BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

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In the Matter of the Application of Duke Energy Ohio for Authority to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan, Accounting Modifications and Tariffs for Generation Service. : Case No. 14-841-EL-SSO

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In the Matter of the Application of Duke Energy Ohio for Authority to Amend its Certified Supplier Tariff, P.U.C.O. No. 20. : Case No. 14-842-EL-ATA

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PROCEEDINGS

before Ms. Christine M.T. Pirik and Mr. Nick Walstra, Attorney 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, October 30, 2014.

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VOLUME VII

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Thursday Morning Session,
October 30, 2014.

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EXAMINER PIRIK: We'll go on the record. I believe our next witness is with OCC.

MR. BERGER: Yes, your Honor. OCC calls Matthew Kahal to the stand.

(Witness sworn.)

EXAMINER PIRIK: Thank you. You may be seated. Do you need time to get organized or are you all ready?

THE WITNESS: Hopefully, I'm organized, your Honor.

EXAMINER PIRIK: Can you turn on your microphone, please.

Mr. Berger.

MR. BERGER: Thank you.

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MATTHEW I. KAHAL

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

DIRECT EXAMINATION

By Mr. Berger

Q. Good morning, Mr. Kahal.

A. Good morning.

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

A. Yes. My name is Matthew I. Kahal. My business address is 1108 Pheasant Crossing, Charlottesville, Virginia 22901.

Q. And you are appearing here on behalf of the Office of the Ohio Consumers' Counsel?

A. That's correct.

Q. And did you cause to be prepared testimony titled "Direct Testimony of Matthew Kahal" in this proceeding?

A. Yes.

Q. Was that testimony prepared by you or under your direct supervision?

A. Yes, it was.

Q. Do you have any additions or corrections to make to that testimony at this time?

A. I do. If you would please turn to page 4 of the direct testimony. Line No. 22, on that line you will see the words "rate of" and then "ROE." The words "rate of" should be struck. They are simply superfluous. That's the only correction I have that's in the nature of a typographical error.

Q. And is your testimony true and correct to the best of your knowledge, information, and belief?

A. Yes.

MR. BERGER: At this time, your Honor, I would -- oh, we haven't marked the testimony, so let's mark his testimony, your Honor, as OCC Exhibit 32. It's a public document. There is no confidential information in it.

EXAMINER PIRIK: The document is so marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

MR. BERGER: Thank you. And we would proffer the witness for cross-examination at this time.

EXAMINER PIRIK: Thank you.

I do have one question before we begin cross-examination. On page 12, footnote 1, I believe the case cite there should be a year instead of "EL" at the beginning. Could Counsel or the witness give us the correct case cite?

MR. BERGER: Yes. That would be 12-1682-EL-AIR.

EXAMINER PIRIK: Thank you.

Mr. Darr.

MR. DARR: No questions, your Honor.

EXAMINER PIRIK: Ms. Hussey.

MS. HUSSEY: No questions.

EXAMINER PIRIK: Ms. Bojko.

MS. BOJKO: No questions, your Honor.

EXAMINER PIRIK: Mr. Mendoza.

MR. MENDOZA: No questions.

EXAMINER PIRIK: Mr. Boehm.

MR. K. BOEHM: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. K. Boehm:

Q. Good morning, Mr. Kahal.

A. Good morning.

Q. My name is Kurt Boehm. I represent the Ohio Energy Group. I have a couple of questions about your capacity cost allocation for SSO customers proposal.

A. Yes.

Q. Could you please turn to page 13 of your testimony.

A. Yes, I have that.

Q. Now, here you describe that the process in which bids are procured, and you state that wholesale suppliers bid to serve tranches of Duke's aggregate SSO load. The tranches are for -- it's one -- it's one -- it's one product that will serve the residential class and all the business customer

class. They are all grouped together, correct?
A. It's all lumped together, yes.
Q. And in each of these -- these products, the wholesale supplier must provide a complete package of generation products within the one price, the energy, capacity, transmission, ancillary services?
A. That's right. It's -- it's a bundled power supply product, I think is probably the best description.
Q. And there's just one megawatt-hour price for that product, correct?
A. It -- right. It's not a two-part rate that we often see under regulation. It's just there will be a dollar-per-megawatt-hour clearing price for the term of that contract. And in it will be the same price for all of the winning bidders. It's not priced supplier by supplier.
Q. Okay. Now, when a supplier of -- bids into the SSO auction, they -- they -- they build into their bids a price to compensate for risk, for capacity cost, for energy costs, for a profit for the supplier, all those things are taken into consideration when they make their bid, correct?
A. Yes. I would say that all costs of doing

business, including the supplier's profit requirement.

Q. Now, what Duke does after they get -- after they get this -- this price, is they -- they unbundle it; is that correct?

A. In a very limited way, just with respect to two pieces of it, that is the capacity and the energy.

Q. And how -- how are they proposing to unbundle the capacity in this case?

A. The company does a separate calculation of the cost of capacity which it proxies using the -- the PJM RPM auction price for that particular supply year which runs -- my understanding is that runs from June 1 of a year through May 31 of the following year. There will be a prevailing PJM RPM clearing price and that's what will be used.

And then the company applies, using its calculations or estimates of the five coincident peak allocator for each of these major customer classes. I don't think it goes down all the way to the individual rate schedule, but at least for broad customer classes.

Q. PJM uses a five coincident peak allocation methodology, correct?

A. You're referring to for assigning generation capacity costs to loads, yes.

Q. Yes. Now, you say on -- on page 15, line 17, Duke assumes that the capacity cost component is equal to the PJM RPM annual clearing price which is $125.99 per megawatt-day for the first year when they assign capacity; that's what you're talking about, correct?

A. Yes.

Q. And they assume that because that's what the wholesale suppliers have to actually pay for the capacity, correct?

A. I would say more accurately that's the value of capacity to them. They may or may not actually be paying that. They -- they may be self-supplying capacity themselves, in which case that price that you just mentioned is really their opportunity cost. So I would say that that's a measure of the value of capacity to suppliers, either the value or the cost, either one.

Q. But the wholesale supplier is incurring capacity costs and this is the value of capacity.

A. Yes.

Q. Thank you.

Now, on page -- let's see here. On page

16, beginning on line 13, you discuss how the customer class allocation percentages proposed by Duke in this case would -- would rise from current rates -- current levels from 39.12 percent to 45.37 percent; is that correct?

A. Yes, that's the -- the latter number is the number I saw in the company's filing and I understand that to be the company's proposal in this case.

Q. And the customer class allocation percentages that are customers are -- that are affecting rates currently were set in the last ESP case and that case settled, correct?

A. That case settled. I can't really tell you where that 39 point, what is it, 12 percent number came from. It was just a settlement.

Q. Right. It was a black box settlement and that was one of the numbers that was spit out of it.

A. I don't think that's a bad characterization.

Q. And now there is no settlement in this case, at least not right now?

A. That's correct or else I wouldn't be here.

Q. So when Duke applies the -- PJM -- or, the RPM annual clearing price and they assign that as the price of capacity and they plug it into the five CP method, and then you allocate it to the customer class as the number that comes out of that methodology is 45.37 percent, correct?

A. That's what they are claiming. I didn't check their math, but that's -- that comports with the description in the company's filing.

Q. Thank you.

Now, could the size of the residential class relative -- if the size of the residential class relative to the size of the other customer class is increased between the 2011 case and now, wouldn't that also affect the percentage of capacity assigned to residential class?

A. Yes.

Q. So it went up from 39.12 percent to 45.37 percent, but we don't really -- you haven't -- you haven't done any analysis to determine what part of that additional -- what part of that increase is attributed to just the allocation of capacity or the size of the classes, correct?

A. No. All I was saying was that it was a very, very large increase. The allocation factor used here as compared to what came out of the resolution of the last case was a 16-percent increase, and I simply made the comment in my testimony that that was very large. I can't tell you the reason for that because, as you, I think, correctly stated, it was a black box settlement in the last case.

Q. But my question is we don't -- you don't know if the increase was due to the capacity allocation or if -- or if the increase was due to the fact that the residential class grew in size relative to the other class, correct?

A. No, that's correct. And my previous answer was to say that's unknowable because the allocations set in the last case were, as you say, a black box settlement, so we don't know the basis of 39.12 percent. All we know is that residential -- the residential class is being faced with a very, very large increase in the capacity allocation.

Q. Have you calculated the -- now, the 16 percent is the percentage of residential allocation compared to the 2011 settlement.

A. Yes.

Q. But that doesn't mean the residential class is getting a 16-percent rate increase, correct?

A. Well, first of all, we're only talking about the capacity component, we are not talking about total rates, so I am just focusing on that peace of the puzzle. What I mentioned in my testimony is that it appears that if -- that it's -- it appears to be a whole lot more than a 16-percent increase. And I think, in part, because the PJM capacity prices have gone up.

What I mentioned in my testimony is that year one under the -- in the last case, the -- what I call the premium that the residentials paid was -- was 0.04 cents per kilowatt-hour. In this case the first year premium is 0.3 cents per kilowatt-hour, so there's a very, very large difference.

The premium in the last case that the residentials were required to pay, and I'm referring to the residential SSO customers, was relatively modest. In this case it's a pretty big number. It's something like $11 million in the first year.

Q. And what would that translate into as far as a rate increase on a customer's bill? Have you calculated that?

A. I knew there was a reason why I brought a calculator to this hearing. I can probably do that for you. If you'll accept rough approximations, it the -- the premium is $11 million, that was my calculation in the first year, and that was based upon the assumption of the residential SSO load being 3.8 million megawatt-hours. So if we divide the 3 -- the 11 million by 3.8 million, that's about $2.90 a megawatt-hour. I think I said in my testimony --

Q. $3.

A. -- $3 a megawatt-hour. I don't know what average usage is on the Duke Ohio system. I guess nationally it's, you know, something like maybe a thousand kilowatt-hours a month or one megawatt-hour a month. So the effect on the residential SSO customer might be on the order of $3 a month.

Q. Thank you.

A. These are very, very rough numbers, and they are going to change from year to year.

Q. Now, your proposal on page 20, you essentially have two proposals -- or two ways that this could be -- your concerns would be addressed. The first one is to simply not unbundle capacity and, I assume, all customers would pay the same megawatt-hour charge?

A. Not exactly. There would still be differences based on voltage.

Q. But --

A. There wouldn't be -- there wouldn't be a capacity premium or capacity discount relative to the total company average.

Q. So a residential customer would pay the same for capacity as a -- as a, you know, a large industrial customer in your proposal?

A. Other than the voltage difference, there would still be voltage differences. That is, if you are a high voltage customer, you pay less for that reason.

Q. Are there any other utilities in Ohio that -- that do it this way, that do it according to your proposal?

A. I'm really not sure. I was in the AEP ESP case which I believe is still pending, and they -- in that case they proposed using the Duke methodology or, I guess, something similar to the Duke methodology. And it appears that they were just introducing that in this case, so I don't know what they -- what they were doing before that.

You know, I really haven't seen this method of capacity allocation used in other jurisdictions, that much I can tell you.

Q. I just want to back up for a second and focus on page 20. You explain the rationale for -- for not unbundling capacity. And one of them is you state that the residential customers, they bring -- their -- it's a larger -- it's a larger pool of customers. They have more load than nonresidential SSO customers so that there's a benefit they confer into the -- you feel that -- you speculate that there is a benefit in the price to having a larger class which is provided by residential customers, correct?

A. Yes. I believe that the large and stable residential load does confer a benefit on the other customer classes which are substantially smaller, and that these other customer classes enjoy that benefit.

Q. And the residential customers also enjoy a benefit from being associated with -- with the nonresidential customers because they also bring some size to the table, correct?

A. I think that the other classes, as far as the residentials are concerned, there are pluses and minuses. I think that all classes do contribute to the size of the load and, therefore, the success and the economics of the auction process; I agree with that. I think that other customer classes are not as stable as the residential class. And that's -- that would be a negative.

Q. The -- the size benefit, there's no way to quantify what that benefit is, how that results in

lower SSO prices, correct?
A. That would be my opinion, yes.
Q. And you also talk about migration risks. There's also no way to quantify the -- how that's -- how migration risk is -- how that affects SSO price, correct?
A. That's correct. And I tried to emphasize that larger point in my testimony that we can't quantify it, that we don't know, and that bidders simply don't reveal what their preferences are and what their price bids would be for individual customer classes because that's simply not the way the auction is set up.
Q. There's some negatives that residential -- the residential class brings to the table as well, like, they are more weather sensitive, correct?
A. The weather sensitivity of the residential class might be -- might be similar for commercial customers. It's probably different than it is for large industrial customers. Industrial customers tend to be more sensitive to the -- to the economic conditions than the residential classes are. So I think that there are pluses and minuses associated with each class.

Q. And for all these -- the size, the migration risk, the weather sensitive, there is just no way to quantify that, correct?

A. I agree. That was the point I was trying to make in my testimony. We can't quantify these things. It's just not revealed by the bidders.

Q. But there is a way to quantify the value of capacity, correct?

A. Yes.

Q. Thank you.

Now, your, we will call it sort of your "Plan B proposal" was to just have separate auctions for -- for residential customers and business customers, correct?

A. No, that's not -- no. I'm not proposing separate auctions. I'm simply saying within the same auction, you can have a separate residential versus not residential product. It wouldn't require a separate auction.

Q. Okay. I misspoke then. So you would have same auction, two different products.

A. Yes.

Q. Residential product and a nonresidential product.

A. Yes.

Q. And, again, there is no way to tell if that's going to -- that's going to raise prices or lower prices, we just don't know.

A. We don't know what the outcome is, but if -- I only suggested that if there is pushback or objection, to this what I call an "artificial unbundling" that the -- that the company does in its process of setting the retail SSO rates.

If, for some reason, the company or a party feels that eliminating that unbundling would be unduly favorable to the residential class, that's not an opinion that I share, but if they feel that way, you know, then I would say fine. Then just -- then just let the wholesale bidders bid separately for the residential load versus the nonresidential load. Let's just let the chips fall where they may. In fact, that's the approach that's used in most other jurisdictions for default service.

Q. If that was the approach, then you would lose the size benefit that you talked about, you would lose the, sort of any diversity benefits you get from combining those rates, correct?

A. No, I wouldn't -- not necessarily. I think that, first of all, the residential SSO load is so large, as I indicated, at least for 2013 it was something like 3.8 million megawatt-hours, I wouldn't worry about residentials losing the size benefit. They would do fine. I think that the nonresidentials might lose the size benefit which is an indication they are really being the helped out by the residential load.

But it wouldn't change the overall size of the auction. It would simply give the individual wholesale suppliers the flexibility to bid separately for serving the residential SSO load versus serving the nonresidential SSO load.

You know, for example, if you had a -- in a given auction let's say that you put 2 million megawatt hours of SSO load out to bid, disaggregating the residential and nonresidential into separate products doesn't change the size of the auction.

MR. BOEHM: Thank you, Mr. Kahal. Those are all the questions I have.

EXAMINER PIRIK: Ms. Petrucci?

MS. PETRUCCI: Yes, thank you.

- - -

CROSS-EXAMINATION

By Ms. Petrucci:

Q. Good morning, Mr. Kahal.

A. Good morning.

Q. I have a few questions about Duke's rider UE-GEN.

A. Yes.

Q. That rider is applicable to all of Duke's customers, both shopping and nonshopping customers, correct?

A. You mean as it's structured today?

Q. Yes.

A. Almost. My understanding is that -- is that for CRES customers that are not part of the purchase of receivables program, they're exempt.

Q. Would you agree at present there are few nonPOR CRES providers in Duke's territory?

A. That's my understanding, yes. So that's a very narrow exception.

Q. Except for that exception, setting that part aside, right now are shopping customers in Duke's service territory paying a share of the SSO customer's bad debt by virtue of rider UE-GEN?

A. They are, along with the SSO customers.

Q. Will the shopping customers be relieved from paying that share of the bad debt of the SSO customers if your proposal is accepted in this proceeding?

A. Well, my -- my proposal would -- would eliminate that, and so, in that event, presumably if there's no subsidy to the CRES providers for bad debt expense, that debt expense just becomes a normal business expense for the CRES providers and presumably they price that into their price offerings.

Q. So if your proposal was to be accepted, there would have to be changes to the applicability of the rider UE-GEN?

A. I don't think rider UE-GEN would even be needed at all. I think it could be eliminated or at least phased out. And, instead, for the SSO customers, their uncollectible expense would be priced into the SSO rates that they pay.

Q. Will the SSO customers pick up more of the bad debt if your proposal is accepted than they currently pay?

A. No. The SSO customers would simply pay the bad debt expense associated with SSO service. Right now, that rider, the UE-GEN rider that covers all generation-related bad debt expense whether it's SSO or from the CRES providers.

Q. If your proposal is accepted, the SSO customers would pay their own debt.

A. Their own bad debt expense, yes.

Q. Yes, I'm sorry. Thank you.

A. As I believe they should.

Q. But do you know if, as a result of your proposal, SSO customers would pay more in bad debt expense?

A. No. That's -- that's -- I don't believe that that's even knowable.

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

THE WITNESS: Thank you.

EXAMINER PIRIK: Mr. Hart?

MR. HART: No questions.

EXAMINER PIRIK: Mr. Chamberlain?

MR. CHAMBERLAIN: No questions.

EXAMINER PIRIK: Ms. Spiller?

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CROSS-EXAMINATION

By Ms. Spiller:

Q. Good morning, Mr. Kahal.

A. Good morning.

Q. A few questions if I can follow-up on what you have just been asked about by Ms. Petrucci. You were just talking about rider UE-GEN. Currently, sir, that is a nonbypassable rider, correct?

A. Yes. With that one exception I talked about.

Q. Certainly, sir. And as a result of that, all bad debt for all competitive generation supply is paid by all retail customers in the territory, correct?

A. Yes.

Q. And, sir, you certainly appreciate that retail customers come and go from the company's standard service offer of supply, correct?

A. They do.

Q. You used a term, in response to a question from Mr. Boehm, and I believe it was "disaggregation" when speaking about the SSO supply auctions. Does that simply refer, sir, to your proposal of separating out residential and nonresidential loads?

A. I don't remember the context in which I used that term. I talked about the disaggregation of capacity and energy from the -- from the bundled price. I may have also talked about disaggregating the load that's bid out in the auction process for SSO service. Disaggregation, I suppose, can be used in either context.

Q. Okay. But, certainly, with respect to the SSO supply auctions, disaggregation would be reflective of your proposal to separate out residential and nonresidential loads, correct?

A. I'm not proposing that.

Q. Well, sir, you are proposing separate products for residential and nonresidential load, correct?

A. No. I'm simply proposing that residentials under the current structure, which I'm fine with, not be charged a premium for -- for the SSO costs which is the company's proposal. All I'm simply saying is that if the company is insistent on continuing to charge that premium, then an alternative would be to -- to conduct the auction bidding out separate residential versus nonresidential products. It's not my proposal; it's simply an alternative I'm saying that the company could use.

Q. Sir, all I am trying to understand, and I think you've already said that you propose, as an option, separate auction products for residential and nonresidential load, correct?

A. I've identified that as an auction. It's not my primary recommendation.

Q. Sir, do you support the recommendation?

MR. BERGER: Your Honor, just for

clarification. He said he identified that as an "auction," I think he said, rather than an "option."

THE WITNESS: Oh, option, o-p-t-i-o-n.

MR. BERGER: I'm sorry. I just wanted to make sure. Thank you.

Q. Sir, do you recommend that option?

A. I -- it's something that I believe is sound. It's something that I believe is practical. It's something that I believe is acceptable. It's not my primary recommendation. It's -- it's only a -- it would be an option -- a legitimate option, I think, that could be pursued in the event that there is concern that eliminating the company's methodology would unduly benefit residential customers.

I don't happen to hold that opinion, but if others hold that opinion, I am simply saying let's let the chips fall where they may and have an auction that has separate residential and nonresidential products and see what happens and let the market determine the outcome.

Q. Okay. Let me go back to my question, sir. Do you recommend the option in this case?

A. It's not --

MR. BERGER: I object, your Honor. He's already answered that question twice.

EXAMINER PIRIK: Overruled.
MS. SPILLER: It's a yes or no.
EXAMINER PIRIK: Overruled.
Q. Go ahead, I'm sorry.
A. It's not my primary recommendation. It's only a recommendation in the event that there is a concern that under the present structure the company does not want to eliminate the premium.
Q. And, sir, I appreciate that it's not your primary recommendation. But my question is simply one of whether or not you recommend the option in this case.
A. It's a --
MR. BERGER: Objection, your Honor. I mean he has already explained that it's an option. It's not his primary recommendation. What more is there to say about it?
MS. SPILLER: Well, is it any recommendation at this point?
MR. BERGER: Three times he explained this.
EXAMINER PIRIK: We'll allow the question one more time.
MS. SPILLER: Thank you, your Honor.
Q. Sir, do you recommend it as a secondary

option in this case?

A. It's a secondary option. It's a conditional recommendation. It's not the simplest way, though. The simplest way to go is to simply eliminate this premium and discounting for capacity costs, which I think is an artificial calculation. If -- if there is still a concern about who should be responsible for how much in the way of capacity costs, then let the market decide. So it's a conditional recommendation.

Q. With a lot of complications.

A. No.

MR. BERGER: Objection, your Honor. He explained his recommendation four times now.

EXAMINER PIRIK: Overruled.

MR. BERGER: And her characterization of it.

EXAMINER PIRIK: Overruled.

A. A lot of complication, no. In fact, it's a pretty standard method used in other jurisdictions.

Q. Okay. We'll come back to that, sir.

You were speaking with Mr. Boehm about an increase in capacity prices in respect of residential customers, and I believe there was a reference to a 16 percent increase. Do you recall that, sir?

A. Yes.

Q. And, sir, if I heard you correctly, you attributed some of that increase to an increase in capacity costs, correct?

A. No. The 16 percent is simply the -- that's the percentage increase in the -- in the allocation percentage to the residential class. If I might use round numbers, in the 2011 settlement, the allocation was 39 -- 36 or 39 percent. I am trying to remember the number now. And in this case it's approximately 46 percent, 45 or 46 percent. That's a 16 percent increase. That's where the 16 percent comes from.

On top of that, the capacity prices today are higher than they were back in 2011. So there would be an increase for both reasons, but the 16 percent has nothing to do with the PJM capacity prices.

Q. Okay. So you have acknowledged, sir, that capacity prices are increased, correct?

A. They have, and they will change from year to year.

Q. Okay. And these are the wholesale capacity prices, correct?

A. They are the PJM clearing capacity

prices, that's right.

Q. And, sir, you've done no work in this case to forecast -- strike that.

Are you aware of the PJM capacity prices for the PJM calendar years that run through 2017-2018?

A. They are not really on a calendar year basis; they are on a planning year basis.

Q. The PJM planning year, yes.

A. Right. That runes from June 1 through the following May 31. Yes, I'm aware of them. I just can't cite the numbers from memory.

Q. Okay. So you don't know whether the results of the base residual auctions for the three years of the company's proposed ESP are higher than the capacity prices for the current ESP, do you?

A. I'm sorry. By "current" do you mean the year we are in now?

Q. The current ESP. You know that to be a three-year ESP, don't you?

A. That's correct. I think that they are higher, but I -- but they do fluctuate from year to year.

Q. And, sir, you would not expect that fluctuation in capacity prices to change in the

future, would you?
A. You mean whether there will be a fluctuation?
Q. Correct.
A. Oh, I would certainly -- based upon past experience, I would certainly expect it to fluctuate from year to year. In fact, there's been a lot of discussion in the trade press lately about those prices going way up with coal plant retirements and things like that.
Q. And are there other factors, aside from coal plant retirements, that could potentially cause capacity prices to go way up?
A. Yes.
Q. And what are those, please?
A. Right now, there's a dispute over the treatment of interruptible load and what -- and what role that should play in the PJM auction, capacity auctions. If there are changes to that treatment, that could affect capacity prices. Load growth obviously can affect capacity prices. Power plant construction or whether that takes place or not could affect capacity prices. I don't want to spend all morning talking about all the factors that are affected.

Q. Well, they are important, sir, wouldn't you say, to residential customers in Ohio?

A. Oh, sure, yeah. It also, after a point, gets a little speculative.

Q. And some of that speculation contributed -- contributes to the uncertainty and unpredictability of wholesale power prices, correct?

A. It does.

Q. And, sir, you mentioned the "interruptible load." Is that synonymous with "demand response"?

A. Yes. Different terminologies for it. The reason I brought that up is because there have been some court cases recently on the treatment of interruptible load or demand response and how that should be dealt with in PJM. And I think that FirstEnergy, in particular, has -- is disputing the way it's incorporated into the PJM auctions.

Q. And there is the potential, sir, for demand response to be removed as a capacity resource from the base residual auctions, correct?

A. Did you say a "potential"?

Q. Yes, sir.

A. Yes and no. The "yes" part is yes, it could be removed as a capacity resource. The "no" part is that if that were to happen, it's likely that demand response or programs of that type would likely show up in the load data that's used in the capacity auction.

So it's not as if it's going to be ignored. It's simply that it may take a different form. And exactly how that affects capacity prices, I think, if it were to occur, no one is really sure.

Q. And you mentioned, sir, a challenge by FirstEnergy. Are you aware that FirstEnergy -- FirstEnergy's challenge is such that they are asking PJM to rerun the 2000 -- strike that.

They are asking PJM to rerun the base residual auction for the 2017-2018 planning year?

A. I'll accept that they made that. I haven't really followed it that closely.

Q. And if, in fact, that base residual auction is rerun, capacity prices could change significantly, correct?

MS. BOJKO: Objection, your Honor. He just said he wasn't familiar with the case, he wasn't familiar with FirstEnergy's filing, and now she is asking him to make a conclusion as to whether FirstEnergy's filing will or will not be successful. There's many assumed facts in that question.

EXAMINER PIRIK: Overruled.

A. I have been following it in the trade press rather than actually looking at the specific filings, and I haven't been personally involved in any of the litigation. But the discussion in the trade press is that that could create some uncertainty as to what the clearing prices in the capacity market would be.

Q. Thank you.

And you've mentioned the retirement of coal plants, sir, as a potential impact on capacity prices. With the retirement of coal plants, would there be less supply diversity in PJM?

A. In the short run there would be; long run, no one knows.

Q. Mr. Boehm started his questioning of you, sir, with regard to what I will characterize generally as risk premiums that SSO suppliers may build into their price. I believe you've mentioned they would want to include in their price a margin, I think you said their costs of doing business, and migration risk that they may believe to face, correct?

A. Yes. I think the word -- the terms I used were "profit requirement."

Q. Sir, is that any different than how a competitive retail electric service provider would price their offers?

A. Yes.

Q. And how is that different?

A. The difference is that a competitive retail electric supplier really doesn't -- doesn't face migration risk. It -- that's not really an issue for competitive retail suppliers because they normally utilize contracts and customers have contract obligations and customers typically meet their contract obligations.

With default service there's more of a freedom to come and go.

Q. So are you aware of the -- the Commission's Apples to Apples chart on its website?

A. No.

Q. So you don't know what CRES providers are currently offering in terms of contract terms to Duke Energy Ohio residential customers, do you?

A. No. That's -- that's not part of what I investigated in this case.

Q. And you don't know whether or not those contracts allow residential customers to come and go between competitive supply and the SSO, do you?

A. No. My understanding is that customers are free to leave SSO service whenever they want to.

Q. And similarly, sir, are they free to leave a competitive supply offer when they want to if they are a residential customer in Ohio?

A. I don't know. I do know, based on industry experience, migration risk is really not a big issue for competitive retail suppliers. What is an issue for them are the administrative costs associated with managing what's sometimes called "customer turn." That's different than migration risk.

Q. And, sir, at the end of a competitive supply contract, that customer will either renew with the CRES provider or they'll return to the SSO supply, correct?

A. That's right.

Q. And do you know how many offers currently extended by CRES providers in Ohio are for six-month terms?

A. No, I don't.

Q. You were talking about capacity prices and the unbundling, if you will, of the SSO auction result for purposes of riders RC and RE. Would you agree with me that the PJM wholesale capacity price

is a good proxy for the capacity price?
A. It's a reasonable proxy, yes.
Q. And PJM charges load-serving entities for capacity, correct?
A. Yes.
Q. And that's an outcome that would be true whether the load-serving entity is an SSO auction winner or a CRES provider, correct?
A. That's correct.
Q. And what PJM charges load-serving entities would be based upon the results of the base residual and the subsequent incremental auction, correct?
A. Yes.
Q. And so, SSO auction providers and CRES providers would be charged the same amount by PJM for capacity, correct?
A. For a given amount of capacity, yes.
Q. And PJM would allocate that charge based upon the five CP method, correct?
A. Yes.
Q. And, sir, that is what Duke Energy Ohio is proposing in this case, in respect of rider RC, that's to allocate capacity based on the five CP method, correct?

A. Yes.

Q. Mr. Kahal, for purposes of your work in this case on behalf of the OCC, you have reviewed various pieces of information, correct?

A. Yes.

Q. And one of the items that you reviewed was the stipulation in the company's current ESP case, correct?

A. Yes.

Q. And, in fact, sir, you didn't read the entire stipulation. You just read certain parts of it, correct?

A. Yes. I really focused on only two parts. One was I was trying to understand the mechanics of how the company allocated capacity costs in the -- in the last case, and also the rider UE-GEN that we -- that was discussed a few minutes ago. Those are the only two things in that stipulation that I really focused on.

Q. And you focused only on those two parts of the current ESP stipulation because you determined those parts to be relevant to your work in this case, correct?

A. That's right.

Q. And, sir, having reviewed the ESP --

strike that.

Having reviewed the stipulation in the company's current ESP, you know that the OCC was a party to that agreement, correct?

A. That's right.

Q. Mr. Kahal, for purposes of your work in this case, you're offering an opinion on behalf of the OCC in respect of four parts or components to the company's ESP proposal, correct?

A. Yes.

Q. And those include, sir, the ROE for the proposed rider DCI, rate allocations under rider RC, the discount rate for the purchase of accounts receivable program, and then the threshold for the significantly excessive earnings test, correct?

A. Yes, that's right. Just one slight qualification. I don't believe in this case the company is actually proposing a change to its rider UE-GEN. I think it's proposing to continue that the way it was established in the last case.

Q. And that rider UE-GEN is associated with the purchase of accounts receivable program, correct?

A. That's right.

Q. And for purposes of UE-GEN and the purchase of accounts receivable program, your testimony is limited to the receivable aspect of it and you're, in fact, recommending a discount rate, correct?

A. Yes. It's -- even slightly narrower than that. It's -- my testimony is limited to the aspect of the purchase of receivables that relates to uncollectible expense.

Q. Thank you.

Mr. Kahal, fair to say you've testified previously in a number of regulatory proceedings, correct?

A. I have.

Q. And you, sir, have rendered testimony previously in regulatory proceedings on returns on equity, correct?

A. I have.

Q. And, in fact, sir, you have testified as an expert witness offering your opinion as to appropriate ROEs or returns on equity, correct?

A. I have.

Q. You've testified as an expert on the methodologies to calculate ROEs, correct?

A. Yes.

Q. But for purposes of your testimony in this case, you have not performed any ROE calculations in respect of the proposed rider DCI, correct?

A. That's correct. I have not presented a cost of equity study, a formal cost of equity study. I've commented, instead, on the risk attributes.

Q. Okay. Well, sir, you have not attempted to quantify an ROE applicable to rider DCI, correct?

A. That's correct. That would be beyond the scope of my assignment.

Q. And your assignment would have been one given to you by the OCC, correct?

A. Right.

Q. And you have not performed a comprehensive risk profile of Duke Energy Ohio for purposes of this case, have you?

A. No, I have not. That's normally something that one does in a rate case.

Q. And you've not quantified any reduction in Duke Energy Ohio's business risk that would result from approval of rider DCI, have you?

A. Quantified it in the sense of a -- of quantifying a reduction to the cost of equity, I have not done that.

Q. And despite the lack of another ROE calculation or a comprehensive risk profile, you have rendered the opinion in this case that the company's proposed ROE for rider DCI is too high, correct?

A. Yes, that it's too high and it should be lower. The 9.84 percent that was established in the settlement, that number is just too high.

Q. But you don't offer any commentary to the Ohio Commission as to just how much "too high" that proposed ROE is, have you?

A. I don't recommend a specific quantitative reduction, that's -- that's correct. I'm certainly prepared to talk about it.

Q. But, sir, your opinion in this case is reflected in the direct testimony that you filed on September 26, correct?

A. That contains my opinions, that testimony, it does.

Q. And you were asked this morning, sir, whether you had any corrections or changes to your testimony, correct?

A. That's correct.

Q. And the one change that you offered, sir, was a typographical error, correct?

A. Yes.

Q. So in the context of the direct testimony that you're submitting on behalf of the OCC, you have

not offered to the Commission any other alternative ROEs, correct?
A. I am not recommending a specific ROE to be used in the -- in the place of the 9.84 that the company is proposing in this case, if rider DCI is, in fact, approved.
Q. Thank you.
Mr. Kahal, you were not involved, on behalf of the OCC, in connection with the company's last base distribution rate case, were you?
A. I was not.
Q. But, sir, you are certainly aware there was a base rate case proceeding, correct?
A. That's right. And I reviewed the settlement and the Commission's order approving that settlement.
Q. Okay.
A. I think it was in the spring of 2013 when the settlement and the Commission's approval of the settlement took place.
Q. And, sir, are you aware that in the company's last base distribution rate case that Dr. Roger Morin supported an ROE for Duke Energy Ohio having a midpoint of 10.6 percent?
A. No, I don't know what Dr. Morin's

proposal was.

Q. And, sir, you were not involved in any of the discussions that culminated in the stipulation and recommendation in the distribution rate case, were you?

A. I was not part of that rate case.

Q. So you don't know, sir, what considerations were relevant to the parties when they reached a settlement in the base distribution rate case, correct?

A. I was not involved in those discussions. I know what's typically involved in rate case settlements since I have been in numerous rate case settlements including settlements on rate of return.

Q. Sir, what's typically involved is a series of compromises, correct?

A. Absolutely.

Q. A give and take between the parties, correct?

A. That's correct.

Q. A concession on one issue in order to obtain a more favorable outcome on another issue, correct?

A. Yes. It's a comprehensive set of compromises that all the parties make. At least that's the way it should work.

Q. Do you have any reason to dispute that that wasn't the way it worked in the distribution rate case?

A. Not at all.

Q. And typically, sir, would you agree with me that settlement agreements, as a comprehensive package, don't necessarily indicate what a company would accept outside of that settlement on an individual package -- or, on an individual term?

A. I would agree with that, and I would also point out that the same thing is true of the OCC.

Q. In this particular case, sir, you've identified the allocation of rider RC to retail customers is one pursuant to which retail customers are currently paying a premium, correct?

A. Yes. It's my understanding that under the settlement that was reached in the previous ESP case that resulted in customers -- residential customers paying a premium relative to total company.

Q. And so, the OCC knowingly agreed in the -- in the current ESP settlement that residential customers would pay a premium for capacity, correct?

A. That's -- they agreed to that in the context, I think, of a comprehensive settlement of the entire ESP case, yes.

Q. Mr. Kahal, certainly given your experience, you're familiar with the principle of cost causation, correct?

A. Yes.

Q. But you don't believe that the principle of cost causation has an appropriate place in a deregulated environment, correct?

A. I don't think that it -- let me back up. I think that it is -- the principle of cost causation is primarily a regulatory concept. It's certainly applicable to cost of service regulation. I don't think it's particularly relevant in a market-based setting. It really doesn't have much meaning in a market-based setting. In a market-based setting prices are based on what the market will bear.

Q. Mr. Kahal, just a moment, please. I am looking for the reference to your testimony for ease. Sir, page 11 of your testimony, the first question there, sir, that begins on line 1 discussing business risk that may be associated with rider DCI. You would agree that Duke Energy Ohio will continue to have business risk upon approval of rider DCI, correct?

A. Oh, if DCI -- I assume, by your question, you mean if it's approved by the way the company proposes it.

Q. Yes, sir.

A. If it's approved the way the company proposes it, Duke Energy of Ohio will not be a risk-free entity. If it was, we could only justify a 3 percent return on equity.

Q. But you believe that Duke Energy Ohio has little risk of cost disallowance under rider DCI as compared to the risk of disallowance for similar costs in the context of a base rate case, correct?

A. I think that there is less risk associated with the company's rider as opposed to conventional rate case cost recovery.

Q. Okay. And you believe this to be the case, sir, because, based upon your experience in New Jersey proceedings, rarely is there a disallowance for infrastructure-type trackers, correct?

A. That's right. I don't know in any jurisdiction where there's been those kinds of disallowance, prudence disallowances. They just haven't happened. They could in theory. The -- these costs are still subject to prudence challenges; as a practical matter, that rarely happens.

Q. So if I understand your testimony, sir, are you saying that the Commission and its staff rarely disallows infrastructure -- strike that.

Are you saying that the Commission and its staff rarely disallows recovery of infrastructure costs where the recovery of those costs is sought by way of tracker?

A. Yeah. I'm saying there's much less risk of that under trackers than there is under base-case-type of ratemaking. Where there's much more extensive scrutiny of costs, all costs.

Q. Sir, are you familiar with the extent of the review that the Commission -- the Ohio Commission and its staff will make before allowing recovery of capital expenditures through a tracker?

A. I'm familiar with what the company's proposal is here. The company's proposal is that the -- is that the rate changes under the company's DCI will take place automatically unless the Commission determines otherwise. That's the company's proposal.

Q. Are you aware of circumstances, sir, where the Ohio Commission does not review rates that are charged to Ohio customers?

A. What the Commission approves are the company's tariffs. That's what's approved.

Q. And you would expect the Commission to perform a sufficient analysis in review, as the Commission deems appropriate, before authorizing rates and tariffs, correct?

A. I would assume that the Commission does whatever it believes is appropriate, and the Commission has broad authority.

Q. And you would expect, sir, that the Ohio Commission would only approve reasonable rates and allow reasonable cost recovery, correct?

A. That would be one's hope. How effective that is depends upon the rate mechanisms actually being used, and it's my opinion that the rate-case-type reviews are the most effective way of ensuring that.

Q. And, sir, you have not been involved in any tracker proceedings in Ohio, correct?

A. That's correct.

Q. And so, you don't know the degree of the risk that faces Duke Energy Ohio with regard to disallowance of costs under rider DCI, correct?

A. My understanding is that rider DCI is a new proposal. It doesn't exist currently. So it doesn't have a track record.

Q. But you don't know how -- strike that.

You don't know whether Duke Energy Ohio may face a risk of disallowance of costs under rider DCI, do you?

A. I would hope that they do face that risk. It would be very disturbing if they did not. And that's -- that's the basis for my testimony where I say that Duke Energy will not be risk free, that there will be some risk. Rather, the emphasis in my testimony is that it's simply a different risk than the risk that the company faces in base rate cases.

Q. But, sir, on page 11, line 8 and 9, you believe that the company's execution risk is very small, correct?

A. That's right.

Q. And you base that opinion on simply your involvement in tracker proceedings in New Jersey, correct?

A. Yes. And just based upon my general knowledge, I have not heard of there being prudence disallowances with other infrastructure-type trackers.

Q. Mr. Kahal, I believe you've indicated previously this morning that you are a witness for the OCC in connection with AEP Ohio's pending ESP case, correct?

A. Yes.

Q. And in that case, one of the issues on which you rendered testimony was the MRO versus ESP comparison, correct?

A. That's correct.

Q. And in order to offer that testimony, you certainly needed to familiarize yourself with all elements of AEP Ohio's proposed ESP, correct?

A. Not the details of every aspect of the filing because I was incorporating the findings of other witnesses. For example, there was a witness on the PPA rider. I simply accepted his findings. I didn't try to independently analyze the same issues that he did.

There was a separate witness on the infrastructure riders, Mr. Effron. I didn't try to replicate his analysis. I simply accepted his findings. And I incorporated the projections that were made by company witnesses as well.

Q. Okay. But you certainly knew, for purposes of performing the MRO versus ESP test in the AEP Ohio proceeding, that AEP Ohio was proposing an extension of their existing distribution investment rider, correct?

A. That's correct. And I incorporated those added costs into my analysis.

Q. And, sir, are you aware that AEP Ohio's current distribution investment rider was approved in its ESP II proceeding?

A. Yes. My recollection is that in the ESP III case that you said is pending, AEP was proposing some changes to what had previously been approved.

Q. And in the ESP II proceeding for AEP Ohio where the distribution investment rider was originally approved, the Commission authorized a 10.2 percent ROE, correct?

A. I don't know what they -- what was authorized for that.

Q. You would agree with me that the Commission's order would reflect the ROE that was authorized in respect of AEP Ohio's distribution investment rider?

A. Whatever that order says.

Q. And you have no reason to dispute that, correct?

A. I'll accept that, subject to check.

Q. Mr. Kahal, you would agree with me that AEP Ohio and Duke Energy Ohio will have similar risk profiles under their respective ESPs that take effect on June 1, 2015.

A. Similar. I couldn't tell you that it's identical. I think I did mention and I mentioned this in my -- in my deposition that my recollection is that Duke has a somewhat different capital structure than AEP. It has a capital structure that has a higher common equity ratio and, therefore, the different capital structure for Duke Ohio was just that Duke would be -- would be less risky, all else equal.

Q. But, again, you have not performed a comprehensive risk profile for Duke Energy Ohio or for AEP Ohio for purposes of this case, correct?

A. That's correct. I wasn't asked to evaluate AEP Ohio's risk in that ESP case.

Q. Thank you.

And, sir, given your familiarity with the AEP Ohio distribution investment rider, are you also aware that the Commission has approved that rider because it believes that distribution investment riders reflect an appropriate incentive to accelerate recovery of prudently-incurred distribution investment costs?

A. You're referring to the ESP II order?

Q. Yes, sir.

A. Yeah. It's whatever that order says, it says.

Q. Thank you.

Mr. Kahal, for purposes of your testimony in this case, you also address Duke Energy Ohio's proposed distribution storm rider, correct?

A. Yes.

Q. And for --

A. Well, I just mention it briefly in passing that I think that storm rider helps to reduce its risk.

Q. And it's your belief that the company will automatically recover incremental storm costs through rider DCR -- DSR, correct?

A. Yes. That rider does provide for rider recovery, under certain circumstances, of storm costs that have been -- that will be incurred in the future if that rider is approved.

Q. And do you believe that recovery of incremental storm costs to be automatic by the company?

A. If the company's proposal is approved, the recovery would take place pursuant to the company's proposal, which involves the creation of a regulatory asset, and if the regulatory asset exceeds a certain amount, and I can't recall what the threshold numbers are, then the company gets to recover it on an annual basis.

Q. And would you believe that recovery, sir, to be automatic?

A. For all practical purposes it sounds automatic to me.

Q. And, again, you believe it to be automatic because it's a tracker mechanism?

A. I think it can be described as a tracker-type mechanism. It's the -- the mechanisms for recovery of that cost will depend upon the dollar amount of the actual storm costs incurred by the company. I would consider that to be automatic.

Q. Thank you.

A. It's certainly quite different than conventional base rate recovery.

Q. And for purposes of forming your opinions with regard to rider DSR, you reviewed the direct testimony of Duke Energy Ohio witness Peggy Laub, correct?

A. I did, and also the testimony of Mr. Mierzwa.

Q. With respect to -- I'm sorry, you said you've also reviewed the testimony of OCC witness

Jerome Mierzwa?
A. Yes.
Q. And Mr. Mierzwa is an individual with whom you regularly consult or work?
A. I see him with some frequency.
Q. And that's because you all have an office-sharing arrangement, correct?
A. Yes.
Q. You have offered testimony in this case, sir, that rider RC should be eliminated because it results in a -- in residential customers paying a premium, correct?
A. No. It's because the premium is not justified.
Q. But you believe that rider RC does result in residential customers paying a premium, correct?
A. It does. A premium relative to total company charges.
Q. And you believe that premium is not justified because the residential class, in your opinion, is favorable to serve, correct?
A. I think that the residential SSO load is very attractive to suppliers, yes.
Q. And is it fair to say, Mr. Kahal, that you believe that the favorable nature of the

residential class is likely to influence bidder participation in SSO supply auctions?

A. I think that it will influence the interest of bidders to participate in the auctions.

Q. Okay. And in influencing bidder participation, you mean that more suppliers may be attracted to participate in the SSO supply auction, correct?

A. I would think so. That is, I think there would be more supplier interest in participating in the auctions if the residential SSO load is there as compared to, let's say, the residential SSO load disappearing.

Q. Well, let's talk about that for a moment. You are certainly aware that Ohio statutes authorize governmental aggregation, correct?

A. Yes.

Q. And governmental aggregation is a program pursuant to which a township, a county, or a municipality can aggregate their residential and nonmercantile loads for purposes of generation supply contracts, correct?

A. Yes.

Q. And with a governmental aggregation, a large amount of the residential load could leave the

SSO supply, correct?
A. Sure.
Q. The existence of the residential load within the SSO supply auction is not the only factor that a prospective bidder would consider when deciding whether to participate in the auction, is it?
A. There could be any number of factors that would influence the decision to participate.
Q. Such factors could include the structure of the auction, right?
A. Sure.
Q. Such factors could include the credit requirements for participation, correct?
A. Yes, if they were extremely onerous, for example, that would discourage participation.
Q. Such other factors could include the other terms and conditions of the master supply agreement, correct?
A. Yes.
Q. Factors that are relevant to bidder participation could also be the timing of one SSO auction relative to all other SSO auctions in which it may be interested in participating, correct?
A. Yes. The potential SSO suppliers have

limited resources.

Q. I would like to focus, sir, on your secondary recommendation, that of having separate residential and nonresidential products in the SSO supply auction. If there were separate residential and nonresidential products in the SSO supply auction, you wouldn't necessarily expect every auction participant to bid on both of those products, correct?

A. Well, that would be up to the suppliers. They would have the choice as to what to bid on. They could bid on both. They could bid neither. They could bid on one or the other.

Q. And you would agree, Mr. Kahal, currently Duke Energy Ohio does not have separate residential and nonresidential products included in its SSO supply auctions, correct?

A. That's correct.

Q. Mr. Kahal, if we could refer back to the current ESP stipulation, and I believe you indicated you focused on those parts of the ESP stipulation that you thought relevant to your work in this case, correct?

A. Yes.

Q. And, again, sir, the ESP stipulation in that regard would be the ESP stipulation relevant to the company's current ESP, correct?

A. Yes.

Q. So, in your opinion, in the company's current ESP, the OCC's agreement that Duke Energy Ohio procure, on a slice-of-system basis, the aggregate wholesale fuel requirements SSO supply was not relevant to your work, correct?

A. That's correct. The -- my work involves the current proposal.

Q. And so, just to be clear, the OCC's agreement in the current ESP, with regard to the manner in which future SSO supply auctions would be performed, was not relevant to your work in this case.

MR. BERGER: Your Honor, I object. I mean, Ms. Spiller is going over this time and again, and the stipulation in the last case or what we are referring to as the current ESP case is clear that the stipulation will only be offered for or relied upon by any party -- that it won't be relied on except as necessary to enforce the terms of the stipulation.

And Ms. Spiller's questions -- questioning this witness repeatedly regarding the stipulation is suggesting that the stipulation can be used for some purpose other than to enforce the terms of the current ESP which it can't be.

EXAMINER PIRIK: Overruled.

MS. SPILLER: Thank you, your Honor.

A. You were -- you were asking me about the OCC concurrence with the use of a bundled SSO load; was that the question?

Q. Yes, sir.

A. Yes, the -- the stipulation in the last case specified a bundled SSO load for purposes of the auction, and the OCC was a signatory to that settlement. I'm not sure what more I can tell you than that.

Q. Well, sir, do you know whether or not the OCC similarly agreed to an auction -- a bundled auction, if you will, for purposes of the company's subsequent SSO proceeding?

A. That would be this proceeding.

Q. Yes, sir.

A. No. I don't know. I don't know that there has -- is any agreement on how the auction would work in this proceeding. I think that's why we're here.

MS. SPILLER: May I approach, your Honor?

EXAMINER PIRIK: Yes.

Q. Mr. Kahal, I would like to hand you the -- what has been marked previously in this docket as OCC -- I'm sorry, OMA Exhibit 2. Sir, that's the Stipulation and Recommendation in the current ESP, correct?

A. Yes.

Q. And, sir, you would agree with me, I didn't give you all 215 pages, but just the main body of the stipulation?

A. Yes. Just the ordering paragraphs, not the -- I assume that are attached to this, there are tariffs and workpapers and schedules and things of that nature that are not attached to this document.

Q. And, sir, if you could please turn to page 5 of the ESP stipulation for the current ESP.

A. Yes.

Q. Oh, I'm sorry, sir. If we could turn back to page 4, there's a section Roman numeral I. It says "Term." Do you see that?

A. Yes.

Q. And under the "Term" it makes -- Duke Energy Ohio commits to filing its next SSO application by June 1 of 2014, correct?

A. Yes.

Q. And that next SSO application would actually be the SSO proceeding that we're talking about today, correct?

A. That's correct.

Q. And the parties agreed in this stipulation that subsequent application should make provision for SSO supply procurements via a descending clock format competitive bid process, correct?

A. Yes.

Q. And the stipulation further provides that the parties will waive -- waive any rights that they may have to contest the use of such a competitive bidding process, correct?

A. Yes.

Q. And, sir, if you would continue on in this paragraph, about six lines down it says through the competitive bidding process to be included in its next SSO application, Duke Energy Ohio will seek to procure, on a slice-of-system basis, the aggregate wholesale full -- wholesale full requirements SSO supply which includes energy and capacity, market-based transmission service, and market-based transmission ancillary services requirements, correct?

A. Yes.
Q. To your knowledge, Mr. Kahal, does any distribution utility in Ohio include, within their competitive bidding process plans, separate residential and nonresidential products?
A. I don't know. I haven't examined the competitive bidding processes for all Ohio utilities. I do know that it's common in other jurisdictions.
Q. And, sir, for purposes of your work in this case, have you reviewed the switching of Duke Energy Ohio's residential customers as between the SSO supply and CRES providers?
A. Yes, I believe I have data on customer shopping by customer class that goes through maybe January of 2014.
Q. Okay. Mr. Kahal, you do not oppose the company's purchase of accounts receivable program, correct?
A. I'm sorry. Could you repeat that?
Q. Sure. You do not oppose the company's purchase of accounts receivable program, correct?
A. No. I'm not here to either oppose it or support it. I'm just here to comment on that one aspect of it related to uncollectible expense.
Q. And that one aspect, sir, one pursuant to

which you are recommending a discount rate apply to the receivables of the CRES providers that the company may purchase, correct?

A. That's right. A discount that will eliminate the subsidy.

Q. And you've not attempted to quantify this discount rate, have you?

A. No. It's -- the company knows what's uncollectible expense is. I am sure the company has the data to implement that recommendation.

Q. And you don't know whether there would be protracted litigation over the amount of the discount, do you?

A. I don't have any reason to believe that there would be since it's a factual issue.

Q. So you believe that the 60-some CRES providers that are active in Duke Energy Ohio's service territory would all agree to the discount rate that the company may propose?

A. I can't speak for them.

Q. So we don't know, do we, sir?

A. We don't know, but there's extensive experience with purchase of receivables programs that have discounts, and I haven't noticed that there is any undue problem with that.

Q. Have you reviewed any of the -- any of the proceedings in Ohio concerning the Commission's investigation into the retail market?

A. I haven't been personally involved in those proceedings.

Q. And although you have not been personally involved, are you aware that those proceedings are occurring?

MR. BERGER: Objection, your Honor. I would ask --

EXAMINER PIRIK: Overruled.

A. Generally, I know there's been a comment process. I don't know whether there is actually live hearings or not.

Q. Okay. Mr. Kahal, the final topic on which you testify is the significantly excessive earnings test, correct?

A. Yes.

Q. And you know that this is a test to which an electric distribution company providing an SSO in the form of an ESP is subject to on an annual basis, correct?

A. Right.

Q. So every year the distribution utility needs to come in and demonstrate to the Commission whether or not its earnings for the prior year have been significantly excessive, correct?

A. Yes.

Q. And with respect to the company's proposal in this case with regard to the SEET, the only element on which you offer comment is the threshold, correct?

A. That's correct.

Q. So all of the other elements of the calculation that are reflected in Ms. Laub's testimony, you do not disagree with, correct?

A. They are not really in her testimony. I think that there is a -- I don't know if it's an attachment or a tariff which spells out various cost-of-service protocols; that's what I would describe it. That's not the subject of my testimony. So I'm not trying to dispute those protocols nor am I affirming that they are reasonable.

Q. Well, to your knowledge, is any other witness, on behalf of the OCC, disputing the reasonableness of the protocol supported by Ms. Laub?

A. I don't know if any other OCC witness is addressing the SEET test.

Q. Thank you.

And you provide in your direct testimony that you believe the company's proposed 15-percent threshold is too high, correct?

A. Yes. Well, it's both too high and it's completely unsupported.

Q. Okay. And your first recommendation with respect to the SEET threshold is that the Commission establish it on an annual basis, correct?

A. That's correct.

Q. And, again, sir, you -- strike that.

So under your recommendation, the company would make its required filing that we just spoke of, regarding the significantly excessive earnings test, without any knowledge as to the threshold against which its earnings would be measured, correct?

A. That's right. And then that would be determined by the Commission as to what's an appropriate rate of return.

Q. So when the company is required to demonstrate annually that it did not have significantly excessive earnings under the prior year, it can't make that demonstration upon its initial filing, correct?

A. Sure, it can.

Q. But it doesn't know the threshold, as you've just indicated.

A. There's a lot of things the company may not know. The company may not know whether there are going to be adjustments made to its cost of service data. There are any number of things that the company doesn't know when it makes that filing. If it did, there wouldn't be any need for a proceeding. The company is free to propose whatever ROE threshold for purposes of the SEET that it believes is appropriate, and I would expect the company then would -- would defend its selection.

Q. And then there would be protracted litigation, potentially, with regard to the applicable threshold, correct?

A. I don't know if it would be protracted or not.

Q. But there would be -- there is the potential for a dispute on the issue, correct?

A. Absolutely. I would hope that there would be.

Q. And that dispute would happen every single year potentially, correct?

A. Yes. We're talking about impacts on customers and this would provide an opportunity for parties to protect the interests of customers. It may or may not be controversial. It's entirely possible that the parties, the Commission, will look at the company's filing and find it entirely reasonable and find that there's -- that could be very, very easily disposed of. It's also possible that it could be controversial.

Q. Sir, do you have any reason to believe that the Commission's determination of a SEET threshold, at the onset of any electric security plan, has worked an injustice to residential customers?

A. I don't know. I haven't been in previous SEET proceedings to be able to render that judgment for you.

Q. And your second recommendation concerning the SEET is that the Commission adopt a threshold of between 12 and 14 percent, correct?

A. That's only in the event that the Commission determines that the ROE threshold needs to be set at this time, hardwired in for the full three years of the -- of the ESP.

Q. And the 12-percent number that's included in your range is simply derived from your reference to the threshold for AEP Ohio, correct?

A. That's right. I believe that there was another utility that was also granted a 12-percent

SEET threshold for the ROE.

Q. But you've done no independent analysis as to whether that threshold is appropriate, correct?

A. The 12 percent?

Q. Yes, sir.

A. There is no quantitative analysis that gets -- that I've done that gets to the 12 percent other than noting that's a figure that the Commission has previously used. What my testimony does is it cites the reasons why the 15 percent is -- is a figure that's just way too high.

Q. Mr. Kahal, have you done any analysis as to whether the revisions to the purchase of accounts receivable program, as you're proposing, would have an impact on retail competition?

A. I believe -- no, I have not evaluated whether it would or not. I think it's actually a fairly small change, Ms. Spiller, so I wouldn't think it would have a major affect one way or the other.

Q. Okay. Mr. Kahal, if you could turn to page 31 of your testimony, sir.

A. 31?

Q. Yes, sir.

A. I have that.

Q. In the second -- this is testimony that is addressing your opinions in respect to the threshold for the SEET, correct?

A. Yes.

Q. And the second bullet point that you have on this particular page references Duke Energy Ohio's divestment of "substantially all of its generation assets," correct?

A. Yes.

Q. And the source of your information for that statement was what, sir?

A. That its divesting its generation?

Q. Yes, sir.

A. I've seen it in the trade press for one, and, certainly, I discussed it with the OCC.

Q. And did the OCC discuss with you the parenthetical language that's included in that bullet point there?

A. I don't recall discussing that with them. They obviously saw that before my testimony was filed. That's just -- that's just my understanding from the company's filing that it would -- that it has not divested its OVEC entitlement.

Q. And you are not aware, sir, of any regulatory requirement that Ohio divest a contractual entitlement, are you?

MR. BERGER: Objection, your Honor. He's not testifying about this subject matter. He's just making a statement about what the SEET ROE changes are here. He is not talking about the OVEC entitlement, or he hasn't offered any opinion about the PSR in this case.

EXAMINER PIRIK: Overruled.

A. Now, this reference is just intended to be a factual statement. I don't have an opinion on the legal issue. It sounds like a legal issue to me, but the legal issue of what -- what its obligation is with respect to divesting or not divesting the OVEC entitlement. This is simply a factual statement that it has not happened.

Q. And you -- the basis for that factual statement for purposes of your testimony, sir, is what, please?

A. It's the company's filing that the OVEC entitlement is part -- my understanding is it's part of the PPA rider that's been proposed.

Q. And you would agree with me that legal issues are best resolved by the Commission, correct?

MR. BERGER: Objection, your Honor. She is asking the witness for a commentary about --

EXAMINER PIRIK: Sustained.

MS. SPILLER: Thank you, your Honor.
Q. And, Mr. Kahal, just to be clear with respect to this bullet point, you're summarizing what you've read in the company's filings, correct?
A. Yes.
Q. You've mentioned, Mr. Kahal, your familiarity with AEP Ohio's administration investment rider, both as approved in its ESP II proceeding and as the proposed extension in their ESP III proceeding. So, sir, you are aware that AEP Ohio does not include O&M savings in their distribution investment rider, correct?
A. I don't know that one way or the other. I was not the witness on the DIR. That was Mr. Effron and he may have testified on that issue.
Q. Thank you.
A. My testimony on the DIR was limited to the company's own projections and the rate impacts associated with it.
MS. SPILLER: Nothing further, your Honor. Thank you.
EXAMINER PIRIK: Staff?
MR. BEELER: No, thank you, your Honor.
EXAMINER PIRIK: Mr. Berger, redirect?
MR. BERGER: Can we have 5 minutes, your

Honor?

EXAMINER PIRIK: Why don't we take our short break now for 15 minutes, and we'll come back at 5 till.

(Recess taken.)

EXAMINER PIRIK: Mr. Berger.

MR. BERGER: Thank you, your Honor. Just a few questions for Mr. Kahal on redirect.

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REDIRECT EXAMINATION

By Mr. Berger:

Q. Mr. Kahal, you were asked a question by Ms. Spiller, whether you quantified the appropriate reduction to the rate of return associated with the lower business risk associated with rate DCI. Do you recall that?

A. Yes, I do.

Q. And you answered that you hadn't. Has the company provided any quantification supporting the 9.84 percent as a rate of return for rate DCI?

A. No. The only -- the only support that the company provided -- and this is very, very briefly in Ms. Laub's testimony, was that the rate of return, including the 9.84 percent return on equity, was derived from the result that is the settlement in the -- in the last rate case.

Other than that, the company provided absolutely no substantive support why the 9.84 percent is an appropriate rate of return at this time and in the context of this DCI which obviously didn't exist at the time of the last rate case.

And the company did this in spite of the fact that the settlement language from that rate case specifically stated that the 9.84 percent return on equity was nonprecedential, other than for the gridSMART rider, which was a specific carve-out, and that the company had the burden of proof of supporting a rate of return in any future proceeding. That obviously was not done in this case.

Q. Thank you.

You were also asked some questions regarding rate DSR and whether the adjustments to rate DSR were automatic in nature -- or you understood them to be automatic. Do you recall that?

A. Yes, I do. And I stated that they're automatic in the sense that --

MS. SPILLER: Your Honor, I am going to object. I think this witness is just offering an answer when there's no question other than do you recall a prior exchange.

EXAMINER PIRIK: Overruled.

A. That the rider DSR rate recovery is automatic in the sense that there is a well-defined formula and procedure that's spelled out for how rate recovery is to take place for storm damages incurred by the company.

Q. And is it your understanding that despite the automatic to the -- rate DSR rider that there would be a prudence review of that rider and potential audits of that rider?

A. I would assume that that's the case, that it's -- per the discussion that I had with counsel for the company, that these riders are still subject to Commission review and, for that reason, I'm certainly not claiming that they are risk free, that they are of -- and as I indicated, I certainly hope they would be subject to prudence reviews by the Commission.

Q. You made those comments with respect to rate DCI. I just wanted to make sure you have the same viewpoint regarding rate DSR?

A. Absolutely the same comments extend to rider DSR as well.

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

EXAMINER PIRIK: Mr. Darr?

MR. DARR: No questions.

EXAMINER PIRIK: Ms. Hussey?

MS. HUSSEY: No questions, your Honor.

EXAMINER PIRIK: Ms. Bojko?

MS. BOJKO: No questions.

EXAMINER PIRIK: Mr. Mendoza?

MR. MENDOZA: No questions.

EXAMINER PIRIK: Mr. Boehm?

MR. K. BOEHM: No questions.

EXAMINER PIRIK: Mr. Oliker?

MR. OLIKER: No questions, your Honor.

EXAMINER PIRIK: Ms. Petrucci?

MS. PETRUCCI: No questions.

EXAMINER PIRIK: Mr. Hart?

MR. HART: No questions.

EXAMINER PIRIK: Mr. Chamberlain?

MR. CHAMBERLAIN: No questions.

EXAMINER PIRIK: Ms. Spiller?

MS. SPILLER: Yes, your Honor. Thank you.

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RECROSS-EXAMINATION

By Ms. Spiller

Q. Mr. Kahal, I am now a bit confused. You had previously testified that, in your opinion, the company's recovery under rider DCI would be automatic, correct?

A. Oh, yes, yes. In fact, your own witness says that.

Q. And you've also testified, sir, that, in your opinion, the company's cost recovery under rider DSR would be automatic, correct?

A. Yes. In the sense -- in the sense that I've just described, yes.

Q. Well, but the sense that you just described is not one that's automatic, is it?

A. It's automatic in the sense that there is a defined procedure which does not involve normal rate case procedures as to how the company would recover those amounts and the recovery would take place automatically absent the Commission disallowing costs.

Q. So, sir, are you saying today that there is a prudence review to which these riders would be subject, riders DSI and DSR?

A. What I'm -- yes. I'm saying that there is a potential for a prudence review and I said that in my testimony.

Q. Well, sir, I believe you're referring --

MS. SPILLER: One moment, please, your Honor.

EXAMINER PIRIK: Yes.

Q. Sir, with regard to the rider DSR, you believe the cost recovery is automatic because this is a tracker mechanism, correct?

A. It is a tracker mechanism. I would consider it that, yes.

Q. But my question is whether you believe the cost recovery to be automatic because it is a tracker mechanism and you believe that to be the case, correct?

A. I would characterize it that way, yes.

Q. Sir, to your knowledge, the proposed 9.84 percent ROE applicable to rider DCI has not been conclusively established for this proceeding; is that correct?

A. My understanding is that it's a proposal.

Q. It's a proposal. Thank you.

And you're aware, sir, that the company, in its filing, has referenced the similar distribution investment riders that have been approved by the Commission for both AEP Ohio and first -- the FirstEnergy distribution utilities, correct?

A. I think you're referring to Ms. Laub's testimony?
Q. And Mr. Wathen.
A. I'm familiar with Ms. Laub's testimony. I believe she compares it with FirstEnergy and AEP Ohio.
Q. So, sir, you have not reviewed, for purposes of your testimony, Mr. Don Wathen's testimony?
A. No. I reviewed Ms. Laub's testimony.
Q. Sir, did you review the company's application in this case for purposes of your testimony?
A. I did, but not the entire application, just the portion that's relevant to the issues that I'm addressing.
Q. And do you know whether the Commission has approved a 10.6 percent ROE for the FirstEnergy distribution companies in respect of their distribution investment riders?
A. I don't know what the Commission authorized for FirstEnergy.
Q. And I believe you've agreed that you don't know what the Commission has authorized for AEP, although you're familiar with their distribution

investment rider, correct?

A. I answered your question earlier, and I said it's whatever the order says it is.

Q. And you're not an attorney, correct?

A. I am not.

Q. And you are not, sir, offering legal opinion in the context of this case, correct?

A. I'm trying very hard not to.

Q. Do you know whether the Ohio Commission has considered -- strike that.

MS. SPILLER: No further questions, your Honor. Thank you.

EXAMINER PIRIK: Staff?

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

EXAMINER PIRIK: Thank you.

Thank you, Mr. Kahal.

OCC, with regard to your exhibit?

MR. BERGER: Yes, thank you, your Honor. We would move the admission of OCC Exhibit 32.

EXAMINER PIRIK: Are there any objections?

MS. SPILLER: No, your Honor.

EXAMINER PIRIK: Hearing none, it shall be admitted into the record.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER PIRIK: The next witness is OEG.
Mr. Kurtz.
MR. KURTZ: Thank you, your Honor. Our witness is Alan Taylor.
(Witness sworn.)
EXAMINER PIRIK: Thank you. You may be seated.
MR. KURTZ: Thank you, your Honor.

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ALAN S. TAYLOR

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

DIRECT EXAMINATION

By Mr. Kurtz:

Q. Mr. Taylor, do you have in front of you a document entitled "Direct Testimony of Alan S. Taylor"?
A. Yes, I do.
MR. KURTZ: Your Honor, could we have this marked as OEG Exhibit 1?
EXAMINER PIRIK: The document will be so marked.
(EXHIBITS MARKED FOR IDENTIFICATION.)
Q. Mr. Taylor, was this testimony prepared by you or under your direct supervision?

A. Yes, it was.
Q. If I were to ask you the same questions contained herein, would your answers be the same?
A. Yes, they would.
Q. Do you have any corrections or additions you would like to make?
A. I do have two minor corrections, editorial in nature, not in the body of the testimony, but in Exhibit AST-3, the subject of my testimony, and indeed how I refer to things in the main body of testimony is the price stabilization rider, the PSR. And on page 1 of 3, Exhibit AST-3 --
EXAMINER PIRIK: Hold on just a minute. I mean, we have not -- parts of this page have been alleged confidential by the company and we haven't ruled on that yet.
THE WITNESS: I understand.
EXAMINER PIRIK: So I just want to be sure we're not going there.
THE WITNESS: Absolutely. I am not editing any of the numbers or anything that's been redacted on the confidential version, only a label on line 10. Line 10 on that exhibit states "Initial PPA Stability Rider." I would like to replace "PPA Stability" with "Price Stabilization." So that's an

appropriate reference with the rest of my testimony.

And, again, the same PSR reference on page 3 of 3, line 32, where the label currently reads "Final PPA Stability Rider," "PPA stability" again should be replaced with "Price Stabilization." So that the entire label reads "Final Price Stabilization Rider - Customer Portion." And that's all.

MR. KURTZ: Your Honor, with those changes, I would submit the witness for cross-examination.

EXAMINER PIRIK: Thank you, Mr. Kurtz.

Before we cross this witness, we need to rule on the confidentiality proposal submitted by Duke. Ms. Spiller, would you like to begin your argument?

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

We had previously circulated, to the Bench and counsel in this proceeding, proposed redactions in connection with Mr. Taylor's testimony. The numbers for which we're proposing redaction are in the body of the testimony, are derived from the confidential forecasted information that has been prepared and submitted by the company in connection with this case.

So I would start, first, if I may, with Mr. Taylor's attachments to his testimony. The information for which we're seeking redaction is all but the OVEC capacity ICAP.

Let me start first, your Honor, if I may with Mr. Taylor's Exhibit 2, AST-2. On that particular page, the numeric information we're seeking redaction of is all but the published OVEC capacity ICAP. All other information in this page -- on this page is derived from the company's confidential and proprietary forecasting methodologies.

And so, arguments that we have similarly advanced in this case with respect to various exhibits including, I believe, OCC No. 5 and IGS No. 7. The arguments would equally apply here that this information is derived from, again, the confidential methodology and forecasting that's prepared by the company. Forecasting methodology that, if disclosed, would work an unfair advantage to the company given that the OVEC entitlement that it holds concerns or relates to generating assets that participate in the competitive PJM market.

With respect to AST-3, that particular exhibit, there are particular numbers for which we have not sought redaction. However, all other information on this page would be derived from forecasted information for which the company is seeking confidential treatment.

With respect to the final two pages of AST-2, the company is seeking forecasted information again --

EXAMINER PIRIK: I'm sorry. Do you mean ATS-3?

MS. SPILLER: I'm sorry, your Honor. Yes, your Honor.

The final two pages of AST-3, the company is seeking confidential information again of numeric figures that would be a result or the product of the company's forecasted information.

And then we have simply attempted, your Honor, consistent with the proposed redactions, to carry those into the text so that numeric information is, in fact, confidential based upon the arguments previously raised.

And, I think, your Honor, the redactions we are proposing -- okay. The information, your Honor, if I may, on page -- page 15 of Mr. Taylor's testimony, again, that is attempting to remain consistent with the company's initial proposed redactions, I believe in what is both IGS 7 and OCC 5. And that, your Honor, would be the cash flow line reflected on those two prior exhibits. So this information, unless redacted, would be indicative of the results of the cash flow lines for which the company has previously sought confidential treatment.

EXAMINER PIRIK: Ms. Spiller, I must be missing this line on OCC Exhibit 5 and IGS Exhibit 7, the cash flow line. I know that we had asked you to review that issue with regard to OCC Exhibit 4 which is still outstanding, but.

MS. SPILLER: Yes, your Honor. And we certainly recall the Bench's reference to -- the Bench reference to the AEP proceeding and --

EXAMINER PIRIK: Can you turn your microphone on, please?

MS. SPILLER: Oh, sure.

Your Honor, I believe it was OCC Exhibit 5 and IGS 7, one was the two-page OEG discovery response, the first page of which would include the company's forecasted information.

EXAMINER PIRIK: I have -- we have both of them in front of us. I just don't see the cash flow line that you're referring to in those documents.

MS. SPILLER: I'm sorry, your Honor. It's OCC Exhibit 4.

EXAMINER PIRIK: Okay. And we haven't ruled on that part of it yet.

MS. SPILLER: Correct, your Honor.

EXAMINER PIRIK: And we haven't heard back from the company on that issue. So this is ripe for consideration right now.

MS. SPILLER: Certainly, your Honor. And we recall the Bench's comments with respect to what may have transpired in the AEP Ohio case. At least our review of the docket indicates that there were aggregate numbers released into the public record, that there were not annual numbers that would be commensurate with the information reflected on the company's cash flow line that were released into the public record in the AEP proceeding.

The AEP proceeding concerns a proposal related to OVEC for a three-year term. Duke Energy Ohio in this docket, however, is proposing a large -- a longer term in respect of its rider PSR.

And so, to the extent the company is going to disclose information on the cash flow line, we believe that any such disclosure should be in the aggregate basis consistent with the company's recommendation in this case -- I'm sorry -- our proposal in the case.

MR. BERGER: Your Honor, I just wanted to be clear about the AEP --

EXAMINER PIRIK: I am going to ask for responses.

MR. BERGER: Okay.

EXAMINER PIRIK: Are there any responses?

MR. KURTZ: I would like to respond.

EXAMINER PIRIK: I think Mr. Berger wanted to respond. I think that's where he was going.

MR. BERGER: Thank you, your Honor.

EXAMINER PIRIK: So do your whole response and then I'll proceed.

MR. BERGER: Yes. I just wanted to respond on the cash flow item, that in the AEP case there was, year-by-year, during the ESP period, net cost or benefit of cash flow as we also refer to it as, that was revealed on the public record. We would ask for the same treatment.

EXAMINER PIRIK: Okay. Mr. Mendoza, did you have something?

MR. MENDOZA: Yes, your Honor. Regardless of what happened in the AEP case, I think it's fair that the customers have an opportunity to understand the risk they are being asked to bear by the company and they are entitled to know the cash flow predictions for each year.

There is also an issue with the time value of money that if only the -- I mean, if only the aggregate figure at the end of the year, not accounting for time value of money, is released, then it gives a misleading interpretation or picture of what the company's proposal actually is. And so, for a more open and transparent understanding of the proposal, we would need to have the net cash flow for each year.

EXAMINER PIRIK: Okay. So let's -- without revealing any confidential information, I want to be sure that I understand before I get to Mr. Kurtz.

When -- when we look at AST-2, what specifically are you referring to? What line items are you specifically? They are not arguing that the line numbers are confidential, so I think you can refer to the line numbers on that document. What line numbers are you specifically referring to, Mr. Mendoza?

MR. MENDOZA: Do you have OCC 4 in front

of you, by chance?

EXAMINER PIRIK: I do, and I am going to rule on that, too, because, obviously, we are looking at that, and I believe in that situation we're talking about the cash flow line.

MR. MENDOZA: Okay.

EXAMINER PIRIK: So do I have that. So I'm trying to figure out, then, in your mind, what does that equate to on AST-2. We can move on while you're looking.

MR. MENDOZA: I don't have it in front of me.

MS. BOJKO: It's line 17, your Honor, on the first page.

EXAMINER PIRIK: Okay.

MR. MENDOZA: Thank you, Ms. Bojko.

EXAMINER PIRIK: I just want that in the record.

Mr. Kurtz.

MR. KURTZ: Thank you, your Honor.

For different reasons, I agree with counsel for the Sierra Club. Duke is asking the Commission to approve a rate, an important rate, and to keep it all secret is not doing the Commission a service or the public, and I think it's really overblowing this whole confidentiality issue.

On Exhibit 2, AST-2, what should be public are 17 -- lines 17, 18, and 19. These are just the end results, the final numbers, the cash flow net benefits, et cetera. That does not have any competitive disadvantage to any of the owners of the OVEC assets because you -- because you don't know if you get to there by having a high market forecast or a low cost forecast, or anything of the -- like that.

So 17, 18, and 19 should be made public so that the Commission and the public can see what the projected effects of this rider are. And if you make those public, then all of Exhibit 3 is public and all of exhibit -- yeah, all of Exhibit 3, all three pages.

So I think that draws -- that respects Duke's concern about people understanding too much of the OVEC cost structure or their market forecasting, but it still allows the Commission and the public to understand exactly what it is Duke is proposing here.

EXAMINER PIRIK: Mr. Kurtz, just so the record is clear, your proposal then with regard to the testimony itself?

MR. KURTZ: I don't know how that translates into the testimony itself, but looking at these exhibits, line 17, 18, 19 of AST-2, the final end result should be public. And if you make that public, all of Exhibit 3, all three pages of Exhibit 3, should be made public as well.

EXAMINER PIRIK: Ms. Bojko, did you have a response?

MS. BOJKO: Thank you, your Honor.

I concur with Mr. Kurtz. I think that, first of all, I think that even though AEP requested just a three-year term initially, they did do forecasting for the entire period or beyond the three-year period. So I think that was a little bit of a misunderstanding that I wanted to clarify. And that they also ultimately said that they would go beyond the three-year period, so I don't think that that should be a determining factor.

I also believe that AST-3 are all of Mr. Taylor's calculations and it's his example, and even on line 1 -- or, 11, excuse me, of AST-3, page 2, it says its illustrative. So in order to understand his example and walk through, it's very difficult to do it without talking about the line numbers and the actual numbers and how he arrived at his end-result calculation.

So that's just a calculation that he's

doing for his particular proposal and -- and so, that has nothing to do with the company's forecast. Obviously, it starts with the forecast, but, I mean, there's a calculation element that goes into it.

EXAMINER PIRIK: And with regard to the body of the testimony?

MS. BOJKO: I do believe that Mr. Taylor references on page 15, for instance, I think the years have been talked about for the past week and we've also talked about that there's a positive number for certain years, so I don't believe the years should be redacted on that page.

And then he does have number flow-through, particularly regarding his proposal on pages -- well, he has cumulative numbers of the net of the cash flow that we're talking about on page 18. So those are cumulative and I think you've heard the company say cumulative wouldn't be a problem, so those are cumulative numbers.

And then if you look at page 19, those are the same cumulative numbers.

And then on page 20 is where he's doing that AST-3 levelized approach and the calculation that flows through from that last exhibit. So those would be, in turn, public.

So Mr. Taylor seems, to me, I think it should all be public.

MR. KURTZ: Your Honor, can I suggest, depending on your ruling, the witness could go through and say what part of his testimony is consistent with your ruling to be public or confidential?

EXAMINER PIRIK: Thank you for the suggestion. However, I think we're -- I think we understand where it's coming from.

MR. KURTZ: Okay.

EXAMINER PIRIK: Mr. Oliker.

MR. OLIKER: I just wanted to have one brief comment. If we do go beyond the three-year period for the cash flow, Mr. Mendoza mentioned there is a net present value number and I am not going to talk about what it is, but if we do go beyond the three years, I think it's important the discussion of the net present value is in the public record.

EXAMINER PIRIK: Does anyone else have anything else they want to add before I go to Duke for reply?

MS. SPILLER: Your Honor, just briefly.

Ms. Bojko indicated the company doesn't have a problem with cumulative. I don't know that I said that. I think it was merely an observation that at least from the materials that we saw in the AEP case it was a cumulative number that was disclosed. I mean, at least from what I saw, there was, again, a single number, different iterations of that single number based upon different forecasts and calculations but, again, an aggregate number.

EXAMINER PIRIK: Okay. We'll rule on Exhibit OCC 4a after we finish with Mr. Taylor's testimony. That way we will be totally clear on what's open and what's not open.

With regard to the body of Mr. Taylor's testimony, the Bench finds that the motion for a protective order should be denied and that the information in the body of his testimony should be on the open record.

With regard to AST-2, we find that the numbers contained in lines 2 through 16 should be confidential and that the remainder of AST-2 should be in the open record.

With regard to AST-3, we find that AST-3 should be in the open record.

With regard to OCC 4a, we find that the numbers in the cash flow line should be in the open record. So now, I think we've concluded OCC 4a, so

OCC can provide the redacted version of that document.

MR. SERIO: Yes, your Honor. Just so I'm clear, it's the cash flow number for -- it's the cash flow number for all the years, 2015 through 2024?

EXAMINER PIRIK: The entire line.

MR. SERIO: Okay. Thank you.

MR. BERGER: Also the PJM capacity.

EXAMINER PIRIK: We already ruled on the remainder of it.

MR. BERGER: Thank you.

EXAMINER PIRIK: And then OEG will be aware of what you will need to provide as far as a redacted version of Mr. Taylor's testimony, so you'll need to provide the court reporters with the correct redacted version so they will have that. And what you need to do is you need to do the redaction based upon the ruling, make -- share that with Duke, to ensure it's the correct redaction, and then the court reporters will need the redacted version of OEG Exhibit 1.

MR. KURTZ: We should be able to have that by Monday. Is that okay?

EXAMINER PIRIK: That would be fine. That would be fine.

Now, I think, making sure we're all on the same page that we don't go into the confidential, is the witness comfortable with the ruling? Do you understand anything further from your counsel as far as what's confidential and what's not?

THE WITNESS: No. I'm very comfortable with it, your Honor. Thank you.

EXAMINER PIRIK: I think the parties will question you accordingly so.

Okay. Now we'll go to cross-examination.

Mr. Darr?

MR. PETRICOFF: Your Honor, in keeping with, we will call it the "Bojko rule," that we ought to line up the interests accordingly. Since this witness is probably most in line with the company, maybe Duke should go first on the cross-examination.

MR. DARR: And I was going to recommend the same thing, your Honor.

MR. OLIKER: I join that.

MS. SPILLER: Your Honor, I would certainly note there is not alignment, in that Mr. Taylor has various proposals significantly different than the company's PSR, and if we are going to borrow from the AEP case, I believe the company, in that case, crossed this witness last with the exception of staff. Probably for similar reasons.

MR. KURTZ: Your Honor, we don't care who goes first or last.

EXAMINER PIRIK: I appreciate the suggestion, but we are being pretty lenient as far as what happens in recross, so we will continue that process at this point in time.

Mr. Darr.

MR. DARR: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Darr:

Q. Mr. Taylor, I'm here on behalf of IEU-Ohio. I note in your testimony that you make reference to the long-term procurement proceedings in California, correct? Beginning on page 10?

A. That's correct.

Q. And, in fact, you have been involved in those long-term procurement proceedings.

A. I have overseen the solicitations for new capacity from the LTPP, the long-term procurement proceedings.

Q. And could you describe, for the record, the process or reviews that you undertake as part of that process?

A. Yes. Basically the LTPP, the long-term procurement proceeding, is a stakeholder process that examines load forecasts, a variety of supply conditions in the state, and ultimately arrives at a set amount of capacity that the investor-owned utilities are tasked with going out and procuring under long-term contracts.

My role in the process has been as an independent evaluator, coming into the process, helping run the requests for offers, performing an independent evaluation of the various offers, and ensuring that the customers in California are indeed provided with the best, lowest-cost, lowest-risk resources.

Those solicitations usually entail long-term contracts that have costs that are passed through riders in California that are very similar to the proposed PSR, where the net cost of new entry values from these solicitations are basically placed on the bills for all customers, the utilities bundled customers in the context of Ohio, the SSO customers, as well as the direct access and community choice aggregation or, again, to use the Ohio language, the CRES-provider customers.

Q. Now, the process you have just described operates under a structure that's adopted by the California legislature, correct?

A. That's correct, AB52.

Q. I'm sorry?

A. That's correct, AB or Assembly Bill 52.

Q. And that was adopted in response to the incidents that occurred in California in the early 2000s, correct?

A. Yes.

Q. And these processes that you've just described occur on an annual basis, am I correct in that?

A. No.

Q. How often are the reviews done?

A. The LTPP proceedings are a biennial process, so they are every two years. They may not necessarily result in authorizations for utilities to proceed with solicitations.

I have overseen all of the large-scale solicitations in California, including basically a PG&E solicitation, Pacific Gas and Electric, in 2004, and then another one in 2008.

And one for Southern California Edison in 2006. And a subsequent one that has just been concluded this week, in 2014, for solicitation for up to 2,500 megawatts of new resources. So I wouldn't say they occur annually; it really depends on the need.

Q. Does the review process itself occur more than biennially? Let me rephrase that question.

This process is initiated by a review of a load forecast for these California ISO, correct?

A. Correct. There is an annual nature to the California process where the utilities and, actually, all load-serving entities in the state need to show that they've got sufficient capacity for the next year. So there is an annual solicitation for short-term capacity that is usually conducted annually to address these resource adequacy compliance showings.

Q. And then the process that you are involved with, the review of the RFPs, that occurs in instances where there is a demonstration that there is a shortage of capacity relative to a long-term load forecast; is that correct?

A. That's correct.

Q. And then the solicitation process tries to identify resources, on a long-term basis, that would satisfy that anticipated shortfall?

A. Correct. It's an open, competitive

bidding process where all players, all potential suppliers and developers, independent power producers in the marketplace are competing for these -- these megawatts of new generation that need to be developed for the state.

Q. And part of the review that you undertake is to determine whether or not this process for soliciting resources to cover the shortfall is fair and open, correct?

A. That's correct. That's part of it.

Q. And part of your job is to evaluate whether the process complied with the regulatory requirements established by the California Commission as well, correct?

A. Correct.

Q. And the goal is, I think you just described it, to provide the resource adequacy at least cost, correct?

A. Correct. Least cost and best fit.

Q. And your evaluation considers capacity need, the delivery period, the price of capacity, the price of -- the anticipated price of fuel, the heat rates if applicable, the variable O&M if applicable, the startup costs and fuel requirements, the ancillary service capital requirements and costs, transmission costs, credit adders, and debt equivalence risk factors. Have I described everything that you looked at?

A. Yes. Actually, in the most recent solicitation for Southern California Edison there were a suite of products being sought that included more than just conventional or renewable generation. There was also demand response and energy efficiency, long-term contracts, so we were looking at a variety of issues that were also demand side in nature.

Q. And then you determine, at the end of this process, the net market value -- or you review the net market value of the various resources and that's a compare -- am I correct in that? Do you look at net market value?

A. Yes.

Q. And the net market value is calculated rel -- of the expected income versus the expected cost of the various resources?

A. In rough terms, yes.

Q. And then you rank the offers based on the perceived net market values, correct?

A. Yes.

Q. And is there any preference given to the lowest fixed costs of a particular resource?

A. There are qualitative factors that come into all of these evaluations, be it the ones that I've overseen in California or all over the country, so I wouldn't say that there is always a selection of the absolute lowest-cost resource in the ranking.

If, indeed the developer, if it is believed that the developer may have certain risks or the proposal has certain attributes that make it less attractive on a qualitative basis, then perhaps a close competitor in second place, for example.

Q. And then that will be noted in your review, correct?

A. Correct.

Q. So that if you make a calculation that one particular proposal has a better or lower net market value, but it has attributes that make it qualitatively worse, that would be noted in your -- than an alternative, you would note that in your report.

A. In some place in the report. It may need to be in a confidential appendix if it's delving into confidential aspects of the proposals.

Q. And then, after you complete this process, you would effectively rank order or the -- you would review the rank ordering of the particular products and decide whether or not that was consistent with your review of the rank order provided by the utility.

A. Correct. A rank order based on net market value in dollar-per-kW month, gives a good quick snapshot of how the proposals may stack up. But, actually, the discrete sizes of the proposals and how they fit into the actual need that the utility has been tasked with trying to fill is a more complicated assessment than just looking at a pure ranking. But, generally, it gives, from 30,000 feet, a good assessment of how the various proposals rack up.

Q. And the notion of this process in general is that through the RFP process, you get the best least-cost combination of resources to meet the shortfall.

A. Correct. Least cost and lowest risk.

Q. Now, turning to the proposal that's been presented by Duke, you understand the proposal would recover all of the OVEC-related costs that are charged by OVEC to Duke Energy Ohio.

A. That is my understanding, yes.

Q. And under the proposal, any shortfall would be made up by a customer payment through the

proposed rider PSR, correct?
A. Some portion of it. I do have, in my modified PSR, the contemplation that Duke would have a 10-percent -- a minimum 10-percent participation rate so that they would have basically skin in the game, and if there was a shortfall, they would be sharing in that shortfall too.
Q. I appreciate your proposal, but as you understand the company's proposal, that allotment of potential risk is not included in their proposal, correct?
A. That is my understanding of their proposal, yes.
Q. And under Duke's proposal, would you agree that Duke is fully hedged for the cost risks that it faces vis-a-vis the PJM market of its entitlement to the OVEC generation resources? Asked another way, does -- is there -- does Duke have any exposure, under its proposal, to cost risks?
A. I don't believe so, as I understand the proposal.
Q. One last question. As part of your process of preparing for today's testimony, did you review the ongoing construction in the PJM operating area? And when I speak of "construction" here,

construction of new generation resources.

A. Only at a very high level through trade association newsletters.

MR. DARR: Thank you. I have nothing further.

EXAMINER PIRIK: Ms. Hussey?

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CROSS-EXAMINATION

By Ms. Hussey:

Q. Good morning, Mr. Taylor.

A. Good morning.

Q. I am here on behalf of The Kroger Company. On page 4, line 18 of your testimony, you testify that "current costs of the OVEC power supplies are greater than the market benefits of such supplies," correct?

A. Correct.

Q. Okay. In response to the question of when you think that OVEC's all-in costs are likely to be at or below market prices and, therefore, the proposed PSR would be beneficial to customers, you state on page 15, line 12, that you do not know -- you do not know that "Duke Energy Ohio's forecasts from a January 2014 analysis showed that OVEC's combined demand and energy costs are expected to be above market prices in the next several years," correct?

A. Correct.

Q. Okay. And if you reference AST-2, per Duke Energy Ohio's forecast, that is not until 2019; is that correct?

A. Yes, that is correct.

Q. Okay. And from your understanding that's not until after the expiration of the term of the proposed ESP period, correct?

A. Correct.

Q. Okay. And you've recommended approval of the PSR with certain modifications and other exceptions to the applicability of the proposed rider; is that correct?

A. Yes.

Q. And in terms of modifications, you recommend approving or locking in the PSR for a defined period of time, such that Duke Energy Ohio cannot change its mind and drop the rider when the net benefits turn positive; is that correct?

A. Yes, that is.

Q. Okay. And the rationale behind this recommendation would be that if customers are going to be exposed to the negative benefits forecasted over the initial years of the rider, including the proposed ESP term, that they should be assured the opportunity to benefit from the OVEC net benefits that are forecasted in later years, correct?

A. Correct.

Q. Okay. So if you turn to page 18 of your testimony, you recommend that rider PSR start in June, 2015, and continue through December 20 -- excuse me, December 31, 2024; is that correct?

A. Yes.

Q. So nine-and-a-half years?

A. Correct.

Q. Okay. And you also testify on page 18, at lines 9 through 11, that this time frame would increase the likelihood that cumulative OVEC net benefits under rider PSR would be rate neutral or close to zero; is that accurate?

A. Yes.

Q. Okay. So beginning on page 18, at lines 22 and 23, and I'm summarizing here, but you testify that extending the PSR beyond 2024, as you've proposed, may yield potentially greater benefits to customers; but that extending the PSR too far into the future, may expose customers to unknown risks and costs, including decommissioning costs and higher-than-expected CO-2 costs if state or federal legislation restricting CO-2 emissions are enacted; is that accurate?

A. Primarily, yes. You said "after 2024," And, indeed, the proposed modified rider that I have put in my testimony is based on the rider that goes out through the end of 2024, but the actual net benefit calculation only goes out through the end of 2023. So everything you said there is correct, except the beginning the premise of potential risks after 2024, I would modify that to say after 2023.

Q. Okay. Thank you.

And so, the unknown costs to which you refer include capital costs associated with installing carbon controls on both the Kyger and Clifty Creek generating units, and possible decommissioning costs; is that accurate?

A. No. I don't get into any specific issues as far as what sort of additional equipment might be needed at the OVEC facilities. They already have pollution control equipment that was installed fairly recently that allows the facilities to comply with the new mercury and air toxic standards.

Q. Okay. And on page 18, line 23, ascending onto page 19, I just want to clarify with you. You say unknown -- exposing customers to unknown risks, and then in a parenthetical, "such as the eventual decommissioning costs and higher-than-expected CO-2 costs, should federal or state legislation be enacted in this area," correct?

A. Correct.

Q. Okay. When you say "should federal or state legislation be enacted in this area," is one such piece of legislation to which you might be referring, the Clean Power Plan?

A. Yes, 111(d).

Q. Okay. And to your knowledge, would capital costs associated with installing carbon controls and decommissioning costs be fixed costs that would be associated with OVEC?

A. Yes.

Q. To your understanding, would installing carbon-capture technologies be a significant expense?

A. Yes, but I don't think that that is necessarily the direction that things will go, and I think that just since we don't know exactly what 111(d) is going to look like, it's a proposed rule at this point.

The EPA is currently out in the -- in the public holding various workshops to get input on

111(d) rule as far as how states, their CO-2 reduction targets are being calculated and what sort of options might be open to states, but the actual rule won't be made final until next summer, and maybe even that is partly dependent upon next week's elections and what happens in Washington. So there's a lot of uncertainty as far as how that's going to play out.

And I wouldn't necessarily say coal-fired units are going to be mandated to have capital equipment put in place in order to comply with the rule. It's actually going to be a very flexible rule, as it's currently envisioned, to allow states to implement more renewables or do a variety of things that may involve no upgrades to existing coal-fired power plants.

Q. And I appreciate that clarification.

For instance, say that carbon-capture technologies are required to be installed in the future. Would installing those technologies come at a significant expense?

A. I don't know.

Q. Okay. You also discuss possible decommissioning costs that customers may be exposed to if the PSR is approved beyond 2024; is that correct?

A. Correct.

Q. Okay. And are your concerns of decommissioning costs for OVEC in any way related to the requirements that may or may not be associated with EPA's proposed Clean Power Plan?

A. They're not directly related. I guess I see more the decommissioning costs as being just an unknown at the end of the life of these assets. And I think that given that unknown, I think that a PSR that goes out for the nine-and-a-half years that I'm proposing, makes sense, and then the whole situation could be reassessed at that point.

Q. Okay. And to the extent that the Clean Power Plan or another version of the Clean Power Plan which regulates CO-2 emissions may be approved within the same type of timeframe that we've been discussing, do you have concerns that decommissions at OVEC would be accelerated?

A. I don't, because I don't know how the Clean Power Plan or whatever other alternative out there might actually affect the facilities, if at all.

Q. Okay. Thank you.

Your proposal also recommends that if the

PSR is approved, that 10 percent of the rider would be allocated to Duke Energy Ohio shareholders; is that accurate?

A. Yes.

Q. Okay. And under the proposal, then, so I understand it, Duke Energy shareholders would be responsible for 10 percent of the costs of rider PSR from June, 2015, through December of 31 of 2024?

A. That's correct.

Q. And as proposed by Duke Energy Ohio, rider PSR is nonbypassable; is that correct?

A. Yes.

Q. Okay. And you've proposed an exception to this proposal of rider PSR for any Duke Energy Ohio customer with more than 10 megawatts of load at a single site; is that accurate?

A. Yes.

Q. And you base this exception on the fact that customers of that nature have corporate finance departments that already self-insure or have hedge strategies in place?

A. Yes. They may already have hedge products that they are in the process or have experience with acquiring.

Q. Okay. So under your proposal for rider

PSR, the PSR would be nonbypassable for all customers except that it would be bypassable for customers with more than 10 megawatts of load at a single site?

A. That is my current testimony, yes.

Q. Okay. So, hypothetically, if the Commission determines that the PSR should not be bypassable for customers with more than 10 megawatts of load at a single site, but is considering adopting your other recommendations, would you still be supportive of adopting your modified version of the PSR?

A. I certainly would, yes.

MS. HUSSEY: Okay. Thank you. That's all I have.

EXAMINER PIRIK: Ms. Bojko?

MS. BOJKO: Thank you, your Honor.

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CROSS-EXAMINATION

By Ms. Bojko:

Q. Good afternoon, Mr. Taylor.

A. Good afternoon.

Q. As I understand your testimony, the first section and first few pages, you discuss kind of the market, the history, you discuss various products, you discuss California quite extensively, as you talked with Mr. Darr; and then you go into Duke's proposal; and then, thirdly, you offer recommended modifications to Duke's proposal. Am I fairly summarizing your testimony?

A. Yes.

Q. Okay. Well, I am going to go through those same steps with you through your testimony. And, as you were discussing -- you start on page 6 of your testimony, you start talking about the California experience and the different hedging products out there.

And as kind of a fundamental basis, it's your understanding that the OVEC generation that we're talking about, the OVEC hedge, if you will, do you understand when I say "the OVEC hedge?" I think you used that terminology in your deposition as well.

A. Yes.

Q. Okay. So when we are talking about the OVEC hedge, it's a small portion of Duke's total load; is that accurate?

A. That's accurate.

Q. Okay. And I believe we talked in the deposition about it being 5 percent, but I think the actual number is about 8.76 percent; is that correct?

MS. SPILLER: Your Honor -- excuse me,

Mr. Taylor. I am going to object to the reference in your deposition. I don't think that's a proper use of the deposition.

EXAMINER PIRIK: Thank you. I'll overrule, but I would just direct the question to the witness.

MS. BOJKO: Foundation. My apologies.

Q. Is it your understanding that Duke's -- the portion of Duke's total load that we're talking about with regard to the OVEC generating assets and the OVEC hedge is approximately 5 to 8 percent; is that your understanding?

A. I will take that as your representation. I don't entirely know. One thing I would be quick to point out, though, we're talking about the amount of generation that typically is generated by the OVEC assets, and this is not a physical quantity that would be offsetting any of Duke's load obligations or have any effect on the competitive market. This is simply a financial instrument, a financial limitation to shopping that would enhance price stability in the Ohio markets.

So I just want to make it clear from the outset that when we talk about percent of load, we're not talking about anything that would offset the SSO auction loads or have any impact on the amount of shopping load or shopping energy that those who sought to -- to acquire their electricity through CRES suppliers would have any impact on.

Q. And let's talk about that a little more extensively. You talk about customers being exposed to -- 100 percent to wholesale costs; is that correct?

A. Correct.

Q. Okay. And in actuality, if we look at the items you just talked about, if we first take the standard service offer, those customers are not exposed 100 percent to wholesale markets, is that correct, at any given point in time?

A. I would say that through the SSO auction process that these customers are seeing costs and prices that are coming out of the wholesale markets. So there are suppliers to those auctions that are bidding into the auctions and providing competitive marginal cost information that they have their own supply books in order to be able to make those offers and those supply books are obviously going to be market-based.

Q. And those supply books that you're talking about, those would include the suppliers hedging the costs or the offers that they are making or the price that they choose to bid into the auction; is that correct?

A. I don't have any visibility into the books of any of the CRES providers. I presume if, they are structuring their books like most energy providers around the country, they would be looking at their business opportunities and the demand that they are trying to satisfy, and they would be trying to align the term and duration of products that they either already have in their books or are acquiring in order to try and match the duration with a need.

Q. And those would include hedging strategies; is that your understanding?

A. They may.

Q. And is it your understanding that in Ohio the auction process that you just referenced for the standard service offer customers, that that is also done in a series of multiple auctions, and it's for a laddering approach, in order to provide a hedge of different prices at different times, and then those different auctions are averaged together for the customers; is that your understanding?

A. It is, but I want to point out a distinction as far as what I'm referring to in my proposed or modified PSR, as providing the hedging benefits over a longer period of time. These SSO auctions are of a fairly short-term nature.

They may be locking in prices and providing some certainty over a 36-month range or less, and the laddering certainly helps in making sure that whatever market circumstances are occurring at any point in time are being folded into the SSO -- the SSO pricing element. But the SSO auctions, themselves, are going to rise over time if market prices begin to elevate as much as I think they are likely to.

So that's different than the hedging product that I'm talking about in my testimony as far as a 9-and-a-half-year OVEC-based hedge that would have much greater price stability than something that is layering in markets that might be rising fairly quickly.

Q. And just so we're clear, you're not here testifying about what CRES contracts may or may not say or the duration of the CRES contracts or how the suppliers may -- may or may not have procured their electricity.

A. Correct. I have some ideas, as I alluded to my earlier answer, what they probably do, but I don't know.

Q. Okay. And when you were distinguishing the two, the OVEC hedge that you're talking about, as you mentioned earlier, is a financial hedge, but the supplier hedges that you just mentioned and the laddering is for physical supply of electricity; isn't that true?

A. Yes. That's my understanding.

Q. And I appreciate you going into your modified PSR, but I want to focus on the first part of your testimony first, with regard to the hedging strategies and things of that nature.

On the bottom of page 7 of your testimony, it talks about state regulated hedging products. And what we just discussed with the supplier contracts and the supplier hedging, those are completely different than the state-regulated products that you discuss in your testimony; isn't that true?

A. I don't know.

Q. Well, let's take -- if we look at page 8 of your testimony, you talked about fixed-for-floating swaps and that's a hedging product, isn't it?

A. Yes.

Q. Okay. And that's not a product that's being offered in this proceeding either by Duke or you; is that correct?

A. That's correct.

Q. Okay. And then, if we turn to page 9 of your testimony, you talk about call options and strike prices; is that correct?

A. Yes.

Q. And a strike price is where costs are capped; isn't that true?

A. Either costs, or you can have heat-rate-based strike prices where there is a heat rate that converts a floating gas price, whatever the prevailing gas price is, where that strike price would actually not be fixed, but only fixed with respect to the heat rate parameter.

Q. Okay. And the call option is another type of hedging product; is that right?

A. Yes.

Q. Okay. And that's not being offered either by Duke in this case or by you; is that correct?

A. Not in the purest sense as far as a firm contract with perfectly fixed pricing, but I think there's a lot of analogy between this call option or strike price arrangement and what we've got with the OVEC assets which have some fairly well-defined fixed costs and variable costs on dollar-per-megawatt-hour parameters that make them analogous; not perfectly aligned, but analogous.

Q. But there's no cost cap, is there?

A. No, but there's an understanding about where the fixed costs are likely to go with these facilities, and I think that that makes it much, much more of a firm kind of element than say just market purchases.

Q. Okay. But there's no strike price. There's no ultimate price that customers cannot exceed that they will have to be responsible for; isn't that true?

A. Correct. Although, there is a -- there are heat rates and coal supply contracts that are likely to yield, on a day-to-day and month-to-month basis, dollar-per-megawatt-hour costs for those assets to bid into the PJM energy markets and presumably be dispatched any time that market prices are above the OVEC asset variable costs.

MR. OLIKER: Sorry, could I hear that question and answer again?

(Record read.)

MR. OLIKER: Thank you. Sorry.

Q. And we'll talk about all -- you threw out a lot of components there and we'll talk about all of those, but when you talk about fixed costs, I think that you agreed with Ms. Hussey that there is no guarantee that those fixed costs will actually remain fixed over the term either that you're proposing or the term that Duke is actually proposing which is 2040 or for the entire period that they own the generating assets; isn't that true?

A. That's true, but I think there is a high degree of confidence that the numbers will be in a fairly limited range, and that's where I try and draw the distinction that you're absolutely right, this is not a -- a firm contractual commitment where these dollars will be pegged to one specific number, but I do think the OVEC assets are analogous to this call option in that I think their fixed costs will be in a fairly tight range.

Q. But your -- that statement is not true if the Commission approves the PSR for the entire period that Duke is projected to own the OVEC generating units which, right now, is scheduled for 2040, right?

A. That's correct. I have -- I have much less confidence that the fixed costs are well known out into the late 2020s and 2030s.

Q. Okay. And on page 9 of your testimony, line 12, you talk about a fixed price or in tolling PPAs. Do you see that?

A. Yes.

Q. And you use the word "PPA." I think you sort of clarified it a little bit in your exhibits at the beginning of your testimony today. That is not the same -- the purchase power agreement that you're talking about in this sentence is not equivalent to the PSR that Duke is proposing; is that correct?

A. Correct. I'm talking really just generically in the marketplace about purchase power agreements.

Q. Okay. And that's, as you have a stated in the beginning by your changing the terminology, that's not what Duke is proposing in this case; isn't that true?

A. That's correct.

Q. Now, you discuss the California legislation, and I just want to clarify that the California legislation, the purpose of that was to build actual new generation, physical generation; isn't that true?

A. Yes.

Q. Okay. And that was done in order to actually add steel in the ground capacity to California; is that true?
A. Correct.
Q. And did the legislation encourage any particular form of generation resource?
A. No, did not.
Q. And it just had to be competitively solicited; is that correct?
A. In order to -- in order to achieve cost recovery from the utilities, it had to follow through with a competitive bidding process.
Q. Okay. And under Duke's proposal, isn't it true that they are not doing the competitive solicitation for the PSR or the OVEC generating units?
A. Correct.
Q. And also under Duke's proposal, there will be no physical steel in the ground that will be dedicated to Ohio customers that will benefit Ohio customers similar to the fashion of California?
A. That's correct. A lot of my intervention in this case is really as a policy witness, because I think that the modified PSR that I'm proposing and advocating could be an additional avenue for the

Public Utilities Commission of Ohio to seek reliable service, new steel in the ground, and that it's important to consider the benefits of the hybrid market that California has developed. But, truly, as far as the context of the immediate case in front of us, obviously the OVEC assets already exist right now.

Q. And there's no proposal from Duke for OVEC or other purchase power agreements that they might seek later from the Commission, to actually be physical assets added in the state of Ohio; is that true?

A. That's true, there is no current proposal. But I do see this entire PSR process as something where, my understanding of Senate -- of Senate Bill 221 in Ohio was to create a hybrid market and make sure that customers weren't 100-percent dependent upon marginal cost pricing, and the PSR is really in line with that in ensuring there is some avenue for the Commission to try and stabilize prices.

Q. Okay. But you're not here to testify whether the legality of either Duke's proposal or whether there's a legal avenue in Ohio, such as there was in California, a legal avenue for that proposal to actually add steel to the ground and have customers pay for it; isn't that true?

A. I am not an attorney, so I'm not going to render legal opinions, no.

Q. Okay. And you talk a lot about the California law, but are you familiar that there are other states, Maryland and New Jersey, that have actually -- the courts have actually ruled that it is unlawful and unpermissible to put generating units in the ground and then charge customers for those generating units?

MS. SPILLER: I am going to object to the form of this question. There has been no indication whatsoever that Mr. Taylor is familiar with these decisions and it appears an attempt to inject certain decisions, through this particular witness, into the record.

EXAMINER PIRIK: Overruled.

A. From a very high level, I have -- I have heard of some decisions involving those states. My understanding is that those states have gone for a very different 100-percent market-based system and have not enjoyed the outcome. Other states in PJM, obviously, are under a fully-regulated context, and I see Ohio as kind of being in the middle ground between those two extremes.

Q. But my question was are you aware that those states have actually -- courts have found that it is unlawful to approve generation being added to the system and having customers pay for that?

A. I am aware of that information. I don't know all the details of those cases and, obviously, the federal government and FERC have certainly allowed California to proceed down the path that its taken for the last 10-plus years.

Q. Are you saying that from a legal perspective? Do you know, in fact, if whether the challenge has been made?

A. I don't know any of the details of the cases, so I'm not in a position to opine.

Q. Okay. So let's go back to your testimony, on page 10 and 11, you discuss an RFP process and then here you also talk about a hybrid market where new capacity is brought on line under long-term contracts from an RFP; is that correct?

A. Yes.

Q. And were those RFPs competitively bid?

A. Yes.

Q. Okay. And under Duke's proposal, is Duke proposing to competitively bid RFPs with regard to the OVEC generation?

A. No.

Q. And as I understand your statements on this page, you're stating that CRES hedges are more short-term, and the RFP would be more of a longer-term hedge; is that true?

A. If you could direct me to where in your testimony -- where in my testimony you're talking about.

Q. You are talking about -- on page 11 you're talking about long-term hedges and the benefit of RFPs seem to be longer-term hedges than the, what I heard you talking about earlier, the CRES-type hedges.

A. I don't really have any details on the CRES-type hedges. Here, on page 11, I'm just making the blanket statement that California has basically developed a hybrid market, where new steel in the ground is brought on line under these long-term contracts.

Q. Okay. And then they also have shorter-term-type hedges we discussed earlier.

A. Correct.

Q. Okay. Okay. Now, let's switch to the modifications, your proposal before the Commission.

Under your proposal, you are recommending that the PSR be for 9-and-a-half years, but that the costs associated with that PSR would only be actually 8-and-a-half years because there is a year of true-up.

A. That's true.

Q. And that's the defined period of time you're talking about on top of page 13, line 2 of your testimony, is your proposal for the 9-and-a-half years?

A. Yes.

Q. And on this page, you also discussed, and with Ms. Hussey, you discussed the upgrade to the pollution control equipment. My question for you is have you actually completed an independent analysis of what has or hasn't been done to the OVEC units?

A. I've reviewed the annual report but I've done no independent analysis beyond seeing what has been reported there.

Q. Okay. And the "annual report" you're referring to is OVEC's annual report, so you got the information from OVEC.

A. Correct.

Q. And you don't know whether OVEC, in that annual report or elsewhere, has done any kind of analysis of the effect of rule 111(d) requirements that may have to be taken into consideration with regard to the OVEC units; is that right?

A. That's correct. I don't know that they have looked into it yet. 111(d) is still in a state of flux and we'll see where -- where the rule rests as of next summer, and I think utilities and states all around the country will then be starting to examine plants.

My current understanding of the proposal that's on the table is that there will be a transition period if, indeed, states are held to some sort of CO-2 reduction requirement that may go out as far as 2030.

Q. And it's your understanding of the OVEC arrangement that whatever those costs may be, they are included in the fixed costs that are then passed on to the sponsoring companies that actually get an entitlement to the OVEC generation; is that right?

A. If the capital expenditure committee at OVEC, which includes all the sponsoring companies, agreed that some sort of investment needed to be undertaken, then having blessed that and the project continuing, I presume then that that would contribute to fixed costs that would be charged out to all of the sponsoring companies under their entitlement arrangement.

Q. On page 14 of your testimony you talk about OVEC's plants being called on for generation on lines 5 and 6. Do you see that?

A. Yes.

Q. Okay. And your assumption there is based on an economic dispatch model currently used by PJM; is that correct?

A. Correct.

Q. Okay. So if that dispatch model would be changed or altered in some way, that could affect your conclusion here?

A. I don't think it would change the conclusion. The conclusion is in the abstract. It's simply saying that if market prices are very high, any sort of resource that has a fairly low dollar-per-megawatt-hour dispatch rate, such as these OVEC resources, is going to be called on a lot more than if mark prices are low.

Q. But a noneconomic dispatch model would change that economic approach that you just stated, isn't that true, if the units are not allowed to be called on for some kind of carbon restrictions, then -- then it wouldn't be true that if market prices are high, they will run more; isn't that true?

A. That presumes that there would be some sort of operating limitations placed on resources such as the OVEC plants. I don't know what sort of future possibilities there might be.

Q. Well, I thought you said you were familiar with the 111(d) rules. Are you not familiar with the second block of the proposed rules that do, in fact, limit the dispatch of coal units?

MR. KURTZ: I object. That's not even close to what the 111(d) rule requires. 111(d) starts at 2012 emissions and it requires --

EXAMINER PIRIK: I think we'll allow the witness to clarify.

A. I have not studied the rule in detail because it is still very much in a state of flux.

Q. And, sir, it's your understanding by approving a PSR, price stability rider, that Duke will actually receive guaranteed cost recovery of these generating assets that it owns a portion of?

A. Yes.

Q. And, sir, to your knowledge, do other nonregulated companies or affiliates receive the same opportunity for recovery for their generating units?

A. I do not know what arrangements other providers have.

Q. Well, do you believe a nonregulated entity could come to the Commission and seek recovery for their generator costs from ratepayers?

A. If we're talking about CRES providers that may have their own book of business, I would presume, as I mentioned earlier, they are matching up the duration of their supply with the expected demand that they have, which usually only goes out a short period of time. So I doubt they would even have these kinds of commitments in their book.

What we're talking about here is actually a commitment that was actually signed back in 1953. I don't think there were any CRES providers that had that kind of -- I would be surprised if there were any CRES providers that signed up for generation back in 1953 for supplying energy to the customers in this time period.

MS. BOJKO: I guess I move to strike as nonresponsive. I don't know where you got 1953, but that wasn't responsive to my question.

EXAMINER PIRIK: Overruled. That's fine.

MS. BOJKO: Could you reread my question, please?

(Record read.)

Q. Could you answer that question, please?
A. I don't know.
Q. Well, certainly you're not here today making any kind of conclusions with regard to whether providing guaranteed cost recovery for one generator over another generator owner would somehow be appropriate.
MS. SPILLER: I am just going to the object to the reference to the guaranteed cost recovery. I think that's inconsistent with the prior testimony in this case.
EXAMINER PIRIK: Overruled.
A. I think it's important to recognize that the PSR is nonbypassable. It's a charge or a credit but would apply across the board to SSO customers and CRES customers, so I don't see this as providing some sort of strange dichotomy or advantage or disadvantage from one group versus the other.
Q. Let's put it in this term: If generator X has cost recovery, so all their costs, environmental controls, any kinds of fixed costs, any kind of operating, variable costs, O&M expenses, if all of those are guaranteed to be paid back to them, they get recovery from ratepayers, and then you have another generator that owns a generating unit, and he

doesn't have that guarantee of cost recovery, they both bid into the market, isn't it true that this -- Entity A would have a competitive advantage over Entity B because they could bid into PJM any cost that they want because they get the guaranteed cost recovery for their actual costs?

A. Not with what is currently being proposed here, which would be a rider that would apply to the customers of both Entity A and Entity B.

Q. I am not talking about the rider, sir. I am talking about generators in general. Would generators -- would one generator, who got their full cost recovery, regardless of whether the unit was operating at a loss or a profit, if they got cost recovery, and another generator unit did not get and they had to take on that risk, wouldn't the first generator be at a competitive advantage over the second generator?

A. In that abstract circumstance, which I don't think applies to the PSR, yes.

Q. And you're saying it doesn't apply to the PSR because the generating units of OVEC are not being -- the power from them is not being provided to customers; is that right?

A. The physical power is not going to be affecting the shopping loads either with the CRES providers or the SSO auctions.

Q. And, sir, wouldn't it be true, though, that a generator that knew they were getting all their costs paid for would -- it would affect the decision of whether or not to bid into the PJM market and at what cost level?

A. Again, that's why I've included the 10-percent participation rate in my modified PSR because it incentivizes Duke, then, to do whatever they can to make sure that this bidding arrangement maximizes the revenues that they would get from the OVEC entitlement and to minimize the costs associated with it.

Q. And I appreciate that, sir, but that, I guess, is recognizing that the answer to my question is "yes," because under Duke's proposal, which doesn't have the 10 percent -- isn't that right?

A. That's correct.

Q. So you're actually modifying the proposal to try in an attempt to make it more fair because, in essence, you're recognizing that there could be an incentive or disincentive with regard to the decisions -- bidding decisions that they may or may not make, right?

A. I don't think I would characterize the Duke's proposal as an "incentive" or "disincentive." It would be neutral. There's no incentive necessarily for them to maximum the benefits of the PSR.

Q. Right. No incentive to maximize because the cost is guaranteed to be recovered.

A. Correct.

Q. And we talked a little bit about this, but when you reference "stability benefits" throughout your testimony, that is you're saying when prices go up, that customers may receive a credit from the excessive market prices; is that right?

A. Correct. The PSR would turn into a negative adder or a credit on customers' bills at the same time that, presumably, the market-based elements of their bill are rising.

Q. And then you're saying but when prices go low, the customer might have to pay for -- the rider might have a charge associated with it; is that right?

A. That's correct.

Q. And it's your understanding, I believe you mentioned this before, but it's your understanding that from the forecast, from Duke's forecast which is the forecast you used; is that correct?

A. Yes.

Q. Okay. From Duke's forecast it showed that the demand in energy costs are expected to be above market price for the next four years; is that true?

A. Through the end of 2018, yes.

Q. So for the first four years of this program where the generator's recouping its cost regardless of what they are selling the product for in the market, that would be a benefit to that particular generator; isn't that true?

A. No. In the context of the PSR, again, Duke does not -- it's my understanding that Duke does not have basically a generation supply obligation here. This is a financial instrument, a hedge, that would be applied to everyone's bills be it SSO- or CRES-provided energy.

Q. Right. Duke is not exposed for the higher costs than market because the customers are paying for that cost and Duke is being made whole; is that -- that was your response?

A. Yes.

Q. And, sir, this is not a normal market construct, is it? For instance, if we have a small manufacturer that's making a widget and it sells its widget into the market, but the market price doesn't bear -- the price that the manufacturer gets doesn't recoup its cost, then that manufacturer would be operating at a loss; is that true?

A. That is true, but, again, what we're focused on here is a hedge. And a hedge, by it's very nature, is something that could be in the money or out of the money. So, during any particular point in time, there are all sorts of riders out there that are based on costs that are fixed. My previous references to California, for example, are these long-term PPAs that may be above market during some months, and below market during other months.

Q. In that competitive environment, if the market is lower than what somebody has in costs, then they would be operating as a loss; isn't that true?

A. Yes; although, there is guaranteed cost recovery, again in California, the same situation to what I am proposing here, between all shopping customers, those that are shopping and those that are not shopping.

So what we are really talking about here is price stability. And, yes, that price-stabilizing element, at times, may be above market, but it's my expectation that other times it will be below market, and that the benefits of that hedge, one, are that it will help stabilize customers' bills and the price-stabilization benefits; and, secondly, I do think that the fundamental forecast that's behind the Duke numbers is very conservative and low, and I think that, over the course of this 8-1/2 years, we are likely to see the higher benefits than what's reflected in my testimony.

Q. When you talk about the highs and lows, that doesn't happen instantaneously, does it, because there's a true-up mechanism.

A. Correct. I alluded in my testimony to "annual," but I also inserted, in many places, "or quarterly" --

Q. Okay.

A. -- because I knew that Duke's testimony was that they were putting forth a PSR that would get trued up quarterly, and the same thing could occur with the modified PSR, if the Commission so desires to have a timing element that would react more quickly to changes in market prices.

Q. Okay. Now, I want to go back to my widget example because I don't think you answered that question. I am not talking about shopping customers versus nonshopping customers. I am talking about a manufacturer in a competitive marketplace. If you are in a competitive marketplace and you can't sell your product at a price high enough to recoup your costs, then you're operating at a loss; is that right?

A. Yes.

Q. Now let's focus on Duke's customers -- not customers, I want to focus on the supplier. Same would be true for a CRES supplier. If a CRES supplier enters into a fixed-price contract with the customer and they misforecasted, they misjudged, and the market is a higher cost than what they entered into that contract for, they will be operating at a loss; isn't that true?

A. That is correct, and I would imagine that most CRES providers do some sort of acquisition of power supplies, on a fixed price basis, to prevent themselves from being 100-percent exposed to a marginal cost market.

Q. Absolutely. And that's called "hedging," right?

A. That is called "hedging."

Q. And under Duke's proposal, those

marketers will still have to go out and do that hedging; isn't that right? The PSR will in no way affect whether a marketer or even a customer, on its own, goes out and hedges its energy price.

A. I don't entirely know what the implementation of the modified PSR would do to the thinking behind CRES providers and what sort of hedging they feel they need to do.

Q. Well, let's explore that, I guess. One, isn't it fair to assume that there are probably customers and suppliers that have long-term contracts currently, that whether the PSR is added to this starting June 1, 2015, it would not be affecting their contracts?

A. I don't know what the CRES providers have in their supply books.

Q. Okay. And you're assuming they haven't done the exact hedging strategy that you just explained to me now, currently, under their current contracts, or aren't doing it for future supplies?

A. I can imagine that they probably are, but I don't know for sure.

Q. Okay. And the PSR would not change that. It will not change their contracts; isn't that true?

A. It will not. It would be just a direct

adder.
Q. Right.
A. I don't know what arrangements CRES providers offer to their customers.
Q. Okay. So it would be an increase to their agreement, fixed-price agreement that they have, the PSR would be on top of the CRES contract because the CRES contract -- the CRES supplier is not receiving the PSR payment; isn't that true?
A. That's correct.
Q. So it's an adder.
A. So the PSR might be an adder or a subtractor depending on whether it was a credit or not during any particular period.
Q. Right. But you are not alluding to some kind of passthrough cost, because that isn't going, the PSR is not going to the CRES supplier; it is going to Duke Ohio.
A. Correct.
Q. And so let's -- the SSO auction, the company, in this case, isn't planning on changing the CBP that the SSO price is established based on the PSR product, is it?
A. I don't know.
Q. And we talked about the year 2018, but

it's your understanding that any potential benefit would not come to fruition until 2019 and that's after the ESP period; is that correct?

A. That's with Duke's current forecast.

Q. Okay. And if we can -- you're talking about Duke's forecast. Are you familiar with how Duke modeled that forecast?

A. Only from a very high level.

Q. Okay. So are you familiar with Duke's modeling using what Duke's created, called the -- it's called the "CBM"?

A. Only by name.

Q. So you have no idea what assumptions or inputs that Duke used or didn't use in that model.

A. I don't have any of the details of what went into that model. I certainly have seen what has come out and represented in my AST-2 and have been able to opine on whether I think some of the assumptions there are reasonable.

Q. Okay. And you use the word "opine" because you have not actually done your own forecast, have you?

A. I have not, although I am basing my opinion on being involved in the previous AEP Ohio proceeding which showed greater net benefits over this same time period and also on my knowledge of what it is taking to build new capacity in other markets around the country, so I think that some of the numbers as far as the capacity revenues that are represented in my AST-2, basically Duke's forecast, are.

MR. OLIKER: Your Honor, I would move to strike just based on the testimony and other information that's not in this record and it was not analysis performed by the witness.

MS. SPILLER: Your Honor, I believe this witness just indicated that he participated in another case and has information concerning the same generation assets that were relevant in this case.

EXAMINER PIRIK: Overruled.

MS. SPILLER: We're asking -- thank you.

Q. Well, isn't it also true that there were at least one, if not three, modeling forecasts in the AEP case that were a lot -- created larger costs to customers than the one produced by Duke's forecast?

A. I don't recall the nature. I think certainly what I relied on was the most recent one.

Q. Well, isn't it true there were even more recent intervenor forecasts? Are you talking about AEP's forecast? Because it's my recollection that there were intervenor forecasts that were more recent than the AEP forecast and that those produced significantly higher costs to customers than was supposed to.

A. I think those intervenor forecasts were simply manipulating the information that were already in the utility's forecast. I don't know that I would call them more current. They were certainly produced by the intervenor at a later date.

Q. Okay. So the one -- AEP did file one actual forecast and that one that AEP filed in the case was a negative benefit to customers, and it was higher than what the Duke one is producing; isn't that true?

A. It was a positive net benefit over the same 9-1/2 years of about $70 million.

Q. I'm sorry. What about the ESP period?

A. I don't have that number off the top of my head. Subject to check, I think that it was a benefit of about $8 million.

Q. Are you talking about the AEP filed forecast? Are you talking about the napkin forecast that came out during the hearing by AEP?

A. I will, I guess, adopt your pejorative term of the napkin forecast. It was what I understood witnesses in the case had proffered as far as an updated forecast.

Q. Okay. I asked you about the one that was filed actually in the testimony is what I asked you originally, was my original question. And, I'm sorry, napkin has been used -- you weren't here earlier in the week. It was used. I actually wanted to know about the one that was filed at the Commission.

A. The one that I focused on in my testimony in the AEP Ohio case was their latest forecast that was available when I was developing my testimony.

Q. Okay. And on page 17, line 17 of your testimony, you used the word "adequate wholesale market pricing," and as I understand your use of that word "adequate," you believe that its market pricing that is sufficiently high enough to attract new generation, and when I say new generation, you're talking about steel in the ground generation.

A. That is correct.

Q. Okay. Which, again, is not what is being proposed in this case.

A. Correct, although I think it has implications for the net benefits that are -- could be examined under this OVEC hedge.

Q. Okay. Do you think the OVEC hedge, the 9 percent ownership of Duke, is going to actually cause new generation to be built in the state of Ohio?

A. No, that's not my testimony. My testimony is simply that I think that the OVEC hedge will be neutral or better for customers than is represented in Duke Energy Ohio's forecast because I think that the capacity prices that are represented in the analysis of my testimony here are fairly low.

Q. Okay. But the evidence that this Commission has before it was attached to your testimony does not reflect that. It actually reflects a charge to customers for the first four years; isn't that true?

A. Yes.

Q. Okay. And, in fact -- and we'll get into the numbers a little bit more when we go look at this. It's actually a net cost to customers over the whole entire forecasted period; isn't that true?

A. I believe that that is a conservative forecast; but, yes, as it has been represented by Duke Energy Ohio, it is a negative number over the 8-1/2 years.

Q. From 2015 to '24, the net loss that customers will have to pay is in the magnitude of

633,000; is that your understanding?
A. That number is the average from mid-2015 through the end of 2023.
Q. It's a net cost to customers.
A. Under the current forecast, yes.
Q. Okay. And during the ESP period -- well, I'm sorry. Your testimony on page -- oh, I see the distinction. Your testimony on page 18 actually is for the 8-1/2 year period through 2023 is that it would be a net loss to customers of $6 million total or $627,000 a year.
A. Correct.
Q. Okay. There's a distinction in the calculation of what I gave you initially because Duke's forecast is through 2024 where your forecast is only a charge through 2023 and then a true-up for 2024; is that right?
A. To be clear it's the calculation of the overall rider is looking out through the end of 2023. The rider period for -- being added to customer bills goes out through the end of 2024 and will allow an additional year of the true-up process.
Q. Thank you for that distinction. And so that's where the net cost to customers of $6 million comes from.

A. Under the Duke forecast, yes.

Q. And that's the forecast you relied on for your testimony and the numbers produced in your attachments; is that true?

A. Correct, although I commented in my testimony that I do believe it is very conservative.

Q. Okay. And you're estimating that it's $627,000 a year and that $627,000 will be added to a customer's bill regardless of if they are on the SSO or if they are shopping with the suppliers; is that right?

A. Correct.

Q. And regardless of what type of contract that they may or may not have. For supply, the contract for supply of energy regardless of that, this is added on top of that; is that correct?

A. This would be a wires charge in the proposed PSR, yes.

Q. So if we could turn to page -- one more before we do that. So it's your understanding that the customers will still be responsible for those costs that we just discussed even if the OVEC generating units are not operating.

A. The modified PSR that I am proposing looks at a forecast, assumes they are, of course, to

be operating. If the net costs or net benefits ended up being different than what's forecasted, my process has a true-up mechanism to go ahead and adjust the rider to whatever the actual circumstances are.
Q. Okay. But also under the Duke's current proposal that would be true too, that the customers are paying for the costs regardless of whether the generating units are operating.
A. That is my understanding.
Q. Okay. And that would also be true regardless if it's a forced outage situation or a maintenance outage situation or unforced outage situation.
A. That is correct.
Q. Okay. And it's also true if the units do not clear the PJM market.
A. Yes.
Q. And also you're talking about forecasting, and we talked about it being a net cost over the term, either your term or Duke's term, and isn't it also true that the forecast could be conversely wrong, the other way it could be a larger increase in costs for the out years, for the unaccounted for risk that you mentioned in your testimony?

A. That's largely the reason why I had proposed a nine-and-a-half term. That's in line with a lot of the 10-year kind of products I see in the market and certainly my crystal ball is no better than anybody else's. I think that the forecasts that are in place are not only conservative, but they are limited downside in that prices can only go so low in a market price. Marginal cost pricing kind of situation prices don't go to zero for the entire year or in the negative territory for the entire year. There's kind of a lower limit to where generation prices, energy prices, and for that matter capacity prices might reside.

On the upside where market prices can spike to some incredibly high numbers, I think there's much greater latitude as far as where forecasts may go there. Certainly during the polar vortex earlier this year, my understanding is that energy market prices spiked on a day-ahead basis over $230 a megawatt-hour, on a realtime basis over $2,000 a megawatt-hour.

So there's always this kind of very high upside where market costs can go very high and I think relying on 100 percent of marginal cost pricing can be dangerous. On the low side I don't think there is as much room for things to go down to a lower level.

Q. Because it's a forecast and a forecast is a forecast. As you said, nobody has a crystal ball, isn't that true?

A. Yes. Although my point is the distribution around a forecast can look very different as far as the potential possibilities of being very much -- the reality being very much on the high side versus a much lower band as far as it being on the low side.

Q. And similarly the cost side of the equation has risk embedded in it such as you spoke with the decommissioning and the environmental costs so that has a forecast element in it too that's underlying your assumption of your response.

A. I don't think that there is a great deal of risk or uncertainty in the foreseeable future. That was really the motivation -- another motivation besides the kind of 10-year term I tend to see in hedging products but in addition to having the modified PSR be over a nine-and-a-half period. It's because these decommissioning costs and potential CO-2 costs I see as being a risk that's further out than that, something that I think needs to be revisited by the Commission in the future.

Q. Okay. But you do understand the current proposal that the Commission has before it isn't limited to the nine-and-a-half period? It's greater than that, and it's proposed through 2040 right now. So you are agreeing with me in that period there is risk of additional costs going out in the future.

A. In those later years there are those risks, yes.

Q. Okay. And let's turn to page 19 of your testimony, please, sir.

EXAMINER PIRIK: Ms. Bojko, I am just wondering if now would be a good time to take a break.

MS. BOJKO: Sure. I'm switching subject matters.

EXAMINER PIRIK: Okay. So we will take a break until 2 o'clock.

(Thereupon, at 12:50 p.m., a lunch recess was taken.)

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Thursday Afternoon Session,
October 30, 2014.

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EXAMINER PIRIK: We'll go back on the record. Ms. Bojko.

MS. BOJKO: Thank you, your Honor.

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ALAN S. TAYLOR

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

CROSS-EXAMINATION

By Ms. Bojko:

Q. Good afternoon, sir.

A. Good afternoon.

Q. I think before lunch we were on page 19 of your testimony. And the 6 -- the negative $6 million or the charge to customers of $6 million reflected in your testimony over the nine and a half period, that number does not include a carrying cost -- maybe I should back up. I'm sorry.

We're going to actually now talk about your proposal, and I know you have been trying to do that all morning, so I appreciate your patience, but under your proposal you are suggesting, in addition to the period being a nine-and-a-half-year PSR rider term, you're also proposing a levelization approach; is that correct?

A. That's correct.

Q. Okay. And under that levelization approach, you are proposing a carrying cost be assessed to the balance of the rider, whether that be negative or positive; is that correct?

A. That's correct.

Q. Okay. So the numbers that you've come up with for that net cost to customers, over nine and a half years, does that include a carrying cost or is the carrying cost in addition to the $6 million?

A. The carrying cost is in addition.

Q. Okay. And so, your recommendation to the Commission is to add to the net costs or benefit, a weighted average cost of capital at the 7.73 percent; is that correct?

A. Yes.

Q. Okay. And under your levelized approach there is an initial fixed charge and then that charge would be updated either annually or quarterly; is that correct?

A. Yes.

Q. Okay. And you also, in your proposal, discuss a 10-percent participation rate; is that

accurate?
A. Yes, I do.
Q. So, as I understand your proposal, after the true-up, 90 percent of that trued-up number, whether it's done quarterly or annually, will be calculated and then that would be put on customer bills as either a charge or a credit.
A. Yes.
Q. Okay. And the 10-percent differential is not collected from customers, it's actually, as I think we talked a little bit in the beginning, it's the -- what you called the "skin in the game," that Duke will be required to either pay or accept the benefit of if there is a benefit.
A. Correct.
Q. Okay. And under your proposal specifically, if the OVEC units are not profitable in later years, the customer is still charged the costs and it will still be charged the rider; is that correct?
A. Yes, the rider would be for the full nine and a half years.
Q. Okay. And that -- that would be true that customers would be assessed the costs, under your proposal, the same way that we discussed under

Duke's proposal, meaning that if there are environmental capital investments or other kinds of costs that come out of the future regulations, either EPA, FERC, or the Commission, that they would still be assessed the rider and those costs.

A. Yes. Although, that's a lot of the reason why I picked the nine and a half years was because I think within that timeframe it's very unlikely there will be any additional environmental costs. The facilities, as I mentioned at the beginning of the hearing, have been recently updated for flue gas desulfurization systems. Those are installed. The plants are mostly depreciated, so those are kind of the new capital items that have been put into these facilities and will allow them to meet the Mercury and Air Toxic Standards that are coming into enforcement now. So I think within the time horizon, that my proposed nine and a half years, it's unlikely there is going to be any significant undertaking in that period.

Q. Okay. And I'm -- we talked before the lunch break, we talked about Duke's proposal so now I am going to ask you some of the same questions but focused on your specific proposal to the Commission in your testimony. So I'm not attempting to reask the same questions. I am trying to ask them under your proposal.

A. Okay.

Q. So, under your particular proposal though, if those costs do happen to occur, those would be passed on to customers under your proposal, similar to Duke's proposal.

A. To the extent they end up in the fixed demand charges that are passed on from OVEC to its sponsoring companies, yes, in my proposal, those fixed cost, whatever they may be, would be passed through.

Q. Okay. And the same is true, as you responded earlier to me, the same would be true under your proposal as it was in Duke's, that even if the OVEC units are operating due to forced outages, unforced outages, maintenance, you would be -- the customers would be responsible for the same fixed charge under your levelized approach.

A. That's correct.

Q. Okay. And, again, they would still be responsible for that fixed charge even if the units do not clear or participate in the PJM market.

A. Just like any hedge in the market that has a fixed price associated with it and some sort of strike price, if you will, those fixed costs are something that the buyer of that hedge always pays regardless of whether that hedge ends up being in the market or out of the market.

Q. Okay. In -- you referenced cumulative benefits in your testimony, and, to you, that cumulative benefit could equate to a loss or a charge to customers over the nine and a half years?

A. Based on the conservative assumptions that Duke Energy Ohio has put into this proceeding, yes.

Q. Okay. And under your levelized proposal, as you have it in your attachments to your testimony, it is projected, under your levelized proposal, that it will be a net cost to customers for the term that you're proposing, the nine and a half years; is that correct?

A. Again, using the conservative Duke forecast, it looks like it would be a fairly small cost. On page 20 I show what kind of the total expectation is, on line 10, of about 1-1/2 million, 1.6 million dollars per year.

That would be, to put that in perspective, assuming Duke's load is approximately 20 million megawatt-hours, that comes out to about 6 or

7 cents per month for a customer's bill as far as the rider. So we're talking kind of pennies here, but I think this is a very important policy piece that the Ohio Commission really needs to consider.

Q. Okay. But you did -- and I'm just going off your own attachments. You used the company's forecast, right?

A. And I noted that I thought they were very conservative.

Q. No. You used the forecast and, under that forecast, the levelized proposal that you have results in a net cost to customers.

A. Correct.

Q. And then your proposal is to levelize that cost that's going to be charged to customers and then, as you just mentioned, you are going to charge them the approximately $1.6 million per year; is that correct?

A. Yes.

Q. Okay. And that $1.6 million per year is -- is for the whole nine and a half years. It might be trued up and it might fluctuate, but if the forecast is accurate, then it would be $1.6 million per year for nine and a half years.

A. If the forecast plays out exactly in

reality as, you know, what Duke has represented in their forecast, then, yes, the number would be a flat $1.6 million per year.

Q. So, and that meaning that your proposal is to charge customers that flat $1.6 million per year.

A. Yes. I equate it basically to insurance. It protects customers from markets actually moving up significantly so it's not unlike an insurance premium that one pays for, say, ensuring their house against the threat of a fire. It's -- it is kind of a premium that is paid out. I do believe, though, that, in reality, over this nine and a half years, this number is not going to end up being a charge, it's going to end up being a credit.

Q. Okay. And that's -- that's not in your testimony; is that right? You're saying --

A. No.

Q. No, you are say saying if your forecast is wrong that you used, then it could change the outcome; is that what you are saying?

A. I said in my testimony that the forecast is very conservative and that I don't think that this represents the way things will ultimately play out. And that based on my knowledge of capacity markets and based on the information I saw in the previous AEP Ohio case, using their forecast, instead of a negative $6 million net benefit, it would be something more in the positive $30 million over the same nine and a half years.

Q. Okay. And just since you're using numbers and using AEP, AEP's initial projection that they used, there was one for $52 million and there was also one for $8 million; is that correct? Of charges to customers, I'm sorry, to clarify.

A. I don't have those numbers on top of my head. I remember the $70 million benefit over the full nine and a half years.

Q. You remember the $70 million benefit, but you don't remember the 52 million or the 8 million forecast that are charged to customers?

A. That was not over the nine and a half years, though, so I don't remember what they were quoting in terms of their ESP III period.

Q. Okay. So you didn't do the same nine-and-a-half-year calculation to the ones -- to the forecasts that were projecting costs being charged to customers, is that accurate? Or, as you sit here today, you don't recall that?

A. The $49 million number, again, subject to check, was my number, and that was the benefit over the nine and a half years. That benefit went up to 70 million during the proceeding when more information, new information, was made available.

So, basically, the AEP Ohio numbers were floating somewhere between the 49 million and 70 million dollar kind of number in my analysis for the nine and a half years.

Q. Okay. But your -- you've got to tell us the other side. There were also forecasts in the AEP case that said it would cost customers $52 million; is that correct?

A. I do not recall that.

Q. And you don't recall then the updated forecast that was actually done on the stand that actually was a net cost to customers of $8 million. So that would have been the most recent update because it was done during the hearing by the AEP witness.

A. I was not there for that. That was what was added into my $49 million number to get to the $70 million number.

Q. Okay. Back to Duke. The forecast that Duke provided in this case that you ran your analysis off of, that did a projection, under your analysis,

of cost to customers of $6 million; is that correct?
A. Correct.
Q. Okay. And your levelized approach is to charge customers every year, it's not to fluctuate where some years it would be a benefit, some years it would be a cost to customers. Your levelized approach is a cost to customers for nine straight years, nine and a half; is that correct?
A. No. There actually will be a true-up process and that's where I think the conservative forecast that's here will migrate this PSR from, currently, a positive charge to a negative charge, a credit, on customers' bills over the nine and a half years.
Q. Okay. And if Duke's forecast is correct, which is the forecast we have in this case, if it's correct, then -- then it will be a $1.6 million charge every year under your levelized approach.
A. If reality plays out exactly as this conservative forecast represents, then it would be $1.6 million per year which, as I say, equates to something upon the order of 7 cents on a customer's monthly bill and that's assuming a 1,000 kilowatt-hour per month customer usage.
Q. Okay. And just to be fair, if, for some

reason, the forecast is off and the costs are higher then the market price, that $1.6 million could increase under your levelized approach as well.

A. There's a possibility. Again, I think that the balance of probability here is well on the side of this turning from a cost to a credit. But we're not talking about huge numbers on customer bills, and I guess that's one thing I wanted to emphasize here, this is more of a policy point, and I think it's an important one for the PUCO to consider as far as having price-stabilizing factors that are implemented in this state. It's not -- it's not going to break the bank, one way or the other, as far as what these costs are.

Q. Let's talk a little bit about that. Do you have a rate allocation in your testimony?

A. No. The numbers I'm using here are just using 20 million megawatt-hours as kind of a ballpark approximation of Duke's total annual customer loads.

Q. Right. And so, when you gave your per monthly bill charge, are you basing that on a kilowatt-hour basis?

A. Yes.

Q. Okay. So -- so you're saying it's 6 cents per kilowatt-hour?

A. No.

Q. You used the word 6 cents per month. I'm not sure.

A. Six cents per megawatt-hour.

Q. Oh, did you? I'm sorry, I didn't hear "megawatt hour." So 6 cents per megawatt-hour.

A. And I'm assuming an average customer might have a monthly consumption of 1,000 kilowatt hours or one megawatt-hour. So this rider, being 6 cents per megawatt-hour, would translate into 6 pennies being added to an average customer's bill.

Q. Well, I guess I didn't realize from your testimony that you are, in fact, then stating that you believe it should be a kWh charge, your allocation of the 1.6 million is a kWh charge?

A. I'm not making any -- any testimony as far as the appropriate rate treatment. I'm just trying to show, ballpark, are we talking about something that's going to be a major element on a customer's bill or not.

Q. Well, and I think that's -- you would agree with me that's relative, whether you're a customer using a thousand kWhs, or whether you're a large industrial customer using much more than that.

A. I think rate structure and rate design is relevant. I'm just not the witness to testify to how this would be structured.

Q. Okay. So when you were just using your analysis, you were doing a residential customer for the 6 cents, and obviously, if you do a volumetric charge to a large commercial, large industrial customer, it's a significant charge.

A. It depends on what their utilization would be and what the appropriate rate design would be. Again, I am not opining on what the rate design needs to be. I want to put the numbers in context here that when we are talking about $6 million or X number of dollars here or there, this translates ultimately into a fairly market-neutral hedge. We're really -- we are very close to the zero point and, indeed, I think on the benefits side, the benefits, I think, could be pleasant, but not so much that somebody is going to retire once they see an amazing credit on their -- on their electric bill.

Q. Now, conversely, for businesses that are manufacturers that are selling the widgets that we discussed earlier, a change in their electric prices to the magnitude of 6 cents per mWh would be quite a significant charge for some commercial customers.

A. I don't know that to be the case. 6

cents a megawatt-hour; .06 cents per kilowatt-hour is a very small number.

Q. But you haven't done that research, sir, have you? Have you gone around and talked to customers and seen if their products could handle the additional electric charge that's going to be assessed to them?

A. I have not, but I still have enough sense of whether 6 cents is a big number for most households, and I would imagine that translating that into business terms, it's still not going to be a -- a major item that moves the needle.

Q. So if somebody's forecast is correct, you're making the assumption that a customer would, in fact, want to take this insurance policy for that price of $1.6 million that you're alluding to?

A. Yes. I think that this insurance policy is going to be close to free, if not paying for itself.

Q. Even if Duke's forecast is the same and it will be a $1.6 million charge, that's your testimony?

A. No.

Q. For nine and a half years.

A. If the reality ends up being the Duke forecast, it will be the $1.6 million, so it would be a positive cost.

Q. Okay. And let's -- let's switch for a minute here. Let's talk about on the insurance policy and your proposal also includes an opt-out provision or self-insured; is that true?

A. Correct.

Q. So even though you're claiming now that it's close to neutral and that it's a policy people should consider, you think that large industrial customers should be able to opt out of that policy; is that right?

A. I think it would make sense for them to accept the policy and be a part of it. But my testimony includes this self-insurance provision where customers of a certain size, 10 megawatts or greater, would be -- would have the ability to go ahead and not participate in this PSR.

Q. And if they don't participate in this, they do not pay the $1.6 million per year under your levelized approach, per the forecast that we have in front of us, they don't pay that charge; isn't that correct?

A. Yes, nor would they be -- nor would it be available to them, the potential benefits of the PSR

credit that I think is likely to occur.
Q. Okay. And you state that one of the reasons for this option is because the larger customers can hedge themselves; is that true?
A. Correct.
Q. Okay. And do the customers actually have to demonstrate to you that they've done some kind of hedging or obtained some kind of self-insurance?
A. No.
Q. And if a customer -- you assume that large customers would normally or even large commercial customers, medium commercial customers, the assumption is that they would have already engaged in some kind of hedging policy or gone with a supplier that would likely try to levelize their cost; is that true?
A. I don't think, no, no. I don't think that it's -- that nine-and-a-half-year hedges are available through the standard SSO or CRES kind of systems that are in place right now. So this is really an opportunity for customers to be, I alluded to the train before. The train is pulling out of the station, and they are either on the train or off the train; and if they are on the train, they are on it for nine and a half years; if they are off the train,

they are off it for the nine and a half years.

Q. And they have to make the selection when, sir?

A. Before the PSR goes into effect. I would leave it, obviously, up to the Commission to decide what the timing would be.

Q. And you are -- you didn't answer my question to mean that you don't believe that commercial and industrial customers have any awareness of electric-use issues, in that they don't actually go out there and try to hedge their electric supply. You're not saying that, are you?

A. No. But if you could repeat the question. I am not entirely clear what your question is.

Q. Well, I asked you that question before and you went into a discussion about nine and a half years, and I'm asking you if you think that commercial and industrial customers actually go out and attempt to hedge their electric supply so that they do have an idea of their rates and that they can project their rates as well as their expenses and that they've put that into their budgets.

A. I think it varies from one commercial and industrial customer to another, and I don't know what term they might try and secure such hedges for.

Q. Those hedges exist in the market, right? We discussed those earlier today. There is many kinds of hedges and there are many products out there that suppliers use to hedge electric cost; isn't that true?

A. Of a short-term nature. The hedges that I have referred to in the earlier part of my testimony as far as the longer term, the 10-year kind of hedges, those are available through long-term power purchase agreements. That's not a standard kind of trading-desk-type of hedge that's available. That's really more of a supply-portfolio-type of proposition that's been, you know, as I was alluding to, developed in California --

Q. Okay.

A. -- and used elsewhere.

Q. You're not -- you're not suggesting here today that there are no commercial and industrial customers out there that do not have any kind of fixed-price contracts for long-term, are you?

A. I don't know, but I would be surprised if they have contracts for ten years.

Q. You don't know any commercial or industrial customers that have self-generation?

A. Possibly, but I don't even know what the terms of those self-generation transactions would be.

Q. Well, sir, you talked about California a lot. You're aware there are renewable contracts out there for wind, solar, self-generation-type contracts that are actually ten-year contracts, do you not?

A. Absolutely.

Q. And customers could have those contracts, couldn't they?

A. When you say "customers," do you mean purchasing utilities? Absolutely, the utilities definitely sign 10-, 15-, 20-year contracts with renewable providers.

Q. Utilities, CRES suppliers, would have those contracts, do they not?

A. I don't think so. Certainly in California, I don't think any of the direct-access providers, the CRES-type providers, are buying renewable contracts under 20-year agreements. They might be.

Q. Ten-year agreements, you don't know of any in Ohio that have 10-year -- you don't know any contracts for renewable facilities in Ohio that are ten years?

A. I have not done the review of the

contracting in Ohio.

Q. Okay.

A. I presume that most of the long-term contracts are with -- with utilities or perhaps with LSEs that have the RPS requirement to make sure that they are meeting some percentage of their energy requirements with renewable resources.

Q. And regardless of who those contracts are with, it's a hedging strategy that helps stabilize energy costs, is it not?

A. The renewable contracts?

Q. Yes.

A. Yes. Your original set of questions was dealing with perhaps commercial customers and I just -- I don't know that commercial customers necessarily pursue the renewable contracts.

Q. You don't know of any commercial customers in the state of Ohio -- because we are talking about Ohio right now with regard to this proposal. You don't know of any commercial customers in Ohio that have self-generation, whether it either be renewable source or some other kind of self-generation behind the meter?

A. Well, self-generation, perhaps. To say do I know, I have not done a review. I can't testify

to the existence or nonexistence of such contracts.
Q. Thank you.
And just so we're clear, I think you said if they don't participate -- if an opt-out customer does not participate in this OVEC hedge program, they will not receive any of the claimed benefits that you've stated exist from that rider; is that true?
A. That's -- that's correct if a self-insurance customer opts not to be part of the PSR, then they would not have any entitlement to any of the benefits that could accrue as well.
Q. Okay. So your proposal before the Commission is you would require all customers to participate in the OVEC hedge except for a select few that actually opt out of the hedge; is that right?
A. That is my testimony. As I stated earlier this morning though, if the Commission determines that really the best way to move forward is with a nonbypassable charge to all customers, I certainly have no objection to that. I consider the self-insurance element to be a reasonable part of the proposal but certainly not an essential one.
Q. And how many customers do you believe fall in the category that would be available to not participate in the OVEC hedge?

A. I don't know.
Q. Do you know how many OEG members are able to participate in the opt out of the OVEC hedge?
A. I do not know.
Q. Do you know how much load is associated with the group that would be able to opt out of that hedge?
A. The self-insurance load, I do not know.
Q. And your proposal is that the percentage of load for those customers who do actually opt out or agree not to participate in the program would be added to the 10-percent participation limit, I think you called it, 10-percent participation limit that Duke is responsible for?
A. That is correct. That would go ahead and, under this scenario where there were self-insurance customers allowed under the PSR, and some of them decided to self-insure and not be part of the PSR, then whatever percent load they represented of Duke's overall system, that percentage would be added, basically that times 90 percent would be added to the 10 percent.
So just to use quick numbers here, if 5 percent of the load self-insured, then 5 percent times 90 percent, or 4.5 percent, would be added to

the 10 percent number to create a total Duke skin in the game, if you will, of 14.5 percent. And the reason why the arithmetic works that way is it keeps the entire rest of the customer base absolutely neutral to what these self-insurance customers opted to do.

Q. And the reason that you did that is so that Duke would be responsible for that opt-out group and not other customers; is that correct?

A. That's correct.

Q. And for the opt-out program you stated that they have to opt out before the June 1, 2015, and they would be in or out for the entire nine and half of years; is that your proposal?

A. That is my proposal, subject to whatever the Commission would want to establish as an appropriate deadline.

Q. So if they chose that option, those customers would never even pay your initial rider amount of $1.6 million; is that right?

A. That is correct.

Q. And I asked you about cost allocation of that $1.6 million number. You're also not advocating for any allocation among or between the classes. You're not making a distinction between class, just to clarify, you are not also making that kind of allocation proposal.

A. I am not.

Q. Can we turn to your attachments for a minute, sir. We talked a lot about you using Duke's forecast in your attachments, but I think that there's an exception to that. You use Duke's forecast, but then for 2015, you actually adjusted the number in order to take into account that it wasn't a full calendar year; is that correct?

A. That is correct. On line 18 of my Exhibit AST- 2, you can see the exact same numbers that were included above it in line 17, except for 2015, where I'm recognizing that the number in line 17 for 2015 is a full calendar year number. On line 18, that's basically starting on June 1 of 2015, so it's a prorated portion of the expected net benefits in that year.

Q. And, sir, also on line 4, without mentioning the number because that's confidential, where did the capacity factor come from for this line?

A. That was a calculated value between line 3, which was the energy generation forecast that Duke Energy Ohio had developed, and dividing by the capacity to come up with the capacity factor.

Q. Okay. And it's my understanding, if we look at page, I guess it would be AST- 3 -- well, before we leave 2, let's just make something clear for the record. The numbers on 2 in parentheses mean that this is -- if they are in parentheses they are a negative number, and on this page it means it's a charge to customers; is that correct?

A. That's correct. It's a negative net benefit.

Q. Okay. And then if we go to AST-3 and we look at AST-3, here you have an "N/A" in the 2024 category, and as I understand your testimony, that would be because your recommendation is that it -- the rider amount end in 2023 and that 2024 is just a true-up year. Is that true?

A. Yes.

Q. Okay. And then, so the net cost or benefits under your proposal end on 12-31-23.

A. Correct.

Q. Okay. And then this is reflecting that you would set the initial rider rate which would be set at the approximate $1.6 million number; is that correct?

A. Correct.

Q. Okay. The 15 is less than that because it's a partial year; is that correct?

A. Yes.

Q. Okay. And then, as I understand your proposal, the carrying costs of 7.73 percent is added on to the full 100-percent cost, not the 90-percent number that ultimately gets charged to customers; is that correct.

A. For the purposes of these calculations here. Technically, I could have done this where I was taking the 90-percent number every step of the way, but it's a lot simpler simply to run the entire calculation and then come back and apply the 90 percent. You come up with exactly the same final numbers at the end of this exhibit as if you took 90 percent of each set of numbers along the way.

Q. Okay. So, but on your chart you have a line item 9, and I just want to make sure the record is clear that you didn't actually assess that interest rate calculation before you got to line 10 which is the initial rider rate.

A. That's correct.

Q. Okay. So that's an additional cost on top of the $1.6 million.

A. Correct.

Q. Okay. And then, just so we're clear, on this chart, the positive indication of the line -- of line 10, the numbers are not in parentheses, but this means the same thing as the prior charge that it's a charge or a cost to customers.

A. Correct. My use here of a positive number for rider indicates a rider cost.

Q. A rider cost. Okay.

And then on page 2 and 3 of Exhibit 3, you run through an illustrative example of what happens if the forecast that you've been talking about isn't perfect, as most forecasts are not; is that right?

A. Yes.

Q. Okay. And then if we look at page 3 of your calculation, then this, on line 31, indicates where you would make the adjustment of the 90 percent or 10 percent, so only 90 percent has been assessed to customers; is that correct?

A. That's correct.

Q. Okay. And so, the rider number, after that entire calculation, is what is either on line 32 if the forecast is adjusted, or 10 if the forecast remains.

A. Correct. If the forecast was absolutely perfect, bang on, we would be on line 10. If it, instead, based on my illustrative example, went through a true-up process, it would be the numbers based on that example of what's on line 32.

Q. And it's my understanding that your testimony today is that Duke's proposed PSR should not be approved as it was filed by Duke; is that correct?

A. That is my testimony, yes.

MS. BOJKO: Okay. Thanks. I have no further questions. Thank you, your Honor.

EXAMINER PIRIK: OCC.

MR. BERGER: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Berger:

Q. Good afternoon, Mr. Taylor. Nice to see you again.

A. Good afternoon. Good to see you too.

Q. Mr. Taylor, page 4 of your testimony, you talk -- you indicate the retirement of coal-fired generation is likely to drive up market prices; is that right?

A. Correct.

Q. You don't think, do you, that the market has already accounted for expected retirements of generation plants?

A. No. When I'm thinking of the coal-fired retirements, I'm seeing numbers in the trade press like 27,000 megawatts of coal-fired generation is expected to be retired over the next eight years or so. So that does not mean that capacity is scarce now. But I think it's going to get scarce and that will drive up market price.

Q. But the market already knows that generation you just indicated, the 2,700, is going to be retired, isn't it already in the process or has already accounted for it --

A. No.

Q. -- in market prices?

A. What I am referring to, as far as the spot energy prices, for example, those are dependent entirely on absolutely current circumstances. There's no thinking on the part of generators to, at least legally, withhold capacity and try and drive up prices.

Given that there may be some shortage in the future, if there's plenty of capacity right here and now, energy prices can stay very, very tame, as they actually have in recent history, but I don't think that's going to continue as we move into this period of capacity scarcity.

Q. Now, are you aware of any retiring generation would be replaced with new generation under the BRA construct?

A. I'm not hopeful that that is going to occur. That is, I think, the expectation of PJM. They have got a base residual auction that establishes a capacity price. We have yet to see substantial amounts of new generation developed under that construct.

What California certainly learned in the late '90s and then rolling into the catastrophe in 2000 and 2001, is that soon- or near-term high prices don't necessarily translate into immediate power plant construction. You've got two major factors that need to be considered.

First, it takes time to develop a power plant, so if there are high market prices that doesn't necessarily mean a power plant can be built overnight. Secondly, it takes a sustained period of high prices, or prices that are at least at the cost of new entry, in order for a developer to be able to go to a bank and get the necessary funds to finance a project.

So the fact that somebody might see a price out in -- three years out under the base residual auction, the BRA, is not necessarily going to immediately translate into new generation.

Q. Mr. Taylor, do you remember my taking your deposition, a few weeks back?

A. Yes.

MR. SERIO: May I approach, your Honor?

EXAMINER PIRIK: Yes.

MR. BERGER: We will provide the deposition transcript to your Honors as well.

EXAMINER PIRIK: Yes.

Q. When you get the transcript, I would like you to turn to page 131 of the mini-script, which is page 33 of the mini-script but page 131 of the transcript.

A. I'm there.

Q. Okay. Do you see, on line 14, the question I just asked you, "You're aware that any retiring generation would be replaced from a PJM standpoint with new generation?"

And you said, "That, I think, is the hope, yes." Do you see that?

A. The hope of certain economists at PJM, but, yes, I do see that.

Q. Okay. You just amplified your answer here that you did not amplify it in a way you gave at the time; is that correct?

A. I think that my statement there in my deposition is correct, that I think is the hope. I can't imagine that retiring capacity won't be replaced at some point.

Your -- your earlier question was will it be replaced through the BRA process, and I think that that is a direction that California learned could not take place, and they ultimately approved Assembly Bill 52, and set up a process for procuring new generation through long-term contracts. Not something that's just a couple of years out.

MR. BERGER: Your Honor, I would move to strike the remainder of his answer as nonresponsive to the question. He answered the question at the time of his deposition with a relatively firm "yes" and he is now changing his response, and I did not -- all I asked him in this question was whether he amplified his response in his earlier answer from what I asked him, from what he responded to today.

MS. SPILLER: Your Honor --

EXAMINER PIRIK: Denied.

MS. SPILLER: Thank you.

MR. BERGER: Thank you.

Q. (By Mr. Berger) Would you agree with me that there would be significant penalties to any developer that bid generation into an auction and failed to deliver?

A. I believe so, yes.

Q. And you're just looking at the retirement of existing capacity as the thing that's likely to drive up prices. You're not looking -- you haven't looked at any other factors, is that right, in your testimony?

A. No. I think there could be other factors too. Capacity scarcity is definitely one of the things that could drive up prices, but there are other things too.

Q. But in terms of what your testimony said, that was the only thing you pointed to in your testimony, correct?

A. No. I thought my testimony also referred to severe weather. And I thought my testimony even said -- implied that it could include those things, but I wasn't making an exhaustive list.

On page 5, lines 3 and -- 2 and 3, "As energy market prices rise (either because of severe weather conditions or generating capacity scarcity)," I am referring to what could drive up market prices there. And there is certainly other things that do that as well.

Q. Do you see on deposition transcript, page 132, line 11, where I asked you regarding the retirement of existing capacity, and I asked, "And your evaluation here that this is likely to drive up market prices looks only at that -- at that factor; is that -- is that right?"

And you say, "Yes. I mean, I'm really thinking of the BRA as far as the prices I'm referring to there." Do you see any other factor I was talking about earlier, other than the retirement of existing capacity?

A. Your questions really are going around the issue of if somebody fails to honor their bid in a BRA auction. "...if they fail to do so, they would undergo significant financial penalties...you're aware of that?"

I answered "That is my understanding."

Q. But that related to, didn't it, the replacement of new generation -- replacement of -- existing generation retiring with new generation? Wasn't that the factor I was talking about when I asked you that?

A. I don't know. Certainly, it is my testimony as filed, and I think that it is clear that there are a number of factors that can drive up market prices.

Q. Do you see my question on line 19. "You're not looking at other factors" -- let's start at line 17. "But you're just looking at -- at the retirement of existing capacity as something that's likely to drive up prices. You're not looking at other factors in terms of whether prices are going to go up?"

"Well, in my testimony I am saying 'this' it's likely to drive up market prices, and this -- and the 'this' is definitely referring to the retirement of coal-fired generation in PJM."

A. And then I go on in the following sentence saying, "I could envision other things also having a price elevating effect."

Q. But those weren't addressed in your testimony is the point.

A. Yes, they were. I refer to page 5, line 3, where I refer to severe weather conditions being another element or another driver in the markets that can cause elevated market prices.

Q. Sir, do you expect that carbon-emission reduction requirements would have a price increasing affect on the production of coal-fired generation?

A. It could, but I don't know that it definitely will.

Q. Will carbon-emission reduction requirements disproportionately affect coal-fired generation?

A. I don't know. This is primarily in the context of, I think, rule 111(d), which, as I noted earlier today, is still in a state of flux. States have a great deal of flexibility in how they will abide with any sort of CO-2 reduction targets. A State Implementation Plan, an SIP, will be required, and that could involve elements that would affect coal-fired generation or it could translate into a greater reliance on renewable resources.

Q. And you made no specific analysis of the potential disproportionate impact of carbon-emission reduction requirements on different sources of electric production, did you?

A. That's correct, I did not. I specifically looked at the nine-and-a-half-year period with an eye toward the uncertainties that might arise in this area. So I don't mean to suggest that there aren't risks there for coal-fired generation, but I believe that the risks are fairly low in the near-term time period. But to go for any sort of commitment toward coal-fired generation over the longer term, the latter part of the next decade or into the 2030s, I think holds some significant risks.

Q. But you made no specific analysis of that issue; is that correct?

A. I did not.

Q. And you say on page 5, lines 2 to 3 of your testimony that as market prices rise, OVEC will be dispatched more. You agree that that depends on either/or both of two things: That weather conditions will be more severe or the generation capacity will be more scarce; is that correct?

A. Yes. Although, I did not intend for my list to necessarily be exhaustive.

Q. Okay. But those are the only two factors you identify in your testimony, correct?

A. Correct.

Q. And you believe that the new power plants that replace the older power plants are going to have a higher dollar-per-megawatt-day cost than is reflected in the current BRA; is that correct?

A. Correct.

Q. And in preparing your testimony, you relied on Duke's estimate of the net cost and benefit of OVEC assets. I think that's been established, right?

A. Yes.

Q. You prepared no analysis of either of the costs or the revenues independently that underlie Duke's analysis of the net cost or benefit?

A. Correct. Although, in reviewing Duke's forecast, I was keeping in mind the previous case from AEP Ohio and some of the numbers I'd seen there, and certainly I was drawing on my extensive knowledge on what it takes to get new generation built in other parts of the country and whether those numbers lined up with what I was seeing in Duke's forecast.

Q. Okay. And you did not analyze the workpapers or analysis that Duke prepared in this case?

A. I did not.

Q. Okay. And you did not review the workpapers at all, in fact.

A. I did after my deposition.

Q. Okay. And you did not analyze at all the change that occurs in the pricing of energy between 2019 and 2020 in Duke's workpapers?

A. I did not prior to my deposition. Since then, I believe that those numbers are based on assumptions about some sort of CO-2 reduction issue coming into the timeframe.

Q. And what is -- what is your understanding in that respect based upon?

A. That it will, perhaps, drive up market prices, as well as drive up some costs --

Q. Where did you get the information that you -- that you -- that you utilize to come to the conclusion that it related to carbon emission requirements?

MS. SPILLER: Your Honor, if I may object. This information concerns information that was revealed in a confidential Duke Energy Ohio discovery response. And I don't know, Mr. Berger, if you've identified that discovery response yet.

MR. BERGER: I have not asked him about that. He offered the testimony in response to a question. I simply asked him about the change in price between 2019 and 2020. He offered the information about what he thought was the cause of that. Once that was introduced into the record, I'm not sure what you want to do about that. If you want to start -- if you want any further discussion of this on the confidential record, I'm happy to do that. If you want to redact the information he's already offered, then you should make a motion.

EXAMINER PIRIK: I don't think there is any need to redact where we are to this point. I don't know if the witness is going to need to refresh his memory by seeing some document or whether or not that document is even available, if you are aware of what that document is, other than to caution the witness that it may contain confidential information.

MS. SPILLER: Thank you, your Honor.

EXAMINER PIRIK: What type of confidential information? Is it numbers you're concerned about, verbiage, years?

MS. SPILLER: It's verbiage, your Honor. Probably a little bit of both depending where the line of questioning goes, but, at this point, verbiage.

EXAMINER PIRIK: Well, if you get close to a line, I mean even if you slip up a little bit, we can redact that from that page, but if you get close to a line, then just stop yourself and we'll figure out where to go from there.

THE WITNESS: Thank you, your Honor.

Q. (By Mr. Berger) Regarding that,

Mr. Taylor, in giving the response that you just gave, were you con -- did you consult with a document that you received from Duke Energy Ohio to support its analysis, or were you just making your own conclusion regarding the change in price during that timeframe from general knowledge in the field?

A. That's a very good question. I don't know. I've reviewed a lot of documents in the case and I've also been involved with a number of utilities around the country who are trying to figure out what might happen in the not-too-distant future as far as CO-2 costs, and I may be actually drawing in some of the thoughts from these other projects, so I don't know.

Q. Okay. But I think you testified you did not review this issue of the change of price between 2019 and 2020, at the time of your deposition, which was after you submitted your testimony, correct?

A. That's correct.

Q. And you did not attempt to analyze the OVEC budget at all; is that correct?

A. That's correct.

Q. And you did not review the deposition of Mr. Brodt regarding the budgets or his hearing testimony regarding the budget, did you?

A. No, I did not.
Q. You did not review Mr. Dougherty's deposition regarding his workpapers in any way, did you?
A. No.
Q. And you did not review Mr. Zhang's deposition regarding the commercial business model that was used to develop the numbers for the generation output numbers, did you?
A. No, I did not.
Q. And you did not review Mr. Zhang's deposition with respect to his projections of energy revenue and capacity revenue, did you?
A. No.
Q. And did you not review Mr. Jennings' deposition or his hearing testimony regarding his estimates of capacity prices in the periods following 2018, did you?
A. Certainly not the deposition. I am trying to think whether I may have seen his testimony. I don't know.
Q. He just testified yesterday if that's helpful.
A. Did he have prefiled testimony?
Q. No.

A. Then, no, I was not here for his oral testimony, so the answer would definitely be no.

Q. And you did not read the depositions of either Mr. Zhang, Mr. Dougherty, or Mr. Jennings concerning any of those matters, including the commercial business model.

A. I did not.

Q. And in terms of your view that Duke's estimate is conservative, you're talking about -- are you talking about line 7 of Exhibit AST-2, and line 10 of Exhibit AST-2, referring to the RPM price for capacity and energy market prices?

A. Yes.

Q. Okay. Now, and Exhibit AST-2, lines 1 through 17, all of those numbers come from either Duke or OVEC; is that correct?

A. Yes.

Q. You did a calculation, didn't you, of line 4? I just note this is a calculation done there.

A. That's true. There are a couple of calculations embedded in this set of lines 1 through 14 that are simply derived from the total dollar numbers that Duke had provided in those various lines.

Q. Okay. Thank you.

Now, on page 16 of your testimony, you said that Duke's estimate is conservative because it was "developed before the full impact of this last winter's 'polar vortex' was experienced." Do you see that? At the bottom, lines 21 through 23.

A. Correct.

Q. But, in fact, for purposes of the analysis performed by Duke, Duke's analysis used forward market curves as of June, 2014, didn't it?

A. Only for the current ESP. And my statement in my testimony was the long-term values, meaning the post-2018 period. Those were all based off of forward curves before the polar vortex.

Q. Okay. But for the period of the current ESP through at least May of 2018, they just used forward market curves, correct?

A. Correct.

Q. And for the period 2019 to 2024, Duke's fundamental forecast was prepared as of January, 2014, correct?

A. That's my understanding.

Q. You did not request any update of that forecast for purposes of preparation of your testimony or your exhibits, correct?

A. No. I asked in discovery for their most recent forecast and that's what I was provided.

Q. But subsequent to receiving -- and when you say their "most recent forecast," what you received was OEG 1-1, correct?

A. Correct.

Q. And subsequent to receiving that and finding that their most recent forecast, fundamental forecast was as of January, 2014, you didn't ask whether they could update that for you to the most recent month, did you?

A. I did not. I had asked, in my original request, for the most recent information and that's what I was given.

Q. Okay. Now, you would agree with me, wouldn't you, that with respect to the impact of the polar vortex, rates to SSO customers will not be affected until the rates set by auctions subsequent to the polar vortex are incorporated into those rates; is that correct?

A. Yes.

Q. And do you know whether those auctions have taken place?

A. I do not.

Q. Did you inquire?

A. I did not.

Q. Did you determine -- I assume, because you didn't inquire and don't know what the rate -- whether there were any subsequent auctions, you don't know what the extent to which subsequent auctions may have affected the rates?

A. I do not.

Q. And you don't know whether any non-SSO customer rates were, in fact, affected by the polar vortex, do you?

A. I can only imagine that they were, but I do not know for a fact.

Q. And you have not studied non-SSO customers' rates over the last few years to study the level of volatility that they have experienced, have you?

A. No, I have not.

Q. And you have not studied fluctuation in OVEC's net costs and benefits in the last few years and compared it to the fluctuation in SSO and non-SSO customer rates over the same period of time, have you?

A. I have not done a side-by-side comparison. What I will say is I think we've come through a period of very stable markets and I think that recent history of the market-based marginal-cost pricing looks terrific. There's not a great deal of volatility there. I just don't feel that that is -- that past history is indicative of where things are likely to move as we see all of this retiring capacity and a variety of other economic factors that I think are likely to drive costs up as we move through the next nine years.

Q. And you're not aware of the net cost and benefit to OVEC of its operations for 2012 and 2013, are you?

A. I believe I saw some historic numbers in the AEP Ohio case. I haven't reviewed those recently. What occurred to me is that the numbers in the 2012 timeframe were significantly influenced by the fact that the plants were being retrofitted with flue gas desulfurization systems, so that obviously was a major undertaking that took a number of the units offline. It kind of distorted that immediate historical period right there, so I don't know that that's necessarily an appropriate barometer for how the units are likely to operate going forward now that they have been upgraded with these new emission control systems.

Q. Would you turn to page 142 of your

deposition transcript. Page 36 of the mini-script. And, at line 13, I asked you, "Are you aware of the net cost and benefit to OVEC from -- during 2012 and '13." And you answered, "Not off the top of my head, no." Is that correct?

A. Correct.

Q. Is your answer the same today?

A. No, because after the deposition, this provided me an opportunity to go back and think about what I had studied in the AEP Ohio case and collect some more information after the deposition.

Q. But you didn't look at the documents, did you?

A. I looked at some documents in the AEP Ohio case. I don't recall exactly which ones.

Q. Okay. But you still don't know what the net cost or benefit was over that period of time; is that correct?

A. That's correct. I believe there are some erratic elements to the OVEC situation, largely due to, I think, construction of these flue gas desulfurization systems.

Q. Now, on page 3 of your testimony you indicate that the cost of coal is likely to be stable.

A. Yes.

Q. And you say that no significant capital expenditures are expected over the next decade for OVEC; is that correct?

A. Correct.

Q. And by that you mean environmental expenditures; is that correct?

A. I don't think I saw anything in the materials I reviewed that referred to major overhauls of anything. I think that the environmental systems that were just installed are kind of the major element. Most of the plants are fully depreciated, and I think as we move ahead through the years, even these new emission-control systems and the capital investments there are going to be further depreciating over time, without the expectation that there are going to be new major capital undertakings at the facilities.

Q. On that line, at lines 15 to 16, were you referring to environmental expenditures there?

A. No. I meant very broadly.

Q. Would you refer to page 143 of the transcript of your deposition where I asked you, at line 11, you say, "...on Lines 15 to 16 that you understand that no significant capital expenditures are expected over the next decade. Are you talking about -- just about the MATS rule there or are you talking about something else related to coal facilities?"

"I believe" -- and you answered: "I believe that that's as far as environmental capital expenditures that are currently anticipated by OVEC."

A. I think my response was really in reference to your bringing up the MATS rule and that there weren't going to be any more environmental-related capital expenditures to address the MATS rule.

I think as far as my written testimony where I said, on page 13, it is my understanding that no significant capital expenditures are expected over the next decade, that was a broader statement.

Q. Okay. So you thought I was just asking you about the MATS rule when I asked you "Are you talking about the MATS rule or are you talking about something else related to coal facilities?" Okay. Is that correct? You thought I was talking about something else?

A. Correct. I'm sorry. With the telephonic deposition, I heard "MATS rule" and my mind switched onto environmental.

Q. Now, are you aware of whether those forecasts, that the company did, included carbon-emission reduction requirements?

A. I don't know.

Q. And you didn't consider whether they did or not in your analysis; is that correct?

A. No, I did from the standpoint that I think that there are many unknowns in the carbon-reduction area, and that that was a lot of the genesis for my recommending a nine-and-a-half-year PSR period, because I think those are some significant unknowns and I don't think it would be wise to go for a life-of-asset kind of PSR.

Q. You would agree with me that if you didn't know whether the company included them in their analysis or not, you couldn't assess whether they were reflected in that analysis or not.

A. If indeed they were in there, then I think the costs may be overstated if the rules do not require what the company had envisioned. It would be my assumption, although it's just an assumption, that there are no additional costs that are in the OVEC forecast for carbon-reduction activities.

Q. And, of course, you didn't know, you made an assumption -- you're making an assumption now?

A. Well, it's an assumption that could only cut in favor of the PSR.

Q. And in terms of the cost of coal, you are aware that there is some point at which, even given a low demand -- and I think you referenced this earlier -- that the price cannot drop below a marginal cost of production or below the embedded cost of production in the long term.

A. Correct.

Q. Now, with respect to your suggestion for a 10-percent stake for Duke so that they have some incentive as a -- as a member of -- so that they have some incentive as a member of the Board of Directors and ensuring that the units are appropriately maintained and the capital expenditures and other operating costs are kept under control, is that the objective of having the 10 percent incentive?

A. That's part of the objective.

Q. What's the other part of the objective?

A. That, on the revenue side, that they do everything within their power and control to maximize the capacity and energy revenues associated with their entitlement.

Q. Okay. So both on the revenue side and on the -- and on the cost side you think that they have some ability to affect the ultimate efficiency and economics of the operation at OVEC; is that correct?

A. In a limited sense now, but since we are talking about something that spans nine and a half years, I think it's a good policy to build an incentive in place because I don't know exactly what control they are going to have in various board meetings or various market operations as we move through the next nine and a half years.

Q. And on page 17 of your testimony, you make a comment at the bottom that you don't think the number of CRES providers is the best metric for gauging the success of the competitive wholesale market in Ohio. Do you see that?

A. Yes, I do.

Q. Would you agree with me, however, that it's an important metric?

A. I would say it is a metric. Depending on the quality of the CRES providers, it may not necessarily be an important one. I would think that it would be more indicative of a strongly-competitive market if you had, say, six or eight very strong capable CRES players than 50 small ones that did not have the sophistication or financial backing to carry out their promises. So I think just the physical number of CRES providers is not necessarily an appropriate metric of the competitive market.

Q. You would agree with me that there has to be a certain number of providers who are offering a certain number of products for there to even be a competitive market; is that correct?

A. Correct.

Q. And with respect to the 10-megawatt election, the self-insurance plan which is discussed on page 21 and 22 of your testimony, you don't know how many such customers are on Duke's system -- oh, I think that was earlier established by Ms. Bojko; is that correct?

A. That is correct.

Q. And you wouldn't have any opposition to the residential class, for example, being given a represent -- a representative for purposes of electing whether or not to participate in the price stabilization rider proposed in this proceeding, would you?

A. Actually, I would. Instead of -- instead of having large customer blocks be able to, in effect, self-insure or step aside, I would prefer to set-aside the self-insurance principle all together and simply put the entire customer base onboard.

That's exactly what they did in California.

Q. So you would be more agreeable to removing the 10-megawatt self-insurers than to adding the residential class to those who could potentially self-insure?

A. Yes.

Q. You would agree with me, you testified in the AEP Ohio proceeding, didn't you, that you wouldn't have a problem with there being a representative of the residential class who could elect to self-insure or opt out of the PPA in that proceeding?

A. I remember being on the stand. I vaguely remember the line of questioning. I haven't reviewed the transcript from that proceeding. It was a new idea that was thrown at me while I was kind of right there on the stand, and having thought about it more, I certainly would much prefer the Commission set-aside the entire self-insure issue all together rather than create a lot of uncertainty about whether there would be any customers under the PSR. I really think the PSR is going to be beneficial and be better, as they do in California, to put everybody on this hedge rather than a patchwork quilt of customer participation.

Q. But you agree with me, you did testify to that effect in the AEP Ohio proceeding that you would not be opposed to that?

A. I don't remember and I haven't reviewed the transcript.

Q. Would you accept it, subject to check?

A. I will accept it, subject to check. Certainly having given it more thought as I say, I would be inclined to set-aside the self-insurance provision altogether rather than have a patchwork quilt kind of participation in a hedging product.

MR. BERGER: Your Honor, I have a copy of the transcript here. I want to establish for the record that it is, in fact, the case. Rather than having him make the statement, subject to check, since we don't have it -- since we don't need to take administrative notice since I have it here. I would just present it to him and ask him to acknowledge that that is, in fact, the case.

EXAMINER PIRIK: I'm fine with that.

MR. KURTZ: No objection.

EXAMINER PIRIK: Let's take a moment so he can look at it.

MR. SERIO: May I approach, your Honor?

EXAMINER PIRIK: Yes. Do you have

something counsel can look at, Mr. Kurtz look at also?

MR. KURTZ: That's fine, your Honor.

EXAMINER PIRIK: You're okay?

MR. KURTZ: Yeah.

Q. (By Mr. Berger) And this is Mr. Taylor, on page 2609 of the transcript, Volume II of that proceeding's transcript. At lines 9, on that page and continuing until line 1 on the following page, and I don't need to read it into the record, if you just acknowledge you did agree that that -- that you had no objection to that concept at the time. I understand you've changed your viewpoint about that.

A. Yes. You asked that would I have an objection. And my first statement was no, but then I continued to kind of elaborate on that, saying that I'm really trying to procure the best supplies for the people of the state.

Q. Sir -- sir, if you are going to read it, would you read the entire answer then?

A. Sure.

Q. Thank you.

A. "No. I mean, ultimately my participation in this proceeding is really on behalf of the customers of the state of Ohio, that's really how I approach most of my consulting engagements because I'm really trying to procure the best supplies for the people in the state of the jurisdiction that I'm operating in. So I'm advocating on behalf of this OVEC hedge principally because I do believe it is going to be a real benefit for the customers of the state of Ohio."

Q. Thank you, sir.

And, as I understand it, you don't think it's necessary to present value the analysis of OVEC costs and benefits to evaluate -- to evaluate whether, from a cost standpoint, it should be adopted. Could you explain your viewpoint about that?

A. I do think that present valuing is appropriate. In my deposition when the question came up, I admitted that the averaged number that I had developed was not present valued. But after I finished the deposition, it occurred to me that the whole regulatory balancing account that I've got is, itself, a present valuing effect.

So it recognizes that during the early years of this forecast, the positive net costs are going to require a cash flow basically from Duke to its customer base, and would result in a positive balance to the regulatory balancing account.

So although it's not a classic present value discounting the way one would do on one stream of numbers in a spreadsheet, it accomplishes the same issue. Once you take the total sum of what's in the net-benefits calculation and add the net present value costs of the balancing account, you end up with the present valuing effect.

Q. Okay. But that's -- that's for your levelized approach. Would you agree with me that it's appropriate to do a present value assessment if you're not using the levelized approach, if you're assessing the net cost or benefit?

A. It depends on what you're trying to accomplish with the evaluation. I think that it's appropriate when you are looking at different alternatives to look at present valuing, but I'm not sure exactly what present valuing is trying to accomplish in this case.

Q. Well, in terms of assessing the net cost or benefit in current dollars, would you agree that it's appropriate to do that analysis if you want to understand that?

A. Yes. And as I say, the PSR, as modified, does have that information in that it has a regulatory balancing account that adds additional cost to the bottom line number.

MR. BERGER: That's all the questions I have on the public record, your Honor.

Thank you very much, Mr. Taylor.

THE WITNESS: You're welcome.

EXAMINER PIRIK: Mr. Mendoza?

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CROSS-EXAMINATION

By Mr. Mendoza:

Q. Good afternoon, Mr. Taylor.

A. Good afternoon.

Q. Did you say earlier that you understood EPA's 111(d) greenhouse gas proposal to be a flexible approach to reduce carbon emission?

A. That's how I understand the current proposal, yes.

Q. And do you have a general understanding of the so-called four building blocks of that proposal?

A. I do not have that level of detail, no.

Q. Okay. And you said that you don't know if greenhouse gas regulations will disproportionately affect coal plants; is that right? Did you say that?

A. Yes, I just -- I think that that's a

reasonable supposition, but we don't have any clear information from what 111(d) is going to look like.

Q. Okay. Are you aware that coal is more carbon intensive in terms of emissions per unit of energy generated than natural gas?

A. Absolutely.

Q. And the same is true for nuclear, correct, comparing coal to nuclear, nuclear is less carbon intensive than coal-generated electricity, correct?

A. Yes. Certainly on a generation basis.

Q. And the same is true for renewables, correct?

A. Correct.

Q. Are you aware of any source of electricity generation that is more carbon intensive than coal?

A. I'm not sure. There may be petcoke facilities that may be more carbon intensive, but coal is pretty much there toward the top of the list.

Q. How about this: In PJM, for any source of generation that is not negligible, is there any source that has a higher carbon-intensity profile than coal?

A. No.

Q. And so, isn't it fair to say, assuming the United States wants to reduce carbon emissions, which I agree with you we don't know for sure that that will occur, from the electric sector, isn't it not possible to avoid reduced reliance on coal generation?

A. No. I agree I think that there is going to be -- that went into the forecast of 27,000 megawatts of coal-fired capacity that's likely to be reduced over the next eight years.

Q. Okay. And wouldn't you expect the cost of carbon to impact coal plants more than the overall cost of market prices?

A. That, I think, is a logical supposition but, again, at least in the context of rule 111(d), we don't know what the final flexibility will be in that rule. And certainly the intention of the rule seems to suggest that states will have flexibility in how they want to address something, so if they -- they want to increase the amount of renewable generation on their systems, instead of putting costs on the coal plants, I think that that's an option under the 111(d).

Q. So if we were going to increase reliance on renewable resources, assuming the load was the same, wouldn't that necessarily imply reduced reliance on other resources?

A. Yes. I mean, I think there's this 27,000 megawatts of coal that's forecasted to be retired.

Q. And I know you said you weren't intimately familiar with the proposal, but you are aware that part of the proposal calls for increased reliance on existing natural gas units, correct? Have you seen that in the trade press?

A. I will take that at face value.

Q. And would you agree that in PJM, at least, if we are going to rely on increased use of natural gas units, it will necessarily imply less reliance on coal units?

A. I think the fact that coal units are being retired is going to drive to your conclusion. I certainly am a proponent of retiring inefficient carbon-intensive technologies such as some of these old coal-fired power plants.

Q. Would you consider 59-year-old coal unit to be an inefficient, old coal unit?

A. Not necessarily. These facilities are definitely old that we are talking about as far as OVEC. They have been, I believe, well maintained, and the fact that some significant capital expenditures just went into them in the last four years, five years, I think that they are poised to continue to be a part of the midwest power supply block and the PJM power supply block, so I don't think that they are part of that 27,000 megawatts that has been discussed in the trade press.

Q. I think when you're talking about the significant investment, you're talking FGD and SCR units?

A. Correct.

Q. You would agree neither of those two types of technologies reduces carbon emissions, correct?

A. Yes. Correct.

Q. Going back to my question. So putting aside the 27,000 megawatts that have already been announced for retirement or the Department of Energy expects to retire, let's assume, which I agree is an assumption, that the 111(d) rule is finalized and that part of the rule calls for increased reliance on natural gas --

MR. KURTZ: I object, your Honor. That mischaracterize the rule. The rule does not do that at all. It leaves it up to the states, through the State Implementation Plan, as to how they are going to meet carbon intensity or go to a mass base approach which would essentially be state-based cap and trade so there's nothing in the proposed rule that says we're going to have more natural gas plants. That may be a result, but it's not in the rule.

EXAMINER PIRIK: I'll let the witness answer.

Q. Okay. Why don't I revise my question just to make it clear some of the things I am asking you to assume. Let's assume the proposal asks for increased reliance on existing natural gas plants, not new plants. In PJM, wouldn't that necessarily require less reliance on existing coal plants?

A. I suppose so.

Q. Okay. Moving on to -- so you offer a suggestion that 10 percent of the rider be allocated to Duke Energy; is that correct?

A. Correct.

Q. And I think we talked about this a good bit, so I just want to jump ahead here. If your 10 percent suggestion is not adopted, does that imply that Duke does not have the proper incentives to keep costs down at the OVEC facilities?

A. I don't know what sort of oversight the

Commission here has over Duke's operations with regard to its OVEC entitlement. There may be other safeguards in place, but from an economist's point of view, I always like to see some sort of skin in the game that makes sure that an entity is appropriately incentivized to do the right thing.

Q. So putting aside the Commission's oversight and putting aside Duke's involvement in the management of these plants, Duke wouldn't have any incentive to keep costs down, correct, if your 10-percent proposal is not adopted?

A. They certainly wouldn't have as strong an incentive. To say they will have no incentive, I think there is always a professional obligation and fiduciary responsibility to try to do things right but I think the 10-percent participation really drives home the point and makes for sufficient incentives.

Q. So, aside from some fiduciary duty, they don't have any economic incentive to keep costs down at the OVEC, right?

A. I don't know. I don't believe so, but I don't know.

Q. And the same is true for revenues, correct, they wouldn't have any incentive to ensure that revenues are maximized, correct?

A. Correct.

Q. You also offered a suggestion that users with 10 megawatts of load be offered the opportunity to opt out of the PSR rider; is that correct?

A. That was my original testimony, yes.

Q. And you say this is because they may be able to self-insure?

A. Correct.

Q. And why shouldn't all of Duke customers be offered the opportunity to self-insure?

A. I think that's part of the responsibility for the Commission to be making decisions that affect overall customer rates and not requiring all customers to step in and attend these proceedings and figure out what's right for their particular utility billing. I think there's a societal efficiency to having a regulatory Commission watch the process, make decisions, and come up with good policy. So, as I said earlier, I would rather see the whole self-insurance issue set aside and extracted from the proposal rather than expanded.

Q. But I want to talk about the proposal that's in your testimonies. So putting aside the Commission's oversight, people buy types of insurance all the time, right, fire insurance, health insurance, motorcycle insurance, why shouldn't they have the opportunity to self-insure for this type of risk that you've identified?

A. I'm not sure your standard residential customer would even know where to go to try and gain price stability in their electric utility bill. That's just not a significant part of their lives. There is no insurance company out there that they can call up and say, you know, their home insurance or car insurance company, they can't call them up and say can you insure that my utility bill stays within a certain band.

Q. Do you think if there was a market desire for that type of insurance, that it would exist?

A. Not necessarily. I think that a lot of these issues don't rise to the level of generating an entire business in the economy. I think that a lot of them come down to the issues that come before the Commission, as in any regulatory authority, to make decisions that make sense and ensure that rates are just and reasonable.

Q. Okay. And are you aware that many of Ohio Energy Group's customers would fall into the category of users with 10-percent megawatt load or greater?

A. I do not know.

Q. Okay. In your testimony you describe a hedging product called a "call option," correct?

A. Correct.

Q. And a call option involves a set price, correct?

A. Yes.

Q. And power purchase agreements involve purchase of power at a fixed price, correct?

A. Perhaps, a dollar-per-megawatt-hour fixed price, or, in the case of tolling contracts, usually a set heat rate.

Q. But there is a set -- it's either a set price or a seat heat rate, correct?

A. In tolling contracts, yes.

Q. My question was about power purchase agreements. They are at a set figure, correct, a set either price -- power purchase agreements involves a set price, correct?

A. Yes. They've got a set capacity price that's really more like the -- the insurance premium where the option premium that's being paid. The actual strike price for the option is dependent upon variable cost parameters that are in the tolling agreement.

Q. And you describe your experience from California, over the last decade and a half, in your testimony, correct?

A. Correct.

Q. And you say California authorized utilities to enter into the power purchase agreements to increase generation supply, correct?

A. Yes.

Q. And did any of those California PPAs involve a 59-year-old coal plant?

A. No. Coal is not allowed in California.

Q. Did any of them involve any coal plants at all?

A. No.

Q. And are you aware that the investigations by the State of California and the Federal Energy Regulatory Commission determined that Enron Corporation deliberately created the appearance of an energy shortage to intentionally drive up prices?

A. I am aware of those allegations, yes.

Q. You're aware of the findings of those investigations?

A. At a high level, yes.

Q. Do you not believe that Enron was

involved in wrongdoing that affected the California market?

A. No, I certainly believe that they were.

Q. Are you aware that Enron entered into a $1.52 billion settlement with the State of California and California utilities due to its role in creating an artificial supply shortage?

A. I don't know the exact number, but I take it --

Q. Are you aware -- are you aware of the settlement?

A. I am not.

Q. And, in your opinion, is PJM similarly vulnerable to market manipulation by energy companies?

A. I don't know. I just do know that the Enron manipulation was not the only thing that resulted in the problems in California. It ultimately came down to a situation where there simply were not long-term price signals, sufficient of -- prices that were sufficiently high to encourage merchant generation, and that was the fundamental economic problem that AB52 ultimately overcame.

Q. I would like you to consider a hypothetical for you.

EXAMINER PIRIK: Mr. Mendoza, could you just maybe slow down just a little bills. Karen is doing a stellar job of keeping up with you, but you talk kind of fast.

MR. MENDOZA: I have heard that before. I apologize.

Q. Mr. Taylor, I would like you to consider a hypothetical. Please consider a hypothetical independent system operator, we'll call it the ISO Taylor in two scenarios. Scenario A is where the generation market is 50 percent supplied by 50 percent coal, 30 percent gas, 20 percent nuclear. Scenario B generation is supplied 50 percent gas, 30 percent coal, and 20 percent nuclear. Did you generally follow my -- what I've set out here, Mr. Taylor?

A. Yes, I have.

Q. Which -- which of those scenarios has a more diverse generation supply market? I am happy to give you the figures again if that's helpful.

A. It's hard to assess in the abstract because it also depends on what the system's overall load shape is going to look like. If it's a fairly peaky system, it's going to benefit from having more gas-fired generation, so the scenario with the

50 percent gas is going to be more appropriate.
A system with 20 percent nuclear and 50 percent coal is going to be more base-load oriented, and that may be adequate depending on what sort of base load industries and other entities might be in that RTO.
Q. Are you aware of any alternative resources or mechanisms that Duke evaluated for providing stabilization benefits to its customers?
A. I am not.
Q. And when you say that no significant capital expenditures -- expenditures are expected, have you reviewed the conditions of these units?
A. I have not.
Q. Do you have any opinion on whether the turbines will need to be replaced in the future?
A. I do not.
Q. And what about the generators?
A. I do not.
Q. What about ancillary electrical equipment?
A. I do not. And I pretty much presumed that what went into the decisions to install the new emission controls, the scrubbers, and the selective-catalytic reduction facilities, is looking

at the balance of plant, the turbines, the ancillary service elements, the generators, and ensuring that there was sufficient life in those pieces of equipment to justify installing scrubbers.

Q. And would you agree with me that at a 59-year-old-coal unit there could be unexpected equipment failures?

A. Yes.

Q. And you do recognize the concept of the time value of money, yes?

A. Yes.

MR. MENDOZA: I have no further questions.

EXAMINER PIRIK: Thank you.

Mr. Oliker?

MR. OLIKER: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Oliker:

Q. Good afternoon, Mr. Taylor.

A. Good afternoon.

Q. Just a few questions for you today. I guess to start off, this is a little choppy, you haven't reviewed the PJM Interconnection generation.

A. I have not.

Q. Okay. And your testimony claims that California customers have received great stabilizing benefits from PPAs, right?

A. Correct.

Q. Isn't it true, in July, 2014, California had the highest energy prices in the country?

A. I don't know that to be true. Accepting your premise here, I wouldn't say high prices and volatile prices mean the same thing. California does have high prices because of one of the factors partly having to do with some very progressive social policies, where they have the highest renewable portfolio requirement standards in the country, promotion of a preferred loading order where energy efficiency and demand response are encouraged prior to any sort of conventional generation.

So there are a lot of policy issues that have driven costs up in California based on their desire not to have any coal-fired plants at all in the state. It's prohibited to have coal-fired generation and a variety of other things that could contribute to high prices. That doesn't mean, though, that the prices are erratic or volatile.

Q. The answer to my question is yes?

A. I don't know for sure. I will take it --

I will take your premise at -- your statement, subject to check.

MR. OLIKER: Your Honor, could I mark an exhibit, please?

EXAMINER PIRIK: Yes.

MR. OLIKER: May I please approach as well?

EXAMINER PIRIK: Yes.

MR. OLIKER: I believe we are on IGS 9.

EXAMINER PIRIK: Yes. The document is so marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Okay. Mr. Taylor, are you familiar with the U.S. Energy Information Administration?

A. Yes.

Q. And they post retail energy prices, correct?

A. Correct.

Q. And the document that I put in front of you as IGS Exhibit 9, would you agree that this is a U.S. Energy Information Administration posting of average retail prices of electricity to ultimate customers by entity sector?

A. Yes.

Q. And this contains prices for July, 2014 and July 2013, correct?

A. Correct.

Q. Okay. And could you just take a minute to look at the document. This appears to be a true and accurate copy of a document from the EIA, correct?

A. It appears to be. I'll take it, your representation, that this is indeed true and correct.

Q. And if you just look through it quickly, in July 2014, California had the highest price for electricity in the contiguous United States?

A. Correct. Setting aside Hawaii and Alaska, but just in the contiguous United States, it appears that it's at the top of the list.

Q. And would you agree in July, 2013, California had the second --

A. Except for New York.

Q. -- highest price?

A. Except for New York.

Q. Are you looking at July, 2014, Mr. Taylor?

A. Correct. For residential customers?

Q. I am talking about for all sectors.

A. Okay. I was looking at residential customers in New York is over $20 versus California's

$17.67.

Q. Would you agree that for July, 2014, under all sectors, California had the highest price in the contiguous United States?

A. No. Again, all sectors for July 2014, it appears that New York has $16.75. I'm sorry, I was looking at the column that's not labeled, but I gather now that is 17.14, yes.

Q. Okay. The next question, which I think you predicted, was in 2013, July, California had the second highest price in the contiguous United States.

A. Correct.

Q. Thank you.

You would also agree California does not have a functional competitive retail electric market?

A. It does have direct access in community customer, community choice aggregation in place, but the migration to those systems has been suspended for the time period.

Q. Thank you.

Moving on in your testimony, you talk about a hedge in your testimony for the PSR. And would you agree that that -- that notion is based on the assumption that as market prices rise, OVEC's cost of production will remain static?

A. Correct.

Q. And you would agree that if OVEC's cost of production rises at an equivalent rate with market prices, the PSR will not be hedged.

A. Correct.

Q. You received some questions earlier about carbon emissions rules, correct?

A. Yes.

Q. Would you agree that the global trend regarding carbon emissions is to reduce them?

A. Yes.

Q. So you would agree that last week the European Union passed additional rules that would further limit carbon emissions in Europe.

MS. SPILLER: Your Honor, I am going to object to the relevance.

EXAMINER PIRIK: Mr. Oliker.

MR. OLIKER: Your Honor, I am trying to establish that carbon emission rules are a trend and we are only going to see more of them and receiving pressure from our allies.

EXAMINER PIRIK: Overruled.

A. At a high level, I'm familiar, yes.

Q. So you agree that, in all likelihood, pressure on the United States to further regulate carbon emissions will only increase in the future.

A. Yes, I would agree with that. And, again, that's part of the reason for going for the nine-and-a-half-year term. I think a lot may come to bear on coal-fired generation as we move into the later part of the next decade and certainly into the 2030s.

MR. OLIKER: Thank you for that additional clarification.

I believe that's all the questions I have, your Honor.

Thank you, Mr. Taylor.

EXAMINER PIRIK: Mr. Petricoff.

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CROSS-EXAMINATION

By Mr. Petricoff:

Q. Good afternoon, Mr. Taylor.

A. Good afternoon.

Q. In terms of your preparing your -- your testimony for this -- this case, I take it, from the cross-examination that we've had thus far, you did not go back to examine what the prices were that OVEC power costs Duke and the other sponsors. And you did not do an independent study of what the future costs for OVEC -- OVEC generation would be, but you did review the studies that are done by OVEC and Duke and, more or less, reviewed them with your knowledge of the industry; is that a fair summary?

A. I think that's a fair summary, yes.

Q. Okay. And one of the other items that you indicated that you did learn quite a bit about it from going through the AEP proceeding.

A. Correct.

Q. And, in doing that, did you assume that the price that AEP pays OVEC for power is the same price that Duke pays OVEC for power? Do you assume that now?

A. That the forecasts are the same?

Q. No, no. The prices that they pay -- the price that they pay this month, last month, 2013, that Duke and AEP pay the same price for OVEC power?

A. I presume that the same inputs go in the arithmetic. I mean, they have got different percentage entitlements, but on a dollar per megawatt basis.

EXAMINER PIRIK: Mr. Petricoff, did you turn on your microphone?

MR. PETRICOFF: No, I did not.

A. On a dollar-per-megawatt-hour basis, I would presume that they are the same or very similar.

MR. PETRICOFF: Your Honor, may I approach the witness?

EXAMINER PIRIK: Yes.

MR. PETRICOFF: These are already marked. These are exhibits that are in the record already.

EXAMINER PIRIK: What numbers are they?

MR. PETRICOFF: Okay. I am handing the witness IEU Exhibits 8, 10, 11, and 12.

EXAMINER PIRIK: I've got them, but thank you.

MR. PETRICOFF: And 11, and 8, 9, and 10.

Q. Mr. Taylor, you are familiar with the Federal Energy Regulatory Commission Form 1?

A. Yes.

Q. And it's fair to summarize the FERC Form 1 is a -- a document that's filed by generators, particularly those in the wholesale market, to report where the -- to report a myriad of information to the Federal Energy Regulatory Commission, but including generation and cost?

A. Yes.

Q. Okay. Now, if you would, this is the -- this is in evidence now. These are portions of the FERC Form 1 that were filed by the Ohio Valley Electric Corporation. And if you -- if you look at that -- well, I would like to draw your attention to line No. 4, the Cincinnati Gas and Electric Company.

EXAMINER PIRIK: Of which one? Of 12?

MR. PETRICOFF: I'm sorry, 12, yes.

A. Okay.

Q. Okay. And you will agree with me the Cincinnati Gas and Electric Company was the former name of Duke Energy Ohio?

A. That is my understanding, yes.

Q. And if you look at the page that is marked 311 which is -- actually, it's the third page in from my handout and, once again, we -- we look at line 4, that would be the total dollars that Cincinnati Gas and Electric, aka Duke Energy, paid OVEC for power?

A. You're talking about the total column?

Q. The total column, right.

A. I presume so, yes.

Q. All right. And in the column that is marked (g), that would be the total megawatt hours that were sold by OVEC to Cincinnati Gas and Electric aka Duke Energy Ohio?

A. Yes, that is my understanding.

Q. Okay. And if I divide the number of megawatt-hours into the price that was paid, I should

get an average price per megawatt-hour?
A. That would be a blend of demand charges and energy charges as an overall dollar per megawatt charge, yes.
Q. And to the best of your knowledge, that is the way that -- that Duke is billed, its billed on the total cost both on capacity and energy?
A. That is my understanding, yes.
Q. Okay. And if I repeated the same exercise but I looked at line 12 which is the Ohio Power Company, I could come up with an average price per megawatt-hour?
A. Correct.
Q. Okay. Because I've not -- because I wouldn't subject myself to a mathematical test, I will not subject you to one. If you -- if you will assume, subject to check, that I've done the math right, if we did perform those, Ohio Power would come out at $66.37 a megawatt-hour and Duke would come out at $70.63 cents -- $70.63 per megawatt-hour?
A. I will take that as your representation.
Q. And if I repeated the same process going back through the -- through the OVEC, the OVEC FERC Form 1s for the last five years, is what I gave you, I could come up with similar numbers for both what

was paid for Ohio Power and what was paid for Duke.
A. I presume you could. These are, again, all in numbers. Certainly it's been my understanding that the entitlement percentages matched the equity percentages in both the demand and energy category, but there may be some difference in the contract about how those costs are allocated.
Q. And so, basically, if one was going to apply the knowledge they gained in the AEP case to Duke, they will have to make an adjustment for the higher price that Duke pays; isn't that correct?
A. Yes. Although, I would have to say that the cost elements in the Duke forecast and, for that matter, in the AEP Ohio forecast were not my main concern. It was really the capacity revenues and particularly the capacity prices. That's where I think my expertise is brought to bear on recognizing that those numbers are going to have to climb up toward the cost of and probably exceed the cost of new entry in order to incent new generation to be developed in the PJM footprint.
Q. And let's follow that out to the next logical step. And if that's the case, then really what we need to know is the net between how many actually it's a -- it's a two-step process. First,

we have to determine what the net is going to be between the megawatts of capacities that are being retired and the megawatts of capacity that are being added. We would have to start with that.

A. Correct. I mean, I think that in order to get the new megawatts added, we are going to have to see some prices that would be sufficient to get those projects financed.

Q. Well, let's go back because I'm not quite there yet. First, I want to get the feel for you are anticipating that we are going to have a capacity increase because you think the demand for capacity is going to increase more than the supply of capacity or the relative relation between the two are going to change over time.

A. Correct.

Q. All right. And for that to happen, we've got to be as concerned both what the demand curve looks like and what the supply curve looks like.

A. Yes.

Q. And now, looking at that supply curve, it's very important for us to know how many megawatts of capacity are going to be added going out the years in the future in order to assess what we'll call the "Taylor proposal."

A. I don't know that we need to be precise about it. We simply need to recognize that with 27,000 megawatts of coal-fired capacity due to be retired, there's going to have to be new generation that replaces it. That can't occur and still maintain reliable service. So there's going to be new generation developed.

Q. But staying with our Economics 101 class. If the demand stayed the same and we replaced 27 gigawatts of generation with 28 gigawatts of generation, we would expect the capacity pricing to go down.

A. No. Because it depends on how you incent that 28 gigawatts of new generation to be developed. It's got to come on line with some sort of assurance that it's going -- that those developers are going to be able to cover their costs. PJM even calculates cost of new entry numbers at the 330 to 350 dollar per megawatt day kind of price range and we're just not seeing that in these capacity price forecasts.

MR. PETRICOFF: Your Honor, I move to strike the whole business about -- after he answered the question about the price, because we didn't ask him how or why or if the line would move. Just asked him the question, if the supply goes up and the demand stays the same, is the price going to go down. Economics 101.

Q. Can you answer the question?

A. Yes, I can.

Q. And the answer is?

A. It's got to go up in order to get the 28 gigawatts to come into the picture. Unless you are assuming the 28 gigawatts arrives for free, then I would agree, Economics 101 says the price must go down then. If 28,000 megawatts of generation could be developed for free, that will certainly drive down capacity prices.

Q. Are there any applications for capacity in the state of Ohio?

A. I don't know.

Q. Are there -- have you looked through all the projects that have been filed in the queue line on -- at PJM?

A. No.

Q. Then how do you know that the price of the -- for capacity is going to go up in PJM?

A. I have looked at the BRA results that's public information. I have looked at PJM's own estimate of cost of new entry, what's referred to as "CONE." I have seen the capacity performance initiative that was just announced by PJM earlier this month saying we've got to get these prices up close to CONE in order to get new generation on line.

So that's the direction things are going. The PJM recognizes that the prices that have been clearing in the base residual auctions up to this point in time have not been reflective of what it's going to take to get new generation in the system at any significant amount of capacity.

Q. Let's go through those one by one.

MR. OLIKER: Your Honor, move to strike that answer which was nonresponsive, besides mischaracterizing the proposal, but I understand that this is not the place for that, but it was nonresponsive.

EXAMINER PIRIK: Denied. I would ask that the witness responds to the questions that are before you as opposed to going off in other areas. I think that would be helpful for the cross.

Go ahead, Mr. Petricoff.

Q. (By Mr. Petricoff) Let's go back -- before we go through the rest of yours. You've agreed with me that if we're not looking at how the curves are drawn, we are just looking at the supply and demand curve, if the demand stays the same and the supply goes up, the price is going down. As an economic principle, you would agree with that.

A. Assuming that the new supply doesn't reshape the supply curve in any way; as I say, if it's free, then absolutely, you're right, it would go down.

Q. It would have nothing to do with free. If it just -- if, in fact, the curve stayed the same the price would go down. Doesn't have to be free; it just has to stay the same.

A. If you're talking about a flat point in the supply curve where new generation can be added at that same marginal cost from the starting point to your endpoint, then yes, there would be no change in price. But, generally, supply curves increase. To get more of some sort of product, you're going to move up a supply curve.

Q. Let's go through your -- it is your belief that the price of capacity is going to rise dramatically. That is your belief.

A. "Dramatically" is your word. I think significantly enough to make the PSR a cost-effective hedge, something that's going to yield positive value.

Q. Let's see. Over time do -- just an

economic theory. Over time, do commodity prices tend to go up or down?

A. They do both.

Q. Okay. Let me try this another way. When there are technological improvements, is it -- well, let me ask you this thing. In -- we were talking about power plants from 1955. In real terms, do you know what it costs to make a long distance call in 1955?

A. I don't.

Q. Okay. Do you know whether the price for a long distance call, over the last five years, has gone up or down?

A. I would say it has gone down.

Q. And the volume of calls, has that gone up or down?

A. As calls get very inexpensive, obviously people are going to use the service more.

Q. So sometimes a supply curve can go up without the price going up.

A. True.

Q. Okay. Now, let's go back and focus in on -- and focus in on energy. Your first one was that you believe that the price of capacity was going to go up because of the BRA. And so, we're all in agreement the BRA is the base residual auction.

A. I wasn't stating that the price was going to go up because of the BRA, the BRA price was going to go up because of the need to replace new generation --

Q. Okay.

A. -- replace retiring generation.

Q. Okay. Let's go back a step so we got this clear in the record. The BRA is the base residual auction that's conducted by PJM.

A. Correct.

Q. And the BRA is conducted three years in advance on an ongoing annual basis.

A. That is correct.

Q. Are you familiar with the one that -- and it takes place in May or it has taken place in May.

A. That is my understanding, yes.

Q. Okay. Are you familiar with the last -- the last BRA?

A. Yes, I am.

Q. Was more capacity bid into the BRA than cleared the auction?

A. I do not know.

Q. If, in fact that was the case, there was more capacity built -- bid than cleared, would it be safe to say that we have a surplus of capacity at the moment in PJM?

A. I think one would hope that there is always some reserve margin. If you are actually out to the end of your supply curve in the BRA, it suggests that you are at your last megawatt and you're on the edge of not being able to maintain a reliable system.

Q. Oh, but doesn't the BRA look for a capacity number that includes a reserve percentage?

A. It may.

Q. But you don't know.

A. I don't know.

Q. Okay. So the first one is that you think, looking at the BRA, you think the BRA is going to go up, but you've made no study of -- of the literature in the field about what the forecasts are for capacity or BRA prices.

A. No. I've looked into how PJM constructs this kind of process, but I would say that that current curve, from this past May, represented the circumstances that are right in front of us right now which is there is sufficient capacity.

What I am doing is looking over the next nine and a half years, and that recognizing with the tremendous amount of coal-fired capacity that's going to be retired, much of it in PJM, that is naturally going to be taking away from this supply curve that's been developed here.

Q. Is it possible that the BRA price could go down in the next auction?

A. If -- obviously, in the next auction, we've seen the BR -- the BRA price fluctuate significantly from year to year, so it certainly could go down.

Q. And is one of the factors that gets considered in the BRA conservation, demand response program?

A. That is my understanding, but I believe with the capacity performance initiative, PJM is rethinking the role of demand response in its calculation in the BRA auction.

Q. But those are factors, besides generation, that go into the BRA pricing.

A. Yes.

Q. Okay. And other than the BRA, what was the other reason that made you bullish on capacity prices?

A. Other than the BRA. The BRA, again, was not the reason. That's the metric. That's the dollar-per-megawatt-day capacity price that was in the forecasts for Duke Energy Ohio. A variety of factors, I think, convinced me that those numbers were probably too low.

One being that I've seen generation get induced into being developing in other parts of the country for some significantly higher numbers; secondly, that PJM, itself, has been forecasting cost-of-new-entry numbers that are not being achieved by these current BRAs and they are looking for ways to restructure their process; and, C, I think that there are perhaps even other factors that we haven't talked about, potential inflation that may -- that may drive prices up at a clip that we haven't seen in a while.

Certainly inflation has been maintained for well over a decade or more, and if that continues to be the case, then it won't affect those prices. But if the cost of new steel, new turbines, and things like that rises faster than the same 1 or 2 percent of the inflation we've seen in the recent decade-plus, that could also send those prices up faster.

Q. So these are just factors you think might do it, but you haven't looked at what the -- what the actual prices are for the capacity that's being added, including capacity that's been certificated to be added here in Ohio.

A. I have not. My assumption has been that most of the new capacity that's been developed in the western part of the PJM has been renewable capacity. It has been nondispatchable, wind projects and so forth, but --

Q. I'm sorry. Please finish.

A. But I think that with the retirement of a significant amount of coal-fired capacity, what will need to be replacing that is going to be a mixture of resources, which renewable can certainly play a role there, but I think it's also going to have to be a certain amount of dispatchable generation.

Q. Okay. And you are unaware of any applications, either at PJM or in Ohio, for gas-fired generation?

A. I have not studied the queue to see what is -- what has been proposed.

Q. Do you know whether or not Ohio has gas reserves that are available for electric generation?

A. I do not.

Q. Have you heard of the increase in the shale production in the Marcellus and Utica fields?

A. Yes.
Q. Is the Utica filed here in Ohio?
A. That is my understanding.
Q. Okay. Let me switch to another topic. I want to talk to you now a bit about -- about whether the -- the rider PRS [verbatim] should be nonbypassable.
EXAMINER PIRIK: Mr. Petricoff, now that you are going to a new topic, now might be a good time to take a 10-minute break.
MR. PETRICOFF: Now would be an excellent time.
EXAMINER PIRIK: That would be a good time. We will go off the record.
(Discussion off the record.)
EXAMINER PIRIK: We'll go back on the record.
Mr. Petricoff.
MR. PETRICOFF: Thank you, your Honor.
Q. (By Mr. Petricoff) Good afternoon, Mr. Taylor. Ready for the -- we are almost to the end of the table here.
A. Very good.
Q. Light at the end of the tunnel.
MS. SPILLER: Thank you, Howard.

MR. PETRICOFF: What's that?

MS. SPILLER: I said "Thank you, Howard."

MR. PETRICOFF: That's right.

Q. (By Mr. Petricoff) Okay. Let's go back and just a few more questions, I think, about our -- about PJM. First, you'll agree with me, in terms of capacity, the capacity prices are set for PJM now through June of 2018. So we don't have to speculate what they are going to be; we know what they are going to be.

A. That's my understanding; although, the capacity performance initiative that just came out has language in it that suggests that they are going to be revisiting some of these interim prices. Under normal policies, I agree with you, the auctions have been conducted and those prices would hold. There's some new information that just literally surfaced last week.

Q. But the commitments have been made for capacity and those who have signed the agreements have dedicated their capacity, so one would think that through June of 2018 the prices are more or less set.

A. One would think.

Q. One would think, all right.

Now, we are talking about PJM. Do you know the location of the two OVEC power plants?

A. Generally.

Q. Okay. And where is the Clifty Creek plant located?

A. Clifty Creek is in Madison, Indiana.

Q. All right. And is Indiana in MISO or PJM?

A. I believe it's got both ISOs within its footprint.

Q. But the Clifty Creek plant itself, is it part of PJM?

A. It's my understanding that it has been selling into the PJM market.

Q. All right. But does it have to get special approval because it's not in PJM in order to sell into the market?

A. I do not know. Duke could probably answer this more specifically.

Q. And the same thing would be true for Kyger Creek, you don't know whether that's a PJM plant either, and whether it's selling, and selling it under special authority?

A. It's in Gallipolis, Ohio. I imagine it is within the PJM footprint, so I don't know for

sure.
Q. Now, on page 15 of your testimony, I want to direct you to a line -- I'm sorry, page 15, line 15. And we have -- we have the statement here: "Specifically, the OVEC net benefits are expected to be negative....in," I guess we are allowed to say this now, "2015 through 2018 but positive in 2019."
And so, in order to do the levelization, in essence, Duke is going to have to -- to supply the money for some of the payments and then they would collect carrying costs for it -- for forwarding the money?
A. Yes.
Q. Okay. Have you done a calculation, if everything comes out as projected, how much the carrying costs would be?
A. Yes. Those are in my exhibit.
Q. Okay. Do you know offhand?
A. On a present-value basis, over the entire nine and a half years, approximately $6.2 million.
Q. Okay. That's the carrying cost.
A. Correct.
Q. Okay. And then let's -- let's sort of think our way through. So the first -- the first four years, from 2015 to -- to 2019, we are expecting

those to be -- to be negative. When we do the true-ups, are we going to true-up to the projected revenue?

A. Yes.

Q. Okay. So when we get to 20 -- 2019 or 2020, if, in fact, it turns out the projection is wrong and we don't go positive then, what would be the effect on rates in 2020? Will they have to pay the back up for the -- for the money that was forwarded plus the handling costs plus the shortfall?

A. There would be a true-up process which looks at actual OVEC net benefits. And if you are saying that they don't turn positive there, they stay in negative territory --

Q. Right.

A. -- then there would be a differential between the actual OVEC and what have been forecasted for 2020, a positive net benefit value. That differential, in my process, gets amortized over three years. So it's not an immediate hit; it basically gets smoothed over three years. And you're right, the regulatory balancing account would increase instead of decrease.

Q. Right. Well, you say we are going to amortize it over three years. So that takes us to

2022. If we have really big deficits in 2022, aren't we going -- isn't there a chance that this could be a sizable fee?

A. No. I think, even under assumptions that the forecast itself is way too generous, we are never going to be talking about huge numbers with this PSR. As I alluded to earlier, we are probably looking at pennies to a nickel positive, and I think it's probably going to be more like negative, a credit on the customer's bills. But under even the unusual circumstances where the forecast here ends up being exceeded by even more negative net benefits over the course of the -- over the course of the nine and a half years, we're not going to see any sort of dramatic increase.

Q. Let's see if we can agree on this, though. If we don't have the levelizing, your concern that we front-end loaded all the expense, if we go through the levelizing and the three-year amortization, aren't we, then, really backloading it in case we're wrong on the projections? They are going to really be paid out in the final years?

A. No. I mean the current forecast is the net benefits will be negative in the early years, and to prevent kind of an intergenerational wealth transfer, my thought was to levelize this so that the benefits that are projected to be there are brought to the forefront and averaged, basically, with what are expected to be a couple of years, three years of positive costs, negative net benefits.

Q. Well, but we are -- by that method, though, we've now really shifted the risk to those customers who are going to come in the 2020 to 2023 period and thereafter, because if we're wrong, if we're wrong in these projections, notice I am coming along with you, if we are wrong in the projections, then basically the bill is going to come true and it's -- as you indicated, it's a time -- it's a time assessment and we are shoving the risk off to the customers of -- in that period. Isn't that inequitable?

A. No. I think that there is a greater probability that the benefits will be greater than what has been forecasted here. So I would actually make the counterargument that later customers are probably going to see a negative credit -- I'm sorry, negative net benefits, so a PSR that ends up being a credit on their bills.

That's an impossibility with my levelization approach with the very first couple of years. We are kind of stuck with a particular value that's -- that's the average of this overall $6 million cost that the Duke forecast includes. So the first-year customers are definitely paying, you know, a 3-cent adder per month on their utility bills, but the customers in the later years are likely to see a credit.

Q. But when you say "better off," if we were looking just at intergenerational, if you didn't have any levelization at all, those customers who are coming in the future we're just taking it as the time came, would be the beneficiary of all of the positive and it would be the current customers who would be -- who would be paying. And -- you would agree with that?

A. Yes, I would.

Q. Okay. And so, my only point to you is that if we're wrong, and I appreciate that you don't think that the projections are wrong, but if -- if they are wrong hypothetically, then we have shifted all the risk to the customers who are coming at the -- at the end of this process.

A. I wanted to correct your premise. I do think that the projections are wrong. We are just arguing which way they're wrong.

Q. I see. I think we'll leave it at that, leave it at that. Let's go on to something else.

And that is, I want to talk about the right to -- the right to opt out. If I'm a customer and I'm informed and I would care to just go buy a fixed-price contract now and not have the rider PSR, why should the Public Utilities Commission tell me I must have this program? Why it -- why is it necessary for rider PRS [verbatim] for the Commission to conscript customers into the program and not let them have a choice?

A. I think that this is a good policy mechanism for insuring reliable generation which reliability is the responsibility of the Commission, and certainly one of their key -- key directives. So just as any of the costs that end up on these customer bills has, in the past, certainly in a fully regulated system gone through the Commission for just and reasonable rate certification, this price stability rider, I see as an additional element now that is going to benefit the market mechanisms that are in place.

I really want to emphasize that I am not anti-market here. By pushing this PSR, it is something that I think will save the market. I think that California experienced some dramatic catastrophes that could have taken them back to full regulation if there hadn't been some middle ground that had been found. I think that the middle ground is these kind of reliability riders that help stabilize prices.

Q. So it's your testimony that if we don't have the PSR, these plants are going to close and we are going to be less reliable?

A. No.

Q. Plants are going to run regardless of this program, right?

A. Probably.

Q. So there's no fear about reliability.

A. No. I'm saying from a policy standpoint I think that when capacity shortages occur, not this OVEC issue, but I see the OVEC PSR, the price stability rider, as providing an entry for the Commission to establish a means for perhaps looking at future hedges that would be new generation, would not be OVEC related.

Q. But that's not what's before us.

A. That's correct.

Q. Right now what's before us is PRS [verbatim], and my question to you is: Are you

worried if we let people choose and they choose not to participate that Duke wouldn't do the program? Is that the fear?
A. No. I'm not entirely sure if I follow you, but if your point is am I concerned that without the PSR that the OVEC assets would stop operating, that's not a fear of mine.
Q. Okay. That was -- that was one of my -- I think that was my question before last. Let me switch it and ask you a new question.
Are you concerned that if the Commission said we will give people choice, we'll let them have this -- this insurance policy if they want, if they want to buy something else, that's fine too. Instead of making it 10 megawatts, make it open to everybody, if the Commission did that, do you think that Duke would then not do the rider PRS [verbatim]?
A. I don't know what Duke would do.
Q. So that's not a concern. If that's not a concern, what's wrong with the Commission allowing individuals to make their own choice and not compel them to take a product they don't want?
A. I think that this is such a small amount of money that's on the table that it wouldn't be worth the bill insert to send out to each customer to

try to educate them in what needs to be accomplished here. I think that it is important for regulatory authorities to take what they are empowered to do as far as make certain decisions so that all of us in our lives can focus on our families and our businesses and the other things rather than trying to figure out the details that we are debating here this afternoon.

Q. If diminimus is the test of whether -- whether this should be mandatory, then shouldn't diminimus be the test of whether we do it at all, and if it was only a couple of pennies, why should we do it at all?

A. Because I think it's good policy.

Q. Okay. And the policy decision would be made by the five commissioners, correct?

A. Correct.

MR. PETRICOFF: No further questions. Thank you.

EXAMINER PIRIK: Mr. Hart.

MR. HART: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Hart:

Q. Mr. Taylor, my colleagues have not left much ground to plow so I will hopefully be brief, but I need to recap a few things. I take it you're generally familiar with the OVEC plant and how the 12 utilities have this joint operation agreement?

A. Yes. I believe it's 13 sponsoring companies, yes.

Q. I misspoke. 13. And Duke owns a 9 percent share of that, correct?

A. That's my understanding yes.

Q. And that arrangement has been in place for a number of years; it's not a new thing.

A. Correct.

Q. And the main purpose of that agreement is for those 13 utilities to allocate the cost of operating the plant and the right to have the power from the plant, correct?

A. Broadly speaking, yes.

Q. So it was designed as an operational agreement among the number of utilities.

A. Correct. I mean the original agreement was not anticipating necessarily that the utilities would be taking all the output. The output was going to be primarily dedicated to U.S. uranium enrichment operations.

Q. Fair enough. In you eyes, in 2003, when

DOE stopped taking the power, that's actually when the original Intercompany Power Agreement was put in place.

A. The original, I think, was put in place back in 1953, but, you're right, when DOE notified in, I think, the year 2000 that come 2003 they would stop taking deliveries of power, then that created the situation where all the sponsoring utilities would be getting their entitlement of the power.

Q. All right. Now, you've given some general testimony about the nature of hedge products, correct?

A. Correct.

Q. And you gave an example of a call option.

A. Yes.

Q. And just very simply, a call option, you pay some premium in exchange for the right to buy a product at a given price in the future, correct?

A. Correct.

Q. And the reason you do that is to hedge against the price of that commodity going above the strike price.

A. Correct.

Q. So just to give a rough example, if the market for electricity is $8 a kilowatt-hour, I might buy a hedge in order to -- or, a call option in order to buy electricity at 9 cents in case the price goes above 9 cents.

A. Yes.

Q. So I can still get that electricity at 9 cents.

A. Yes.

Q. And that's an absolute, certain known deal that those are the conditions on which that hedge will be profitable.

A. Correct.

Q. Okay. Now, in this case, am I correct we're being presented with the existing OVEC contract which was designed as an operational agreement as a pseudo hedge?

A. Yes.

Q. And the theory being that if prices in the future go up, in theory that the profitability of the power generated by OVEC might be higher.

A. Yes.

Q. There's no guarantee of that, correct?

A. Correct.

Q. And there's all kinds of issues that have been explored in this case about why that may or may not have happened.

A. Yes.
Q. Okay. So as far as a quality of a hedge, would you place the OVEC contract lower than an express hedge agreement?
A. By "express hedge agreement," you mean something that's a clean, hard, and fast call option.
Q. Yeah.
A. Yes.
Q. Okay. Because it may turn out that as prices go up, that the profitability of OVEC could actually be less than it is right now.
A. Or it could be more.
Q. Could be. And that's for the future to know, correct?
A. Correct.
Q. But you would know, under a call option, that if the market price is 10 cents, that 9 cent call option is worth a penny.
A. Yes.
Q. Now, let's talk a little bit about the nature of OVEC as a hedge. You've talked about the concepts of a premium and the concept of a benefit. In the OVEC situation, the premium would be the fixed cost responsibility, correct?
A. You could think of it as the whole

capacity side of the equation. It could be the overall demand fixed cost, net of whatever one is able to achieve in the capacity BRA auctions.

Q. Okay. Whether you include that or not, the capacity revenue will come in on the benefit side if you don't include it on the cost side, correct?

A. Correct.

Q. Okay. And then the benefit from that hedge is the right to sell the power output that's generated by the plant.

A. Yes.

Q. And the value of the hedge being the extent to which that future profitability -- or, not necessarily future, but the profitability exceeds the fixed costs.

A. Correct.

Q. Now, let's translate this into terms of the retail market. We have two customer classes, SSO class and shoppers, that contract the CRES provider, okay?

A. Okay.

Q. Now, I believe you testified that this hedge product would be competitively neutral in that it would affect both customer groups exactly the same.

A. Yes.
Q. And it wouldn't have any impact on the actual prices that those customer groups pay to their electric supplier.
A. Correct.
Q. So the SSO group is essentially taking on the risk of what the auction prices are going to be in Duke's auction, correct?
A. Yes.
Q. And the CRES -- CRES customers are going to assume whatever risks are written in the contracts that they agreed to.
A. That's my understanding, yes.
Q. And customers make a choice which of those two scenarios they want to go with.
A. Yes.
Q. They may see the risk of one being different than the risk of another.
A. Correct.
Q. Now, in the case of the OVEC hedge, its value is the net of the fixed cost and the margin from energy sales.
A. Again, in that case where fixed cost has been reduced by the capacity revenues as well.
Q. Okay. And if we just look at your

exhibits, I mean when we talk about this cash flow line, that's the net of all those things, right?
A. Correct.
Q. That's not the premium cost. It's the net of the premium and the benefit.
A. Correct. It's all of the fixed capacity costs plus energy generation costs minus the energy revenues minus the capacity revenues.
Q. Okay. So we --
A. That would give you a net cost.
Q. When you look at the number that's the all-in number of everything. There are no external benefits that aren't captured in that net number to the customer.
A. I think that's a complete list. There is also a dividend number that's included in Duke Energy Ohio information that is also in the mix, but it's a pretty small number.
Q. You are talking about in the allocation of cost and revenue through OVEC?
A. In Exhibit AST-2. It's line 9.
Q. Okay. Now, you're aware that when Duke filed this case, it had not done any projections of the value of this hedge?
A. I don't know one way or the other.

Q. Okay. You're aware that the projections that you have reviewed and you've done some calculations with, were done after the case was filed.

A. I don't know that to be a fact.

Q. Okay. Let me come at it this way. Would you agree that the value of the OVEC entitlement, if Duke held it for itself, would be exactly the same as if the value of that entitlement is assigned to retail customers?

A. I will say purely on a net present value basis, if both customer groups have the same weighted average cost of capital that would be a true statement. I don't know. I mean there are always discussions and deliberations about customer discount rates. I am not getting into that. Assuming the same discount rates, then, yes, the balance of the costs and benefits would either be with Duke or with the customers.

Q. Let's just talk about cash flow. The annual cash flow that would be derived from OVEC is going to be the same whether it goes to Duke or whether it goes to the customers.

A. Yes. I mean, in my proposed PSR there is the 10 percent participation rate which is a blend, then, between the two groups. But you're right, in totality, either all of the net benefits are flowing to this blend of the two groups or entirely to Duke depending on the outcome of the PSR and the adoption of the modified PSR.

Q. Would you agree that a rationally acting-for-profit corporation would seek to maximize its profits?

A. Yes.

Q. And would you agree then that if the OVEC hedge had a net present value -- a net positive present value that it would be rational for Duke to seek to retain it for itself?

A. If it really became ironclad, and I guess that was the one thing when I read Duke's application that I wanted to make sure that Ohio customers, if they were going to be in any way, shape, or form paying for these initial years when the hedge would have negative net benefits, then indeed we wouldn't see a subsequent ESP where the PSR was dropped or Duke simply backed away and said we are taking it back, we are not going to put those on people's bills anymore, we've enjoyed the benefits of putting it on people's bills for three years.

So that was why I really wanted to kind

of anchor a bilateral ironclad kind of time period where both Duke and its customers were going to be on the same train.

Q. All right. I think you've actually answered a different question than what I asked. You have gone a step past. Let me try to focus down.

Whatever the term of the OVEC entitlement would be, whether we look at 3 years, 10 years, or 25 years, that has some net present value, correct?

A. Correct.

Q. And if that net present value is expected to be positive, wouldn't you expect Duke to want to retain that?

A. Yes.

Q. And if customers do not view that net present value as positive, would you expect them to want to reject it, perhaps?

A. Although, I think that the benefits to customers of the price stabilization element makes this something where just because it's a net present value cost doesn't mean that it doesn't make sense, for the same reason that we all buy homeowners's insurance to protect our houses and hopefully we never have to file a claim. The house never burns down. The house never undergoes a flood or anything.

It ends up being a net present value cost if one is lucky enough to never have a catastrophe happen to their home.

Basically, the outlay of the insurance premiums buys piece of mind. And I could make the same argument, then, that electricity customers, even with a positive net present value kind of cost might still say this is going to protect me against price swings.

Q. Okay. Look around the room and tell me which customer groups have that view.

A. I'm not sure what you mean.

Q. Well, you said that some customer groups might see piece of mind from this rider. Other than OEG, which customer groups represented in this case share that view?

A. I don't entirely know. Certainly there has been hostile cross from various directions.

Q. Okay.

A. I don't necessarily think that that speaks for the entire customer base of all the Ohio customers in Duke Energy Ohio service territory.

Q. Well, you have heard from the residential customers from the OCC, correct?

A. Yes. I don't know if he has made phone calls to everybody.

Q. You understand, for purposes of rate cases, the OCC represents the residential customers.

A. That's my understanding.

Q. And are you clear on their position on this rider?

A. I gather that they are not interested in seeing it move forward.

Q. Okay. You are aware there are other major industrial customer and commercial customer groups represented here, all of which are opposed to this rider.

A. That is my impression.

Q. All right. Now, getting back to the assumption that this OVEC entitlement would have a net positive value. Why would Duke resist allowing a customer to leave that value back with Duke?

A. Not to put a Machiavellian spin on it, but I think the risk I see is that the PSR moves forward without some defined timeframe that captures a period when I think it really is going to be beneficial and, instead, we simply move through a high cost period, and then, in a future ESP, Duke simply says we're not moving ahead with the PSR any more.

So I thought the most important element of what I was proposing was a definite commitment over the next, basically the next three ESPs so that indeed, Duke and their customer base are in this deal together.

Q. Let me ask you about that a little bit. You are aware that the ESP term that Duke is proposing for the other major elements of this plan is the three-year term.

A. Correct.

Q. And you would agree that if the rider PSR were only in place for that three-year term, it would not be a good deal for customers.

A. I agree, yes.

Q. So in order to make it a tolerable deal for customers, you are proposing it go out for nine years and seven months.

A. Correct.

Q. But you are unwilling to go any longer than that because the risk of these future projections being incorrect is too great.

A. Yes. And I think there are a variety of unknowns that I think it would be appropriate for the Commission to revisit the situation after this nine-and-a-half-year period.

Q. Okay. Now, I am going to turn to your charts just a little bit. Chart No. 2, most of which is deemed confidential, I take it, is a rewrap of figures from the Duke projections?

A. Correct.

Q. And you've taken the bottom line from that which is line 17 and taken that to your chart No. 3.

A. Technically line 18 which is the same as line 17 except that it includes an adjustment for the initial partial year in 2015.

Q. Okay. You've kind of said it was a half a year; in fact, that's seven months.

A. Correct, yes.

Q. Now, if we could look at chart 3, that top line, is that same line 17 -- or, I should say line 18?

A. Yes.

Q. And you've just merely summed those numbers to conclude that the net after 2023 is about a $6 million negative figure.

A. Correct.

Q. Now, when you did that summing, that did not involve any net present value calculation, did it?

A. Not that particular portion, no.

Q. All right. And that $6 million number is what you translated into the $60,027,000 annual number.

A. Correct.

Q. Okay. Now, if we were to -- well, let me ask you this: You did on line 7 and 8, indicated a net present value on that calculated return number, what were your assumptions for that net present value calculation?

A. Basically the discount rate of the utilities weighted average cost of capital of 7.73 percent.

Q. Okay.

A. And the average balance and the calculated return on the average balance each year.

Q. Okay. That was from line 6, that's where you get the averages?

A. Balances on line 6 and then the calculated return is on line 7 and the net present value then of both line 7 and line 8 are brought back to the same number.

Q. All right. Now, let me ask you this: If we were to apply that same discount rate, 7.73 percent, to line No. 1, would you agree that the weighting of the later years would result in much smaller figures?

A. Yes.

Q. And then if we summed those net present values of those individual years, you would end up with a loss much greater than $6 million.

A. About double because the net present value that's in the box on line 7 and 8 is effectively the net present value effect that you're talking about there.

Q. Okay. And if you doubled the $6 million to 12 million, then the $600,000 annual payment would become 1.2 million.

A. Correct. I looked at a levelized return which actually is the $966,000 number that appears on many of the columns in row 8.

Q. Well, let's not go that far forward yet.

A. Okay.

Q. Would you just confirm that the $627,000 figure would approximately double if you used the net present value of line 1?

A. Yes.

Q. All right. And then that number would flow through your calculation of having Duke advance the difference between the actual number and that

levelized number, correct?
A. The regulatory balancing account would go ahead and do the present valuing that you are alluding to.
Q. When you say "present valuing," what you are doing on lines 4 and 5 is just netting the actual results of OVEC for that year against your levelized figure.
A. Correct.
Q. And you're assuming that Duke would finance that piece of it.
A. Yes.
Q. Right. Now, have you had any discussion with Duke whether they are willing to finance that piece of it?
A. I have not.
Q. So there is a big assumption right there that they would even accept that proposal.
A. That's true.
Q. Okay. What I was getting at then, those numbers on line 4 and 5 would be different if we used the net present value number on line 2.
A. I think that would be starting to double count the time value of money though.
Q. Well, let's talk about that. Your

calculated return line 7, that's simply the 7.73 percent times the regulatory account balance, right?
A. Correct.
Q. Now, that number would be different because the regulatory account balance would be different.
A. I don't see how in a regulatory account -- I don't know of any utility jurisdiction where a regulatory account actually has net present value dollars that are added in or out of it. Usually, it's actual true-up numbers from a particular time period, calendar year, a month, a quarter.
Q. Well, I am trying to do this quickly, but let's back up. If you did a net present value of the expected result of OVEC and levelized that number, that's what would go on the customer's bill, all things being equal, right?
A. The net present value? You're saying if -- could you repeat that question.
Q. Yeah. Would the customer's bill actually include the 627 or would it include approximately twice that in order to account for the time value of money?
A. It would include a little bit more than

twice that.

Q. Okay. So the customer charge would be more than twice what you projected if you do net present value.

A. Correct.

Q. And so, the amount that Duke would have to advance on an annual basis would be reduced because the customers are paying that in a more timely fashion?

A. It would be a little bit of an odd structure to have MPV numbers that are put into a rider like that, but the bottom line is what I have on line 10. And that should be representative of the net present value that you're talking about levelized over the years such that the net present value of line 10 is going to get you the net present value of line 1.

Q. Well, what the bottom line is the sum of the 627 and the finance charge of 966, right?

A. Exactly.

Q. And the 966 is the carrying cost for Duke to advance these amounts over the life of this rider.

A. Correct.

Q. Now, that would be different depending on what the upfront charge is to the customer.

A. Yes. If you were not actually going to levelize the upfront numbers and there was a different kind of assumed cost obligation then that would change the regulatory account balances.

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

EXAMINER PIRIK: Mr. Chamberlain?

MR. CHAMBERLAIN: No questions.

EXAMINER PIRIK: Ms. Spiller?

MS. SPILLER: Thank you, your Honor.

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CROSS-EXAMINATION

By Ms. Spiller:

Q. Good evening, Mr. Taylor.

A. Good evening.

Q. You were asked a question from counsel for the Sierra Club about Enron.

A. Yes.

Q. Sir, are you aware of any evidence in this case that Duke Energy Ohio is trying to manipulate the PJM wholesale markets through its proposed rider PSR?

A. No.

Q. Are you aware of any evidence in this case that Duke Energy Ohio is attempting to manipulate the Ohio retail market through its

proposed rider PSR?
A. No.
Q. And you are aware, sir, that PJM has an independent market monitor, correct?
A. That's correct.
Q. And is one function of the independent market monitor to look for conduct resembling market manipulation?
A. That is my understanding.
Q. Mr. Taylor, do you believe that all decisions of a regulated utility are dictated solely by the desire of that regulated utility to maximize its profit?
A. No. Regulated utilities obviously have a regulatory authority that they have to answer to.
Q. Your opt-out proposal or self-insurance proposal, sir, is one that you have recommended for customers having 10 megawatts at a single site, correct?
A. Correct.
Q. And you were asked questions today that suggested you would be willing to perhaps expand the self-insurance program to include residential and other customers, correct?
A. I was asked questions but I was saying

just the opposite, that I think it would be better to all-out abandon the self-insurance elements instead of expand it.

Q. And there was a reference, sir, to the testimony you provided from the stand similar to today in the AEP Ohio ESP proceeding, correct?

A. Correct.

Q. And, sir, do you still have the transcript in front of you --

A. Yes.

Q. And I believe Mr. Berger -- Mr. Berger suggested that perhaps there may have been some uncertainty with respect to when you formed that opinion about abandoning self-insurance altogether. If you would look on page 2631 of that transcript, sir, and if you would read your answer beginning on line 12.

A. "Correct. I think -- that's not my recommendation to the Commission. I honestly think" --

Q. Oh, sir, I'm sorry. You can read it to yourself.

A. Okay. Yes.

Q. And, sir, does that refresh your recollection that on June 17, 2014, in the same examination as provided by Mr. Berger, that you ultimately agreed that if pushed to it, you would withdraw your self-insurance program?

A. Yes.

Q. Thank you.

MR. BERGER: Your Honor, I would object to that. I realize he has already given his answer. But that's not -- I don't think it's proper, and I realize I will have another opportunity for recross.

EXAMINER PIRIK: Yes, you will, if there is a clarification, we can do it then.

Go ahead, Ms. Spiller.

MS. SPILLER: Thank you.

Q. Mr. Taylor, you've indicated you were a witness in connection with AEP Ohio pending ESP proceeding, correct?

A. Correct.

Q. And so, you are certainly kept abreast of information in that case concerning the OVEC-owned assets, correct?

A. I don't know as far as late-breaking information, but certainly up until the proceeding itself, yes.

Q. Thank you.

And in that particular case AEP Ohio was proposing an arrangement that they referred to as rider PPA, correct?

A. Correct.

Q. And some similarities to Duke Energy Ohio's rider PSR, correct?

A. Correct.

Q. And AEP Ohio, like Duke Energy Ohio, has a contractual entitlement in OVEC, correct?

A. Correct.

Q. And you understand, sir, that AEP Ohio is the now consolidated, local Ohio utility formally comprised of Ohio Southern Power and Ohio Power?

A. That's my understanding, yes.

Q. And Duke Energy Ohio does not directly own the two OVEC generating assets, Clifty Creek and Kyger Creek, does it?

A. It does not. It has a 9-percent equity ownership in the Ohio Valley Electric Corporation which is the direct owner of those facilities as I understand it.

Q. And the energy and capacity associated with Duke Energy Ohio's contractual entitlement in OVEC will not be used to supply its SSO customers under the company's proposal, correct?

A. That is my understanding, yes.

Q. And the energy and capacity associated with Duke Energy Ohio's contractual entitlement in the OVEC-owned assets will not be used by CRES providers to supply their competitive retail offers, correct?
A. That is my understanding, yes.
Q. Mr. Taylor, do you believe that the approval of Duke Energy Ohio's proposed rider PSR will affect how the OVEC-owned generating units operate on a day-to-day or month-to-month basis?
A. I don't know. It would be my -- yes, that the operation of these facilities will move forward and be the same whether there is this hedge put in place or not.
Q. And, sir, you have been in the consulting business for --
A. Three decades.
Q. -- for three decades. And you have advised and counseled clients in the utility sector with regard to a variety of issues, including issues related to power supply, correct?
A. Correct.
Q. And would your experience in the last three decades, sir, also include the future supplies of power?

A. Yes.

Q. And are you aware, sir, of probabilistic modeling?

A. Yes.

Q. And would you agree with me that that is a process through which a series of inputs are used through a probabilistic analysis to generate a series of outputs?

A. Yes.

Q. Do you know whether Duke Energy Ohio's commercial business modeling tool is a form of probabilistic modeling?

A. I do not.

Q. But you, sir, certainly agree with the process of forecasting, correct?

A. Yes.

Q. And would you agree with me that forecasts often do change?

A. Yes.

Q. And, in fact, in the approximate 7 months that that AEP proceeding was ongoing, you had seen a variety of forecasts with regard to energy and capacity prices, correct?

A. I had seen at least one updated forecast that occurred during the hearing.

Q. Different than the original one you had seen, sir?
A. Yes.
MR. BERGER: Objection. Seek clarification. What forecast is Ms. Spiller asking about?
Q. Sir, you saw an updated forecast that was provided -- there was one provided during the actual hearing?
A. That is my understanding, yes.
MR. BERGER: Is she referring to capacity and energy forecasts in the AEP proceeding or in this proceeding?
MS. SPILLER: Oh, in the AEP proceeding, Mr. Berger.
MR. BERGER: Are these forecasts PJM prices or are these OVEC forecasts of capacity and energy costs to AEP Ohio?
THE WITNESS: The one that I am aware of was an OVEC forecast of the net benefits.
MR. BERGER: An AEP forecast of net benefits, is that what you are referring to?
THE WITNESS: Yes.
MR. BERGER: Thank you. I wasn't sure what you were talking about. Thank you.

Q. (By Ms. Spiller) And the AEP forecast of what you were aware of, and one that was provided to you in the approximate June, 2014, timeframe, is information known to you and relevant to you for purposes of performing your work in this case, correct?

A. Correct.

Q. And, in fact, sir, was that information relevant to your determination that Duke Energy Ohio's forecast in this case was conservative?

MR. BERGER: Objection, your Honor.

EXAMINER PIRIK: Objection overruled.

A. I would say it went into the consideration, yes.

Q. Thank you.

Ms. Bojko asked you a series of questions wherein there was the continued reference to a $1.6 million charge. And I believe you've indicated, sir, I want to make sure I heard you correctly, that's accurate if the Duke Energy Ohio forecast, I believe you said "plays out exactly."

A. Correct.

Q. Would you expect Duke Energy Ohio's forecast to play out exactly?

A. No.

Q. Mr. Taylor, would you agree with me that Duke Energy Ohio's proposed rider PSR provides countercyclical benefits, in that when wholesale market prices are high, customers would receive the greatest benefits under the rider?

MR. OLIKER: Objection. Friendly cross.

MS. SPILLER: Your Honor, it goes to his proposal of levelization.

EXAMINER PIRIK: I'll allow the question, but you need to be very careful about that friendly cross.

MS. SPILLER: Yes, your Honor.

A. I think that both Duke Energy Ohio's and the modified PSR have countercyclical benefits, particularly if the modified PSR adopts the quarterly process I alluded to in my testimony that would be analogous to what Duke Energy Ohio is proposing?

Q. But your levelization approach, sir, is simply to provide a constant rider PSR amount or nearly rider PSR amount for the duration of your nine-and-a-half-year proposal, correct?

A. Correct.

Q. And so, when market prices are high, customers will not receive the benefit of the PSR as Duke Energy Ohio has proposed it, correct?

A. As it's currently put in my proposal, the levelization process would diminish some of the short-term kind of elements that you're talking about. I think that the Commission certainly could use the levelization approach and then just do a true-up on the energy market piece on a quarterly basis and get the same kind of countercyclical benefits.

Q. And Duke Energy Ohio in this case, sir, is proposing its rider PSR to exist for as long as it receives energy and capacity pursuant to its contractual entitlement in OVEC, correct?

A. Correct.

Q. And yet -- strike that.

That term, sir, is longer than your nine-and-a-half-year proposal, correct?

A. Based on my current understanding, yes.

Q. And your recollection for a nine-and-a-half-year rider PSR is based upon your belief that there are too many unknowns beyond 2023, correct?

A. Correct.

Q. But, sir, aren't unknowns the very reason for a hedge?

A. I think that there could be some elements that would make this an expensive insurance policy post 2023 and that it is important to reassess the value of the hedge at that point.

Q. Sir, would you agree with me that certainly in the next nine-and-one-half years, again the period of your proposal, that there are unknowns?

A. Absolutely.

Q. And those unknowns include the uncertainty of coal retirements, correct?

A. Correct.

Q. Those unknowns include the uncertainty of the change in the PJM wholesale capacity market, correct?

A. Correct.

Q. Those uncertainties also include the consequences of there being less fuel diversity, correct?

A. Correct. I think all of those elements increase as far as the risks and unknowns or the probability band, if you will, as we move out from time. So, obviously, the nearer term you are, the more these risks are fairly narrow in their possible deviations.

Q. Sir, you have not performed any forecasts of the wholesale and energy capacity prices for the period beginning in call -- 2024, correct?

A. Correct.

Q. And you are not suggesting to the Commission that rider PSR would stop providing benefits after 2024, are you?

A. I'm not necessarily stating that, no.

Q. I would like to talk for a moment, sir, if I may about, I'll call it maybe a "sharing" for lack of a better term, your suggestion that -- or, recommendation that Duke Energy Ohio have a 10-percent participation rate under the rider, and I believe your recommendation is predicated on your desire to have Duke Energy Ohio have, as I believe you said, a little "skin in the game"?

A. Correct.

Q. So, sir, would you agree with me that you have built into your recommendation the assumption that Duke Energy Ohio can control the operations of the OVEC units so that it can keep the costs of OVEC as low as possible?

A. I know the representation has been made that that is not currently the case, but given the duration of this rider going out nine and a half years, I think it's good to have a mechanism in place that could accommodate any change of circumstances.

So to the extent that Duke Energy Ohio currently has limited ability to change things today doesn't mean that might not be the case in 2018 or 2020.

Q. But, sir, if I could go, I guess, back to my question. You believe that Duke Energy Ohio today, under the ICPA, can control the day-to-day operations of the OVEC units?

A. "Control" is a strong word. I think as a sponsor that sits on the operating and capital committees that it can influence how things occur.

Q. It can influence commensurate with its 9-percent share?

A. Correct.

Q. And it can influence commensurate with its 1 of 13 voting rights on the Board of Directors?

A. Correct.

Q. Do you have any reason to believe, Mr. Taylor, under the ICPA, Duke Energy can force OVEC to incur unreasonable costs or expenditures with regard to its two generating plants?

A. No.

Q. You mentioned the 10-percent participation rate not only with regard to controlling costs but maximizing revenues, correct?

A. Correct.

Q. And the revenues associated with Duke Energy Ohio's contractual entitlement in OVEC concern energy and capacity, correct?

A. Correct.

Q. And with regard to capacity, those revenues are determined through PJM's base residual auction, correct?

A. Correct.

Q. And you would agree with me, sir, that all participate -- all cleared resources in the base residual auction receive the auction clearing price, correct?

A. As its currently structured, yes.

Q. Do you expect that structure to change?

A. I don't know. Certainly the capacity performance initiative is -- is a proposal to restructure things, but I believe that the market clearing price concept is being given to every resource selected is still what's on the table.

Q. Sir, since the passage of Senate Bill 221 here in Ohio in 2008, are you aware of any base load plants being constructed in Ohio?

A. No, I am not.

Q. Sir, I'll tell you, it's been an awful long time since Economics 101 for me, but am I correct in thinking that if there is less demand for a product that the price for that product decreases or is suppressed?

A. All else equal, yes, if demand drops, then usually the price drops too.

Q. And so, if there is less demand for coal, coal generation, the price for coal could be suppressed or decreased?

A. It could.

Q. Sir, there were some questions asked of you about the SSO supply auctions here in Ohio. Are the wholesale prices for energy and capacity the foundation for the SSO auction clearing prices?

A. My understanding of the SSO auction process that there are suppliers that bid in and presumably they are looking at wholesale market prices either for their supply or at least recognizing what is competing against what might be their own supply. So I think the wholesale market prices have a direct influence on what ends up being bid into the SSO auctions.

Q. And if SSO auction participants believe that they will be exposed to changes in the market pricing, do you believe that their bids would reflect this belief in the form of higher bids?

MR. OLIKER: Your Honor, sorry. We keep going down this road of friendly cross. I am sorry to keep objecting.

EXAMINER PIRIK: Overruled.

A. I think that if there is greater volatility in the wholesale electric markets then those who are bidding into supply power that might be acquired from the -- these variable markets will start to put in risk premiums because they will have to recognize that there is the possibility for price spikes to actually drive up their costs.

Q. Your were asked a series of questions today, sir, about steel in the ground and, I guess, references that rider PSR would not result in any new construction. To your knowledge, sir, are the OVEC generating assets scheduled for -- to be retired before the end of their useful life?

A. Not to my knowledge, no.

Q. Are you aware of any plans to retire the two OVEC-owned generating assets?

A. I am not, beyond what's been stated as their expected useful lives, taking out to about 2040.

Q. And, Mr. Taylor, do you believe that rider PSR will add any new generation to the system?

A. No. I think it's a good policy initiative that could be used as a mechanism for adopting practices that could result in new generation and more reliable system, but the PSR, as it stands right now, agreed it will not result in more steel in the ground.

Q. There was some exchange with Ms. Bojko and she had asked you whether rider PSR would guarantee cost recovery for Duke Energy Ohio. Sir, would you agree with me, Duke Energy Ohio is held neutral under rider PSR in that it forgoes any cost or the opportunity for any benefits under the rider?

A. It is a locked-in kind of number. So, to the extent that the costs are what the costs are, that's what's going to be passed through the PSR. There would be no additional risk faced by Duke, but there would be no additional profit either.

Q. Do you know whether rider PSR, if approved by the Commission, will at all change the amount that OVEC is paid under the ICPA?

A. I don't believe it will.

Q. Sir, you've indicated in response to counsel that you believe Duke Energy Ohio's forecast to be low. Does that mean, sir, that Duke Energy Ohio has understated its margins?

A. I believe so, particularly on the capacity front.

Q. And would understated margins be reflected in an understated cash flow line?

MR. OLIKER: Same objection, your Honor.

MR. MENDOZA: Objection.

MR. OLIKER: More friendly cross.

MS. SPILLER: Just trying to understand the definitions, your Honor, as used by the witness in his testimony.

EXAMINER PIRIK: I will allow this question, but --

MS. SPILLER: Yes, your Honor.

EXAMINER PIRIK: -- please be aware you need to not go further.

A. I've characterized the PSR as having net benefits and, therefore, "benefits" refer to situations where the costs exceed the benefits. Positive net benefits are where the benefits exceed the costs. So to the extent there are higher margins particularly in the capacity revenues area, all else being equal, the negative $6 million net benefit number that I have in my testimony would probably move it closer to zero or into positive territory.

Q. Mr. Taylor, is there an observable market for energy prices, wholesale energy prices?

A. Yes.

Q. Are those still forecasted prices, though, sir?

A. I mean, as far as realtime and day-ahead prices, as they occur, PJM provides visibility to that information. Future prices are anybody's guess.

Q. Okay. And how long is the observable market for wholesale energy prices in PJM? How many years does that go out, if you know?

A. I don't.

Q. There's been some discussion about the PJM base residual auction establishing prices on a three-year forward-looking basis, correct?

A. Correct.

Q. If CRES offers were to extend beyond the observable market or the known capacity market, would you expect a risk premium to be included in such a CRES offer?

A. Yes. If they are not able to lock in supply contracts, then certainly they would be bearing risks that by the time they get the opportunity to acquire that future energy or capacity then it would be more expensive than they were originally planning, so they would have to build in a risk premium in order to protect themselves against that potential eventuality.

Q. I believe you were asked a question, perhaps in the form of a hypothetical from Mr. Oliker that if the OVEC prices rise at an equivalent rate with market price, that rider PSR would not be a hedge. Do you recall that line of questioning?

A. I do.

Q. Sir, with the very nature of a hedge as one that is intended to protect -- is a transaction that is intended to help offset the consequences of future circumstances, correct?

MR. OLIKER: Your Honor, objection. Now she is rehabilitating the witness. If Mr. Kurtz wants to ask that question, that's fine.

EXAMINER PIRIK: I'll sustain.

Q. Mr. Taylor, does OVEC have fixed costs?

A. Yes.

Q. And would you believe those costs to be stable?

A. I think that they are fairly stable.

MS. SPILLER: That's all I have, your Honor. Thank you.

EXAMINER PIRIK: Thank you.

Mr. Kurtz?

MR. KURTZ: Is staff going to ask any questions?

EXAMINER PIRIK: Mr. Beeler.

MR. BEELER: No questions.

MR. KURTZ: I would just like a clarification, and if I do redirect and I limit it to a particular topic, is any recross limited to that particular topic as well, or is the witness opened up for a free-for-all at that point?

EXAMINER PIRIK: I wouldn't call it a "free-for-all." I would call it a limited amount of clarification questions from -- on recross.

MR. KURTZ: But would that be limited to the areas of redirect?

EXAMINER PIRIK: It would be limited to the areas of redirect and anything that they need to clarify with regard to any common interest questioning.

MR. KURTZ: So that is a quasi free-for-all anyway.

EXAMINER PIRIK: It hasn't been a free-for-all. We have been just fine.

MR. KURTZ: Okay. So the recross would be on areas of redirect and clarification.

EXAMINER PIRIK: We watch it pretty

closely. So far we've not had a problem with it. If there is something that comes up that you think is inappropriate, you are more than welcome to object.

MR. KURTZ: Okay. I just have one area of redirect for the witness.

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REDIRECT EXAMINATION

By Mr. Kurtz:

Q. Mr. Taylor, you've been asked questions in and responded to the concept of net CONE. Do you recall all that?

A. Yes.

Q. What is net CONE?

A. CONE is an acronym. It's short for the "cost of new entry" so I am going to try to use that term. But net CONE is simply this cost -- well, starting with CONE itself is the cost that one would expect to have to pay a developer over some period of time in order to make them whole in developing a new resource and providing it for the system.

So the way PJM looks at this is they do calculate a CONE number, for example, for a combustion turbine, a peaking resource. So that is a number that is administratively determined through a variety of assumptions by the PJM RPM capacity committee. They just put out some numbers recently where they show that for the Zone 3 that number is, I think, about $347 a megawatt-day.

And they've stated in their capacity performance initiative that they need to basically get capacity prices up to that level or near that level in order to induce new generation. So that can be kind of compared to the capacity prices that you can see in my exhibit that are much lower than that from Duke's forecast.

I believe that the CPI is indeed going to result in capacity prices climbing to that level or perhaps even beyond, because, to bring up a point that's been made earlier in the case, this is -- the BRA prices only go three years out and the CONE number is a 20-year number.

Q. So in order to incent a developer to build a new power plant, PJM assumes that that developer would need net CONE for its capacities for a 20-year period.

A. Correct. The $347 per megawatt-day is a gross number. So the net CONE is basically taking the energy and ancillary service benefits out of that. That tends to be a fairly small haircut for something like a combustion turbine because those resources don't run all that much. So we might be talking about something in the $330 megawatt-day kind of range for net CONE. But, yes, that is basically the capacity payment that a CT owner would need to get over the next 20 years in order to be induced to build the facility.

Q. And the last BRA clearing price was $120 per megawatt day.

A. That's correct.

Q. So the net CONE that PJM is trying to get to is about three times what the last auction was.

A. Approximately.

Q. And if P -- is the capacity performance proposal, that was put out by PJM earlier this month, intended to get the generation owners, to get them an RPM price of net CONE?

A. I think it's recognizing that, yes, there is a problem with the current BRA process where the resulting prices are not going to be sufficient to induce the development of generation that the system is going to need to remain reliable.

Q. So if the RPM price does not approach net CONE, there won't be new generation under PJM's structure.

A. It would take a very speculative

developer to jump into a market that was not yielding prices that would make them whole.

Q. And higher RPM capacity prices for the generation owners means higher costs to consumers, all else equal, correct?

A. Correct.

Q. If the PJM capacity performance proposal works and does get the option results up towards net CONE, all else equal, does that make the PSR better or worse?

A. That makes it better. It would be more beneficial for customers.

Q. Are the Duke capacity estimates in this docket, could they -- did they or could they have reflected the capacity performance proposal of really just a couple weeks ago?

A. No. Obviously, the CPI, the capacity performance initiative was just announced, and the report I saw was dated, I believe, October 23, subject to check.

Q. Based upon your experience around the country, does it take something like net CONE to encourage developers to build new power plants?

A. Yes. The numbers I've seen come out of, for example, California's 10-year, 15-year, 20-year contracts are higher than what PJM has been projecting, but, yes, you need those kinds of numbers in order to induce generators to put steel in the ground.

MR. KURTZ: Thank you, your Honor. Those are all the redirect.

EXAMINER PIRIK: Thank you.

Mr. Darr?

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RECROSS-EXAMINATION

By Mr. Darr:

Q. With regard to this discussion about CONE and net CONE, I just want to confirm you have not looked at the current construction data published by PJM; is that correct?

A. No. I actually have.

Q. I thought you said a few minutes ago, and a "few minutes ago" I'm talking about within the last several hours now, that you had not looked at the current queue status. Did I misunderstand that?

A. I'm sorry. I misunderstood your question. I have reviewed what PJM has developed in their recent workpapers behind their current calculations of gross and net CONE. But, no, I have not looked at the development queue.

Q. Okay. And what about the construction queue, plants under construction?

A. I have not.

Q. And just to clarify, you said that you felt that demand costs were fairly stable, and I would just like to understand or clarify that what it is you looked at to determine that the demand costs were fairly stable for OVEC, for the OVEC generating units.

A. Right. The forecast of capacity of demand charges rises gradually in the forecast that Duke provided. As a foundation of that forecast, I believe most of this comes down to capital equipment that is either largely depreciated or, in the case of the new emissions control systems, recently installed but is now on a fixed depreciation kind of rate based process, if you will, where given that there are no significant capital expenditures expected over the next 10 years, I think that those demand charges are likely to be fairly stable, fairly flat.

Q. And that -- is that on a gross amount or is that on a unitized advertised amount?

A. On a gross amount.

Q. Okay. And you would agree with me that there is a difference between the gross amount and the unitized amount in terms of -- well, strike that.

For purposes of calculating a kWh calculation, you would have to look at it on a unitized basis, would you not?

MR. KURTZ: Your Honor, you want to start the process of trying to -- this is no longer clarification. This is new cross-examination.

EXAMINER PIRIK: Overruled.

MR. DARR: Thank you, your Honor.

A. I think if you are talking about trying to come up with a dollar-per-megawatt-hour or dollar-per-kilowatt-hour kind of value for the fixed costs, obviously that's going to be dependent on the denominator and how much generation occurs in a particular year.

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

EXAMINER PIRIK: Ms. Hussey?

MS. HUSSEY: Thank you, your Honor.

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CROSS-EXAMINATION

By Ms. Hussey:

Q. Just a few questions, Mr. Taylor. You mentioned earlier that your proposal -- your proposed PSR would make the PSR bypassable for customers who have 10 megawatts of load at -- or greater at a single site, excuse me, correct?

A. Correct.

Q. Okay. And you also related that the rationale behind that proposal would be based, at least in part, on the fact that customers with loads of 10 megawatts or more at a single site may have strategies in place to ensure less volatile energy costs; is that accurate?

A. Yes.

Q. Okay. I wondered if you could tell me if there is anything in here in the nature or the structure of a customer with a single site of 10 megawatts or more of load that gives that customer more expertise about managing energy costs than a multi-site customer with load of the same degree?

A. I don't know. I think that they are fairly comparable; although, certainly, a customer that's consuming more than 10 megawatts at a single site is probably going to have a pretty dedicated organization that's looking at that electricity input to their presumably industrial process. You could have an organization that's got a very diverse and distributed base of operations that might not have the same kind of organization for looking at their energy inputs.

Q. And would your answer be the same for customers with multiple sites that have far greater than 10 megawatts of load?

A. I think even with the distributed and diverse kind of nature, if you are starting to talk about an organization that's got a lot more capacity, 20, 30, 40 megawatts, then it starts to rise to a point where even with distributed operations they would probably have a comparable degree of sophistication in their electricity procurement operations.

Q. Okay. Thank you.

And you were asked whether OVEC's fixed costs were relatively stable and, from my recollection you answered in the affirmative; is that accurate?

A. Yes.

Q. Okay. And, in your estimation, would that necessarily be true after 2023?

A. I think there is a lot more uncertainty after then. So that's principally the reason why I was looking at the eight-and-a-half-year benefit period, nine-and-a-half-year period PSR.

Q. And the uncertainty relates directly to the fixed cost aspect of OVEC plants?

A. Not necessarily. It also could be on the variable cost side too.

MS. HUSSEY: Okay. Thank you. No further questions.

EXAMINER PIRIK: Mr. Berger?

MR. BERGER: Thank you, your Honor.

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RECROSS-EXAMINATION

By Mr. Berger:

Q. Mr. Taylor, I first want to turn back to pages 2630 to 2631 of the transcript of your testimony in the AEP proceeding. I would like to put the full question and answer that Ms. Spiller referenced into the record. Why don't you just read the question and you can give the answer you gave at that time.

MS. SPILLER: Your Honor, I am just going to object. I think this is an improper use of Mr. Taylor's prior statement. It's not inconsistent. He read the documents to refresh his recollection and I don't think he needs to read the same commentary into the record when he has already testified to it. Just note my objection, please.

EXAMINER PIRIK: It will be noted.

Go ahead, Mr. Berger.

MR. BERGER: Thank you.

Q. You were asked the question by Mr. Nourse of AEP, on line 25 -- starting on line 25, page 2630. "Let me start with the topic you were just discussing with Mr. Berger. Your opt-out proposal I guess and your testimony has gotten quite broad as we've gone around the table with this series of questions from counsel. So would I -- and I understand that your recommendation on the opt-out is sort of optional and I appreciate your statements about that, but as was just discussed, your openness to expanding that opt-out has I guess developed into making it potentially an option -- an optional product or an optional PPA rider for virtually potentially all customers, correct?"

Would you read your response?

MR. KURTZ: Your Honor, I am going to object. I know how you are going to rule, but I have to say this is not a clarification of anything, it's got nothing to do with the redirect that I issued. This is just Mr. Berger wishing he had asked these questions in the first go around.

EXAMINER PIRIK: I understand that, but I also think that Ms. Spiller brought up the issue and

I think it's important to have it in context with the question and the answer, so I am going to allow him to read it and then I think we should move on, so then the record --

MR. BERGER: That's the only question I have on this area.

EXAMINER PIRIK: And then I think the record is clear then.

MR. BERGER: Thank you.

A. My answer at that time was: "Correct. I think -- that's not my recommendation to the Commission. I honestly think that they should use the power that's vested in them to garner these benefits for the overwhelming majority of customers and I think it increases the administrative burden to have a customer-by-customer opt-out. If I were pushed on this one way or the other, I would say take self-insurance off the table and simply make this an across the board kind of PPA rider."

Q. Thank you.

And Ms. Spiller also asked you some questions about the difference between Duke Energy's interest in OVEC as a shareholder of OVEC and OVEC's interest in its generating assets. Let me correct. Duke's Energy's interest in OVEC's generating assets and OVEC's interests in its generating assets. She referenced you to a term that they've used throughout this proceeding saying that OVEC directly owns the generating assets and Duke Energy Ohio is a shareholder in OVEC and, therefore, just has an ownership -- does not directly own the assets. To your knowledge are you familiar with any legal distinction that has any significance for purposes of this proceeding with respect to the term "directly owned."

MS. SPILLER: I am going to object. That completely misstates my question, Mr. Berger.

EXAMINER PIRIK: Honestly, I'm not sure what the question is specifically. Can you rephrase it?

Q. Yes. The question is whether the witness has any understanding of the significance of the -- or, has a perception that the term "directly owned" has any significance for purposes of this proceeding when he was asked that question.

EXAMINER PIRIK: I'll allow that question.

A. I think that there is a difference between direct and indirect ownership. I don't know exactly how that plays out and how Duke versus OVEC carries out their operations.

Q. Well, do you have any understanding of it having any significance for purposes of this proceeding?

A. I don't know the legal issues around direct ownership versus the indirect ownership structure. There may be some differences, but I am not aware of them.

Q. So when you use -- when you acknowledge the term "direct," you didn't have -- weren't giving it any particular significance for purposes of this proceeding; is that right?

MS. SPILLER: Your Honor, I'll object. The witness just said he doesn't know what those issues are. There's been no demonstration that he's an attorney and I don't know what Mr. Berger's -- well, I suspect what Mr. Berger's intentions are here, but I think the witness has addressed this question.

EXAMINER PIRIK: I sustain.

Go ahead and move on, Mr. Berger.

MR. BERGER: Thank you.

Q. You were also asked some questions by Ms. Spiller regarding the 10-percent participation rate. The 10-percent participation rate that you recommended is to give Duke some skin in the game. Would you agree with me, however, that a higher number, higher participation rate would give them more skin in the game, so to peak, and better balance their incentives with the risk placed and reward that customers might experience?

A. No, in that I honestly think that this PSR is going to be beneficial for customers, and you can go too far on the Duke participation rate where you are simply watering down the benefits that are going to be available for customers.

Q. Now, you indicated that, Ms. Spiller, that the effect on -- in response to a question from Ms. Spiller, the effect on Duke Energy Ohio was neutral. Do you recall that? The effect of the PSR on Duke Energy Ohio?

A. Yes.

Q. Would you agree with me, however, that the PSR takes away Duke Energy Ohio's market risks associated with the OVEC asset?

A. Where market risk should be appropriately characterized as positive or negative potentials.

Q. Yes.

A. Yes.

Q. And with respect to the questions that you were asked on redirect by Mr. Kurtz, and in particular regarding the net CONE and the recent BRA auction price result for the 2017 to 2018 RPM period, you agree that that price was determined through -- through PJM's existing mechanism with a descending clock option; is that correct?

A. I don't know. It was done through their existing process where they use a VRR, a variable resource requirement curve, supply and demand curves, I don't think they use a declining cost auction, but I think that's the SSO auctions.

Q. Okay. They do use an auction process, however, where the price that is determined is the price at which -- at which all the generation that PJM determines is necessary -- it's the price at which all the generation PJM determines is necessary has been offered into the market; is that correct?

A. It's where the supply and demand curve cross, and the supply curve is based off of auction bids put in by generators.

Q. And that price is $120?

A. Per megawatt-day, yes.

Q. Per megawatt-day. And would you agree with me that the generators who were bidding into the auction believe that they will be able to recover their costs through that price and through their recovery of energy and ancillary service -- ancillary services?

A. I would imagine that this supply curve is built predominantly of bids from existing generators and existing megawatts. So I have no knowledge whether there is any new generation that's included in that $120 number.

Q. You don't know whether the people who bid into the auction, whether any of that was new generation is what you are saying?

A. At the clearing price or below, I do not.

Q. Okay.

A. And I would suspect, based on what I've seen in other jurisdictions, that nobody could really build generation, certainly dispatchable generation, for prices that low.

Q. But you recognize that new generation was either a price taker or bid into that auction in that there was new generation that was offered in that auction?

A. If it was, it may have been above that $120 price point and, therefore, it was not awarded. I don't know. I don't know what was in the stack.

Q. So you don't know if there was any new construction, new generation that was included -- that resulted from that auction.

A. I do not.

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

EXAMINER PIRIK: Mr. Mendoza?

MR. MENDOZA: No questions.

EXAMINER PIRIK: Thank you.

Mr. Oliker?

MR. OLIKER: Just very briefly, your Honor.

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RECROSS-EXAMINATION

By Mr. Oliker:

Q. Just a few more questions for you, Mr. Taylor. You don't participate in the PJM markets committee regarding capacity, correct?

A. I do.

Q. And isn't it true that the capacity performance proposal doesn't mention the words "construction" or "build" anywhere in the document?

A. I don't have the document committed to memory.

Q. You would agree that the purpose of the capacity performance proposal has nothing to do with new construction. PJM has determined it has sufficient generation; it just needs to perform better.

A. I think it may have sufficient generation today, but I think that there has been a significant concern voiced that as coal-fired capacity is retired, that new generation will need to be installed in the system.

Q. You would agree that 24,000 out of 26,000 megawatts that's slated for retirement will be fully retired by 2015?

A. The 27,000 megawatt number I have been using is a national number. Much of it is in the midwest or PJM footprint. I don't know your 24,000 number, where that retirement is, whether it's all over the country or where it might be.

Q. Do you know that it will be fully retired by 2015?

A. I don't know that.

Q. I would just like to clarify something really quickly that you discussed earlier about the PJM market monitor. You've said that this proposal of yours is good policy, in general, beyond just OVEC, correct?

A. Correct.

Q. And you're referring to the supplemental aspect of additional PPAs.

A. The fact that this kind of mechanism could be used for ensuring reliable generation gets added to the state's system, yes.

Q. And you're aware that FirstEnergy and AEP have made similar supplemental PPAs for additional generation, correct?

A. I do not know of their details.

Q. If the PJM market monitor had determined that supplemental PPAs was a bad idea, would you agree with him?

A. Not necessarily, no.

MR. OLIKER: That's all I have, your Honor.

EXAMINER PIRIK: Mr. Petricoff?

MR. PETRICOFF: Yes.

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RECROSS-EXAMINATION

By Mr. Petricoff:

Q. Mr. Taylor, is the CONE calculations that you responded to counsel for on redirect, those are for what we would call "Greenfield" constructions, absolutely new facility and new site?

A. I don't know. They are certainly for a new facility, but they could be Brownfield development.

Q. Okay. Let's clarify. I need to clarify my Greenfield. When I was saying "Greenfield," I was assuming that these were new construction sites as opposed to just modifying, improving, or increasing the capacity from existing generation.

A. That's my understanding, yes.

Q. Okay. So the -- expanding existing generation is not in the CONE calculation.

A. No.

Q. No, it is not in the CONE calculation.

A. Correct.

Q. Okay. We are getting near 6 o'clock. It's tough to keep the record straight.

Okay. Then, so basically, I think you indicated earlier that you weren't aware of what was in the line for either under construction or -- or additions to -- to input and transmission lines at PJM, but that could include what I've identified here as expansions of existing generation as well.

A. That could.

Q. All right. And, basically, in terms of the impact on the capacity market, doesn't really matter if it's new construction or expanded old construction, what really matters is how much capacity is going to be offered in the -- in the BRA and what the price bids are going to be.

A. Particularly the price of the marginal clearing price for the capacity curve. If that happens to be a new facility, then everybody would be getting paid that new facility price.

Q. And as far as you know, the $347 CONE price that you recited earlier in your testimony, that comes out of the report looking at what the future costs would be for new generation over a 20-year period.

A. That is my understanding, yes.

Q. Okay. And your proposal for the rider RPA [verbatim] is for the period of, basically you're looking at the capacity between 2018 and 2023, because we have got the capacity set up until then, so you were just focused on 2018 to 2023.

MS. SPILLER: Your Honor, I am sorry. Mr. Petricoff, I believe you said rider "RPA."

MR. PETRICOFF: Oh, I'm sorry. If I did, I apologize. So let's see, what do we have here.

MS. SPILLER: PSR.

MR. PETRICOFF: PSR. Thank you.

MR. DARR: This week.

A. The capacity --

MS. SPILLER: Oh, Frank.

A. The capacity performance initiative has some language in it about modifications that may occur over the 2015 to 2018 timeframe. I certainly recognize that those BRA auctions already occurred and, under normal conditions, those prices would simply be set. So you would be right that the prices of greatest concern are starting in the 2018-2019 and going to the 2023 vintage, but there may be issues afoot in PJM where they are reconsidering what those near term prices need to be.

Q. Now I want to focus in on new, what I have called "Greenfield" construction. How long does it take to get the environmental permits to build a power plant?

A. It varies by -- by jurisdiction by various parts of the country and it varies by the kind of resource that's being proposed.

Q. Order of magnitude, something we measure in years?

A. Yes.

Q. And then after -- you can't build a power plant until you have your environmental permits; is that correct?

A. That's correct.
Q. And then how long does it take, after you get the permits, before you -- you can build a power plant?
A. If it's a simple cycle peaker, perhaps a year. If it's a combined cycle operation, gas-fired combined cycle, probably more like three years.
Q. Okay. And so far the initiative, the CONE initiative has not affected the PJM BRA auction; is that correct?
A. To date, it has not.
Q. Right. And so, it would have to become a proposal, it would have to be go through the PR -- the PJM process and then be -- and then be adopted?
A. I assume so. I don't know.
Q. In terms of looking at generation that's going to be generated by increases that come out of the CONE proposal, if something comes out of the CONE proposal, and given the time for the environmental permits and construction, we are talking half a decade to a decade?
A. No. I don't think so. I think particularly for combustion turbines those could be, I wouldn't say years as far as the permitting process; probably a year. And there may be some

entities that have already begun that process out there. There is not a great deal of cost to getting in queues and starting the process of looking at a particular site.

The real money comes when a construction to proceed is issued and they actually need to put a facility there. So some of that may have already occurred and that may be what some of the -- those who have been crossing me today have been referring to as far as these queues. So I think that if prices rose up to the appropriate level, I think the market could respond fairly quickly, but not immediately.

Q. But we do know that since the CONE -- since the CONE initiative has not even reached the proposal stage at PJM, that no one who is in the queue now is relying on that in order to pay their money to PJM to actually enter the power into the system?

A. I think the idea of net CONE has been developed for several years now in the PJM capacity committee. If what you are referring to is the desire to get BRA prices up toward net CONE, I don't know how long that's been debated.

Q. But for those that are in line now, they could not have been relying on any change due to the

CONE initiative when they listed their power plant to be included in the PJM queues, correct?
A. Not necessarily. I don't know what is in the minds of developers that have offered near term capacity. They -- they may be able to get their foot in the door before prices go up so they are in a better position to build it quickly. I don't know.
Q. Do you know whether, to get in the queue, you have to make sizable payments to get into PJM?
A. Which queue are you talking about?
Q. Either the construction queue or even the review for interconnection.
A. Generally, for transmission interconnection for RTOs, yes, there are deposits that are required to be in the queue.
Q. It's a three-phase proceeding so you have to do the studies and then pay for the interconnections and then also pay for the secondary effects?
A. Correct.
Q. Okay. So if you're in the queue, you've got to be pretty serious and pretty far along on building generating plant, wouldn't you say?
A. Not necessarily. You certainly need to be ready to pull the trigger on something within the

time period that the RTO gives you in your review of your Phase I and ultimately the Phase II studies.

Q. And it's your view that some of those people who are in line, who paid the money, and have to be committed and pulled the trigger, did this because they think that CONE pricing is going to lead to greater capacity costs sometime in the future.

A. I don't know.

MR. PETRICOFF: I have no further questions. Thank you.

EXAMINER PIRIK: Mr. Hart?

MR. HART: Yes, your Honor.

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RECROSS-EXAMINATION

By Mr. Hart:

Q. I just want to briefly revisit the opt-out issue you've raised. As I understand your testimony, you based the option to self-insure on the sophistication of the customer.

A. Well, in my testimony it's simply a megawatt limit of 10 megawatts at one site or greater.

Q. I think you said that large customers may have corporate finance departments to deal with commodity interest rate and current exchange rate hedges.

A. Yes. That was may justification for offering this self-insurance aspect.

Q. There are certainly many customers that fit that description that would have less than 10 megawatts of load, correct?

A. I don't know.

Q. Okay. Would you agree that if the customer has the sufficient sophistication that there should not be a megawatt qualification for that opt-out right?

A. I think to try and judge sophistication puts the Commission in a strange position of them having to interview individual customers to figure out whether they are eligible for some sort of self-insurance provision.

Q. Would you agree that customers that intervene in rate cases and hire counsel to represent them have sufficient sophistication to make a judgment whether to accept a hedge or not?

A. I don't know.

Q. Now, Ms. Hussey asked you a little bit about different combinations of reaching the 10 megawatts of load, and I think you talk about multiple sites. Would you also agree that multiple customers might align in order to have buy in cooperatives?

A. Certainly multiple customers to buy in cooperatives, it's my understanding.

Q. Or an infinity group may offer a product?

A. Perhaps.

Q. Or an aggregation group may accomplish the same thing?

A. Perhaps.

Q. So there are many ways that customers could achieve 10 megawatts of buying power without having that all in a single site.

A. Certainly if the arithmetic adds up to that.

Q. One final topic. When you proposed the option for a 10-megawatt-of-load customer to opt out of the hedge, you didn't condition that on being a shopping customer, did you?

A. No.

Q. So it really should be independent of whether a customer's SSO or a shopping customer as to whether they should be allowed to opt out of the hedge, correct?

A. Correct.

Q. Because it's competitively neutral.

A. Correct.

MR. HART: Thank you.

EXAMINER PIRIK: Mr. Chamberlain?

MR. CHAMBERLAIN: No questions.

EXAMINER PIRIK: Ms. Spiller?

MS. SPILLER: Nothing, your Honor.

EXAMINER PIRIK: Thank you very much.

MR. BERGER: Did we do the confidential?

EXAMINER PIRIK: I forgot you had confidential.

Staff, do you have any questions?

MR. BEELER: No thanks.

EXAMINER PIRIK: I saw you leave the room. Yeah, I guess we have a couple of questions on the confidential.

THE WITNESS: Okay.

EXAMINER PIRIK: I think Mr. Chriss is in the back of the room, I think. I don't know how that works.

(Off the record.)

EXAMINER PIRIK: Okay. Go back on the record. This is the confidential portion.

MR. BERGER: Thank you, your Honor.

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CROSS-EXAMINATION (Continued)

By Mr. Berger:

Q. Mr. Taylor, just briefly on Exhibit AST-2, the OVEC capacity factor percentage you have on that line do you see where it (Confidential) from (Confidential) percent in 2018 to (Confidential) percent in 2019?

A. Yes.

Q. Do you have any understanding of why it (Confidential) in that (Confidential) during that timeframe?

A. No.

Q. And with respect to the OVEC capacity revenue line, line 8, do you have any understanding of why that (Confidential) from (Confidential) percent -- by (Confidential) percent during that same timeframe?

A. Basically because of the assumptions in the model about the RPM price for capacity, which is in a (Confidential) range during 2016-2017 of (Confidential) $(Confidential). And I believe that what the forecast is reflecting is that there will be a (Confidential) in the market that will move prices (Confidential). But moving them (Confidential) from (Confidential) to (Confidential) dollars is (Confidential) the $330 of net CONE that would really be required to get new generation into the system.

Q. Would you agree with me that you testified during your deposition that you didn't know why that (Confidential) by (Confidential) percent?

A. I still don't know why, except that it is fundamental in the assumptions about the RPM price.

Q. Okay. And it's tied directly to that OVEC capacity factor percentage, isn't it?

A. No, it's not. Actually, the capacity revenue is irrespective of the capacity factor. It is just a function of the UCAP on line 1 and the RPM price on line 7.

Q. And so, what you just said is you don't know why the RPM price for capacity is assumed to have (Confidential) by that (Confidential) during that timeframe?

A. I don't know why it's not (Confidential) (Confidential).

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

EXAMINER PIRIK: I didn't ask if there was any other confidential cross, but Mr. Berger was the only one that mentioned it, so.

Do you have any redirect, Mr. Kurtz?

MR. KURTZ: I do not. I move the --

EXAMINER PIRIK: Well, wait a second.

Okay. We will go back on the open record.

EXAMINER PIRIK: Go ahead.

MR. KURTZ: Your Honor, I move the admission of OEG Exhibit 1, Mr. Taylor's testimony.

EXAMINER PIRIK: Are there any objections?

MS. SPILLER: No, your Honor.

EXAMINER PIRIK: Hearing none, it will be admitted into the record.

(EXHIBITS ADMITTED INTO EVIDENCE.)

EXAMINER PIRIK: Thank you very much.

MR. OLIKER: Your Honor, I would also move for the admission of IGS Exhibit 9.

EXAMINER PIRIK: Thank you for reminding us.

Are there any objections?

Hearing none, it will be admitted into the record.

(EXHIBIT ADMITTED INTO EVIDENCE.)

MR. OLIKER: Thank you, your Honor.

EXAMINER PIRIK: Did we lose Mr. Chriss? Now we don't know where he is.

(Discussion off the record.)

(Witness sworn.)

EXAMINER PIRIK: Please be seated.

Mr. Chamberlain.

MR. CHAMBERLAIN: Thank you, your Honor. I should probably enter a formal appearance. Rick Chamberlain on behalf of Wal-mart Stores East, LP, and Sam's East, Inc., and would like to thank you for accommodating our request for a date certain.

EXAMINER PIRIK: Go ahead.

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STEVE W. CHRISS

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

DIRECT EXAMINATION

By Mr. Chamberlain:

Q. With that, Mr. Chriss, would you state your name for the record, please.

A. My name is Steve W. Chriss, spelled C-H-R-I-S-S.

Q. By whom are you employed?

A. Wal-mart Stores, Incorporated.

Q. And in what capacity?

A. I am the senior manager, energy regulatory analysis.

Q. And did you cause to be filed the direct testimony and exhibits of Steve W. Chris on behalf of Wal-mart Stores East, LP, and Sam's East, Inc., dated

September 26, 2014?

A. Yes.

Q. Was that testimony prepared by you or under your supervision?

A. Yes.

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

A. No.

Q. If I were to ask you the same questions set out in your testimony, would your answers be substantially the same?

A. Yes.

MR. CHAMBERLAIN: And, your Honor, do we need to mark testimony? I guess it's Wal-mart 1.

(EXHIBIT MARKED FOR IDENTIFICATION.)

MR. CHAMBERLAIN: And with that I would tender Mr. Chriss for cross-examination.

EXAMINER PIRIK: Thank you.

Ms. Hussey?

MS. HUSSEY: No questions, your Honor.

EXAMINER PIRIK: Mr. Serio?

MR. SERIO: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Serio:

Q. Good evening, Mr. Chriss. I have just a few questions. On page 3 of your testimony you're recommending that the PSR be made bypassable, correct?

A. That's correct.

Q. And if it's bypassable, that means shopping customers would not have to pay, correct?

A. That is correct.

Q. So I have a question. As more customers shop and migrate away from the SSO, that would leave fewer customers paying the PSR rider, correct?

A. That would be -- well, there would be fewer customers to whom the PSR would be applicable. I have been here all day, and I've heard that the PSR will be a tremendous benefit so to the extent that it were a benefit, they would benefit from it. To the extent it would be a cost, there would be fewer to whom it would be a cost but --

Q. And those remaining customers would have a greater cost then, correct?

A. Or benefit.

Q. Or benefit but it would be magnified.

A. It would -- again, it depends. All other things being equal, yes, it would be magnified because you would be dividing by fewer determinants.

Q. Now, you indicate it should be bypassable by customers who take competitive supply service, correct?

A. That's correct.

Q. Now, isn't the SSO provided through an auction?

A. That's my understanding.

Q. And isn't that a competitive supply?

A. Given my understanding of how the process is done, we are not that engaged on it because we are a shopping customer to differentiate from the SSO competitive bidding process. Given my understanding from a wholesale perspective, it would be competitive. I think, you know, when you look at the concept of self-insurance that was discussed today, when you become a shopping customer, you have said "I'm going to self-insure. I am going to go out. I am going to either through" -- for Wal-mart it would be either through internally we have a competitive supplier in house, Texas Retail Energy, or through any number of other competitive suppliers. "We are going to procure a generation including our capacity and energy needs and our reliability needs," so we have chosen to self-insure by shopping.

Q. I understand that. But the suppliers that bid into the SSO, they also hedge the supply that they are bidding, correct?

A. I don't know.

Q. Do you know how a supplier could offer a rate that wasn't bid without absorbing tremendous risk?

A. For clarification you are speaking of generation, a generator or --

Q. Yes.

A. -- owner of a generator? I'm not familiar with that part of the process, so it would just be speculation on my part.

Q. Okay. Now, on page 3 you also indicate that Duke should be required to file a base rate proceeding no later than the conclusion of the ESP term. Does that recommendation assume that the rider would be folded into base rates and there would be no riders going forward?

A. That would be optimal. I know that may not be practical -- practical or prac --

MS. SPILLER: It's a long day.

A. I'll get it. No. Workable, how about that?

Q. Okay.

A. So but, yeah, optimally you take all the costs that could be included in base rates and get them into base rates.

Q. Okay. And then I think one last question, on page 5 you talk about confusion for commercial shopping customers because they have to examine up to 11 riders, correct?

A. That's correct.

Q. To the best of your knowledge, are all customers, shopping and nonshopping, impacted by numerous riders --

A. Absolutely.

Q. -- which could cause customer confusion?

A. Absolutely.

MR. SERIO: That's all I have, your Honor. Less than 15 minutes.

EXAMINER PIRIK: Thank you.

Mr. Mendoza?

MR. MENDOZA: No questions.

EXAMINER PIRIK: OEG?

MR. KURTZ: No questions.

EXAMINER PIRIK: Mr. Petricoff?

MR. PETRICOFF: No questions.

EXAMINER PIRIK: Mr. Hart?

MR. HART: No questions.

EXAMINER PIRIK: Ms. Spiller?

MS. SPILLER: It's actually Ms. Kingery.

EXAMINER PIRIK: That's right. I did know that.

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CROSS-EXAMINATION

By Ms. Kingery:

Q. How are you this evening, Mr. Chriss?

A. I'm good. How are you?

Q. I will try not to keep you very long.

EXAMINER PIRIK: I'll just say she promised a half hour.

MS. KINGERY: Let me see, I put 60 to --

EXAMINER PIRIK: We're praying.

Q. In your testimony on page 3 you propose that the Commission should consider ways to simplify the company's rate structure; is that correct?

A. That's correct.

Q. And in making that proposal you identify on the subsequent couple of pages various company riders, correct?

A. That's correct.

Q. And you state on page 4, line 8, that -- 8 to 12 that this demonstrates the breadth of utility costs that are to be considered as part of the company's ESP application; is that correct?

A. That's correct.

Q. The company is not seeking Commission approval of rider BTR in this case, is it?

A. My understanding is that the company has proposed no changes to it.

Q. Thank you. And it doesn't terminate of its own accord as far as you know.

A. Not as far as I know.

Q. And the company is not seeking approval of rider UE-D in this case, correct?

A. My understanding again is that they are proposing no change.

Q. And the company is not seeking approval of DR-IM, correct? It's on page 4.

A. Page 4.

Q. Line 18.

A. Oh, there it is. That's correct. No, my understanding is the company is seeking no change.

Q. And the company is not seeking any change to or any approval of rider RTO, correct?

A. Again, that's my understanding.

Q. Wal-mart was a party to the proceeding at the Commission in Case No. 11-3549 that approved the

current ESP, correct?
A. That's correct.
Q. So you are aware then that the Commission approved rider AER-R for a period that was longer than the three-year term of the ESP, correct?
A. I don't recall the specific term of the settlement.
Q. If you look at page 5, starting on line 7, you state that the company is proposing to replace a total of eight existing mechanisms; is that correct?
MR. CHAMBERLAIN: I am going to interject not really an objection but a clarification. The testimony, it says that Duke is proposing the following riders to replace existing mechanisms.
EXAMINER PIRIK: Thank you.
MR. CHAMBERLAIN: He is not stating that these are being replaced.
Q. So clarify that, are you suggesting that these are new riders that are going to replace something that's in the existing ESP?
A. No. I -- in reading it now, I'm thinking it may be misworded because my understanding is, for example, the load factor adjustment rider is going away. Its termination was the subject of this

docket. So I would have to rephrase line 7. I apologize for that.

Q. Okay. So I just want to make sure that its clear. Are you suggesting that rider ESSC will remain in place if the application is approved?

A. Subject to check, my understanding would be that the riders listed from lines 8 through 15 would not continue after the -- this -- whenever this ESP goes into effect.

Q. So they would not continue, and they would not be replaced either; is that correct?

A. Subject to check, that's my understanding.

Q. Okay. And I just want to clarify, a couple of them we just talked about, riders BTR, RTO, and UE-D, which were back on page 4, is it your testimony that Duke is seeking either no change in those riders, or they are not included in the application? Is that a fair statement?

A. My understanding is that there is no changes proposed to those riders.

Q. So its your testimony at least eight riders are being removed as a result of this application.

A. Again, subject to check, that's my

understanding. However, a number do persist.
Q. A number do persist. And of the costs that are currently being recovered by the numerous riders that you're addressing, which of those costs do you believe should be included in base rates?
A. I would say anything that certainly is distribution related, things that are related directly to the utility's distribution system so things that would be covered as part of a rate case so the costs that are, for instance, in DCI on perhaps the distribution, storm rider, those sorts of things.
Q. So you're proposing that those items should not be in riders because they are distribution related.
A. Ultimately they should end up in base rates. I understand the ESP process in Ohio, but at some point those costs should be integrated into base rates.
Q. So you're not suggesting that its -- that the appropriate place to be to begin recovery is somehow not right for an ESP, are you?
A. Well, I recognize what the ESP allows. I don't necessarily like it, but given how the ESP is structured, what the utility is allowed to do, I

don't necessarily disagree that the utility can do it. I would prefer that it was more the traditional let's have a base rate case, regulatory lag, base rate case, but I understand that's the ESP structure. However, to the extent that opportunity can be taken to put those costs into base rates and update the other financial metrics around Duke's base rates, that's a good thing.

Q. Would you also agree that it's a good thing to avoid as much regulatory lag as we possibly can?

A. Well, I think that regulatory lag is a mechanism to ensure the company is managing its costs, managing its business well. The more -- ultimately the business should have the pressure in -- of ensuring that it's doing a good job for its shareholders brought to bear as well as the pressure of doing a good job for its customers.

Q. You did not oppose the proposed rider DCI, though; isn't that correct?

A. That's correct.

Q. And you did not oppose the ROE that the company is requesting as a part of that rider, correct?

A. That's correct.

Q. So your only recommendation with rider DCI is that the Commission should require the filing of a base rate case, correct?

A. Yes. Per my testimony that's the recommendation.

Q. And you base that opinion on your belief that if the rider is approved, the revenue requirement could potentially recover more than 7.2 percent of the distribution revenue requirement, correct?

A. That's correct. That's using the company's provided exhibits.

Q. But you have not performed any analysis to determine whether, in fact, rider DCI revenue requirement would actually recover more than 7.2 percent of the distribution revenue requirement, correct?

A. That's correct.

Q. And you would agree with me, I presume, that rider -- if rider DCI is approved, Duke Energy Ohio would continue to have business risks, correct?

A. There would still be business risk. However, the risk of recovery around those revenues and the regulatory lag that they would otherwise see without the rider is there or is reduced.

Q. But you have not examined what other risks might remain.

A. I have not.

Q. Would you agree with me that the company is not proposing to use any of the energy or capacity from the OVEC-owned generating assets to directly serve nonshopping customers?

A. That's my understanding.

Q. And you state on page 9 of your testimony, if you want to turn there, on lines 5 through 9, that shopping customers should not be charged the price stability riders because they are already paying their competitive supplier for procurement and other related costs, correct?

A. Yes.

Q. But you have not provided any analysis of what costs are actually factors into competitive suppliers' offers, correct?

A. I have not but generally the costs such as energy, capacity, and hedge-related costs are included in these offers. That's my general understanding.

Q. And would you agree with me precisely what is included in those offers by competitive suppliers is information that is generally not publicly available?

A. I would agree.

Q. And the company is likewise not proposing to use any of the energy or capacity from the OVEC-owned plants to serve shopping customers, correct?

A. That's my understanding.

Q. And is it your understanding that the company will not earn any revenue as a result of rider PSR?

A. I guess that would be my understanding in terms of how the structure works in that it would cover the ownership shares of costs so --

Q. And you have not addressed in your testimony any impact that a bypassable rider PSR might have on retail competition, have you?

A. Could you explain your question, please?

Q. You've advocated that rider PSR should be bypassable, correct?

A. That's correct.

Q. Have you analyzed in any way what effect such a rider, a bypassable rider, PSR would have on competition, retail competition, in Ohio?

A. I have not.

MS. KINGERY: That's all I have, your

Honor.

EXAMINER PIRIK: Thank you. Staff?

MR. BEELER: No questions, thank you.

EXAMINER PIRIK: Mr. Chamberlain?

MR. CHAMBERLAIN: No redirect.

EXAMINER PIRIK: Thank you, Mr. Chriss.

THE WITNESS: Thank you.

EXAMINER PIRIK: With regard to Wal-mart Exhibit 1.

MR. CHAMBERLAIN: I would move for its admission, please.

EXAMINER PIRIK: Any objections?

MS. SPILLER: No, your Honor.

MR. SERIO: No objection.

EXAMINER PIRIK: Hearing none, it will be admitted into the record.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER PIRIK: I think we can -- we'll go off the record.

(Thereupon, at 6:33 p.m., the hearing was adjourned.)

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CERTIFICATE

I do hereby certify that the foregoing is a true and correct transcript of the proceedings taken by me in this matter on Thursday, October 30, 2014, and carefully compared with my original stenographic notes.

Karen Sue Gibson, Registered
Merit Reporter.

(KSG-5951)

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