A. I think they have -- when I looked last, there was like 33, they had like -- they had more than we did.

Q. Okay. So it's the -- let's assume it's 35 just so we have a number.

A. Okay.

Q. So they have 35 and you consider their service territory to be a robust market with that 35 active marketers, correct?

A. I think it's more robust, yeah.

Q. Do you consider it robust, period?

A. I would consider it robust. I also consider, as I mentioned earlier, there are stages in terms of market development and there is additional growth opportunity.

Q. To the extent that you've got aggregation and that allows a handful of marketers to control a larger part of the market, isn't in part the aggregation a result of them being able to offer more competitive prices to the community that are involved in aggregation?

MR. SATTERWHITE: Objection, your Honor, I'm not sure where I covered aggregation in my redirect.

MR. SERIO: I'll rephrase the question, your Honor.

Q. Hypothetical from counsel for FirstEnergy Solutions, you talked about the number of providers that might dominate the market, correct? I think the hypothetical --

A. I did not --

Q. No, the hypothetical --
A. He did present --
Q. Yes.
A. -- hypothetical numbers, yes.
MR. SERIO: Give me a second, your Honor.
I'll scratch that, I have no more questions, your Honor. Thank you.
EXAMINER SEE: Thank you.
MR. PARRAM: No questions.
MR. SINENENG: I have no questions, your Honor.
EXAMINER SEE: Thank you.
Ms. Mooney?
MS. MOONEY: Yes.
EXAMINER SEE: Recross.
MS. MOONEY: I have a question.
EXAMINER SEE: You need to come forward a little closer so that we can hear you, please.

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CROSS-EXAMINATION

By Ms. Mooney:

Q. Does AEP have an estimate of the number of additional marketers that will enter the AEP Ohio service territory in the event that the purchase of receivables plan is adopted?

MR. SATTERWHITE: Your Honor, I guess, one, it was covered in a couple of questions earlier and, two, I think it's beyond the scope of the redirect.

EXAMINER SEE: It is. Do you have another question, Ms. Mooney?

MS. MOONEY: No, I did not think it was beyond the scope of the redirect because he was specifically talking about additional marketers entering --

EXAMINER SEE: Ms. Mooney, move to a mic so that I can hear you clearly.

MS. MOONEY: I thought it was within the scope of the redirect...

EXAMINER SEE: Do you have another question?

MS. MOONEY: No.

EXAMINER SEE: Okay. Thank you.

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EXAMINATION

By Examiner See:

Q. Mr. Gabbard, look at your testimony on page 9.

A. I'm there.

Q. You have a discussion of what would be included in the bad debt charge on lines 15 through 19, correct?

A. Yes.

Q. And there you include receivables for shopping customers, correct?

A. Yes.

Q. The bad debt of standard service offer customers, correct?

A. Uh-huh.

Q. And then you state that -- then you look at PIPP customers, Percentage of Income Payment Plan customers, correct?

A. That's correct.

Q. And your testimony states that PIPP installment payments not recovered from the customer or through the USF fund will be included in the bad debt rider, correct?

A. That's correct.

Q. When is a PIPP installment payment that's not paid by the customer and not recovered -- not recovered through the USF fund, let's start there?

A. I don't have the specific accounting timeline of that. I think we can provide a witness that can talk in detail about how the accounting is handled but it is my understanding that we apply any funds from the universal -- USF to any amount that is unrecovered and is not paid by the state, and then there is a small portion that goes to bad -- becomes bad debt.

Q. Which other witness were you referring to that might be able to give me some details on when the PIPP payment is not paid through the USF fund?

A. I believe Witness Moore may have a better understanding of the accounting side of the PIPP program.

Q. Do you -- okay. And then that sentence continues to say you'll recover from the customer net of any unused low income credit funds. Explain the situation you're talking about there.

A. That's Neighbor to Neighbor type of funds that might be provided to customers that are at risk.

Q. So there are times when Neighbor to Neighbor funds are applied or rolled into the bad debt rider?

A. No. What I'm saying there is we apply Neighbor to Neighbor funds to customers that are at risk. So we would not roll that into the bad debt rider. We apply those first to help customers and then any bad debt that may be left afterwards is what would be included.

EXAMINER SEE: Okay. Does counsel for the company wish to confirm that it's Witness Moore that will be able to answer any other questions on this issue?

MR. SATTERWHITE: It would be Moore or a witness that comes after her so I think we can take it up next with Moore.

MR. NOURSE: More or less.

MR. SATTERWHITE: Yeah, more or less.

EXAMINER SEE: Witness Moore or? Do you care to name another at this point or would you like to wait until after I've had an opportunity to pose them to Ms. Moore?

MR. SATTERWHITE: Yeah, I don't want that witness to run away, so we'll let you know.

EXAMINER SEE: Subpoena power.

MR. SATTERWHITE: The long arm of the Bench, I understand.

EXAMINER SEE: Okay. Thank you very much.

MR. SATTERWHITE: We'll get the question answered, absolutely.

EXAMINER SEE: Thank you. You can step down.

MR. SATTERWHITE: If there's nothing

more, your Honor, at this time AEP Ohio would re-move for admission of AEP Ohio Exhibit 11, the prefiled direct testimony of Stacey Gabbard.

EXAMINER SEE: Any objection to the admission of AEP Ohio Exhibit 11?

MR. SERIO: No objection.

EXAMINER SEE: Hearing none, AEP Exhibit 11 is admitted into the record.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER SEE: Mr. Parram?

MR. PARRAM: Yes, you know, I move for the admission of Staff Exhibit 2 into the record.

EXAMINER SEE: Are there any objections to the admission of Staff Exhibit 2?

MR. SATTERWHITE: No objection.

EXAMINER SEE: Staff Exhibit 2 is admitted into the record.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER PARROT: The company may call its next witness.

MR. SATTERWHITE: Thank you, your Honor. The company calls David Roush.

EXAMINER PARROT: Please raise your right hand.

(Witness sworn.)

EXAMINER PARROT: Please be seated.

MR. SATTERWHITE: May I proceed?

EXAMINER PARROT: He's been sworn, he's all yours.

MR. SATTERWHITE: Thank you very much, your Honor.

(EXHIBIT MARKED FOR IDENTIFICATION.)

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DAVID M. ROUSH

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

DIRECT EXAMINATION

By Mr. Satterwhite:

Q. Mr. Roush, could you please state your name and business address for the record.

A. My name is David M. Roush. My business address is 1 Riverside Plaza, Columbus, Ohio 43215.

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

A. I am employed by American Electric Power Service Corporation as Director of Regulated Pricing Analysis.

Q. And did you prepare testimony or have testimony prepared under your direction that was prefiled in this case on December 20th, 2013?

A. Yes, I did.

Q. I premarked an exhibit and placed it in front of you and the reporter as AEP Exhibit 12. Do you see that?

A. Yes, I do.

Q. Can you please identify that document?

A. That is my direct testimony in support of AEP Ohio's electric security plan filed on December 20th, 2013.

Q. And do you have any changes or corrections to that testimony today?

A. No, I do not.

Q. And do you adopt what's been marked as AEP Ohio Exhibit No. 12 as your sworn testimony for this proceeding today?

A. Yes, I do.

MR. SATTERWHITE: Your Honor, with that I'll move for the admission of AEP Ohio Exhibit No. 12 pending cross-examination and tender the witness.

EXAMINER PARROT: Thank you.

Mr. Williams?

MR. WILLIAMS: Thank you, your Honor, just a few questions.

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CROSS-EXAMINATION

By Mr. Williams:

Q. Good afternoon, Mr. Roush. My name is Greg Williams, and I'll be asking you some questions on behalf of IGS.

A. Good afternoon.

Q. Could you please turn to page 2, lines 3 through 6 of your testimony.

A. Yes, sir.

Q. You testify that in your capacity as Director of Regulated Pricing and Analysis that your responsibilities include, among other things, rate design analysis for AEP Ohio, correct?

A. Oversight of rate design analysis, yes, for all of the AEP system operating companies.

Q. In overseeing the rate design analysis do you perform any analysis of the rates yourself?

A. Sometimes yes, sometimes no. It depends. As we discussed earlier, I work for the Service Corporation so some of it is a function of what assistance the particular operating company wants from me.

Q. In testifying -- in preparing for this case did you analyze the rates that are a part of the AEP Ohio's proposal?

A. I prepared the impact analyses. I supported the design of riders GEN E and GEN C. Those are the types of analyses I did as explained in my testimony.

Q. So you did analyze some of the rates at least that are at issue in this proceeding.

A. Yes. And some of the rates were put together by other company witnesses.

Q. Did you analyze the standard service offer rate?

A. I guess from the perspective of if you look at my exhibits, Exhibits DMR-2 and 3 or Exhibit DMR-3, I summarize on a typical bill basis what the standard service offer rates would look like. I do some of that also in Exhibit DMR-1. And specifically I support riders GEN E and GEN C which are part of the standard service offer.

Q. Okay. Could you briefly list for me the riders that are related to AEP Ohio's proposed SSO rate in this proceeding.

A. Just to be clear, are you looking for the riders that would be part of the price to compare or the total rate for wires services and everything else?

Q. The riders that will be a part of the price to compare, please.

A. Thank you. Certainly.

The elements that I see that would be part of the price to compare would be riders GEN E and GEN C, the alternative energy rider, and the auction cost reconciliation rider. I believe that is all of the elements of the price to compare.

Q. And are the riders that you listed designed to recover the costs of providing the SSO generation service to nonshopping customers?

A. Yes, including the costs of performing the auctions.

Q. I'm sorry. I missed that last part.

A. Yes, including the cost of performing the auctions.

Q. And there are no other riders designed to recover SSO generation costs; is that right?

A. I believe that's correct from a price-to-compare basis.

Q. To your knowledge, Mr. Roush, does AEP Ohio have a call center?

A. There is a call center in Groveport, I'm trying to recall whether it's on AEP Ohio's books or otherwise because we have I think three call centers that are shared by the operating companies.

Q. Isn't it true that none of the costs for the call centers that you referred to are recovered through any of the riders that make up the SSO rate?

A. I believe that's the case but I just want to make sure we're on the same page. When you say "SSO rate," I think the whole rate, wires charges and everything else, versus price to compare so I just want to make sure which one you're talking about.

Q. So, more specifically, I'm referring to the price to compare. The four riders to which you referred earlier.

A. Thank you. Then I would agree the cost of the call centers I do not believe is in any of those riders.

Q. And, to your knowledge, does AEP have an information technology or IT Department?

MR. SATTERWHITE: And just for clarification, when you're saying "AEP," you're saying AEP Ohio, correct?

MR. WILLIAMS: Correct.

MR. SATTERWHITE: Thank you.

MR. WILLIAMS: Thank you.

A. There is an IT Department, I believe it might be part of the Service Corporation, not part of AEP Ohio, but I'm not certain.

Q. And isn't it true that none of the costs for the IT Department are recovered through the four riders that compose the price to compare?

A. Generally I believe that to be the case. The only one I'm not certain about is if there might be some IT costs in the auction cost reconciliation rider related to the cost of performing the auction.

Q. In any event, however, you would agree with me that not all of the IT costs are recovered in those four riders, correct?

A. Yes, I'd agree with that and say it's probably mostly within the base distribution rates and then some also within the transmission rates.

Q. To your knowledge, does AEP Ohio have a legal department?

A. Again, with the same caveat that I believe they might be Service Corporation employees not AEP Ohio employees, there may be AEP Ohio lawyers as well, I'm just not certain.

Q. And isn't it true that none of AEP Ohio's legal costs are recovered through the price to compare?

A. I would agree with, again, the exception

I don't recall all the components of the auction cost.

Q. But as with my previous question, you would agree with me, however, that not all of the costs, the legal costs, excuse me, are recovered through the price to compare.

A. Agreed.

MR. WILLIAMS: That's all I have, thank you, your Honors.

Thank you, Mr. Roush.

THE WITNESS: Thank you.

EXAMINER PARROT: Ms. Petrucci?

MS. PETRUCCI: No questions.

EXAMINER PARROT: Mr. Casto?

MR. CASTO: No questions.

EXAMINER PARROT: OMA.

MS. HUSSEY: Thank you, your Honor.

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CROSS-EXAMINATION

By Ms. Hussey:

Q. Hi, Mr. Roush. I'm Rebecca Hussey from OMA.

A. Good to see you again.

Q. Nice to see you as well. I have a few questions for you.

If you could please turn to Exhibit DMR-1 of your testimony.

A. I'm there.

Q. The title of the exhibit is "Estimated ESP Impacts on a Total Company Basis"; is that correct?

A. Yes, ma'am.

Q. Okay. Could you please explain to me what's meant by a total company basis for the record?

A. Certainly. Basically, rather than a class-by-class or customer-by-customer analysis it's a composite for, you know, the aggregate population of customers. So, for example, if you were looking at the gridSMART rider, Phase 1 gridSMART rider in the first column, that would be the total dollars related to the gridSMART rider divided by the total kilowatt-hours of the whole AEP Ohio customer base that pays that rider.

Q. Okay. Thank you.

And the table gives an estimated ESP 3 impacts for shopping and SSO customers, correct?

A. That's correct.

Q. Okay. If we could turn our attention to the notes at the bottom of the page, note 1, it's June 2014 RSR increase; is that correct? That's what

it's making reference to, at least in part.
A. Yes, that footnote says "Known rate changes are June 2014 RSR Increase and DIR at ESP II Cap for 2014/'15."
Q. Great. Do you mind if we talk about the RSR increase first.
A. Certainly.
Q. Okay. As reflected it appears to be $4 for the ESP 2 and throughout the ESP 3; is that correct?
A. That's correct.
Q. Okay. Is there any reason to believe that this rate will change in the ESP 3 term?
A. It could once the actual final numbers are known. But the best estimate we had at the time of filing, and I believe it's still the best estimate we have, is that $4 would recover the deferrals over the three-year period that the Commission directed in ESP 2.
Q. Okay. Thank you.
And, to your knowledge, that case in particular has not been filed yet; is that correct?
A. That's correct, it has not been filed yet.
Q. Or the application for that case I

suppose.

Okay. Let's turn to rider DIR and the ESP 2 DIR cap for 2014 and '15 is what's represented, again, under note 1; is that correct? In part.

A. That's correct. So in the first column of numbers, which I've labeled "Current Rates and Known Changes 1" one of the known changes I would have reflected was the DIR at the ESP 2 cap for 2014-'15.

Q. Okay. And so with the acceptance, as you go across that line, of new -- of the new DIR proposal it would appear that customers are going to be facing increases in the current DIR of $1.15 for June 2015 through May 2016. I'm going to stop at each one of these if you want to make sure that these are correct or if you could affirm that it is.

A. Your math is correct and, again, each of these numbers, we talked about the first number, the 2.99.

Q. Yes.

A. Each of the numbers in the subsequent columns for '15-'16, '16-'17, '17-'18 are at the company's proposed capped levels.

Q. So that would be 194 for June 2016 to May 2017 that would represent the increase from the current DIR level?

MR. SATTERWHITE: Could you read that question back, please?

(Record read.)

MS. HUSSEY: I can clarify.

Q. The current DIR cap if that helps.

A. That's not quite correct. I'm sorry, I'll have to explain it a little.

Q. Okay.

A. If you look at my workpaper DMR-1 that was provided at the time of filing, everything on Exhibit DMR-1 is based on the June to May year period, the DIR caps are different, change on calendar-year basis so you kind of have to do a blending.

So on my workpaper DMR-1 what I show is the cap for the first period is 124, that's the current cap. The blend of the cap for '15 and '16, which would -- the blend of those two to make a June to May period, the blend of those two would be a cap of 171. The blend of those two for '16-'17, of the caps for '16-'17, would be 203666667 and the blend of the 2017-2018 caps would be 231250000, those would be the values that I used to derive the numbers shown on Exhibit DMR-1.

Q. Okay. Thanks for the explanation.
EXAMINER SEE: Your mic is off.
Q. Okay. Thank you for that explanation. You would say that those values are in dollars per metered MWh, correct?
A. Agreed.
Q. Okay. And you represent that the calculations according to your workpapers, despite the fact that they're not necessarily the same as reflected in DMR-1, still represent an increase, correct?
THE WITNESS: I'm sorry, could you read that back.
(Record read.)
A. I disagree. My workpapers do match what's in DMR-1, but in any event the company is proposing increases in the DIR caps in this proceeding.
Q. Okay. Thank you.
Okay. Can we talk about the PPA rider at note 4.
A. Sure.
Q. Okay. The note reads -- or at least is summarized that the net cost or benefit is presently shown as neutral. Is this correct?

A. It says the "Net cost/benefit of OVEC is shown as neutral," yes.

Q. Okay, thanks.

And if the PPA rider is approved, then once AEP populates the values for the term of ESP 3, the total dollars per megawatt-hour and percentage will change over the current entries, and will change in conjunction with the costs or benefits of the PPA rider, correct?

A. If you're asking me will the actual values of the PPA rider be different than the estimate I've shown here, the answer is yes and I think there was an extensive conversation about that yesterday.

Q. I believe there was. Thank you.

So the percentages reflected in the percent change over the current are not necessarily accurate in DMR-1; is that correct?

A. I don't know that I'd agree with that. Based on what I was hearing yesterday I heard a number of -- an estimate for the PPA rider of -- I think it was an average over the period of .07 per megawatt-hour, so if you put .07 in in my Exhibit DMR-1, I don't know that these percentages would change.

Q. They may have a few decimal points afterward; is that correct? Before or after.

A. It would be somewhere out in the decimals it would change, but the whole percentage I don't see changing for that.

Q. It is accurate, however, that the DMR-1, all values for OVEC are shown as neutral, correct? On line 4, that's what appears.

A. Correct, on the PPAR line all values are shown as zeros in my exhibit.

Q. Okay. Let's talk about generation capacity rates as reflected in DMR-1 as well. Generally with regard to SSO customers the generation capacity rates over the term of the ESP 3 significantly decrease as compared with the ESP 2 values; is that correct?

A. That's correct.

Q. Okay. And so for shopping customers, with the exception of the market G capacity rate for 2015 through May 2016, the proposed rates for the remainder of the ESP term also decrease; is that correct?

A. Yes, that's correct. And all of those are based on the RPM auctions.

Q. Okay. So under ESP 3 we can generally say the capacity is decreasing but distribution riders' caps are increasing; is that correct?

A. I'd say that's generally correct but I would note like the one item on Exhibit DMR-1 is the enhanced service reliability rider which is actually a decrease, but in general, you know, I think we were talking about the DIR, yes, that is projected to increase over the term whereas the capacity prices are decreasing, so it's kind of an opportune time to actually invest in the distribution system.

Q. Okay. I was going to ask you about ESRR values, they decrease marginally according to DMR-1 over the term of the ESP 3, correct, from the current rates for the ESP 2, I think as you just stated.

A. Yes, that's correct.

Q. All right. Let's talk about the other T and D rider values in DMR-1. With the exception of the elimination of the gridSMART phase 1 charges do all the values listed under that category remain the same over the term of the ESP 3 as they were in ESP 2?

A. Yes. In my exhibit, yes.

Q. Okay. And so putting all of this together, given the significant decreases that are associated with those generation capacity rates and the lack of change regarding other T and D riders, is it accurate to say that without the increase in the DIR rates that economic benefits to customers would be more substantial over the course of the proposed ESP?

A. I'm not sure I can agree with that because I'm not an economic benefit expert. I've heard a lot of testimony sitting here the past few days saying about -- from other folks talking about benefits of various things, like Mr. Dias talking about the DIR and stuff, but --

Q. By "economic" I do mean --

MR. SATTERWHITE: Objection, your Honor, can the witness finish his answer throughout the cross-examination before Miss Hussey asks her next question.

EXAMINER PARROT: Let's -- let's try not to interrupt. I understand there was a little pause in there.

MS. HUSSEY: I was trying to be helpful but I was not.

EXAMINER PARROT: Let's please allow him to finish.

A. If I understand that you may have intended a narrower definition, if you were saying purely arithmetically, rates be lower without increases in things like the DIR, then purely arithmetically the rates would be lower.

Q. Okay. Thank you.

Would you turn to page 6 of your testimony, please.

A. I'm there.

Q. Okay. Included there you have a chart of bill impacts. Did you prepare the chart?

A. Yes, I did.

Q. Okay. And is this the same chart contained in Mr. Vegas's testimony?

A. Yes, it is.

Q. Okay. This chart represents a point in time when the new ESP is implemented, correct? Not necessarily an average over time throughout that period.

A. That's correct, it's the proposed rates are the estimate as of June '15. Not over the whole three-year period.

Q. Okay. And the chart does not represent an average so does it also not represent an average of all customer classes?

A. No. It's just selected levels of usage for particular customers, residentials, small business, industrial business, and there's a whole bunch more of those in Exhibits DMR-3 and 4.

Q. Okay. So this particular chart also does not include the effects of the OVEC net costs or the net costs associated with the PPA rider; is that correct?

A. That's correct. This calculation has zero values for the PPA rider. I wasn't sure if you were making a distinction between OVEC net costs and the PPA rider but this has a zero value in it for the PPA rider.

Q. Okay. Thank you.

Could we please turn to DMR-3, and I wondered if the DMR-3 spreadsheets represent bill impacts of all rate schedules for SSO customers?

A. I believe this would have all the various CSP and OP rates on the various rate schedules. If there's one missing, it's maybe one that doesn't have any customers on it.

Q. And just to confirm, the DMR-4 spreadsheet shows the bill impacts for shopping customers; is that correct?

A. Correct, based on the assumptions I made and discussed in my testimony at page 7.

Q. Okay. So if we turn to page 3 of DMR-3, for GS-1 and GS-2 customers, is it true that in year 3 of the ESP the chart shows a total bill increase for these customers?

A. And, I'm sorry, I had trouble keeping up with you.

THE WITNESS: Would you mind reading that back.

(Record read.)

A. Yes, and this is for CSP rate zone customers and I believe it's for ,because of two reasons primarily, one, the increase in capacity prices and the other the increase in some of the distribution riders.

Q. Okay. And pages 4 and 5 as well, and then 9 and 11, which I believe refer to the other zone, show an increase in rates for the third year of the ESP for additional GS-2, GS-3, and GS-4 SSO customers; is that correct?

A. Yes, for the same reasons I mentioned earlier.

Q. Okay. Would you please turn at this point to DMR-4 and generally is it true that, according to DMR-4, shopping commercial and industrial customers would see an increase in rates under the proposed ESP in years 2 and 3 under certain rate schedules?

A. From my quick review I sure see more decreases than increases in year 2, but generally I see year 3 as an increase and, again, for the same reasons, the capacity prices would be going up.

Q. Can you take a closer look at year 2 and just let me know if there are increases that appear.

A. I do see increases for some lines but the vast majority for year 2 look like decreases to me.

Q. Right. And would you please also confirm for me that the exhibit reflects bill increases for commercial and industrial customers in year 3 of the ESP, in several instances to the magnitude of 10 to 13 percent.

A. In the OP rate zone I do see some increases in that magnitude; and, again, I think it's probably driven by the two things we discussed, the market capacity price and the increases in distribution charges.

MS. HUSSEY: Okay. Thank you, Mr. Roush, I have nothing further.

THE WITNESS: Thank you.

EXAMINER PARROT: Mr. Sineneng?

MR. SINENENG: No questions, your Honor.

EXAMINER PARROT: Mr. Kurtz?

MR. KURTZ: No questions, your Honor.
EXAMINER PARROT: Mr. Darr?
MR. DARR: Very briefly, your Honor.

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CROSS-EXAMINATION

By Mr. Darr:
Q. Turning to DMR-1, Mr. Roush, for the energy prices that you used to calculate the shopping customers you used a variation of the noncapacity component of the Duke November auction price according to note 6 on this, correct?
A. That's correct. At the time we filed in December that was the most recent number I had which was the noncapacity component of the Duke November 2013 auction price for '14-'15 grossed up for losses and taxes.
Q. Did you make any adjustments for a risk component in that auction price?
A. I did not. I would have assumed if there were risks, they would have been factored into the auction.
Q. So no reduction for the fact that there might be variation in load affecting the auction price?
A. I'm sorry, can you try that one more

time?

Q. Sure. You understand that the auctions a bidder is basically bidding on a tranche which is a percentage of the load.

A. Yes, that's my basic understanding.

Q. The load itself that the auction bidder is bidding on in the Duke auction is not specified, rather it's a percentage of whatever the load is that develops; do you understand that?

A. Yes, that's my understanding.

Q. And your company has previously testified that there's a risk premium built into the bid price to account for the risk of variation in the load; do you recall that?

A. It sound familiar to me, makes sense to me.

Q. And judging from your answer both from my first question and then from just now is it fair to say that you didn't adjust the Duke prices to account for any risk premium associated with the auction results?

A. I wouldn't have endeavored to try to pull risk out of it, that's correct.

Q. Now, in your estimate of the ESP 3 impacts contained on DMR-1 you have not included a value for several riders that are being requested through this application; is that correct?

A. That's correct, and I think I detailed that on my workpaper DMR-4.

Q. And specifically you have not included a value for the NERC rider, correct?

A. That's correct.

Q. And you have not included a value for the bad debt rider, correct?

A. That's correct.

Q. And with regard to both the NERC rider and the bad debt rider, those would be initially set to zero as I understand it from your application; is that correct?

A. That's my understanding, yes.

Q. Now, with regard to the gridSMART rider as proposed, this would be populated with the values associated with the current application that's pending before the Commission to the extent that the Commission approves further gridSMART investment, correct?

A. That's correct. If the Commission approves gridSMART Phase 2, then at whatever point the Commission approves that and ultimately approves a rate for collection of those expenditures, then that would go in.

Q. But for purposes of DMR-1, you have not included a value for the gridSMART rider, correct?

A. For gridSMART Phase 2, that's correct.

Q. Now, with regard to DIR, you have input a cost effect based on the caps as requested, correct?

A. Yes, sir.

Q. In the gridSMART rider case are you aware that there is a dollar amount that's been requested for investment or an investment amount that's been requested?

A. Unfortunately I have not been paying a bit of attention to that case.

Q. So you're not aware one way or the other about what's been requested in that docket.

A. No, but I would expect we're asking for -- to spend some money to roll out AMI but that's about all I know.

Q. Okay. You're also aware that there are various estimates that have been provided for the purchased power adjustment rider, correct? Purchased power -- the PPA rider. I said it wrong, I'll just use the acronym but I think we both know what I'm talking about.

A. Yes, sir, I'm aware that there have been a number of estimates and when I prepared my testimony, I was instructed by Mr. Allen to use a zero or neutral value in my analysis.

Q. And the reason you did not use an estimate of the effect of the PPAR is because Mr. Allen said that the best estimate for you to use was zero, correct?

A. That's my recollection.

Q. And that was because the rider could be either favorable or unfavorable, correct?

A. That's my understanding of how it would work, yes, sir.

MR. DARR: Thank you, I have nothing further.

EXAMINER SEE: Mr. Yurick?

MR. YURICK: Briefly, if I may.

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CROSS-EXAMINATION

By Mr. Yurick:

Q. Good afternoon, Mr. Roush. I'll try to keep my voice up. I apologize if I don't.

A. Okay, I'll do the same.

Q. I believe you state in your testimony that you're responsible for designing rider GEN C and rider GEN E; is that correct?

A. Yes, I am.

Q. So if you could look at page 5 of your testimony, I guess I'll first ask you, when you design a rider, you generally would attempt to align the costs that you're seeking to recover with the recovery method; isn't that right?

A. I would say that's generally fair, yes. Sometimes --

Q. So if you would try to recover a cost that was related to an energy cost, you would generally try to recover that through an energy-based rider, correct?

A. I would say that's generally fair, yes.

Q. Okay. So if you look at starting on line 3 of page 5, you say the way that you have designed and come up with the rider GEN C rates, you compute capacity prices for each class of customer. Do you see that on line 3?

A. Yes.

Q. So the capacity -- would you agree with me basically the word "capacity" is interchangeable with "demand"?

A. I apologize, ten years ago that would have been a real easy answer.

Q. I understand.

A. In today's world it's not. I wouldn't quite consider those synonymous. Capacity in the PJM world is how PJM defines it which is I think generally it's appropriate to collect capacity costs, they're related to --

Q. All right. Well, you answered my -- let's do it this way, you answered the question that I asked you so I have other questions, so -- that's fair enough.

You say on line 4 "Capacity prices are determined based upon each class's contribution to the PJM five coincident peaks." Correct?

A. Yes.

Q. So what you're doing there is determining a particular rate class's contribution to these five coincident peaks and what the -- what the capacity needs are at those five times; isn't that right?

A. Basically, yes.

Q. And there's a cost associated with the five coincident peaks and you determine what each rate class -- the cost that is attributable to each rate class to those five coincident peaks and there's a cost involved with that, correct?

A. Correct. Basically for each customer class you're taking what their five CP is, which is the measure that PJM uses to say this is how much capacity responsibility you have, and then you have to multiply that by the price of capacity which is the RPM price from PJM.

Q. Okay. Then you compute that rate in your rider GEN C as a rate per kW; is that correct?

A. I compute it as a rate per kilowatt-hour.

Q. Or, I'm sorry, yeah, per kWh. I apologize. KW would have been demand, right, or that would have been a demand measurement, just kW, because it's not over time, right?

A. Correct.

Q. Okay. So you calculate this or you compute this, this rider GEN, then, as an energy charge, per kWh, correct?

A. The rider GEN C on a per kWh basis per customer class and by voltage.

Q. Would you agree with me at least foreseeable demand meter customers -- you could charge demand meter customers their contribution to five CP as a demand charge as opposed to an energy charge? Would you agree with me that that could be done.?

A. I would agree with you it could be done. Again, I think probably from a true purist standpoint

the best way to do it --
Q. Well, again, let's follow the whole question and answer thing. I mean, you answered my question that it could be done, correct?
A. Yes, it's mathematically possible.
Q. Okay. And if you did that for demand-metered customers, that wouldn't be a discriminatory charge. You would be just determining what each customer class's contribution to the five CP measurement was and you would be assigning a demand charge based on those costs, and that cost wouldn't be necessarily discriminatory, it would just be a way to recover that cost, right?
A. It would be no more/no less discriminatory than a per kilowatt-hour charge.
Q. Well, let me ask you this: Hypothetically let's say I'm a customer who would be considered a high-load factor customer. Are you familiar with that term, "high-load factor customer"?
A. Yes, I am.
Q. Okay. And a high-load factor customer, just so that we're on the same page, means somebody who in comparison to the amount that they would use maximally, okay, it's the amount -- compared with their greatest amount of use they use pretty close to

that, pretty evenly over time. Is that -- would that be a fair definition?

A. That's a very basic definition.

Q. Okay. I try to keep it as basic as I can, Mr. Roush. Okay. But, yes, very basically a high-load factor customer is somebody who compared to their maximum use uses relatively close to that over a given period of time, correct?

A. I think I agreed with you a moment ago, that's a very basic definition, yes.

Q. And a low-load factor customer, now that would be somebody who, in comparison to their maximum use, doesn't use very close to their maximum use over a given period of time, right? It's the opposite, correct?

A. I think that's fairly close, you're saying a customer who uses their maximum use for a smaller number of hours in a month or a period of time.

Q. So if I'm a customer who just -- if I'm a customer and the way you're measuring my contribution to the five CP, my load factor wouldn't be reflected in that five CP, right? Because that's just five periods of time, correct?

A. Yes and no. I would say a high-load

factor customer generally their five CP values would be pretty consistent because, like we discussed, they're using pretty much their maximum band over a number of hours whereas a low-load factor customer their five CP could be -- have a fairly high number or a fairly low number depending on the hours they're using their maximum demand.  So their capacity costs could be much lower or much higher than a high-load factor customer.

Q.   But we are using -- and we're going to determine the amount of this rider, this cost, we are using the five CP method, right?

A.   That's correct.

Q.   Okay.  So if I'm a high-load factor customer and I just happen to hit, you know -- I hit close to where my maximum usage is, I'm going to pay a lot more in an energy charge for what is essentially a capacity cost than somebody who hits the same or close to the same five CP amounts but doesn't really use a maximal amount of energy very often, right?  That's the way it's mathematically going to work.  We can leave out -- you know, we can leave out judgmental terms but, I mean, the fact of the matter is when you convert a capacity charge -- or, a capacity cost, excuse me, when you convert a capacity cost and recover it through an energy charge, there is at least a potential for a high-load factor customer to pay more than is fair because they're using so much more energy compared to their maximum when they hit their five coincident peaks, wouldn't you agree with me?

MR. SATTERWHITE: I'm going to object because I think there were six questions in there. Can you just clarify which one you're asking?

MR. YURICK: There are only six? I'm not doing too bad, keeping it in the single digits anyway.

EXAMINER PARROT: Break it down, please, Mr. Yurick.

MR. YURICK: Thank you, your Honor. I'm feeling pretty broken down right now.

EXAMINER PARROT: We all are.

Q. You're measuring a cost by this coincident peak method, correct?

A. Correct. By the contribution to the five CP hours.

Q. So if I'm a high-load factor customer and -- strike that.

If you're collecting a cost that's measured by contribution to five CP, all right, that

is a capacity cost, is it not?
A. Under the company's proposal, yes.
Q. Okay. And also under the company's proposal you are collecting that capacity cost through an energy charge, as you corrected me, through a kWh charge, correct?
A. Yes, sir.
Q. If I'm a high-load factor customer, there is at least a potential that I am going to pay more, because of the design of the rider, than my contribution to five CP because I'm being charged an energy charge to recover a capacity cost.
A. I would agree with you that there's a class averaging effect. What I can't necessarily agree with is that a high-load factor customer would necessarily be charged more --
Q. Ah, I didn't say that.
MR. SATTERWHITE: Again, your Honor, I don't know if the witness was done with his answer when he -- when Mr. Yurick, you know --
MR. YURICK: I wasn't trying to cut him off.
MR. SATTERWHITE: Great, so if you could let him finish his answer, I would appreciate it.
EXAMINER PARROT: Let's let him finish.

Q. Go ahead. I'm sorry, I didn't mean to cut you off but, please, if you have more to say, please.

A. Thank you.

The way I'm understanding your question is basically a high-load factor customer like we were discussing is generally going to be on pretty much at their maximal load during the five CPs, and if they're in a class with low-load factor customers, then they are going to be some low-load factor customers who hit their maximum demand at the time of the five CP and there are going to be some low-load factor customers that don't hit their maximum demand at the time of the five CP. So when we put all those together and compute the five CP dollars and I divide by kilowatt-hours, can't say that that number is in any way unfair or inappropriate to high-load factor customers.

Q. And I apologize if I wasn't clear. What my question is is isn't there a possibility that since you're collecting a capacity cost through an energy charge, then a high-load factor customer could be, potentially, could be in that scenario charged more than their fair share of these capacity costs because the rider is designed as an energy charge?

Isn't that possible?

A. I would agree that that is possible because in a -- anytime you compute an average rate for a class, whether I do it on a per kilowatt-hour basis or a per kW of maximum demand basis, there is some averaging going on there. So it is possible that any particular individual customer in that class could be paying what some might argue is more or less than their fair share.

Q. But, again, you would agree with me that it would be possible to design this rider at least for demand metered customers as a demand charge.

A. It is possible and, as I just explained, I think that has the same problem. The theoretical right way, which I was trying to say earlier before you cut me off in a previous question --

Q. Well, I didn't mean to cut you off. I apologize.

A. -- would be --

Q. Again, I'm sorry. I'm sorry.

A. You're fine.

-- would be to actually use each individual customer's five CP specifically if we had that metering technology and capability to do that, which we don't for all customers at this time.

MR. YURICK: I don't think I have any further questions at this point. Thank you for your indulgence, your Honor.

EXAMINER PARROT: Ms. Grady?

MS. BOJKO: Your Honor, before we start back.

THE WITNESS: Thank you, Mr. Yurick.

MS. BOJKO: I'm sorry. Can we go off the record for one moment?

EXAMINER PARROT: Briefly, yes.

(Discussion off the record.)

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

Ms. Grady.

MS. GRADY: Thank you, your Honor.

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CROSS-EXAMINATION

By Ms. Grady:

Q. Good evening, Mr. Roush.

A. Is it evening already?

Q. I'd say so, it's after 5:30.

Now, as part of the ESP plan, the company proposes SSO auctions, correct?

A. Yes.

Q. And those auctions would include all of the generation capacity and energy that is necessary to serve the load in that auction, primarily it is the SSO load?

A. The capacity, the energy, and ancillaries.

Q. And that -- those auctions will cover a hundred percent of the SSO load starting in June, June 1st, 2015, the start of the ESP term?

A. Yes, ma'am.

Q. Now, is it also fair to say that the company then will allocate the costs of its rider GEN C and rider GEN E to recover the capacity costs and energy costs coming out of the auction?

A. I guess not exactly, and the reason I'm stumbling is the word "allocation" and I think I stumbled over this same word during deposition, is that it's not really an allocation of costs in the way that you would traditionally think of it. As I was discussing with Mr. Yurick a little bit ago, what we're doing is for a particular class of customers we're looking at their load factor, which is basically their five CP load factor, to compute the capacity or the auction price and then the residual after you computed the capacity components for the various customer classes, the leftover is, for lack of a better word, the energy component.

Q. If I used the word "assign," would that be, would your answer, would that be a better term to use? That the company assigns the costs of rider GEN C and rider GEN E to recover capacity and energy costs?

A. It's better but I think probably the best word might be "compute."

Q. Now, to compute rider GEN C the company proposes to utilize the customer's historic five coincident peak usage, correct?

A. That's correct. That's one element of the calculation as shown on Exhibit DMR-2.

Q. Now, the company developed an analysis of the five CP based on the -- based on interval meter data of customers; is that correct?

A. The -- I'm sorry. Can you read that back?

(Record read.)

A. That's correct. The company would have developed the five CP data either directly for what I term the "census" classes, those customers that all have interval meters directly from their own meter data, and for the sample classes using traditional load research techniques based on a sample of interval metering data.

MS. GRADY: Your Honor, may I approach?

EXAMINER PARROT: You may.

MS. GRADY: At this time I would like to mark as OCC Exhibit No. 6 a multipage document consisting of a couple of the company's responses to interrogatories and requests for production of documents from OCC, the very first page being the company's response to RFP-7-42.

EXAMINER PARROT: So marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Mr. Roush, do you recognize this document?

A. Yes, I do.

Q. And can you generally tell me what this document shows?

A. Generally, it is responses to several discovery questions, OCC RPD-7-42, 18-344, 18-067, and 18-068, and then also a document from the company's website that was referenced in one of the discovery responses.

Q. And would you say generally that these documents pertain to the analysis of the five CP data based on the interval meter data of customers?

A. Yes, I would say generally that's

correct.

Q. And these documents that are in front of you would show how that was done, generally?

A. Yes, I think generally they discuss how that's done. Yes.

Q. If we turn to the document that is, I believe it's four pages in, it is attached to Interrogatory Response 18-344, and it's entitled -- it's a single sheet entitled "AEP-Ohio CRES Capacity Obligation Calculation Process." Actually I misspoke, it's a two-page document. Do you see that?

A. I see that document and I do not believe it was attached to the discovery when the discovery was provided but it was referenced in the discovery.

Q. Thank you.

Now, this document is the entire -- would you agree with me that this document is the entirety of the description of the manner in which the load study was performed and the results presented in response to RPD-42 -- 742?

A. No, I do not believe that to be the case. I think there was also a narrative in the response to Interrogatory 18-344.

Q. And that is attached to -- that is a page that precedes the AEP Ohio CRES Capacity Obligation

Calculation Process?

A. That's correct.

Q. Is that what you're referring to? Thank you.

A. Yes, ma'am.

Q. Now, Mr. Roush, the company -- neither the company nor yourself has ever provided any documents to parties in this proceeding that show the statistical validity of the load study information contained here, has it?

A. Not to my knowledge. This was discussed in the response. There's a voluminous amount of information contained within certain databases and, you know, this was prepared using, you know, our traditional load research methodologies.

Q. And, Mr. Roush, would you agree with me that there's no statistical analysis described in response to Interrogatory 18-344 or in the CRES capacity calculation process that pertains to statistical validity of the load study?

A. I guess within the AEP Ohio capacity obligation process I see a discussion kind of in the middle of that document discussing that this was prepared, normally computed from actually -- actual interval meter usage of randomly selected sample customers, which to me sound like our traditional load research process, so there is, it's part of the normal load research process, a statistical sampling done with confidence intervals and those kinds of things.

Q. Would you agree with me that you do not see one referenced directly in those responses?

A. No, and I wouldn't normally have expected one to be in them.

Q. So you're agreeing with me you do not see one referenced directly; is that what your statement is?

A. No, I don't see one referenced directly. I see it kind of indirectly through a discussion of traditional utility load research type processes.

Q. And as we sit here today, you're not aware of any statistical analysis that was done with respect to the load -- this load study analysis that we're discussing here?

A. I was not at the time of deposition, but because this was asked of me in deposition I did sit down with my deposition with the load research folks and talked with them, and my understanding from talking with them is that the samples that were used were the same samples that were used in the last distribution rate case and that -- that the normal processes of using a 90 percent confidence interval, those kinds of things, were done when those samples were selected.

Q. Now, the last distribution rate case would have been what year, Mr. Roush?

A. I believe it was 2010.

Q. And do you know as part of that last distribution rate case whether or not there was a litigation of the rate design in that proceeding?

A. I believe there was a settlement in that proceeding but I also remember sitting in that room over there with -- for a hearing on the settlement.

Q. Now --

MS. GRADY: May I approach the witness again, your Honor?

EXAMINER PARROT: You may.

MS. GRADY: I would like at this time to mark OCC Exhibit No. 7 a multipage document which is entitled -- a two-page document entitled "Interrogatory 17-339," which is the company's response to OCC interrogatories, seventh set.

EXAMINER PARROT: So marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Are you familiar with this document,

Mr. Roush?

A. Yes, I am.

Q. And it was prepared by you or under your direct supervision or control, correct?

A. Yes, ma'am.

Q. Can we take -- can you tell me what this document represents?

A. It represents the company's response to OCC Interrogatory 17-339 and provides the -- and there's an attachment to it which provides the information which OCC requested.

Q. Now, if we go to the second page of that document which has a lot of columns and numbers, and which I generally don't like, would I be correct that the -- under the column entitled "# Non-Interval Customers" we see that there is 509,715 CSP rate zone customers in the residential class?

A. That's correct, in the standard residential class.

Q. And we would also see on that same line the estimate of the peak-day usage for those customers, correct?

A. I'm sorry. You must be looking at a different document than me, I don't see that.

Q. I'm sorry. We would see on that line the annual megawatt usage of noninterval customers; is that right?

A. Annual megawatt-hours, yes.

Q. I'm sorry. Megawatt-hours used.

Can you tell me, was that -- that usage was derived, if we look at the number of interval customers am I right in assuming that that usage was derived based on the actual usage of 85 interval customers in the residential class?

THE WITNESS: I'm sorry. Can you read that back.

(Record read.)

A. Maybe I'm misunderstanding your question. I see four columns, I see a number of interval customers which shows 85.

Q. Yes.

A. And their megawatt-hour usage of 1,365.

Q. Yes.

A. Then I see a number of noninterval meter customer of 509,715 and their annual megawatt-hours of 5,601,884. So --

Q. There's two separate usages is what you're saying.

A. Yes, ma'am.

Q. Okay. Would you agree with me this

exhibit shows actual hour usage by customer class and that it was used to determine the five CP peak loads?

A. I guess this exhibit just shows the annual totals. Behind it would have been the hourly data for the customers and it would have been, you know, based on the traditional load research process of statistical, you know, sampling and stratification and weighting that would have been used to develop the five CP for the residential rate class.

Q. Thank you.

Would you agree with me, Mr. Roush, that it's possible to have a separate auction for SSO residential customers that would include only the capacity and energy required to serve them alone?

A. I think it would be possible but whether it's practical or not or reasonable would be something better discussed with Dr. LaCasse.

Q. Yes, thank you.

And is it possible that if we had a separate auction for SSO residential customers including the capacity and energy required to serve them, that we -- it would produce a different value overall for the SSO nonresidential load?

A. Again, I think anything is. Well, not anything. Most things are possible. I don't have any expertise to form a basis or an opinion on the question you're asking though, that might be better directed at Dr. LaCasse.

Q. Thank you.

Mr. Roush, we're going to move along to an area that was touched upon by some of the other cross-examination by my co-counsel or the counsel that are in this case and that is related to the rate changes that you have analyzed and presented in your testimony.

I want to go back to DMR-1 for a moment. And you discussed this with counsel for OMA, and I think you discussed it with also counsel for IEU. Do you recall the questions on this document?

A. Yes, ma'am.

Q. Would you agree with me that the DMR-1 summarizes the impact of various components of AEP Ohio's request?

A. Generally, yes.

Q. Now, if we go to your testimony on page 3, lines 14 through 15, you indicate that since AEP's actual rates will be in effect -- will not be -- will be in effect in May -- let me strike that.

You indicate there that "Since AEP Ohio's actual rates that will be in effect in May 2015 are not known at this time, I have used current rates and known rate changes to provide a comparison to ESP III rates." Do you see that?

A. Yes, ma'am.

Q. And when you refer to the "current rates," current rates, you're referring to the rates that are in effect for November 2012 through December 2013?

A. I'm sorry. What were the dates again?

Q. November 2012 through December 2013.

A. No, that doesn't sound right to me. On my workpaper DMR-4 I laid out my rate and typical bill assumptions.

Q. And so what were the current rates that you looked at then? If I look at DMR-4, will I find a different period?

A. Yes, ma'am. For the current rates on workpaper DMR-4, it says for the current rates for like base distribution rates and base generation rates I used rates as of December 1, 2013.

Q. Okay.

A. And that continues for a number of the riders. And then specifically for the retail stability rider I think, as we discussed earlier, I used the rate as of June 1, 2014, since that's a known change. For the distribution investment rider we used the rates at the ESP 2 2014-'15 cap. For -- and those are the ones that were unique. Pretty much everything else were the rates as of December 1st, 2013.

Q. And when were the rates, the December 2013 rates, in effect? When did they go into effect under the ESP 2?

A. I don't recall because there are a number of different -- I mean, probably depends on each item like, you know, the universal service fund changes at a different time than maybe base G rates versus base G rates versus the transmission rider so, to be honest, I don't think I could tell you for each one of those.

Q. I appreciate that.

Now, you had some questions from OMA's counsel about the RSR charge and the assumptions that you made with respect to the RSR charges for purposes of DMR-1. Do you recall those questions?

A. Yes, ma'am.

Q. Now, you indicate that the $4 that you had included as an RSR impact, the $4 a month charge -- is that right?

A. $4 a megawatt-hour.

Q. I'm sorry, $4 a megawatt-hour.
And you indicated that that was the company's estimate of what it would take to recover the deferrals over three years in its soon-to-be filed RSR case; is that right?
A. Correct. I think -- but there's a piece missing. First, it's what the rate will be beginning June 1, '14.
Q. Yes.
A. And then also it is our, the company's estimate at the time of the filing that an RSR at that level would be adequate to recover the deferrals over the three-year period.
Q. And the three-year period would be June 2015 through May 2018?
A. Yes, ma'am.
Q. Now, you indicated that, or let me strike that.
The level of RSR deferrals, the estimate is $463 million; is that correct?
A. I don't recall. I think it was in Mr. Allen's testimony but I don't remember.
Q. Do you know if the -- if when you determined that the $4 would be adequate to cover the deferrals, whether or not the deferral figure

included carrying charges?

A. Again, I don't recall. I'm sure it was in Mr. Allen's testimony.

Q. Are you assuming that the $4 -- when you said that your estimate is that the $4 charge will cover the RSR rider for 2015 through 2018, are you assuming that that includes carrying charges? That it will cover the principal plus carrying charges.

A. Again, I don't recall. Mr. Allen did that calculation. I presume he probably factored that in, but I can't say for certain.

Q. Okay.

A. I'm sure that's in his workpapers somewhere.

Q. Thank you.

Now, going to your testimony on page 5, at lines 3 to 4 you say that the capacity prices are shown on page 3 of Exhibit DMR-2. Do you see that?

A. Yes, I see the reference to page 3 of Exhibit DMR-2.

Q. And would you agree with me that the capacity prices be determined -- let me strike that.

You've already testified earlier, Mr. Roush, that the capacity prices are determined based on each class's contribution to the PJM five

CP; is that right?

A. Yes, ma'am.

Q. And they're computed as a rate per kWh, correct?

A. Yes, or in this exhibit I think I did it all in dollars per megawatt-hour.

Q. Now, the capacity prices are also a function of the PJM RPM price for each year of the ESP; is that correct?

A. Yes, ma'am. And that's shown on Exhibit DMR-2, page 2.

Q. Yes. And at the time that your exhibits were completed the RPM prices for 2015 and '16 and 2016 and 2017 were known, correct, the two planning years? Or four planning years all together.

A. The two planning years, it's --

Q. I'm sorry. When we refer to 2015 through 2016, that is one planning year.

A. Yes, that's June '15 to May '16.

Q. And at the time you prepared your exhibits, the RPM prices for 2015 through 2016 were $136 a megawatt-day, correct?

A. On Exhibit DMR-2, page 2, I show it as $135.72 a megawatt-day.

Q. Okay, approximately, let's say, $136 a megawatt-day.

A. Approximately.

Q. And for 2016 through planning year 2017 the value was $59.37 a megawatt-day?

A. For June '16 to May '17, yes. Just to be clear, there's the base residual auction I know folks have talked about a lot, but there are also multiple incremental auctions so these numbers sometimes do move as you get closer to the actual delivery year a little bit.

Q. And so the numbers you have shown are for the base residual auction?

A. It would have been for the base residual auction and any incremental auctions that had been held up to that point.

Q. Okay. Is that why there's maybe a little slight differential? Is that what you're saying?

A. There could be if there were some incremental auctions that have happened since the filing of this testimony.

Q. Okay. And now at the time you filed your testimony the RPM price for 2017-2018 planning year had not been established, correct?

A. That's correct.

Q. What RPM price did you assume for that year?

A. I, and I think I noted that on Exhibit DMR-1, I used the average of the previous two years which after gross-up factors and whatnot shown on workpaper DMR-1 was $113.12 a megawatt-day.

Q. Now, are you aware that the actual RPM -- or, are you aware that the base residual auction has occurred for May and has set an RPM price for 2017-2018?

A. Yes, I am. And I believe the value from that auction was $119.81 a megawatt-day.

Q. Yes. Now, if that value had been used in your calculation of the capacity, class capacity rates that are shown on DMR-2, can you tell me what the impact directionally would be?

A. Just so that we're talking the same thing, which page of DMR-2 are you looking at? Do you want to look at residential on page 3?

Q. Yes.

A. I kind of happened to do a rough calculation of that and would move the answer just a little over a dollar a megawatt-hour upwards.

Q. So if you wanted to point me to a line, what line would I be looking at?

A. You would be looking at line 12 in the

Residential column.

Q. Yes.

A. I believe that number would move roughly a dollar a megawatt-hour, so from 10.51 up roughly one dollar.

Q. And would that then also impact -- would that also have an effect on the bill impact calculations you show for residential class?

A. Yes, it would. For a thousand kilowatt-hour customer by roughly a dollar a month.

Q. Now, let's talk a little bit about the energy, the calculation of the energy piece of the bill.

A. I apologize, just to be clear on my last answer, it would only affect '17-'18.

Q. Yes. That's correct. I'm following you there.

A. Thank you.

Q. Now, the energy prices for each class of customers are shown on page 4 of Exhibit DMR-2, correct?

A. Yes, ma'am.

Q. And these energy prices were derived, I think you went over this with Mr. Darr, they were derived from past Duke auction results and future RPM prices, correct?

A. Correct. If you went back to page 1 of Exhibit DMR-2, at the very bottom of that page --

Q. Yes.

A. -- I start with the Duke auction prices, layered in RPM capacity, the Duke -- the energy component of the Duke auction, and then layered in the RPM capacity to get and all-in auction price, and then based on the schedule from Dr. LaCasse of when the auctions would occur I laid that out into the various tranches and when the auctions would occur to come up with a blended price for each of the three years. And then that was carried forward to where we were discussing, page 4 of Exhibit DMR-2.

Q. Just so I understand, you came up with a blended competitive bid price of 50, let's just look at the 2015-2016, with a blended competitive bid price of $50.70 a megawatt-hour and that was based on the past Duke auctions, and then you removed the estimated capacity price based on the PJM RPM price for that period to come to the residual energy price of 39.22?

A. Correct. And it's kind of one of the oddities of the way the blending works. If you start back on page 1 of Exhibit DMR-2, because we're blending auctions that are for just the June '15 to May '16 period and also auctions for the June '15 through May '17 period --

Q. Yes.

A. -- the blended competitive bid price actually includes prices that span multiple delivery years, but then once you get that blended price for a given year, then you back out the RPM price for that year to get to the energy price.

Q. Now, since Exhibit DMR-2 was created AEP has conducted two energy-only auctions of its own; is that right?

A. Since the time this was put together, yes, ma'am.

Q. And are you aware of the results of those two auctions?

A. Yes, I am. The first auction was held on February 25th of 2014 and it was for the April 1, 2014, to May 31, 2015, period and it was for 10 percent of our energy requirements and it was $42.78 a megawatt-hour.

Q. Yes.

A. And the second auction was held on May 6th, 2014, and it was for kind of an odd period. It was November 1st, '14, through May 31, '15, and that was for 25 percent of our SSO load and it was $50 a megawatt-hour.

Q. And that would have been for the period -- I'm sorry, I missed the period that was for.

A. I'm sorry. I was talking fast. November 1st, 2014, through May 31, 2015.

Q. Okay.

THE WITNESS: I guess I should apologize to you for talking fast.

Q. And the $50 a megawatt price was for what period of time?

A. Sorry. That was the November 1, 2014, to May 31, 2015. The 42.78 was for April 1, 2014, through May 31, 2015.

Q. Now, would you agree with me that the $50 a megawatt-hour price is considerably greater than the $39.22 megawatt-hour price that you have used in your typical bill analysis?

A. I guess to be comparable you would compare that number to the value at the bottom of Exhibit DMR-2, page 1, which was $40.30. That would be the comparative number. And even that's I think a little hard to compare because the $50 price is only for a November to May period, it's not a full annual period, so it's kind of an odd period like I mentioned.

And, again, the third part of it is that that price would be impacting current rates or the rates in effect in that November to May 2015 period, so if you were going to incorporate that into my analyses, you'd have to factor that into both the current side and the proposed side.

Q. So if you factor that in to both the current and proposed side, would you agree with me that the price that you would get would show a higher energy price than you used in your bill analysis for your typical bill for the residential customers?

A. Yes. I would agree on both the current and the proposed side the prices would be higher because of that auction. And, again, like I said, I think it's a little hard to judge that one auction because it's not a full-year period. But both sides would change, but I think generally the benefit of the ESP wouldn't change because, as we discussed earlier, it's mainly driven by declines in the capacity price.

Q. Have you run any new calculations, Mr. Roush, of DMR-1 which updates the bill impacts to show the results of the residual -- base residual auction at $120 a megawatt-hour?

A. Other than what we just discussed earlier where I had just done kind of a back-of-the-envelope calculation, I have not done that, no.

Q. And have you run calculations of DMR-1 which updates it to show the results of the impact on the -- of the results of AEP's recent SSO auction?

A. No, I have not. And, as we discussed, I kind of view it as net neutral because it would raise both the current rates and the proposed rates.

Q. Now let's go for a moment to the chart that you show on page 6 of your testimony. You describe the chart and you say "Upon implementation, residential customers using 1,000 kWh would see an estimated monthly rate decrease of $10.80 for CSP Rate Zone customers." I just want to focus on that part of the sentence. Can you do that for me?

A. Certainly.

Q. And can you tell me what you mean, can you define the term "upon implementation," what that means?

A. To me it means June 1, 2015, when the ESP rates go in effect, versus May 31, 2015 when the ESP 2 rates are in effect.

Q. Okay. Now, there you say that there's a rate decrease of $10.80 for CSP rate zone for residentials using 1,000 kWh per month. Do you see that?

A. Yes, ma'am.

Q. And are you talking about residentials under the RR winter schedule in the CSP zone?

A. No, I am not. I'm talking about customers on schedule RR.

Q. Yes.

A. And on my workpaper DMR-6 I show this calculation. I'm using a thousand kilowatt-hour bill for the four summer months and the eight winter months and computing an average annual number so that's shown on workpaper DMR-6.

Q. How does that differ from DMR-3 where you show, we went to DMR-3, page 1 of 3, and we went to RR winter, residential, a thousand kWh usage, how does that differ from what you just recited that's contained in DMR-6?

A. The difference would be that in Exhibit DMR-3, page 1 --

Q. Yes.

A. -- I show RR summer and RR winter.

Q. Yes.

A. So what I did was I said, well, there are eight winter months and there are four summer months, so I took eight times the winter value plus four times the summer value and then divided by 12.

Q. So the number that you show in your testimony is an average number and not what is -- it doesn't correlate necessarily -- let me strike that.

So the number that you show, the $10.80, is an average rate decrease for CSP's rate zone customers, correct?

A. I'd say it's annualized. Rather than just it's just winter or just summer I kind of annualized it.

Q. So if we wanted to characterize what is shown on DMR-3, for instance, for CSP rate zone for RR winter, a thousand kWh usage, how would you characterized that?

A. I guess in the winter months they're saving, under this calculation they're saving $10.05, in the summer months they're saving $12.28 so when you kind of add that up by the year, divide by 12, you get the $10.80 that I show in page 6 of my testimony.

Q. Thank you.

And the number that you show for the $6.10 for OPC rate zone customers, is that also an annualized figure as opposed to the -- an annualized figure that comes from your workpapers DMR-6?

A. Actually, it's from workpaper DMR-10.

Q. Okay.

A. But I believe, let me just double-check, for -- it's the kind of the same process I used for using the data on Exhibit DMR-3, page 7, using the four summer and eight winter months would get you to the same place.

And, just to be clear, I thought I heard a different number. The number I have in my testimony is $6.10 decrease.

Q. Yes, I think that's the number I spoke of.

A. I'm sorry. I may have misheard you.

Q. Now, the chart that's shown below which shows the change in customers, let's focus on the residential. Are those annualized numbers like the numbers that are quoted immediately preceding?

A. No. They're separate columns for summer bills and winter bills.

Q. So those would correspond more directly with DMR-3?

A. Yes, ma'am.

Q. As opposed to your workpapers, DMR-6 and

10.

A. Yes, ma'am, although they're all consistent.

MS. GRADY: Your Honor, may I approach the witness?

EXAMINER PARROT: You may.

Q. Mr. Roush, I'm going to hand you something that I am not going --

EXAMINER PARROT: I'm sorry, just a moment. He wants to grab a bottle of water.

MS. GRADY: You're not excused, Mr. Roush.

THE WITNESS: Run away, run away.

EXAMINER PARROT: I'm sorry to interrupt. Go ahead.

MS. GRADY: That's okay, thank you.

Q. (By Ms. Grady) I'm going to hand you a document that I would like you to review.

MS. GRADY: I'm not going to mark this as an exhibit, I've just got questions about it, your Honor.

EXAMINER PARROT: Thank you.

Q. And when you've had a moment to review it, if you would just indicate.

A. I remember reading this in the paper.

Q. I'm sorry. You've had a chance to review that?

A. Yes, I remember reading it in the paper.

Q. Did you like the headline?

A. It was a pleasant surprise.

Q. Yeah. Mr. Roush, are you aware of whether or not this article appeared in The Columbus Dispatch, the front page on June 4th, 2014?

A. I don't think that was the date. I think it was earlier than that.

Q. Oh, I'm sorry. Happens that's the date that we ran it. But is it your understanding that this was a big article, it was front page news in The Columbus Dispatch?

A. I remember reading it in the paper because I love the paper, I don't remember if it was front page or front of the business section, but I remember it being in there.

Q. Now, the headline of this ad is that "AEP wants okay of a 12.6 percent rate cut." Do you see that?

A. I see the headline, yes.

Q. And do you know, Mr. Roush, where the 12.6 percent rate cut came from? That language or that characterization of AEP's filing.

A. My understanding was it was developed by the gentleman that wrote the article. I know I personally didn't give him any information.

Q. Do you know if anyone in the company gave him that information, that there was a 12.6 percent rate cut?

A. No, ma'am. I actually asked where it came from because I certainly didn't give it to him, although our corporate communications folks do interact with this gentleman, obviously. My understanding is he went to the bill calculator on our website and computed at some point in time what a current bill was and then I believe for the comparison he pulled one of the proposed bills out of one of my exhibits or testimony or maybe even Mr. Vegas's testimony to do the computation.

So I haven't verified it, but that's my basic understanding, but I think the gentleman did the calculation who did it.

Q. Is it your understanding, Mr. Roush, that there is -- that this article is inaccurate, that there is no 12.6 percent rate cut being proposed by AEP in this filing?

A. I guess I can't say -- it's certainly not in the documents the company filed. I can't totally say what the gentleman did was wrong. He was looking at a more recent current bill to compare to the bills I have -- that we're showing in our testimony. So it's just a different comparison. If the company had issued this, I wouldn't have necessarily agreed with it, but I don't think we control the media.

Q. And would you believe, Mr. Roush, that the numbers in the rate reductions and the schedules that are contained in your testimony are more reliable in terms of determining whether or not there will be a rate cut under your proposal?

MR. SATTERWHITE: Your Honor, at this point I'll object. I don't think this author of the Dispatch has intervened in this case, or were a witness that Miss Maureen needs to impeach the credibility or attack for the purposes of this case. This is about a record before the Commission and I don't see the relevance.

EXAMINER PARROT: Response, Ms. Grady.

MS. GRADY: Well, your Honor, we're trying to make the record clear as to what the rate cut is that we're speaking of and Mr. Roush is the expert that's presenting the bill impact analysis, I'd like to understand what his opinion is of the 12.6 percent and whether it's accurate or not. And if it is accurate, I'd like to see where it is in his testimony that it's accurate.

MR. SATTERWHITE: If I may, your Honor, the only reason this number is even in the record is because counsel for OCC has brought it to us. So putting a proxy up and saying is that correct, she asked Mr. Roush, and she can ask him questions about his testimony which is correct, it just further confuses the record.

MS. GRADY: I can withdraw my question and ask a different question.

EXAMINER PARROT: Okay.

Q. Anywhere within the testimony that you filed or the rate plan, is there anything within your rate plan that supports a statement that AEP is seeking a 12.6 percent rate cut?

A. Not to my knowledge is that a statement the company made.

Q. Earlier you referenced the fact that you believe that the gentleman that wrote this article may have gone to your schedules and pulled information from your schedules. Do you recall that?

MR. SATTERWHITE: Your Honor, I'll object. We're -- I think we went far enough with this article and tried to give a little leeway but this isn't part -- the Dispatch is not a party in this case. We can deal with what's in the company filing. I don't know what the -- where this ends. If we bring in every blog and everything else that someone might say, I think it could really expand this record.

MS. GRADY: I'll withdraw the question.

Q. Let's move along, Mr. Roush.

A. Okay.

MS. GRADY: Your Honor, may I approach?

EXAMINER PARROT: You may.

MS. GRADY: At this time I would like to mark for identification purposes as OCC Exhibit No. 8 a multi-page document dated February 20th, 2014, which is a letter signed by Mr. Nourse to Examiner Parrot with an attachment that is entitled "Public Notice Regarding AEP Ohio's Rates."

EXAMINER PARROT: So marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Mr. Roush, can you take a moment to look at that.

A. I've looked at it.

Q. Are you familiar with this filing, Mr. Roush?

A. I remember seeing drafts of it, I don't recall that I ever got the final one or, if I did, I don't remember it.

Q. And when you saw the drafts of it, were you asked to opine on the -- let me strike that.

Did you help prepare or verify -- if we look at the second page, did you help prepare or verify the billing impact for the typical customer, residential customer rates that are indicated there?

A. I think counsel sent it to me to make sure that I agreed with the numbers that were shown there and it looks like they sync up with the table on page 6 of my testimony.

Q. Now, is it your understanding, Mr. Roush, that this public notice was not approved by the PUCO?

A. I don't know.

Q. You do not know.

Do you know if this particular public notice appeared in the public notices that were published in the newspapers?

A. I don't know. That's one part of the newspaper I don't read.

Q. Mr. Roush, did you have any responsibility in preparing the application of the company in this case?

A. The actual application document?

Q. Yes.
A. No. Generally I think our attorneys put that together working with the whole team.
Q. Did you have any input to Attachment 1, the legal notice, in this case?
A. I don't recall and I don't even have it with me to look at it.
MS. GRADY: Could counsel provide a copy of that to Mr. Roush, please?
MR. NOURSE: The application?
MS. GRADY: Yeah, Attachment 1, the legal notice.
Thank you.
Q. Mr. Roush, could you take a moment to look at that. In particular I want to direct your attention to the wording in the notice which indicates the expected annual rate changes from the application.
A. Okay, I see that.
Q. Did you have any input or review of the notice to determine whether or not these annual rate increases were consistent with your testimony and your presentation in this case?
A. I'm sure I did but it's escaping me now, but the numbers look like values that would have come

from looking at like my Exhibit DMR-3.

Q. And did you know whether these values, the annual rate changes ranging from a negative 27 percent to a 6 percent, are consistent with your testimony?

A. Sure look like they're entirely consistent with my table on page 6.

Q. On page 6 of your testimony or your workpapers?

A. Page 6 of my testimony.

Q. And with respect to -- let's take the outliers of the range. Can you tell me what customers are expected to see an average annual rate change of negative 27 percent?

A. Looks like relatively lower load factor industrial customers in the Ohio Power rate zone.

Q. Are there any other customers that would see the average annual rate change of about negative 27 percent?

A. I see some others in the 20s like the small business customers in the CSP rate zone and maybe some of the industrials in the CSP rate zone as well at the lower load factors.

Q. Are there any customers in the OP rate zone that would see a -- expected to see an average

annual rate change of negative 27 percent?
A. If I misspoke, I thought the very first one we discussed was the industrial -- relatively lower load factor industrial customers.
Q. And let's talk about customers on the other end, the 6 percent increase, can you tell me what customers are expected to see an average annual 6 percent increase during the ESP period?
A. It looks to me like it's residential customers with extremely high usage in the winter months.
Q. And the 6 percent -- let's go back to the 27 percent decrease. The 27 percent decrease is only in one year; is that right? Or is it an annualized?
A. It's, again, everything on page 6 of my testimony in that table, as we discussed, is the June 1, '15, values.
Q. So it is not an annualized figure?
A. Not on -- not in that table. I show, as we discussed earlier, show summer monthly bills and winter monthly bills. If you go back to Exhibit DMR-3 --
Q. Yes.
A. -- where I've got 13 pages of percentages, it looks like these values generally

capture the spectrum of the values in my Exhibit DMR-3.

Q. Would you agree with me that the 27 percent decrease that is experienced is pretty much limited to the early years of the ESP period? The early year, let me say that.

A. I would say generally, yes. Because that's when most of the structural changes are happening, switching to pricing based fully upon an auction instead of kind of the legacy carryovers from the ESP 2, and then I think in general when you get to '16-'17 and '17-'18 they're fairly uniform changes in rates.

Q. And the 6 percent increase that we're talking about there as an average annual rate change, is that limited to the first year of the ESP as well?

A. Generally, yes, because, for example, that's -- in my testimony on page 6 we are looking at CSP rate zone RR customer in the winter using 4,000 kilowatt-hours. When you look at the next year for that same customer, they actually see a decrease of 4.87 percent, so at least for that specific one, yes.

MS. GRADY: Mr. Roush, that's all the questions I have. Thank you very much.

THE WITNESS: Thank you.

EXAMINER PARROT: Staff?

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

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CROSS-EXAMINATION

By Mr. Margard:

Q. Good evening, Mr. Roush.

A. Good evening.

Q. First of all, a little housekeeping. You were present during the cross-examination of Mr. Spitznogle.

A. Yes, sir.

Q. And during my colleague's questioning regarding standby service?

A. Yes, sir. I happen to have Staff Exhibit 1 with me.

Q. Do you? Wonderful. Thank you very much.

And, in fact, the response in that is a data request response that was prepared by or under your direction or supervision or authority by you; is that correct?

A. Yes, sir.

Q. Is this in fact an accurate answer?

A. Yes, sir, it is.

Q. And you would adopt this as your testimony on the stand today?

A. Yes, sir, I would.
Q. Excellent. Thank you. That clears that up nicely.
Did you have any responsibility for the determination of the gross-up factor that is used in this case?
A. I used it. Sitting here today I can't recall whether Andrea or I came up with it, I'm sorry, Miss Moore or I came up with it.
Q. You're looking to her for guidance, I see.
A. No, I'm just kind of looking trying to recall. I know I've noted it in my page 2 of Exhibit DMR-2 as the tax gross-up including CAT tax, PUCO, and OCC assessments is what I used.
Q. That was my question is whether you knew whether it included the PUCO and OCC assessments.
A. Yes, sir, it does.
Q. Thank you.
Did you have any responsibility for development of the DIR charge in this case, the calculation and methodology?
A. No, sir.
Q. And that would be Ms. Moore?
A. I believe so.

MR. MARGARD: That's all I have, thank you.

THE WITNESS: Thank you.

EXAMINER PARROT: Any redirect, Mr. Satterwhite?

MR. SATTERWHITE: Could I have ten minutes, one, to stand up and, two, just to see where I am.

EXAMINER PARROT: Let's take a short break.

MR. SATTERWHITE: Thank you.

EXAMINER PARROT: Yes. We're off the record.

(Recess taken.)

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

Mr. Satterwhite.

MR. SATTERWHITE: Thank you, your Honor.

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REDIRECT EXAMINATION

By Mr. Satterwhite:

Q. I just have one, hopefully one question, Mr. Roush. You were discussing with Mr. Yurick five coincidental peaks and you made a statement about in theory figuring the five coincidental peaks upon a customer's actual highest usage days. Do you remember that?

A. Yes.

Q. I know you were just talking about theory. Is there any negative consequence or any harm if that were to be the theory that would be implemented?

A. Yes. Lots of things sound great in theory but in practice, I think I had mentioned, you know, you'd have to have that data for the customers which requires a lot of additional metering technology to be able to do that for all customers, and then the other thing is kind of an interesting construct in that what a customer would pay for a given year, like say '15-'16, would be based on a peak day set in 2014 so there's kind of a timing issue there that could create some issues for customers. So there's some practical issues even though it sounds good in theory.

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

EXAMINER PARROT: Mr. Williams?

MR. WILLIAMS: No questions, your Honor.

EXAMINER PARROT: Ms. Petrucci?

MS. PETRUCCI: No, your Honor.

EXAMINER PARROT: Mr. Casto?

MR. CASTO: No.

MS. HUSSEY: Nothing.

MR. KURTZ: No, your Honor.

EXAMINER PARROT: Mr. Darr?

MR. DARR: No, ma'am.

EXAMINER PARROT: Mr. Yurick?

MR. YURICK: A few, sorry.

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RECROSS-EXAMINATION

By Mr. Yurick:

Q. You said it sounds good. It does sound good in theory, though, and it would be sound theory if you could do what Mr. Satterwhite described for each individual customer.

A. It's theoretically consistent with the operation of the PJM capacity market.

Q. Right.

A. And as I discussed with Mr. Satterwhite and I think with you earlier a little bit, there are practical issues around doing that and, you know --

Q. Wouldn't it be true to say there are practical issues with pretty much any method that you use?

A. I would say yes, but I'd say there are more with that theoretical approach than what we proposed or even what you proposed or what you were I think alluding to.

Q. All I was alluding to is you could have created this rider, rider GEN C, and charged -- at least for demand-metered customers you could have charged them a demand charge to recover this cost.

MR. SATTERWHITE: Objection. I don't think that was a question.

EXAMINER PARROT: I agree. Let's try to rephrase that, please, Mr. Yurick.

Q. The question is you could have designed rider GEN C at least for demand-metered customers as a demand charge, correct? You could have done that.

A. I agree, as we discussed with Ms. Grady, many things are possible. Again, I think there's other practical implications with that then we'd be debating should there be demand ratchets, should it be an on-peak charge, an off-peak charge. There are other issues that have to go with it from a practical standpoint.

MR. YURICK: I don't have anything further.

EXAMINER PARROT: Ms. Grady?

MS. GRADY: No questions, your Honor.

EXAMINER PARROT: Mr. Margard?

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

EXAMINER PARROT: Thank you very much, Mr. Roush.

THE WITNESS: Thank you.

EXAMINER PARROT: You're excused.

I believe Mr. Satterwhite has already moved for the admission of AEP Ohio Exhibit 12. Any objections?

(No response.)

EXAMINER PARROT: Hearing none, it is admitted.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER PARROT: Ms. Grady.

MS. GRADY: OCC would move for the admission of OCC Exhibits No. 6, 7, and 8.

EXAMINER PARROT: Thank you.

Are there any objections to the admission of OCC Exhibits 6 through 8?

MR. SATTERWHITE: No objection.

EXAMINER PARROT: Hearing none, they are admitted.

(EXHIBITS ADMITTED INTO EVIDENCE.)

EXAMINER PARROT: Thank you, everyone --

MR. MARGARD: Your Honor.

EXAMINER PARROT: I'm sorry, thank you.

Mr. Margard, yes.

MR. MARGARD: If I may, I believe Ms. Johnson previously moved the exhibit, but I will renew it at this time.

EXAMINER PARROT: Thank you, are there any objections to the admission of Staff Exhibit 1?

MR. SATTERWHITE: No, your Honor.

EXAMINER PARROT: Very good, it is also admitted.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER PARROT: At this point we are adjourned for today. We will reconvene at 9 a.m.

Mr. Nourse, our plan for tomorrow, can you just put that on the record for us with respect to witness order?

MR. NOURSE: Our witness Dr. LaCasse is just delayed again. She'll be in late tonight so we were going to put her second after Andrea Moore and then proceed with Kyle, Hawkins, and Mitchell as far as we can.

EXAMINER PARROT: Okay. Thank you, everyone. Let's go off the record.

(Thereupon, the hearing was adjourned at 7:01 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 Thursday, June 5, 2014, and carefully compared with my original stenographic notes.

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

My commission expires June 19, 2016.

(75742-MDJ)

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