

PUBLIC UTILITIES COMMISSION OF OHIO

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In the Matter of the Application :  
Seeking Approval of Ohio Power :  
Company's Proposal to Enter into : Case No.  
an Affiliate Power Purchase : 14-1693-EL-RDR  
Agreement for Inclusion in the :  
Power Purchase Agreement Rider :

In the Matter of the Application :  
of Ohio Power Company for : Case No.  
Approval of Certain Accounting : 14-1694-EL-AAM  
Authority :

- - -

DEPOSITION

of Pablo A. Vegas, taken before me, Carolyn D. Ross,  
Registered Professional Reporter, and a Notary Public  
in and for the State of Ohio, at the offices of  
American Electric Power, 1 Riverside Plaza, Columbus,  
Ohio, on Wednesday, September 16, 2015, at 9:07 a.m.

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On behalf of Environmental Law &  
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On behalf of IGS Energy.

ALSO PRESENT:

Kevin Murray, McNees, Wallace & Nurick,  
LLC (via speakerphone);  
Steven Beeler, PUCO Staff;  
Werner Margard, PUCO Staff.

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VEGAS EXHIBITS	IDENTIFIED
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1 Wednesday Morning Session,  
2 September 16, 2015.

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4 (EXHIBITS MARKED FOR IDENTIFICATION.)

5 (Witness placed under oath.)

6 - - -

7 PABLO A. VEGAS,

8 being by me first duly sworn, as hereinafter  
9 certified, deposes and says as follows:

10 CROSS-EXAMINATION

11 BY MR. BZDOK:

12 Q. Good morning, Mr. Vegas.

13 A. Good morning.

14 Q. Have your position or duties changed  
15 from what you described in your amended direct  
16 testimony in any way?

17 A. No, they haven't.

18 Q. What did you do to prepare your original  
19 October 2014 testimony in this case?

20 A. The October 2014 testimony. Can you be  
21 a little more specific in terms of your question?

22 Q. Sure. What steps did you take? What  
23 did you review? Who did you talk to? What did you  
24 do to prepare that testimony?

1           A.    I spoke with our Regulatory staff in AEP  
2   Service Corporation; I spoke with my Regulatory and  
3   Finance team within AEP Ohio, and talked to them  
4   about the proposal to expand the PPA to include the  
5   plants that have been proposed, and to identify the  
6   right mix of generating units that would -- that  
7   would deliver the benefits and the values that the  
8   proposal is intended to have; and then we brought  
9   together in meetings folks from AEP Generation  
10   Resources, so leaders from that organization, as well  
11   as our legal staff, and then folks on the Regulatory  
12   and the AEP Ohio team to discuss their  
13   recommendations that they made in terms of which  
14   units to include.

15           Q.   And when you say "their recommendations,"  
16   who's they?

17           A.    The recommendations came from the AEP  
18   Service Corp. organization working in conjunction  
19   with Gen Resources to identify those units that would  
20   meet the criteria and deliver the value.

21           Q.    Were the recommendations that were made  
22   by AEP Service and AEPGR in terms of units, were  
23   those identical to the units that had been proposed  
24   for inclusion in the PPA in your direct testimony?

1           A.    They are.

2           Q.    Okay.  What type of analysis did you or  
3 people who work for you do of those units prior to  
4 accepting those recommendations?

5           A.    The analysis focused on the forecasted  
6 revenues and the forecasted costs of the units  
7 proposed, and compared those against the expectations  
8 of market prices, future curves, we'll call them, for  
9 the energy, as well as expectations of the capacity  
10 market revenues that would come during the known  
11 period, and some assumptions made on what those  
12 capacity prices could be beyond the three-year  
13 period.

14                   So essentially looking at those  
15 elements, and then also the analysis would have  
16 looked at the operating characteristics to make sure  
17 that the plants would have the operational profile  
18 that would be needed in order to continue to deliver  
19 reliable operations.  And so taking those factors,  
20 putting them together, those are the main -- that I  
21 can recall, those are the main issues or the main  
22 variables that we looked at when analyzing those  
23 plants.

24           Q.    Now, the analysis that you described

1 related to revenues and forecasted energy and  
2 capacity prices. Is that the analysis that's  
3 sponsored in this case?

4 A. It is.

5 Q. Okay.

6 A. That's the analysis that's sponsored by  
7 Dr. Pearce in his testimony.

8 Q. Are there any components of that  
9 analysis that were not included in his testimony and  
10 exhibits, to your knowledge?

11 A. No.

12 Q. How about the analysis of the operating  
13 characteristics of the plant, who did that?

14 A. That would have been done largely by  
15 Toby Thomas under his direction. Toby's responsible  
16 for the operations of the AEPGR operating plants, and  
17 so he would have executed that analysis and asked for  
18 that information to perform that.

19 Q. Are there components of his analysis  
20 outside of what's included in his testimony and  
21 exhibits in this case?

22 A. Not that I'm aware of, no.

23 Q. What type of information did AEPGR  
24 provide relative to the operating characteristics of



1 the plant?

2 A. They would provide information around  
3 forced outage rates. That's one of the key  
4 reliability characteristics, information like ramp  
5 rates and, you know, how they perform under various  
6 operating conditions. So they would have had that  
7 information available to know -- to have a  
8 perspective on whether the plants would be able to  
9 perform reliably under what we expected to be a  
10 capacity performance model which we talked about in  
11 the proposal as well.

12 But I'm really not a -- I'm not an  
13 expert on plant operations. So I think it would --  
14 Toby would probably have more details around the kind  
15 of characteristics that they looked at or the kind of  
16 variables they looked at.

17 Q. Sure. What -- go ahead. What -- what  
18 was your role in engaging the operational  
19 characteristics analysis?

20 A. My role was to review all of the input  
21 that was put forth, the operations input, the  
22 financial input, but to review and to make sure that  
23 what we were putting forward was going to meet the  
24 intent of what the PPA was supposed to provide for

1 customers. So my -- I was there to review it and  
2 assure that it met the expectations.

3 Q. Did you do or engage anybody else to do  
4 any analyses relative to either of those two subjects  
5 outside of what we've talked about?

6 A. No.

7 Q. Did you receive any assistance in  
8 preparing your October 2014 original testimony?

9 A. Yes.

10 Q. From whom?

11 A. I had individuals on the Regulatory  
12 team. At one point Jeff White helped with preparing  
13 some of the testimony, but it was done under my  
14 direction.

15 Q. Anyone else?

16 A. Jeff was the primary support person that  
17 I relied on. I don't recall anybody else at this  
18 time that worked on it.

19 Q. Have we at this point covered all the  
20 steps that you took in preparing your original  
21 October 2014 testimony? Have we missed anything?

22 A. No. No, you haven't, not that I can  
23 recall.

24 Q. How about the steps you took to prepare

1 your amended May 2015 direct testimony?

2 A. My amended 2015 testimony. Would have  
3 been -- it would have been very similar steps. It  
4 would have been coalescing the same group of  
5 individuals; so individuals from Service Corp.,  
6 Regulatory Service Corp., Legal, AEP Ohio Regulatory,  
7 and AEPGR. So it would have been very similar.

8 Q. Was there --

9 A. And I had the same support from the same  
10 individuals, too.

11 Q. Okay. Was there any additional  
12 negotiation with AEPGR relative to the units or the  
13 PPA terms leading up to your May 2015 amended  
14 testimony?

15 A. Nothing material, just, I mean,  
16 confirming and updating numbers and expectations  
17 based on the information and the analysis, primarily  
18 the financial analysis that would have been performed  
19 leading up to those revisions.

20 Q. Any new information provided by AEPGR or  
21 AEP Services?

22 A. I mean, I recall there was new  
23 information submitted related to the analysis of  
24 other -- the queue of generating facilities that are

1 being planned in Ohio. So there was new information  
2 made available for that update.

3 Q. What information specifically are you  
4 recalling?

5 A. Witness Eric Wittine went out and  
6 analyzed those sites that were under development,  
7 took pictures of those sites, and looked at the queue  
8 again to assess whether or not any changes had been  
9 made in the progress of the development of those  
10 states.

11 Q. Any other new information you can think  
12 of, either internal or from AEPGR or from AEP  
13 Services?

14 A. No. No, none that I can recall.

15 Q. Which of the witnesses in this case  
16 works directly for you?

17 A. Let me look here. We have so many  
18 witnesses in this case.

19 Q. Let me clarify my question, if I may.  
20 By "directly," I mean in a direct chain of command  
21 under you.

22 A. None of the witnesses are in my  
23 reporting chain of command. Most of the witnesses  
24 are in the AEP Service Corporation.

1 Q. When you say "most," is that everybody  
2 except for Mr. Fetter?

3 A. Correct. Mr. Fetter and -- I'm not 100  
4 percent sure on Mr. Thomas, if he is in the AEPGR  
5 organization or in the Service Corporation, but  
6 outside of him all the rest, I believe, are Service  
7 Corporation employees.

8 Q. Based on your understanding in your  
9 position, does the Service Corporation provide -- let  
10 me rephrase that.

11 Does the Service Corporation have the  
12 same type of relationship to the Generation Resources  
13 as it does to AEP Ohio?

14 A. Well, the Service Corporation provides  
15 support services in whatever area of domain that the  
16 individuals are in or the departments are in to each  
17 of us, that is correct. So we would each -- so AEP  
18 Generation Resources is an affiliated company under  
19 AEP parent. AEP Ohio is an affiliated company under  
20 the AEP parent.

21 Service Corporation is a service group  
22 that provides services to all affiliated companies  
23 within the organization. So yes, they would  
24 similarly provide either regulatory, legal, financial

1 advice to individual companies based on whatever the  
2 requirements are.

3 Q. So were the witnesses who were involved  
4 with this case then, were they -- were they working  
5 at your direction or were they working at somebody  
6 else's direction?

7 A. They're working at my direction. This  
8 is an AEP Ohio sponsored case; so this proposal is  
9 being put forth and sponsored by AEP Ohio. So the  
10 witnesses and the testimonies and all of this were  
11 put together at the request of myself.

12 Q. You assigned these witnesses their  
13 subjects for their testimony?

14 A. Not personally.

15 Q. Who did?

16 A. What I would do is I would work with  
17 leaders within the organization. Rich Muczinski is  
18 an executive in the Service Corporation that oversees  
19 the Regulatory organization. Joe Buonaiuto is the  
20 chief accounting officer, he oversees the Finance  
21 organization.

22 So I would work with them and say, "You  
23 know, we need somebody to cover this aspect of  
24 testimony, or this aspect of testimony, or to present

1     this content," and they would identify -- we'd work  
2     together, because I know these individuals and I've  
3     worked with them over the years. So jointly with  
4     their executive leadership, I'd make sure that we  
5     have the right people to represent the content.

6             Q.    Did you have any role in the preparation  
7     of those testimonies by other witnesses?

8             A.    I reviewed it as it was being prepared.

9             Q.    Did you meet with these witnesses,  
10    discuss it with them?

11            A.    Yes.

12            Q.    Were there substantive changes made to  
13    any of those testimonies at your direction?

14            A.    I would recommend changes that would  
15    help strengthen the wording, the intent, clarify,  
16    changes like that to make sure that the testimony was  
17    clear, concise, efficient. I was involved -- I mean,  
18    I was involved with the review and input into the  
19    testimony, sure.

20            Q.    So from your answer, am I interpreting  
21    it correctly that your changes were primarily form  
22    and presentation related, but not -- there were not  
23    changes made to substantive content at your  
24    direction?

1           A.    As an example, if Kelly Pearce were to  
2    present a set of analysis, I wouldn't go through his  
3    analysis and say, "Change these numbers." I would  
4    not make substantive changes like that.

5                    My focus was more on how the overall  
6    message of what he was trying to communicate was  
7    captured in words and make sure that it was clear and  
8    concise. But the substance of each witness was  
9    really developed by the witnesses, because it's their  
10   area of expertise.

11           Q.    So the example you're offering for  
12   Dr. Pearce, just to be clear --

13           A.    Yes.

14           Q.    -- it would apply to the other witnesses  
15   as well?

16           A.    It would. Yes, it would.

17           Q.    So you submitted the amended application  
18   in this case to the Ohio -- I'm new, so to the Public  
19   Utilities Commission of Ohio?

20           A.    Uh-huh.

21           Q.    Correct?

22           A.    Yes.

23           Q.    Your cover letter, your signature?

24           A.    Correct.



1 Q. Did you review the amended application  
2 prior to submitting it?

3 A. Yes.

4 Q. Do you have a copy handy?

5 A. I believe I do. Should be --

6 MR. NOURSE: Of the letter or the --

7 THE WITNESS: Right here. I have the  
8 letter right here.

9 MR. BZDOK: The application.

10 THE WITNESS: Yes. I believe --

11 BY MR. BZDOK:

12 Q. I'm glad you have the letter. We'll  
13 talk about that, too.

14 A. Yeah. I have the application here.

15 Q. I'm interested in Page 1 of the  
16 application -- the amended application. Right at the  
17 beginning, it says that AEP Ohio submits this amended  
18 application requesting the Commission's approval of  
19 the company's proposal to enter into a new affiliate  
20 power purchase agreement between the company and  
21 AEPGR through which the company would purchase the  
22 output of specific generating units owned by AEPGR.  
23 Is that an accurate paraphrase?

24 A. It is.

1           Q.    The -- so just for purposes of maybe  
2    efficiency, if I call this the -- the PPA reference  
3    there as just the affiliate PPA, you'll know what I'm  
4    talking about?

5           A.    Yes.

6           Q.    Is there some other terminology you'd  
7    prefer that I use?

8           A.    Are you limiting the units included in  
9    that term to only those owned by Generation  
10   Resources, or are you also including those that are  
11   in the OVEC component as well which combined make up  
12   the total PPA requested?

13          Q.    For purposes of that question, in terms  
14   of what do we call this, I'd propose that we call the  
15   proposal to include the OVEC resources and the AEPGR  
16   resources listed on Page 12 of your direct.

17          A.    Uh-huh.

18          Q.    We'd call that the affiliate PPA.

19          A.    That's fine. That's clear.

20          Q.    Okay. As to the -- now, in the -- you  
21   were a witness in the --

22          A.    ESP II case.

23          Q.    Yeah. I'm looking at 13-2385-EL-SSO and  
24   13-2386-EL-AAM.

1           A.    Yes.

2           MR. NOURSE:   ESP III.

3           THE WITNESS:   That's ESP III.   Thank  
4   you.

5   BY MR. BZDOK:

6           Q.    And that's your understanding --

7           A.    Yeah.

8           Q.    -- that that's what we're going to call  
9   that case?

10          A.    Yes.

11          Q.    In the ESP III case, you took the  
12   position in your deposition and hearing testimony  
13   that -- and I'm asking you these questions based on  
14   your understanding, your testimony, your role in the  
15   company. I'm not asking you for -- to give any  
16   binding legal opinions.

17          A.    Okay.

18          Q.    But you took the position that the --  
19   that the OVEC PPA -- strike that. Let me start over.

20                 Do you have an understanding as the  
21   president of the company and the submitter of this  
22   application that AEP Ohio needs PUC approval to enter  
23   into the affiliate PPA?

24          A.    No. I don't believe that's correct.

1 AEP Ohio can enter into an affiliated PPA -- this is  
2 my understanding, I'm interpreting what counsel has  
3 explained to me -- that AEP Ohio can enter into an  
4 affiliate PPA. It has done so under our market rate  
5 authority with the FERC, and that FERC jurisdiction  
6 applies to those PPAs between AEP Ohio and an  
7 affiliated company like OVEC or AEP Generation  
8 Resources.

9 What we are asking the Commission to  
10 approve is the retail effect of entering those  
11 contracts, and to also approve the prudence for --  
12 and in this case I'll separate what I asked you  
13 before, talking about the AEP Gen Resources PPA  
14 specifically, because we've -- we have an affiliated  
15 contract in place with OVEC.

16 Q. That's where I got hung up a minute ago.

17 A. Right. So, yeah, we already have that  
18 signed, approved, in place.

19 In the ESP III case, we were asking the  
20 Commission for approval to essentially effect the  
21 market purchases, the revenue treatment, and all of  
22 that for that OVEC component through the PPA rider.  
23 We were asking them to approve us allowing retail  
24 recovery of passing through credits to customers or

1 passing through costs to customers based on the  
2 effect of that rider being in place.

3 In this case, what we're asking for is  
4 an upfront prudence approval for AEP Ohio to enter  
5 into a new PPA with AEP Generation Resources, and to  
6 have the same treatment under that PPA of the  
7 revenues and costs as we did in the ESP III. Does  
8 that make sense?

9 Q. I understand your answer.

10 A. Okay. Good.

11 Q. But I want to follow up on it.

12 A. Okay.

13 Q. If an upfront prudence approval --

14 A. Uh-huh.

15 Q. -- from the PUC is not required in your  
16 understanding, why are you asking them for it?

17 A. Because we want to ensure that the  
18 retail effect, which is how revenues and costs would  
19 pass through the PPA rider, will be approved. It  
20 goes part and parcel to the establishment of the  
21 affiliated PPA with Gen Resources. AEP Ohio would  
22 not otherwise enter into the affiliated PPA with AEP  
23 Gen Resources if the Commission were not to support  
24 the retail treatment of that PPA through the PPA

1 rider.

2 Q. I understand your position about the  
3 retail treatment of the rider.

4 A. Uh-huh.

5 Q. Why in your understanding do you need  
6 the PUC to say the PPA itself is prudent?

7 A. I believe that the prudence of that  
8 contract would directly tie to their approval of the  
9 retail treatment of that PPA rider. And if the  
10 Commission were to say that's a good idea for AEP  
11 Ohio to have an affiliated PPA for these units and  
12 for the benefits that we're proposing, then we are  
13 also asking them to approve us then getting -- having  
14 the retail effect of that, which is passing through  
15 credits, passing through costs as a result of being  
16 in that affiliated PPA. So I believe they go hand in  
17 hand.

18 Q. Hypothetical --

19 A. Uh-huh.

20 Q. -- the PUC says, "We're going to approve  
21 the retail treatment for some shorter period of time  
22 somehow tied to your ESP or your next ESP, but we're  
23 not going to approve -- we're not going to give you a  
24 statement that we think this is a prudent thing to do

1 for the lifetime of these units," then what do you  
2 do?

3 A. Well, in that circumstance I would need  
4 to review that change of terms with the other  
5 contract party, which is AEP Gen Resources, and I  
6 would need to consider whether that's something that  
7 I would be willing to take the risk or not take the  
8 risk independently.

9 So we would have to evaluate whether we  
10 would want to proceed under that modified term, but  
11 it's something that would have to be done jointly  
12 between the two parties involved in that contract,  
13 which is both myself, AEP Ohio -- through AEP Ohio,  
14 and the AEP Gen Resources organization.

15 Q. That would be your call on behalf of AEP  
16 Ohio as the president, right?

17 A. It would.

18 Q. What kind of risks would you be  
19 considering in that hypothetical scenario?

20 A. Well, the risks would be of the  
21 performance of that -- all of the performance of that  
22 PPA would then fall solely on AEP Ohio, and none of  
23 the benefits would be able to flow through to  
24 customers. So we would have to evaluate whether that

1 shorter term made sense or not. I mean, we'd have to  
2 evaluate that.

3 I mean, we may have to look at the total  
4 term of that contract and change the term of the  
5 contract as an alternative. We would have to  
6 evaluate different things if the Commission were to  
7 have a different perspective on the retail recovery  
8 time line.

9 Q. If you get everything you're asking for  
10 in this case, all of those same risks you referred to  
11 fall on the customers, right?

12 A. All of the benefits fall on the  
13 customers as well as some of the risks, as well.

14 Q. Which risks would not?

15 A. Those that AEP Ohio would maintain,  
16 which the retail recovery of those costs is a risk  
17 that AEP Ohio maintains. We still have to get  
18 prudence review of the Commission to collect those  
19 costs. So if down the road an investment is made and  
20 the Commission doesn't find that investment to be  
21 prudent or that AEP Ohio's role in overseeing those  
22 investments -- because AEP Ohio would have a role in  
23 overseeing those investments -- wasn't prudently  
24 administered, they could deny the recovery of those



1 costs.

2 So the Commission has all the rights to  
3 review, audit, and allow the recovery of costs  
4 associated with the PPA. Those are risks that AEP  
5 Ohio would maintain.

6 Q. There were a couple threads in your  
7 answer, and I want to follow up on both of them. One  
8 of the threads was that AEP would still be  
9 responsible for administering the retail aspects of  
10 the PPA. Do I have that right?

11 A. AEP Ohio is the organization that would  
12 be responsible for administering the -- with the  
13 Commission the retail aspects of the PPA rider,  
14 correct.

15 Q. Now, in the ESP III case, you were asked  
16 to elaborate on that -- what you meant by that. Do  
17 you recall testifying about that same issue in ESP  
18 III?

19 A. I do.

20 Q. And your answer in that case concerned  
21 essentially the allocation of retail impacts among  
22 the various customers and customer classes of AEP  
23 Ohio. Do you recall that?

24 A. I do.

1           Q.    Are there any other risks or  
2           responsibilities relative to the administration of  
3           the PPA that you are referring to in your testimony  
4           today besides --

5           A.    Yes.  In addition, I'm referring to a  
6           role -- again, a decision-making role around what  
7           investments are made in the PPA units.  I'd have a  
8           voice in that through OVEC -- through the OVEC board,  
9           and I would have a role in that through the operating  
10          committee that we proposed to put in place for these  
11          resources -- these generating resources between AEP  
12          Gen Resources and AEP Ohio.

13                So I would have an administrative role  
14          overseeing recommended operational decisions around  
15          these units, because I would be then in turn  
16          representing those decisions to the PUCO and asking  
17          for allowed recovery of investments that were made  
18          through that PPA.  I would have actually a role in  
19          that process with Gen Resources.

20          Q.    Your role in that process is a seat at  
21          the table --

22          A.    That's right.

23          Q.    -- for the AEPGR units, correct?

24          A.    That's correct.

1 Q. And --

2 A. And a seat on the board for the OVEC  
3 operation.

4 Q. Now, are you back on that board now?

5 A. It's being proposed that I get back on  
6 that board, and so that -- a letter has gone out to  
7 the parties, but I believe that the board action  
8 takes place at the end of the year. So I would be  
9 back on that board at that time.

10 Q. Both as to the OVEC board and as to this  
11 AEPGR oversight committee --

12 A. Uh-huh.

13 Q. -- your voting interest is a minority  
14 voting interest, correct?

15 A. In OVEC it is a minority voting  
16 interest. AEP Ohio has rights to just under 20  
17 percent of the OVEC output.

18 In the -- in the Gen Resources it would  
19 be -- I wouldn't characterize it as a minority voting  
20 interest, I would characterize it as a 50/50 and a  
21 partnership between AEP Ohio and AEP Gen Resources.  
22 We would both need to be in agreement on a strategy  
23 to move forward with a significant investment or  
24 significant operational change.

1           Q.    Now, you'd be one person out of three on  
2   that committee, correct?

3           A.    Yes.

4           Q.    And who are the other two?

5           A.    If I can refer to my testimony, I'll  
6   make sure I specify it accurately.

7           Q.    Any time you want to refer to anything,  
8   you please go ahead and just let me know what you're  
9   referring to.

10          A.    I will. I'm looking for -- I'm looking  
11   for where that operating -- it's referenced on  
12   Page 28, but there's another reference to it.

13               MR. MICHAEL: While he's looking, can we  
14   go off the record for a second, Steve?

15               MR. NOURSE: Sure.

16               (Discussion held off the record.)

17               THE WITNESS: So the other two on the  
18   committee will be a representative from AEP Service  
19   Corporation that's going to operate primarily in the  
20   role of the dispatch and scheduling of the AEGR  
21   units; and then the third person would be a  
22   representative from the seller, from AEP Gen  
23   Resources, and that person would be responsible for  
24   operating the units, as well as the fuel contract

1 management.

2 BY MR. BZDOK:

3 Q. So I've sort of slid your way and asked  
4 the court reporter also to mark Vegas Deposition  
5 Exhibits 1 and 2. Can you take a look at those?

6 MR. NOURSE: Do you have additional  
7 copies?

8 MR. BZDOK: Yeah. Yours are here.

9 MR. NOURSE: Thanks.

10 MR. DARR: For the folks on the phone,  
11 can you describe this?

12 MR. BZDOK: Yeah. I apologize. For  
13 folks on the phone, we're looking at Exhibit KDP-1  
14 from the original testimony filing and Exhibit KDP-1  
15 from the amended filing respectively.

16 BY MR. BZDOK:

17 Q. So my first couple questions are just:  
18 You're familiar with this document?

19 A. Yes.

20 Q. Just to clarify, you're familiar with  
21 both these documents, correct?

22 A. Yes.

23 Q. You reviewed them in your process of  
24 reviewing and the various witnesses who filed

1 testimony and exhibits in this case?

2 A. Yes.

3 Q. And you were involved in negotiation of  
4 the terms represented in each of these term sheets?

5 A. That's correct.

6 Q. Okay. My -- I guess my interest in --  
7 on this particular line of questions has to do with  
8 the heading "Operating Committee" on the first page  
9 of each. So just to streamline this a little bit, I  
10 read the language of the Operating Committee term to  
11 be such that Ohio Power can be outvoted on unit  
12 decisions -- PPA unit decisions by the Service  
13 Corporation and the seller. Do you agree with that  
14 or do you disagree with that?

15 A. I agree with that. In the case of a tie  
16 in current terms of opposing votes, the Service  
17 Corporation can vote to break that tie and could vote  
18 either way, that's correct.

19 Q. And in terms of decisions about, say,  
20 capital expenditures, this agreement provides AEPGR  
21 with a return on an equity for any capital  
22 expenditures, correct?

23 A. That's correct.

24 Q. And those costs are borne by the

1 customers of AEP Ohio through this mechanism,  
2 correct?

3 A. That's correct.

4 Q. So there is certainly the potential for  
5 a divergence of interest on this committee for  
6 capital expenditure-related decisions. Would you  
7 agree?

8 A. I don't agree with that, because the  
9 operation of this agreement, if it serves only one of  
10 the parties and hurts the other party, is not --  
11 would not be considered a successful agreement or  
12 outcome for AEP overall. Both companies are  
13 affiliates of the same company, and so any decisions  
14 that would hurt one at the cost of the other or  
15 benefit one at the cost of the other would not  
16 benefit the organization overall.

17 So I think our interest would actually  
18 be aligned in successfully operating and executing  
19 this agreement in a way that benefits customers so  
20 that there wouldn't be risks of disallowance of  
21 investments and allow for prudent operations of the  
22 units. I find it unlikely that there would be  
23 circumstances where one entity would do something  
24 that would hurt the other entity or that would be at

1 significant odds with the other entity, because it  
2 would serve neither entity in that case -- wouldn't  
3 serve the combined entity.

4 That's the beauty of this construct  
5 being within the confines of AEP is that we  
6 understand these units, we understand the operations  
7 of it, and the benefits and the risks all stay within  
8 AEP. So that accountability remains within AEP, not  
9 between some unknown third party out there that could  
10 have completely different interests than AEP Ohio.

11 Q. If that's the case, why have it written  
12 in the agreement that significant expenditures could  
13 be made on split decisions?

14 A. You have to have a decision-making  
15 framework established. So you can't have a  
16 decision-making framework that leads to impasse. So  
17 you have to have some kind of a framework that  
18 represents a reasonable approach for evaluating,  
19 reviewing, and making decisions around investments.

20 So I think this operating committee is  
21 structured to allow for smooth and effective  
22 operations and decision making to occur. I think  
23 that's why the structure is proposed as it is.

24 Q. What if major capital expenditures will



1     only be -- if you're confident that major capital  
2     expenditures will only be made if it's in the  
3     interest of both AEP Generation Resources and AEP  
4     Ohio and not otherwise, why not require the mutual  
5     assent of both entities to move forward on something  
6     like that?

7             A.     Again, the structure was put in place to  
8     allow for -- allow for those operational decisions to  
9     be made and not to hang up important decisions. So  
10    if there is a disagreement and a decision has to be  
11    made, then the structure allows for that.

12            It's not put in place with any  
13    anticipation of issues or expectation of conflict  
14    around that. It's put in place with the purpose of  
15    making sure that the units can operate safely,  
16    effectively, make investments that are necessary, but  
17    there's not a conflict of interest inherent with the  
18    structure of how the operating committee is made.

19            A relevant example could be the board of  
20    an organization has to have a mechanism to approve  
21    decisions. All members of the board are looking out  
22    for the fiduciary interest of the company, its  
23    shareholders, its organization, its employees, yet  
24    decisions could come to a point where somebody has to

1 make a decision. And if you have a tie and you can't  
2 make a decision, then you would impede the operations  
3 of an organization. You always need to have a  
4 structure that allows for that.

5 Q. That's your example of the board of a  
6 single organization, correct?

7 A. Sure.

8 Q. Here we're talking about a buyer who's  
9 paying and a seller who's collecting, right?

10 A. Uh-huh. Yes.

11 Q. You'd agree that's a different type of a  
12 situation?

13 A. Except for the fact that both those  
14 organizations are inside the same company; so it's  
15 actually very similar, it's a business transaction  
16 between entities inside of the same company. So the  
17 interests of the customers of that company,  
18 stakeholders of that company are always being kept in  
19 mind as these decisions are made.

20 Q. Let me switch topics now. No, actually  
21 give me a second. When we started on this subject,  
22 you had indicated that there were two types of risks  
23 that AEP Ohio would face in the future if it didn't  
24 have a -- if it had a -- if it had approval of retail

1 treatment of the rider for something less than the  
2 life of the agreement. One of them related to  
3 administration of the agreement by AEP Ohio, and then  
4 we talked about a few different subjects.

5 Are there any other topics relative to  
6 the administration of the agreement by AEP Ohio that  
7 we haven't touched on?

8 A. No. I think we've covered the  
9 decision-making administration, the representation to  
10 the Public Utility Commission for retail recovery and  
11 treatment. So I believe we've covered the -- as far  
12 as I can think of right now, we've covered all the  
13 areas of that administration risk.

14 Q. You also mentioned that a risk that AEP  
15 Ohio would bear is the potential that the PUC may in  
16 the future disallow recovery of costs.

17 A. Uh-huh.

18 Q. Can you elaborate on that?

19 A. So in the -- if we take the hypothetical  
20 that the Commission approves the -- and supports the  
21 entry of this affiliated PPA for the term, then  
22 during the execution of that contract the Commission  
23 will have regular oversight into the costs incurred,  
24 decisions made, and the operations.

1           If the PUCO believes that AEP Ohio,  
2           through their voting interest on this operating  
3           committee, did not represent the best interest of  
4           customers, there is a risk that the Commission could  
5           disallow recovery of costs that were paid to AEP Gen  
6           Resources under the execution of that contract.

7           Q.    And the venue in which that -- a  
8           decision like that might be made would be a future  
9           application for approval of --

10          A.    It would be in a regularly scheduled  
11          auditing review that the Commission would have for  
12          the operation of this contract, very similar to what  
13          the Commission does in the review and audit of fuel  
14          contracts today, or historically before when they  
15          used to have oversight for fuel contracts. They  
16          would have annual review of those contracts and be  
17          able to opine on the prudence of them and the  
18          execution of them. It would be very similar in terms  
19          of construct and timing and rights to information.

20          Q.    Are we still talking about the  
21          hypothetical scenario, or are you telling me how this  
22          agreement as the company's proposed is going to work  
23          relative to the Commission's audits and review  
24          rights?

1           A.     That last part of the answer was  
2     describing how the review and audit process could  
3     work, and comparing it to a process the Commission  
4     has used for years in looking at fuel clauses in the  
5     past. And I'm comparing and saying it's similar in  
6     terms of their rights and oversight and timing and  
7     access to information that they've had in those  
8     circumstances, what we're proposing in this PPA  
9     contract is similar to that right.

10          Q.     So stepping away from the hypothetical  
11     scenario now.

12          A.     Yes.

13          Q.     As the company is -- as the company is  
14     making this proposal in this case, do I understand  
15     correctly that your testimony is AEP Ohio is  
16     proposing a regularly scheduled review and audit in  
17     which costs incurred, decisions made, and operations  
18     are reviewed by the Commission -- the PUC?

19          A.     That's correct.

20          Q.     And am I also understanding correctly  
21     that part of that process, as AEP Ohio is proposing  
22     it, would include the PUC's authority to disapprove  
23     costs based on the outcome of that process?

24          A.     They could disapprove the recovery of

1       those costs as an outcome of that process, yes.

2               Q.     Where does it say that in the testimony  
3       or exhibits in this case?

4               A.     I believe it's in Witness Allen's  
5       testimony.  If you look at Page 10 of Witness Allen's  
6       testimony, beginning on Line 3, the question asks  
7       what oversight of the rider would the Commission  
8       have.

9                       And beginning with Line 3, Witness Allen  
10       explains the ability to review and approve the rates  
11       through this rider similar to how they have done in  
12       the Fuel Adjustment Clause, which includes the  
13       ability to audit the accuracy of the costs and  
14       revenues, as well as a prudence review of the actions  
15       and the decisions undertaken by AEP Ohio or its  
16       agents, and the Commission would have certain  
17       oversight rights with regard to the PPAs.

18                      It's that that I'm referring to, it's  
19       that review for accuracy, prudence of decisions of  
20       operations that the Commission would have.

21               Q.     My question was about disapproval of  
22       costs.  Where does it say disapproval of costs  
23       anywhere in this filing?

24               A.     That is implied with the ability to

1 approve the costs and the revenues collected under  
2 this rider, that's implied.

3 Q. So it's implied in Mr. Allen's  
4 testimony?

5 A. It is.

6 Q. Okay.

7 A. It's explicitly implied.

8 Q. It's explicitly implied?

9 A. Or implicitly implied. It's as  
10 explicitly implied as it can be, that is what is  
11 meant.

12 Q. It could just be stated, right, that  
13 would be more explicit?

14 A. It could be. That is what is meant.

15 Q. Is the Commission's authority to  
16 disapprove costs embodied explicitly or implicitly in  
17 either of the term sheets, Exhibits 1 or 2? Take  
18 your time.

19 A. No, it is not. Term sheets --  
20 Exhibits 1 and 2 that are the Purchase Power and Sale  
21 Agreements are a summary of the major terms between  
22 buyer and seller, and does not refer to rights that  
23 AEP Ohio is describing in its testimony on the retail  
24 administration of the -- this contract.

1           So this contract wouldn't be the venue  
2     to describe AEP Ohio's administration with the PUCO.  
3     This is really the terms and conditions between buyer  
4     and seller. Seller does not have an -- does not have  
5     a role or a seat at the PUCO in representing the  
6     retail interests of this rider, only AEP Ohio does.

7           Q.    Is there any other exhibit or discovery  
8     response you can call to mind in this case that  
9     explicitly or implicitly identifies the PUCO's  
10    authority to disapprove costs under the company's  
11    proposal?

12          A.    I believe there is. I will find it. In  
13    my testimony on Page 28, beginning on Line 1, where I  
14    state that, "This Committee will provide oversight  
15    over all major decisions and operation of the PPA  
16    Units." "This Committee" is referring to the  
17    operating committee. "Subsequently, AEP Ohio can  
18    provide, on a periodic basis as determined by the  
19    Commission, summaries and/or details of the  
20    Committee's actions. Furthermore, Exhibit KDP-1,  
21    page 4 provides for the Books, Records and Audit  
22    Rights under the Agreement. The results of such  
23    audits would satisfy the Commission's review for  
24    approval of the costs and revenues passed through the



1 PPA Rider."

2 That implies approval or disapproval.

3 Q. So, again, looking at Exhibit KDP-1,  
4 Page 4, Books, Records and Audit Rights --

5 A. Uh-huh.

6 Q. -- there's nothing in the term sheet  
7 that supports that interpretation, is there?

8 A. Yes. This term sheet explains what  
9 access buyer has to that information, which then my  
10 testimony and Witness Allen's testimony explains  
11 exposure and provision of that information to the  
12 Commission for their decision making.

13 So the terms in the contract are between  
14 me and the buyer, AEP Ohio and the buyer. So if I  
15 have rights to that information through the Books,  
16 Records, and Audit Rights, and then I in turn explain  
17 how we will provide that to the PUCO for their  
18 ability to audit, review, and make approval decisions  
19 or disapproval decisions, it connects very well the  
20 two concepts.

21 Q. So I think I would agree with you if the  
22 seller was providing this information to AEP Ohio to  
23 be part of the books and records of AEP Ohio, but  
24 that's not what's contemplated in the term sheet, is

1     it? The term sheet is a right to go to the seller  
2     and examine, is it not?

3             A. As I read it on the fourth line of the  
4     contract on KDP-1, it says seller shall make, or  
5     cause to be made, all computations related to the PPA  
6     units and all allocations of costs and expenses to  
7     these units.

8             So they shall make and cause to be made  
9     all of those cost anal- -- you know, information, and  
10    then buyer has the right to examine and to verify the  
11    accuracy of those statements, charges or  
12    computations. And if any examination by AEP Ohio  
13    reveals any problems, inaccuracies, the necessary  
14    adjustments will be made.

15            And then so my access to all that  
16    information is then in turn explicitly -- provided, I  
17    think, explicitly in this case to the Commission; in  
18    my testimony, can provide, on a periodic basis as  
19    determined, summaries or details of my actions, as  
20    well as the Books and Records and Audits Rights under  
21    the agreement. So I'm explicitly saying that I'm  
22    going to provide the information that is created here  
23    that the seller has to create per the terms to the  
24    Commission for their review and audit at the

1 Commission's request.

2 Q. Has someone advised you that under the  
3 terms in your term sheet that you're going to have  
4 possession and custody of these records in order to  
5 do that?

6 A. I'm not interpreting possession or  
7 custody. I'm -- I think that's a legal term; so I'm  
8 not interpreting that.

9 Q. Okay. Let me -- and I'm not asking you  
10 for legal opinions.

11 A. Yeah.

12 Q. You were involved in the negotiation of  
13 this term sheet, correct?

14 A. Correct. So the intent is that I would  
15 have access to all of those records and information  
16 necessary to ensure the prudent operations of the  
17 unit, which includes the costs, how those costs were  
18 calculated, where those costs were sourced from, the  
19 contracts that those costs were flowed through. All  
20 of that information that relates to the operation and  
21 execution of this contract, I as the buyer have  
22 explicit rights to that information.

23 Since I have rights to that information  
24 and I'm making a commitment to make that information

1       available to the Commission, then in turn the  
2       Commission has rights to review that information as  
3       well in their prudence review of the execution of  
4       this contract.

5               Q.    Okay.  So Sentence 1 of Books, Records  
6       and Audit Rights is that seller keeps the  
7       information, right?

8               A.    Uh-huh.  Hold on.  They're the operator  
9       of the unit; so they will keep and be responsible for  
10      making sure that those records are maintained --  
11      produced and maintained.

12              Q.    Second sentence says that they have to  
13      make them available to you, right?

14              A.    Yes.  That's correct.

15              Q.    Third sentence says you have the right  
16      to examine them, right?

17              A.    Correct.

18              Q.    And then fourth sentence and beyond has  
19      to deal with --

20              A.    Any issues.

21              Q.    -- if you have a problem, how do you  
22      handle it, right?

23              A.    That's correct.

24              Q.    So how does your -- in your

1 understanding, how does your right to examine records  
2 at AEPGR translate into audit rights to the  
3 Commission of those records at AEPGR?

4 MR. NOURSE: Counsel, I'm just going to  
5 object. I think you're just being argumentative at  
6 this point. He's already explained it, and you're  
7 saying you're not asking for a legal interpretation,  
8 but you're badgering about what has already been  
9 explained in testimony -- in the multiple pieces of  
10 testimony, in the term sheet, in the application, and  
11 you haven't even looked at the contract. So he's  
12 already given you his full understanding of this  
13 issue.

14 MR. BZDOK: I'm not badgering him, I'm  
15 being very nice.

16 MR. NOURSE: Yeah. Well, you can go  
17 ahead and answer, but that's my objection.

18 THE WITNESS: I believe that what I am  
19 proposing in testimony and what Witness Allen is  
20 proposing in testimony, which explains that we will  
21 provide, as asked, summaries or details of the  
22 committee's actions. Those actions include reviewing  
23 the detailed books of record for the operation of  
24 these units, and that we will in turn allow the

1 Commission through their audits to see the decisions  
2 of these committees, what costs were approved, what  
3 investments and decisions were made, and allow then  
4 the Commission to make a decision on whether those  
5 costs and investments were prudent.

6 I think you're getting to the intent of  
7 what the audit and review capability is, or the  
8 reality of it. And I believe that what I'm  
9 representing -- what I am representing is that the  
10 Commission will have the right to review and audit  
11 costs incurred in the execution of this contract.  
12 And if there is a prudence decision by the  
13 Commission, that our -- AEP Ohio's operation was  
14 imprudent, they have the right to disallow the retail  
15 recovery of those costs.

16 They do not have a right to disallow the  
17 passing of payments to AEPGR from AEP Ohio. That is  
18 clearly defined inside the contract as an obligation  
19 between buyer and seller. But the Commission does  
20 have a right to effect the retail recovery of those  
21 costs from customers, and that is what I'm  
22 representing with my testimony and is what Bill Allen  
23 is representing with his testimony. It is a risk  
24 incurred and maintained by AEP Ohio.

1 BY MR. BZDOK:

2 Q. Are you proposing some kind of periodic  
3 or annual proceeding in which this would be done?

4 A. What we're proposing is that the  
5 Commission can set whatever review period would be  
6 reasonable in their eyes to satisfy their audit  
7 requirements. That's what my witness proposes is  
8 that the Commission, at their discretion I believe is  
9 the term that I use, on a periodic basis as  
10 determined by the Commission.

11 Q. Are you proposing that that would be a  
12 process that would include a hearing?

13 A. I'm not proposing that. I'm just  
14 proposing an audit process that the Commission can  
15 determine would be appropriate on their part. That's  
16 all we're proposing.

17 Q. In the ESP III case, you testified that  
18 as to the OVEC unit costs those were FERC  
19 jurisdictional, correct?

20 A. They are.

21 Q. And the only avenue for the PUC, if it  
22 found those costs to be imprudent, would be to file a  
23 complaint with FERC, correct?

24 MR. NOURSE: I object to that

1       characterization. Do you have testimony you want to  
2       put in front of him?

3               MR. BZDOK: At this point I'm asking if  
4       that's consistent with his memory, but we can  
5       certainly refresh it if he doesn't remember.

6               THE WITNESS: Yeah. I would like -- I  
7       would like to review what I said --

8               MR. BZDOK: Okay.

9               THE WITNESS: -- in the ESP III case.  
10      That was a while ago. Can we go off the record?

11              (Discussion held off the record.)

12      BY MR. BZDOK:

13              Q. So just to refresh your memory, I'm  
14      looking at Pages 33 and 34 of the Volume I of the  
15      hearing transcript from the ESP III case. You were  
16      under cross-examination by the Ohio Consumers'  
17      Counsel.

18              A. It is Pages 32 and 33 that I'm showing,  
19      or 33 and 34?

20              Q. 33 and 34.

21              A. The ones you're referring to, okay.

22              Q. So just take a minute and see if that  
23      refreshes your memory.

24              A. Okay.



1 (Witness reviewing transcript.)

2 A. I'm familiar with this testimony, the  
3 questions and answers.

4 MR. BZDOK: Can you read back the last  
5 question?

6 (Record read back as requested.)

7 BY MR. BZDOK:

8 Q. That's the question. And I'm just  
9 clarifying, we're talking only about the OVEC units  
10 now?

11 MR. NOURSE: Object. Are you asking for  
12 a remedy for wholesale rates or retail rates? What  
13 does your question relate to?

14 BY MR. BZDOK:

15 Q. My question was the Commission's  
16 approval of the retail costs that are being passed  
17 down through this proposal relative to the OVEC  
18 units.

19 A. I believe the testimony in ESP III that  
20 you're referencing had a narrower view of the  
21 Commission's rights to prudence, this allowance of  
22 those costs, than the testimony presented in the  
23 current proceeding that the company is offering  
24 suggesting broader rights for the Commission to act

1 on with regards to prudence of OVEC and affiliated  
2 generation units.

3 Q. Why is that? What changed it?

4 A. I believe the intention did not change,  
5 but the language and the wording that was used in  
6 testimony in ESP III had a narrower interpretation of  
7 that. And the company, AEP Ohio, has always intended  
8 and continues to intend that the Commission does and  
9 should have rights to prudence reviews of investment  
10 decisions as it effects the retail recovery of those  
11 decisions.

12 The company, AEP Ohio, wants the  
13 Commission to be comfortable with their rights of  
14 prudence, and our current proposal intends to make  
15 that more clear, more explicit.

16 Q. Is this a clarification or a change of  
17 position relative to the OVEC units?

18 A. I think it's a nuance more than  
19 anything. We believe that they had rights of the  
20 retail recovery in ESP III, but it really wasn't  
21 worded in a way that made that very clear.

22 Q. As you are contemplating it in your  
23 proposal in this case, if costs related to PPA units  
24 were passed onto customers via the mechanism you've

1 proposed and then subsequently found through the  
2 audit process you're proposing to be imprudently  
3 incurred, are you proposing that there would be some  
4 mechanism by which the ratepayers would subsequently  
5 be credited for those costs?

6 A. Yes.

7 Q. How would that work?

8 A. It would be the result of an audit that  
9 would look at a period of costs, and those that were  
10 found to be imprudent would be disallowed, and that  
11 would be an adjustment then in the PPA rider. So  
12 either the credits at that point that are flowing  
13 back to customers would be increased to reflect the  
14 change in the net revenue and costs, or any  
15 collection at that time would be decremented to  
16 reflect the change in net revenue and costs. So it  
17 would be affected through the PPA rider.

18 Q. And just to be crystal clear, your --  
19 you are not proposing that any of this would be done  
20 via a true up or reconciliation type of a proceeding,  
21 correct?

22 A. I'm describing it in the context of the  
23 audit and the review of the audit, which then would  
24 influence the rider rate process. The PPA rider

1 would be adjusted at some frequency, we've proposed  
2 annually. But in that annual change in rates based  
3 on the operation of the contract, the credit or the  
4 deficit would then flow through that, the credit or  
5 the debit would flow through that rider.

6 Q. Would you be opposed to handle -- to  
7 providing for prudence review via some type of true  
8 up or reconciliation proceeding involving a hearing?

9 A. I would have to consider that offline  
10 with the parties.

11 Q. By "the parties," you mean AEPGR?

12 A. AEPGR, AEP Ohio, AEP Service Corp., yes.

13 Q. Under the contract as you understand it,  
14 or under the terms as you understand them, a finding  
15 of a lack of prudence as part of this Commission  
16 process, the costs associated with such a finding  
17 would be borne by AEP Ohio in terms of diminished  
18 recovery from customers, correct?

19 A. That's correct.

20 Q. And no portion of those costs would be  
21 borne by AEPGR via reduced payment obligations from  
22 AEP Ohio, correct?

23 A. Correct.

24 Q. And via the proceedings that you're

1 talking about in this case, the PUC would have no  
2 decisional authority over capital improvement  
3 projects at any of these units, correct?

4 A. Incorrect.

5 Q. How am I incorrect? Why am I wrong?

6 A. Because we have proposed and described a  
7 process where significant capital improvements that  
8 are being contemplated at these units would be  
9 brought to the Commission for consideration in  
10 advance.

11 Q. And can you identify for me where that  
12 proposal is made?

13 A. Yes. Yes. It's in discovery actually.

14 Q. You just made a statement, "It's in  
15 discovery actually." Did you intend for that to be  
16 an on-the-record statement?

17 A. Yes. I believe it's in discovery. Yes,  
18 it's on the record.

19 MR. NOURSE: It's fine. If you don't  
20 recall, just say you don't recall.

21 THE WITNESS: I don't recall where in  
22 testimony it is, but I can certainly answer the  
23 question in this deposition, my understanding of it,  
24 if that's adequate.

1 BY MR. BZDOK:

2 Q. Please.

3 A. So my understanding is that we would  
4 bring investment decisions of significance. I don't  
5 know what that break point is. We'd have to  
6 determine what that is and make a recommendation, but  
7 of multimillion dollar investments of significance,  
8 more than likely over 10 million, perhaps over 50. I  
9 don't have a precise number at this point, but large  
10 significant capital investments would be brought to  
11 the Commission for their prudence and review prior to  
12 being made so that their agreement that that is a  
13 prudent decision would be done before capital  
14 investments are made. I believe that is described in  
15 testimony somewhere.

16 Q. Testimony or in discovery?

17 A. I believe in -- well, either in  
18 testimony or in discovery. I'm looking in discovery  
19 now, but I'm not finding it right now.

20 Q. Are you comfortable moving on, or do you  
21 want to keep looking?

22 A. I'm comfortable moving on.

23 Q. Okay. If you have a light bulb moment  
24 at some other point today and you remember, can you

1 just stop us and let me know?

2 A. I will.

3 Q. Okay. Just a couple -- let me switch  
4 topics. Several related kind of yes-or-no questions.

5 AEP Ohio would sell all the energy,  
6 capacity, and ancillary services obtained under the  
7 affiliate PPA into the PJM market, right?

8 A. Correct.

9 Q. AEP Ohio would not be using any of the  
10 energy, capacity, or ancillary services obtained  
11 under the affiliate PPA to provide services to their  
12 own customers, correct?

13 A. Correct.

14 Q. AEP Ohio's nonshopping customers would  
15 continue to receive their energy through an SSO even  
16 if the affiliate PPA and the rider were approved,  
17 correct?

18 A. Correct.

19 Q. Approval of the affiliate PPA and the  
20 PPA rider would not impact the price of the SSO  
21 energy received by nonshopping customers, correct?

22 A. Correct.

23 Q. And your customers are currently free to  
24 shop for their own energy service, correct?

1           A.     Correct.

2           Q.     And approval of the -- the affiliate PPA  
3     or the rider would not change your shopping  
4     customers' rights in any way, would it?

5           A.     It would not.

6           Q.     In your testimony in the -- sorry, in  
7     your deposition in the ESP III case, you testified  
8     that if AEP Ohio determined that it would be  
9     necessary to seek authority for additional PPAs  
10    beyond the OVEC units, your role would be to  
11    essentially propose what those assets should be based  
12    on benefit to your customers. Do you recall that?

13          A.     Correct, I do.

14          Q.     In the hearing in those cases, you said  
15    that in that process of determining what assets to  
16    propose, you would be looking out for AEP Ohio's  
17    customers to try to come up with the best combination  
18    of a portfolio that would address risks related to  
19    price volatility and reliability. Do you recall that  
20    testimony?

21          A.     I do.

22          Q.     And in describing -- in responding to my  
23    questions earlier today about how you prepared your  
24    testimony, you described a process of meetings and



1 analysis. Do you recall that?

2 A. I do.

3 Q. Is that the process you undertook to  
4 fulfill the role in ESP III that you said you would  
5 have as we've just described?

6 A. It is.

7 Q. Is there anything else that you did as  
8 part of that function outside of what we've already  
9 discussed?

10 A. No, there is not.

11 Q. And the -- was the ultimate call of what  
12 units to propose for inclusion in the PPA in this  
13 case, was that your call as president of the company?

14 A. Yes.

15 Q. And you indicated that the units you're  
16 proposing are units that were recommended by AEPGR  
17 through the process you've already described, right?

18 A. Correct.

19 Q. Did you consider any other generating  
20 units for inclusion in the PPA besides the ones that  
21 are being proposed?

22 A. I did not.

23 Q. Why not?

24 A. They would not have met the criteria

1       that I put forward in negotiating the units for this  
2       PPA; those criteria being units that will have good  
3       operational reliability, support economic  
4       development, support fuel diversity, and would be at  
5       risk economically in the short-term capacity  
6       markets -- capacity and energy markets of PJM.

7               Q.     How were you able to make that  
8       determination without evaluating any other units?

9               A.     I set forth that criteria to AEP Gen  
10      Resources at the beginning of the negotiation and  
11      working through the process, and they brought back  
12      that recommendation. I reviewed that recommendation  
13      and agreed with that analysis.

14              Q.     Did you ever consider setting forth  
15      those criteria to other potential sellers outside of  
16      AEPGR and see what they could come up with?

17              A.     No.

18              Q.     Why not?

19              A.     Because we wouldn't have had the same  
20      interests, as we've discussed earlier in the  
21      deposition, of having both entities both working for  
22      the best outcome for AEP's customers, nor would we  
23      have operational experience with those units that  
24      could give us the level of comfort that the

1 operational and reliable factors could be represented  
2 to the best of our understanding.

3           Since we have to -- I -- AEP Ohio has to  
4 represent these units and their capabilities, I  
5 wanted to make sure that we had -- those that were  
6 working on this had deep familiarity and I have  
7 comfort with those units.

8           Q.    So from the outset, this always had to  
9 be AEP units or else nothing at all?

10          A.    It was always intended to be AEP units,  
11 yes.

12          Q.    What was the timeframe on which -- the  
13 process of the discussions you've described with  
14 AEPGR in negotiations, what was the timeframe under  
15 which that occurred?

16          A.    Generally speaking, the timeframe was in  
17 the spring and summer of 2014 prior to the  
18 application in October. I don't recall dates.

19          Q.    Were any -- who was involved on the AEP  
20 Ohio side besides yourself in the discussion and  
21 negotiation aspect?

22          A.    Gary Spitznogle, who's the  
23 vice-president of Finance and Regulatory, would have  
24 been involved; Andrea Moore would have been involved.

1           Q.    I think you may have told me already who  
2    she is.

3           A.    Director of Rates.

4           Q.    Anyone else?

5           MR. NOURSE:   Sorry. Did you ask within  
6    AEP Ohio --

7           THE WITNESS:   Yes.

8           MR. NOURSE:   -- or on behalf of?

9           THE WITNESS:   Within. I was answering  
10   within. I don't recall anybody else, no.

11   BY MR. BZDOK:

12           Q.    How about on behalf of AEP Ohio?

13           A.    It would have been a large number of --  
14   there's a deposition -- an interrogatory about what  
15   individuals were involved in that. I don't recall  
16   where that deposition -- that interrogatory is, but  
17   it lists the name of individuals in GR, Service  
18   Corporation, and AEP Ohio that were involved in those  
19   negotiations.

20           MR. NOURSE:   Would you like a reference,  
21   Counsel?

22           MR. BZDOK:   If you're going to give me  
23   one, I'd be happy to take it.

24           MR. NOURSE:   From me or --

1 THE WITNESS: I believe it might have  
2 been a Sierra Club interrogatory.

3 MR. NOURSE: Yeah. Do you have the  
4 discovery electronically?

5 MR. BZDOK: Uh-huh.

6 MR. NOURSE: If you want to look at  
7 Sierra Club 2-14 interrogatory. There's a series of  
8 questions right there.

9 MR. BZDOK: Got it.

10 BY MR. BZDOK:

11 Q. I'm ready to move on.

12 A. I'm ready to move on, too.

13 Q. Okay. Your answers earlier about not  
14 considering or evaluating units other than the ones  
15 that are proposed, is all of that also true of the  
16 time period between the original direct testimony  
17 from October of last year and this amended  
18 application and testimony from May of 2015?

19 A. It is.

20 Q. I'm interested in comparing with you the  
21 two term sheets, the Offers and Scheduling term,  
22 which is on Page 2 of Deposition Exhibits 1 and 2.  
23 So take a minute and look at that to refresh your  
24 memory if you'd like.

1                   My question is: Can you explain for me  
2                   what the -- what this change is about?

3                   (Witness reviewing exhibit.)

4                   A. My understanding that the only change  
5                   between this and that is in the first several words  
6                   where in the more current updated contract it  
7                   specifies that buyer, which is AEP Ohio, or its  
8                   agent, which could be Service Corp. -- AEP Service  
9                   Corp., will dispatch the generation and go on to  
10                  describe that, versus in the first version it  
11                  specifies only AEP Service Corp. doing it on behalf  
12                  of Ohio Power Company, the buyer, shall make the  
13                  offers and do the dispatch.

14                 Q. What was the reason for the change?

15                 A. I'm not sure. It didn't have a meaning  
16                 change to me; so I'm not sure why the wording  
17                 changed.

18                 Q. It didn't have a what change?

19                 A. A meaning change. It didn't  
20                 substantively change the terms of the contract.

21                 Q. You don't recall any discussion of this?

22                 A. No.

23                 Q. Now, the start date on the terms has  
24                 also changed, correct?

1           A.     Correct.

2           Q.     And is that -- is that a result of this  
3 proceeding taking a longer time than originally  
4 anticipated?

5           A.     Yes.

6           Q.     Will the agreement start on October 1st  
7 whether this proceeding is concluded or not?

8           A.     No.

9           Q.     Just to be super clear, when you say  
10 "No," you're saying the agreement will not start on  
11 October 1 if this proceeding is not yet concluded?

12          A.     Correct.

13          Q.     I want to look at Page 7 of your direct  
14 testimony now in this case. And in case I slip, all  
15 of my questions, unless otherwise specified, are by  
16 your amended direct testimony, the one filed in May  
17 of this year, okay?

18          A.     Okay.

19          Q.     May I get one of those also?

20                 MR. NOURSE: Yeah. Help yourself.

21                 MR. BZDOK: Thank you.

22          BY MR. BZDOK:

23          Q.     On Page 7 you're discussing the -- what  
24 you believe to be the benefits of this PPA, correct?

1           A.    Correct.

2           Q.    And among those benefits, you describe a  
3   hedge against market volatility, correct?

4           A.    Correct.

5           Q.    And you make a statement that there may  
6   be reforms in the PJM capacity market, but those  
7   could come too late to keep assets from retiring  
8   prematurely, correct?

9           A.    Correct.

10          Q.    Has -- to your knowledge, has AEPGR  
11   notified PJM of any intent to retire any of the units  
12   listed on Page 12 of your direct testimony?

13          A.    To my knowledge, they have not.

14          Q.    To your knowledge, has the OVEC group  
15   notified PJM of any intent to retire any of the OVEC  
16   units listed on Page 12 of your direct?

17          A.    No, they have not.

18          Q.    If the Commission -- could we go off the  
19   record for a minute?

20                   (Discussion held off the record.)

21   BY MR. BZDOK:

22          Q.    Back on the record, please.

23                   If -- I'm looking at the units on  
24   Page 12 of your direct.  If the PUC does not approve



1 the PPA and rider, would one or more of the Kyger  
2 Creek units have to retire?

3 A. I can't answer that question on behalf  
4 of the OVEC organization; so I don't know if they  
5 would or would not have to retire. That would be a  
6 decision that the OVEC board would have to make.

7 Q. Do you recall testifying about this  
8 subject in your deposition in ESP III?

9 A. Not offhand.

10 Q. Okay. I'm going to hand you my copy of  
11 your deposition, looking at Page 110.

12 A. Okay.

13 Q. Take a minute and refresh your  
14 recollection.

15 (Witness reviewing document.)

16 A. I recall that.

17 Q. So you seem pretty clear in that dep at  
18 that time that the Kyger Creek plant would not have  
19 to close if the PPA rider being proposed in that case  
20 was not approved by the PUC, correct?

21 A. My understanding has changed since this  
22 deposition, and I think I answered too definitively,  
23 because really it's not my decision whether or not  
24 any of these units would close back then nor today.

1 And without the financial long-term stability that  
2 the PPA offers to these units, I don't know and I  
3 cannot say definitively whether they would or would  
4 not close if the PPA rider is not approved.

5 Q. I want to just explore the basis for  
6 your answer there a little bit if I may.

7 A. Sure.

8 Q. Because you had -- there were a couple  
9 different threads in that answer. One thread that I  
10 picked up was, I would paraphrase as, it's not your  
11 decision.

12 A. That is correct.

13 Q. Because AEP Ohio controls 19-and-change  
14 percent of the OVEC units, right?

15 A. Correct.

16 Q. Are you saying you were too definitive  
17 solely because it's not your decision, or are there  
18 other reasons why you feel circumstances have changed  
19 relative to the question of potential closure?

20 A. It's solely because I don't have the  
21 ability to represent closure or nonclosure decisions  
22 for that plant. So that would not have been a fair  
23 representation of my -- my accountability in terms of  
24 this question. There are no other circumstances I'm

1 referring to.

2 Q. Okay. At the time you indicated that  
3 your opinion was that it would not close, what facts  
4 or understanding were you basing that opinion on?

5 A. On the understanding of the terms of the  
6 purchase power agreement that's in place between AEP  
7 Ohio and the OVEC corporation.

8 Q. What do you mean by that?

9 A. That the -- the contract would require  
10 AEP Ohio to continue to pay for its cost share of the  
11 OVEC units regardless of whether the PPA is approved  
12 or not.

13 Q. If that is the case, can you describe  
14 for me what circumstance would lead the other members  
15 or interests in OVEC to close that unit?

16 A. This is just an opinion based on my  
17 understanding of how decisions to operate the plant  
18 are made.

19 Q. Understood.

20 A. And my -- in my opinion, decisions to  
21 maintain the ongoing operations of the plant or to  
22 not maintain it would be based on the long-term  
23 economic viability of the units in the plant.

24 If long-term economics indicated that

1 the plant would continue to lose money or continue to  
2 make money, those factors would influence the owners  
3 making a recommendation to either maintain and  
4 operate the plant or to not and to shut it down. So  
5 I think -- I believe it's primarily economics that  
6 the owners would rely on.

7 Q. Are you talking about economic viability  
8 independent of the existing PPA or economic viability  
9 within that existing PPA?

10 A. Within the existing PPA, because the  
11 existing PPA is how OVEC recovers the costs from its  
12 members through PPAs with the other owners.

13 Q. And can you give me the nutshell of how  
14 that is?

15 A. The nutshell is the -- the units are  
16 operated by -- AEP is the primary operator of those  
17 units, and the investment decisions are brought to  
18 the board, approved or not approved. Operational  
19 expenses and budgets for the plant are brought to the  
20 board, approved or not approved, and the plant is  
21 operated.

22 The costs of operating that plant are  
23 borne by all of the owners in their respective  
24 ownership share, and the revenues generated by that

1 plant by selling its output to either customers or  
2 to -- into the market are then also attributed back  
3 to the owners based on their ownership share. And so  
4 it's the economics that each of the owners would  
5 experience through their own PPAs between their  
6 entities and the OVEC corporation that would reflect  
7 the economics those owners would experience.

8 Q. I could take that back.

9 A. Okay.

10 Q. Are the answers that you've given me  
11 relative to the Kyger Creek plant in terms of closure  
12 or not, depending on the outcome of this case, do  
13 those answers apply the same way to Clifty Creek?

14 A. They do.

15 Q. Do you have any knowledge or  
16 understanding of whether either or both of those OVEC  
17 plants would be sold if the PPA and rider were not  
18 approved in this case?

19 A. I wouldn't have any knowledge of that,  
20 no.

21 Q. Same questions about the AEPGR units on  
22 Page 12 of your direct testimony. Do you have any  
23 opinion about whether if the Commission does not  
24 approve the PPA and rider in this case, that the

1 Cardinal plant would be closed?

2 A. I'm not aware of any plans to close the  
3 Cardinal plant at this point.

4 Q. Irrespective of the outcome of this  
5 case?

6 A. Correct.

7 Q. Do you have any opinion about whether  
8 the Cardinal plant would have to be sold -- or would  
9 be sold if the PPA and rider were not approved in  
10 this case?

11 A. I believe it's likely it would.

12 Q. And why is that?

13 A. Because AEP has communicated its  
14 strategy is to divest itself of volatile, unregulated  
15 assets, which includes the unregulated generation  
16 units that are proposed in this PPA. So that's a  
17 stated strategy from AEP.

18 Q. Just to save some time, are your answers  
19 to those two questions about retirement and sale  
20 relative to Cardinal also the same as to Conesville,  
21 Stuart, and Zimmer?

22 A. They are.

23 Q. What is your knowledge or understanding  
24 about who those plants might be sold to?

1           A.    I don't have any specific knowledge  
2           about who these particular plants might be sold to.  
3           I only have contextual knowledge of who is purchasing  
4           power plants in PJM from investor-owned utilities,  
5           but I have no specific knowledge about who these  
6           plants would be sold to.

7           Q.    Explain your -- what's your contextual  
8           knowledge?

9           A.    Reading the newspaper with regard to the  
10          sale of the Duke Energy Ohio assets that were sold in  
11          the last year.

12          Q.    Sure.  So I'm -- my intent, maybe not  
13          artfully phrased, was who is buying units in PJM  
14          based on your understanding from context?

15          A.    Investment banks and merchant generators  
16          are primarily the entities that I read that are  
17          buying generation in PJM.

18          Q.    Merchant generators from where?

19          A.    From anywhere in the US, from all over.  
20          I've heard of purchases from companies based out of  
21          Texas.  I don't recall specifically the other  
22          location, but from I think anywhere in the US really  
23          it could be.  I'm not aware of any companies in Ohio  
24          that are purchasing plants.

1 Q. Give me just a second.

2 (Pause.)

3 Q. You make a statement on Page 14 of your  
4 testimony, Line 12, you say, "A sale could be to an  
5 out-of-state entity that does not have the same  
6 long-term commitment as AEP to Ohio and the  
7 communities where the PPA Units are located." Do you  
8 see that?

9 A. I do.

10 Q. Are you making a claim about the future  
11 commitment of these potential entities?

12 A. I'm making a claim about historic,  
13 current, and future.

14 Q. What's the basis for your claim about  
15 the future commitment of potential out-of-state  
16 entities that have not been identified?

17 A. It's based on my understanding and  
18 direct observation of investment into the community,  
19 meaning to charitable organizations in the community  
20 made by entities. And those entities are typically  
21 not out-of-state entities, they are those that are in  
22 state and have a vested interest in the state.

23 I serve on seven boards, and I observe  
24 who serves on those boards with me. Those are



1 members from companies in Ohio who have a vested  
2 interest in Ohio.

3 Q. So in terms of future commitment, you're  
4 talking about future commitment to charitable giving  
5 within the communities where the plants are located?

6 A. That would be one thing, yes.

7 Q. Are you talking about something else?

8 A. No. Talking about that.

9 Q. Anything else? Excuse me. Is that what  
10 you're talking about in terms of the future  
11 commitment, or are there other things as well?

12 A. There's also -- I mean, it could be any  
13 economic development benefit. The desire to build  
14 and grow more assets in the state of Ohio, I'm  
15 referring to that.

16 A company that has a headquarters here  
17 and a large presence has more of a vested interest  
18 and benefit for its shareholders or organization to  
19 make those investments in the community where it's  
20 located. So a company headquartered in another state  
21 would have less benefit to itself to make investments  
22 in another state where it doesn't have a big  
23 presence.

24 Because community relations is a very

1 important part of AEP's organizational business  
2 model, I'm assuming that community relations, and  
3 from my experience in other companies, is also an  
4 important part of their business model.

5 Q. Do you have any belief that a potential  
6 buyer of one of these units -- excuse me, one of  
7 these plants would not be likely to stay and maintain  
8 the investment that the new buyer made?

9 A. I think it's very likely that they  
10 wouldn't stay and maintain the investment.

11 Q. Why is that?

12 A. Because if the economic conditions  
13 deteriorate, the financial ramifications would be the  
14 same to that buyer as they would be to AEP.

15 Q. The current owner is looking to divest  
16 itself of these units, right?

17 A. No. The current owner is looking to  
18 continue to operate and run these units under the  
19 terms of the PPA.

20 Q. Let me rephrase. That's a fair  
21 response.

22 The current owner is going to be looking  
23 to divest itself of these units, according to you, if  
24 these contractual arrangements you're proposing are

1 not approved, right?

2 A. Correct.

3 Q. So wouldn't a new owner who purchased  
4 one or more of these plants, despite not having those  
5 commitments, be fairly likely to hang around?

6 A. Not necessarily. Somebody who buys  
7 these plants could be looking to buy them and close  
8 them down in order to drive prices up in the market  
9 to benefit their other operating plants.

10 Q. Are there instances in PJM you can  
11 identify for me of that happening?

12 A. Not off the top of my head, but there's  
13 been thousands of megawatts of plants close down in  
14 PJM in the last several years. So we could look up  
15 and reference who owned those and who shut them down.

16 Q. You're saying it's possible, but you  
17 don't have any knowledge --

18 A. It's very possible.

19 Q. -- of it happening?

20 A. Not any direct knowledge. I wouldn't  
21 have any knowledge as to the rationale why any other  
22 company shuts its plants down, but I'm saying that  
23 that could be done. You were asking if I believed  
24 that they would stick around, I said not necessarily.

1       There are reasons why they wouldn't, and that is a  
2       reason why they -- that could be a reason why they  
3       wouldn't.

4               Q.    Are you aware of new buyers buying units  
5       in PJM and shutting them down among these thousands  
6       of megawatts you're referring to?

7               A.    I'm not aware of it.

8               Q.    Is it fair to say we really don't know  
9       anything sitting here today about the intentions of a  
10      potential buyer of any of these plants?

11              A.    No. I don't think it's fair to say  
12      that. I think you could characterize perhaps  
13      intentions of buyers of these plants by looking at  
14      the operating history of some of the buyers of these  
15      plants.

16                    So specifically, Dynegy purchased the  
17      Duke Energy Ohio units. They're a company that has  
18      speculatively made bets on the price of the energy  
19      commodity, have lost on those bets and gone bankrupt.  
20      So I think you can make assumptions as to how  
21      companies operate and the way they make investment  
22      decisions based on their historic track record.

23                    So I don't think it's fair to say you  
24      can't say anything about the characterization of the

1 company's intentions when you look at how they made  
2 decisions in the past and then consider how those  
3 decisions might apply to future investments.

4 Q. Do you have any other examples other  
5 than Dynegy?

6 A. No.

7 Q. So other than Dynegy, we really don't  
8 know anything about the intentions of any other  
9 potential buyer of these plants. Would you agree  
10 with that?

11 A. I don't have any other knowledge, no.

12 Q. Look at Page 8 of your direct testimony.  
13 Page 8, the answer to the question, the second  
14 sentence, you talk about the largest benefit of the  
15 proposed arrangement being to act as a hedge that  
16 partially shields your customers from the impacts of  
17 capacity and energy market volatility, right?

18 A. I do.

19 Q. Let's talk a little bit about energy  
20 market volatility first. How long are the contracts  
21 that you enter -- that AEP Ohio enters for its  
22 customers' SSO power needs?

23 A. One and two-year term contracts.

24 Q. Are there any three-year contracts?

1           A.    I would have to verify. I'm not sure  
2 off the top of my head.

3           Q.    And how far in advance of delivery are  
4 those contracts entered into?

5           A.    Anywhere from weeks to months.

6           Q.    So the -- in Ohio, is the layering of  
7 the contract -- of different -- of contracts of  
8 different terms called staggering?

9           A.    Yes, it is.

10          Q.    And the different time periods ahead of  
11 delivery, is that called laddering?

12          A.    I believe it is.

13          Q.    Why does AEP Ohio do this? Why do you  
14 obtain contracts of different terms for delivery at  
15 different future points in time?

16          A.    Contracts of different terms will offer  
17 different risk profiles to the bidders. Those  
18 different risk profiles will have different prices.  
19 And so by staggering and laddering the terms, you  
20 will blend multiple risk profiles into a combined  
21 product or a price that the customer will pay.

22          Q.    Does that have an effect of smoothing  
23 out price volatility?

24          A.    It has a very small effect of smoothing

1 out price volatility.

2 Q. Why very small?

3 A. Because what it does is it takes the  
4 general trends of prices and just blends when they  
5 take effect. So if prices are going up over a period  
6 of three years and you buy a one-year contract that  
7 goes up five percent, a two-year contract where it  
8 shows seven percent, and a three-year contract where  
9 it goes up 10 percent, over the course of blending  
10 those it's still going up, it's just going up at a  
11 slightly less amount, in contrast to the PPA, which  
12 has the effect of being the opposite movement of  
13 market prices.

14 Laddering only blends in the current  
15 trend of prices. The PPA has an opposite effect of  
16 current -- of market prices.

17 Q. The PPA is an all-costs contract, right?

18 A. All costs, all revenues, yes.

19 Q. How do you determine what -- let me back  
20 up.

21 So you testified in the last case that  
22 you believe that customers prefer more stable rates.

23 A. I did.

24 Q. How do you determine what the value of

1       that smoothing or that stability is?

2               A.    It's based on an understanding of  
3       general customer preferences as it relates to  
4       electricity prices.  It's not a quantitative answer,  
5       it's a qualitative answer.

6               Q.    So depending on a myriad of factors  
7       about which your company has made projections in  
8       evaluating the possible, you know, economics of this  
9       proposal --

10              A.    Correct.

11              Q.    -- there are scenarios where this  
12       proposal could have -- could have a positive cost and  
13       where it could have -- ultimately result in a net  
14       credit, is that --

15              A.    That's correct.  There are three primary  
16       scenarios illustrated in this proposal; a low, high,  
17       and medium scenario.  In the medium scenario, which  
18       is what we used for the basis for most of the  
19       testimony, there is a net benefit to customers over  
20       the life of this contract.

21              Q.    It's a cost at first, and then it slides  
22       over into a benefit?

23              A.    Correct.  That's correct.

24              Q.    And in the high, it's a cost?



1           A.    At first, and then it slides into a net  
2   benefit.

3           Q.    And in the low?

4           A.    There's a net cost throughout.

5           Q.    How do you figure out at what point the  
6   net cost would be higher than the benefit of the  
7   price smoothing or volatility hedging that it would  
8   provide?

9           A.    Well, I don't believe in any of the  
10   scenarios it ever does reach that threshold, because  
11   in the worst-case scenario where it's always a net  
12   cost, what that means is that two-thirds of the  
13   supply cost the customers are paying for is based on  
14   very low prices. So that means customers are paying  
15   low prices for electricity in relation to today and  
16   future prices. So paying a small amount of insurance  
17   for the potential that the prices go up significantly  
18   I don't think ever outweighs the benefit they have  
19   from having that insurance.

20                   But the PPA rider offers more than just  
21   the financial hedge as I've described in my  
22   testimony. There's other benefits that customers get  
23   regardless of what the outside price is, too, in  
24   terms of economic development, reliability, fuel

1     diversity. Those are all benefits that they would  
2     get in any scenario, regardless of prices; so when  
3     you factor that in, plus the fact that in a low-cost  
4     scenario -- low-cost scenario customers are paying a  
5     low price for supply for the majority of their  
6     supply, two-thirds, and getting all those other  
7     benefits.

8             Q.     Sure. A low-cost scenario is not the --  
9     when you say a low-cost scenario --

10            A.     Meaning market prices.

11            Q.     That's not the only scenario in which  
12     this rider could have a net cost to customers, right?

13            A.     In the three that we've proposed, it is  
14     the only one that would have a net cost to customers,  
15     yes.

16            Q.     There are any number of scenarios in  
17     which, for example, costs associated with these  
18     plants were higher than projected, or operation of  
19     these plants was lower than projected, or other  
20     scenarios in which it could have a net cost other  
21     than simply because of low market prices, correct?

22            A.     No likely outcomes, no. These are  
23     plants that have been run by AEP for decades. We  
24     know the operations and costs of these plants. Our

1 forecasts for these costs of these plants is very  
2 reasonable. So if there's a high-cost scenario that  
3 you're describing, it likely applies to all  
4 generating plants in the same nature, which would  
5 mean prices for the region are high.

6 Q. In the analyses that you described  
7 earlier in your testimony today that were done in  
8 connection with making these proposals, was there any  
9 effort to value -- to value any of these benefits  
10 that you assert, to value the -- what the monetary  
11 value of the hedging or smoothing would be, what the  
12 monetary value of the reliability benefits you posit  
13 will be?

14 MR. DARR: Excuse me. Before you answer  
15 that, can I have that question read?

16 (Record read back as requested.)

17 MR. DARR: Thank you.

18 THE WITNESS: Only in the context of  
19 general benefits that customers would get from those  
20 benefits, not direct quantitative valuations. What I  
21 mean by that is we looked at the cost potential in  
22 the short-term and then the benefit in the long-term  
23 that customers would get, and all likely scenarios  
24 lead to a net benefit to customers.

1           So for the short time that they would  
2     have a cost, we evaluated that against the risk of  
3     reliability issues, and we have evidence from other  
4     large-scale outages that can cost customers billions  
5     of dollars in economic damage when large outages  
6     happen. We looked at what significant increases in  
7     prices could occur based on real historic evidence,  
8     and evaluated those price increases against the  
9     short-term costs that customers would incur, and  
10    found the costs to be much lower than the potential  
11    increases in prices.

12           So we did not value the value of the  
13    hedge itself, we compared it against the other  
14    factors that we knew were variables, and in our  
15    judgment felt that the price in the short-term of  
16    this hedge or this insurance product is very  
17    reasonable in relation to the significant benefits  
18    that it offers and the significant protection that it  
19    offers against those risks.

20   BY MR. BZDOK:

21           Q.    So you valued the short-term costs, if  
22    I'm understanding you correctly, during the net cost  
23    period under your projections --

24           A.    Yes.

1           Q.    -- against the costs of the potential  
2           downside risks you've described?

3           A.    Yes.

4           Q.    And I've seen certainly in the  
5           testimony -- so I've seen in the testimony some  
6           numbers about -- a for instance about a transmission  
7           issue or a for instance about a price spike.  Is --  
8           is this comparison that you're describing something  
9           other than that?

10          A.    No.  It's using that data that we've  
11          provided around the transmission costs, around the  
12          volatility of capacity and energy prices.  That's  
13          the -- those are the risks that are being mitigated  
14          by entering into the PPA.

15          Q.    There's no sort of systematic analysis  
16          of what's the value of smoothing and, therefore,  
17          what's it worth paying for?

18          A.    No.

19          Q.    What's the value of variability, what's  
20          the incremental cost that's worth paying for it?

21          A.    No.

22          Q.    I'm going to switch topics a little bit.

23                  You discuss the January 2014 polar  
24          vortex in your direct -- amended direct testimony at

1 Pages 8, 9, 13, 15, 16, and 21; is that correct?

2 A. Uh-huh. That's correct.

3 Q. You -- at Page 8 you talk about how the  
4 vortex created price spikes in PJM, right?

5 A. Correct.

6 Q. And then you've got a figure showing  
7 that on Page 9 and another on Page 10, right?

8 A. Correct.

9 Q. And then Pages 15 and 16 you offer an  
10 argument for how the PPA protects -- would protect  
11 your customers from volatility due to polar  
12 vortex-type events.

13 A. Correct.

14 Q. What's the basis of your knowledge about  
15 the impact of that particular polar vortex on AEP  
16 Ohio customers and operations?

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

18 Q. You were in this position then, right?

19 A. Yes.

20 Q. That was, I am imagining, kind of an  
21 all-hands-on-deck situation here, right?

22 A. Yes.

23 Q. Can you describe for me what sorts of  
24 involvement you had --

1           A.    Yes.

2           Q.    -- in that all-hands-on-deck situation?

3       It was out of the ordinary course of your duties?

4           A.    Yes.  I received notice through our  
5       Transmission organization that PJM had called an  
6       emergency condition situation, and as a result had  
7       asked us to prepare for blacking out electric service  
8       due to overconstraint -- overloading on the electric  
9       grid.  So I had to deploy resources in my  
10      organization to substations in AEP Ohio to prepare to  
11      turn off power to customers should that overloading  
12      condition be mandated by PJM.

13          Q.    Did that happen?

14          A.    No.

15          Q.    What other out-of-the-ordinary-course  
16      activities were you involved in during that period?

17          A.    Related to this PPA, none.

18          Q.    I don't want to limit the question that  
19      way.  What do you mean?  How about outside of related  
20      to this PPA?

21          A.    Just in general dealing with  
22      cold-related outages and operations in the  
23      distribution system, freezing of circuit breakers,  
24      things like that, and dealing with the power impacts

1 of those.

2 Q. Was there any kind of coordination  
3 between AEP affiliates related to responding to,  
4 addressing, dealing with that situation that you were  
5 involved in?

6 A. No. Not that I was involved in, no.

7 Q. Any coordination that you've supervised  
8 or that you had knowledge of but were not involved  
9 in?

10 A. No.

11 Q. Did your customers experience increased  
12 electric bills during the vortex?

13 A. I don't know. I don't set the  
14 generation supply prices for all my customers.

15 Q. So you have no knowledge as to whether  
16 they increased?

17 A. I won't have any direct knowledge.

18 Q. How did the --

19 A. I do have knowledge that retailers who  
20 experienced very high costs due to the polar vortex  
21 have the right to pass those costs onto customers. I  
22 know that, because I can read the terms and contracts  
23 of -- and I was informed that other retailers do have  
24 the right to do that. So it's fair to assume that



1       some of my customers did have to pay a higher cost  
2       because of that.

3               Q.     Did the staggering and laddering dampen  
4       the price spikes for your customers?

5               A.     I don't believe they would have had any  
6       effect.

7               Q.     Why not?

8               A.     Because SSO customers pay a fixed --  
9       whatever the price is for -- that is set during those  
10      auction dates. So those auction dates were  
11      established before the polar vortex. And then  
12      non-SSO customers who are my customers would pay  
13      whatever the retail contracts allowed them -- allowed  
14      those retailers to pass through in terms of cost, and  
15      those in some cases could have passed along higher  
16      costs.

17                    So the laddering that you're describing  
18      only applies to my SSO customers. My non-SSO  
19      customers it has no effect on at all.

20               Q.     Right. My question was about your SSO  
21      customers.

22               A.     Okay.

23               Q.     So now I'm confused. It did have an  
24      impact on --

1           A.    No.  I answered -- my SSO customers, it  
2           would not have.  In the short-term, it would not  
3           have.  In the long-term, it could have.

4           Q.    What do you mean?

5           A.    Well, when a retailer bids into our  
6           auctions, they have to assume the risk of the  
7           delivery period.  So after those retailers incurred  
8           significantly high costs from PJM, they would have to  
9           factor in that higher risk into their next bid.

10                  So in that auction and during those  
11           days, my customers -- my SSO customers would have  
12           paid whatever the terms of the prior auction  
13           delivered.  Future auctions will now price in this  
14           significant risk; so they will likely have to pay a  
15           higher premium for those risks.

16           Q.    So for SSO customers following the  
17           vortex, you're asserting there's some kind of a risk  
18           premium baked into it?

19           A.    I'm assuming that a business would price  
20           in a risk premium into their offers, and the polar  
21           vortex created a lot of risk for the delivery of  
22           power during those days -- for those providers.

23           Q.    Have you reviewed any data numbers  
24           that --

1           A.    No.  I don't get access to that.  That's  
2   confidential information by retailers.

3           Q.    So this is an assumption only based on  
4   your general business experience?

5           A.    Based on general business knowledge,  
6   yes.

7           Q.    And you don't have any opinion about  
8   what the magnitude of that --

9           A.    I don't.

10          Q.    Let me just finish the question so it's  
11   clear on paper.

12                -- what the magnitude of that assumed  
13   risk premium would be?

14          A.    I don't have any opinion on that or any  
15   information on that.

16          Q.    Now, the -- the AEPGR side incurred  
17   increased costs during the vortex, too, didn't it,  
18   based on your general understanding?

19          A.    I believe it would, yes.

20          Q.    What kind of increased costs?

21          A.    Increased prices from the energy market,  
22   increased real-time prices of energy.

23          Q.    Any other costs you are aware of?

24          A.    I'm not aware of all the PJM costs that

1 would have been incurred by the retail company.

2 There may be others, but I'm not aware of them.

3 Q. A number of the PPA units were on outage  
4 at times during the vortex, right?

5 A. I'm not familiar with which units were  
6 available or not. I just know the percentages of  
7 availability of the PPA units.

8 Q. And what are those?

9 A. 64 percent and 73 percent, but it's in  
10 my testimony. The average capacity factor during the  
11 period exceeded 64 percent, it says on Page 21,  
12 Line 11 of my testimony; and similarly the OVEC units  
13 also performed well during these periods with average  
14 capacity factors of 73 percent and 61 percent. So  
15 that's where I refer to the availability.

16 Q. During the analysis process that you  
17 described earlier in your testimony for proposing  
18 these units for inclusion in the PPA, what kind of  
19 due diligence was done with respect to the  
20 performance of these plants or units during the  
21 vortex other than a general aggregate capacity  
22 factor?

23 A. Detailed availabilities of the units  
24 would have been made available.

1 Q. And how was that information used?

2 A. To create the aggregate capacity factors  
3 and to see if -- in total if they provided a reliable  
4 benefit. It's one of the benefits of the PPA as  
5 proposed, it has 20 units embedded in it, 11 at the  
6 OVEC plants and nine at the other four. So that kind  
7 of diversity provides a lot of operational benefit by  
8 having so many units. If any one unit or two units  
9 are out, the total value of the proposal is still  
10 there.

11 Q. What time period were those aggregate  
12 capacity factors derived from?

13 A. They were derived from the quarters --  
14 first quarter of both 2014 and the first quarter of  
15 2015.

16 Q. Your testimony about price volatility  
17 was specific to January -- the month of January?

18 A. Correct.

19 Q. But your analysis of availability was  
20 for a longer period of time?

21 A. So the analysis of the price volatility  
22 showed January's price volatility, but in the prior  
23 page you'll see a broader period of time for monthly  
24 averages. On Page 9, you'll see monthly averages for

1 energy prices. So it shows both periods -- both a  
2 longer period and the month of January to show the  
3 extreme movement in the month of January.

4 Q. Sure. And then on Page 8, you have, you  
5 know, testimony about what the --

6 A. Average prices were, yeah.

7 Q. In January?

8 A. Correct.

9 Q. So if we're looking at these units as a  
10 way to hedge against price volatility using January  
11 of 2014 as the example --

12 A. Uh-huh.

13 Q. -- throughout your testimony why -- did  
14 anybody look at the availability of those units in  
15 that same month?

16 A. Yes.

17 Q. And what was the outcome of that?

18 A. I don't recall the details of that.  
19 That would be a good question for Witness Thomas who  
20 oversaw the operations of those units.

21 At the time of the event, we do state  
22 that 89 percent of all the units that AEP Ohio slated  
23 to retire were online. It said that all of the units  
24 ran during the first quarter of '14. So as far as

1 the details for the month of January for the PPA  
2 units, Witness Thomas would have those details.

3 Q. Hypothetically, if I told you that  
4 Clifty Creek was out January 4 to 24, Cardinal was  
5 out January 7 to 26, Stuart 2 was out January 10 to  
6 20, Stuart 3 was out January 5 to 8, and Zimmer was  
7 out January 5 to 10, hypothetically what would your  
8 reaction be to that in terms of the ability of these  
9 units to provide the hedge you describe?

10 A. It would be pretty good, because we're  
11 offering 20 units and you just listed five.

12 Q. Three plants and two units.

13 A. So five units.

14 Q. Depends on how you --

15 A. Yeah. There's 20 units being proposed.

16 Q. Right.

17 A. So what I'm saying, it would be a very  
18 good hedge to have 75 percent of units running.

19 Q. That assumes you're waiting a 500 --  
20 well, no. Never mind. I understand what you're  
21 saying.

22 A. Yeah.

23 Q. Your 75 percent in your answer just now,  
24 to clarify, was a number of units --

1           A.    Correct.

2           Q.    -- not capacity, right?

3           A.    Correct.

4           Q.    Do you have any knowledge or was any  
5           consideration done in the analysis of what the  
6           aggregate capacity factor was for these PPA units in  
7           January 2014?

8           A.    I believe Witness Thomas did that  
9           analysis, but I'm not aware what the outcome was.

10          Q.    Give me just one second.  One of the  
11          benefits that you cite in your direct testimony a  
12          couple different places is maintaining diversity of  
13          generation.

14          A.    Uh-huh.

15          Q.    Did you get that as an answer?

16          A.    Yes.

17          Q.    What is the scope of that diversity?  Is  
18          it diversity within the AEP fleet?  Diversity within  
19          Ohio?  Diversity within PJM?  What are you referring  
20          to there?

21          A.    Referring to diversity within AEP,  
22          within Ohio, and within PJM.

23          Q.    All of the above?

24          A.    Correct.



1           Q.    What's your general understanding of the  
2    makeup of the generation portfolio in Ohio?

3           A.    Just at a high level, approximately 60  
4    percent or so, I believe.  Sixty to 70 percent of the  
5    energy delivered is delivered through coal, and the  
6    balance in nuclear -- natural gas, then nuclear, then  
7    renewables is the sequence, I believe, of the  
8    generation delivery in Ohio.

9           Q.    How much natural gas of that?

10          A.    I don't know the specific number.

11          Q.    In your deposition in ESP III, you said  
12    30 percent.

13          A.    Okay.  I'll accept that.

14          Q.    What -- how much of the portfolio at a  
15    minimum in Ohio needs to be coming from coal in order  
16    to guard against the volatility you describe relative  
17    to energy prices and gas prices?

18          A.    I'm not really an economics expert; so I  
19    don't have -- I don't have a number that will say  
20    this is the right number to reflect the amount of  
21    coal necessary in the state.  I wouldn't know how to  
22    answer that question.  There's too many ways to  
23    interpret the right number based on what criteria,  
24    what factors, what goals, what objectives.  I don't

1 know.

2 Q. Sure. So you've testified -- it is --

3 A. It's too broad.

4 Q. Go ahead. What?

5 A. It's too broad a question.

6 Q. You've testified in this case that there  
7 is a price risk to customers during -- you've  
8 testified in this case that there is a price risk to  
9 customers related to the retirement of coal and an  
10 increasing composition of the portfolio coming from  
11 natural gas, correct?

12 A. Correct. Because the price of natural  
13 gas is significantly more volatile than the price of  
14 coal.

15 Q. And so the narrower focus of my question  
16 is at what point does that problem become  
17 unmanageable?

18 A. I'll answer generally. A trend of  
19 removing a more stable fuel price from the portfolio  
20 of supply will have the effect of continuously  
21 increasing the price risk and volatility -- price  
22 volatility risk that customers experience.

23 To finish your question, to the point at  
24 which it's too much volatility is really up to the

1 interpretation of the customers. But my position and  
2 the company's position is that mitigating that risk  
3 is in the best interest of customers, that customers  
4 don't seek price volatility in electric rates.

5 Q. So why not put more coal units into the  
6 PPA to further protect the customers from this risk  
7 that you've asserted?

8 A. What we tried to put forward was what we  
9 believed to be a significant-enough insurance hedge.  
10 And we believe that one-third of our customers'  
11 retail load, which is what the PPA units represent in  
12 aggregate, represents a sizeable hedge, a sizeable  
13 insurance policy.

14 We also understand that the State has a  
15 desire to continue to leverage the competitive  
16 markets to deliver supply and to have a competitive  
17 markets influence, the price of competitive supply.  
18 So two-thirds being influenced by that -- by the  
19 competitive market and one-third being influenced by  
20 a more stable price profile provides a very good  
21 balance, in our opinion, that would benefit  
22 customers.

23 Q. So was the goal of the process to get to  
24 a third of the load, or was the goal to get these

1 units and these units constitute a third and that  
2 seems reasonable?

3 A. The goal was not to get to a third. The  
4 goal was to pick units that met the criteria I  
5 described earlier. Those units ended up constituting  
6 one-third, and in our assessment that met a  
7 reasonable hedge, met a reasonable insurance policy.

8 Q. Same questions on the topic of  
9 reliability. At what point in a diminishing  
10 percentage of coal in the State's generation profile  
11 do you start to run an unmanageable risk to  
12 reliability?

13 A. I believe that any closings of coal  
14 plants before baseload generation that can replace it  
15 is developed creates reliability risks for our  
16 customers. If that replacement is only done with  
17 natural gas, as you're proposing --

18 Q. I'm not proposing anything.

19 A. Or as your -- I interpret that you're  
20 assuming that natural gas would replace coal, that's  
21 my assumption.

22 So if natural gas is a baseload type of  
23 generation that would replace coal, then over time  
24 there are risks that continue to -- there would be

1 increased risks to reliability because of the general  
2 risks in terms of deliverability, storage of that  
3 fuel as a baseload fuel.

4 But, again, similar answer, I can't say  
5 at what percentage makes that is too much risk. I  
6 can just say each incremental closure of a coal plant  
7 creates more risk.

8 Q. So is that true of the units that AEP's  
9 closed to date?

10 A. Yes.

11 Q. Is the grid at reliability risk now?

12 A. With the closure of the units that have  
13 closed, there is more reliability risk because the  
14 replacement has only been with transmission  
15 solutions, not with new generation.

16 Q. Go ahead. Continue if you were going to  
17 say something.

18 A. I'm done.

19 Q. So, I mean, theoretically if you closed  
20 one megawatt of coal, you're increasing a reliability  
21 issue, but at what point does this become an increase  
22 sufficient to justify measures like life-of-unit  
23 contracts?

24 A. I think we're at a point right now where

1 the risk of any future coal closures in Ohio presents  
2 real reliability risks in the short-term.

3 Q. What knowledge do you have about the  
4 companies or units that were selected to provide  
5 power to AEP Ohio's SSO customers under your current  
6 ESP?

7 A. I was provided the list of auction  
8 winners when they were announced publicly. So I'm --  
9 I don't remember them right now, but I was provided  
10 that list of auction winners when it happened.

11 Q. Okay. And that's public information?

12 A. Correct.

13 Q. What -- who do you recall from that  
14 list? Let me try it a different way. Answer if you  
15 know.

16 A. I recall a handful of the names of  
17 companies. I remember AEP Generation Resources  
18 winning some of it. I recall in the most recent one,  
19 I think British Petroleum, Won Some Tranches, I  
20 believe a company out of Canada, Won Some Tranches, I  
21 believe Constellation. I mean, we can get the list,  
22 it's public record.

23 Q. What AEPGR plants or units were  
24 successful? You mentioned --

1           A.    I wouldn't know, that's confidential.

2           Q.    Okay.  Do you know if any of the PPA  
3 units -- the AEPGR PPA units are currently involved  
4 in meeting that obligation?

5           A.    I don't.

6           Q.    That's confidential to you, not just --

7           A.    And the public.

8           Q.    I'm sorry?

9           A.    And the public.  It's confidential to me  
10 and the public.

11          Q.    Okay.

12          A.    Their bidding strategies are  
13 confidential to me and the public.

14          Q.    And, again, I'm just clarifying, because  
15 this is -- I'm new here.

16          A.    Yes.

17          Q.    I understand their bidding strategies  
18 would be confidential.

19          A.    Which includes the units.

20          Q.    Okay.  I'm just assessing.  Give me a  
21 minute.  Can we go off the record?

22               MR. NOURSE:  Okay.

23               (Discussion held off the record.)

24               (Luncheon recess taken.)

1 Wednesday Afternoon Session,  
2 September 16, 2015.

3 - - -

4 BY MR. BZDOK:

5 Q. Back on the record.

6 Mr. Vegas --

7 A. Yes.

8 Q. -- I would like to discuss with you some  
9 of the reliability arguments that you make at  
10 Pages 24 and 25 of your direct testimony.

11 A couple quick questions first: Do you  
12 have any experience evaluating transmission grid  
13 reliability?

14 A. No, I don't.

15 Q. How about experience with modeling  
16 transmission grid?

17 A. I don't.

18 Q. How about evaluating investments in  
19 transmission systems?

20 A. I do get involved in evaluating  
21 investments in transmission for the benefit of  
22 reliability.

23 Q. What's the nature of that involvement?

24 A. Understanding the necessity for the



1 investment, the impact of the investment, and the  
2 alternatives considered through those investments.

3 Q. Is that through participation in some  
4 kind of PJM stakeholder or otherwise?

5 A. It's -- sorry. Finish your question.  
6 No. It's involved with reviewing and approving  
7 capital investments made into the transmission system  
8 that are recommended by our Transmission  
9 organization.

10 Q. And is that a different AEP affiliate,  
11 the Transmission organization, or is that within AEP  
12 Ohio?

13 A. It's within AEP Ohio and also an  
14 independent, TransCo Transmission Company, that is a  
15 separate affiliate. Both -- there's a transmission  
16 company called AEP Ohio TransCo, and then there's the  
17 AEP Ohio transmission business, which is inside of  
18 AEP Ohio. Both of those entities invest in and  
19 maintain and support the transmission grid in Ohio.

20 Q. Did you have any involvement in the  
21 scenarios that were utilized in Mr. Bradish's  
22 transmission reliability study?

23 A. I did not have any involvement in those  
24 scenarios.

1           Q.    Did you have any involvement in deciding  
2   for purposes of that study what additional  
3   transmission investments may be needed if the PPA  
4   units are retired?

5           A.    No.  I left that analysis to Witness  
6   Bradish.

7           Q.    Did you or anybody else under your  
8   direction do any analysis of transmission reliability  
9   outside of Mr. Bradish's testimony?

10          A.    Not that I'm aware of.

11          Q.    Have you considered in evaluating the  
12   benefits of including these units in the PPA -- to  
13   what extent did you -- let me try that again.

14                In framing the reliability concerns that  
15   you have framed in your testimony, to what extent did  
16   you consider PJM's use of reliability must-run  
17   contracts in addressing reliability concerns for  
18   specific units?

19          A.    I don't recall assessing reliability  
20   must-run contracts as an alternative as those are  
21   not -- in my understanding of those contracts, those  
22   are not something that PJM can impose.

23          Q.    Were they considered at all in assessing  
24   the potential magnitude of the reliability risks that

1       you assert in your testimony do or will exist  
2       relative to these -- the future of these units?

3               A.     Not that I'm aware of, no.

4               Q.     Page 25 you talk about economic impacts,  
5       right?

6               A.     Yes.

7               Q.     If the plants are sold and not retired,  
8       then the economic benefits would not be lost, right?

9               A.     If they are sold and not retired, then  
10      the economic development benefits would remain.

11              Q.     Has there been any -- so -- strike that.

12                     Under the PPA and PPA rider as proposed,  
13      if the PPA units are not able to run, the ratepayers  
14      pay for their capital and fixed O&M costs anyway,  
15      correct?

16              A.     That is correct.

17              Q.     If the energy output of the PPA units --  
18      let me rephrase.

19                     If the units are dispatched less than  
20      projected, then the cost impact of that lower  
21      dispatch would be borne by AEP customers under this  
22      contract, correct?

23              A.     Correct.

24              Q.     If a unit suffers a prolonged outage, a

1 PPA unit, would AEP Ohio customers continue paying  
2 its fixed costs?

3 A. Yes.

4 Q. How about performance penalties if those  
5 are incurred?

6 A. Similarly, they would be paid for by AEP  
7 customers.

8 Q. If the heat rate increases, AEP Ohio  
9 customers would pay the higher fuel cost per megawatt  
10 hour, correct?

11 A. AEP customers would pay for all of the  
12 costs associated with -- all the prudent costs  
13 associated with the operation of the plants.

14 Q. So in the case of heat rate increases,  
15 they'd be paying those extra costs -- AEP Ohio  
16 customers would be paying those extra costs up to the  
17 point of some potential PUC action. Is that what  
18 you're saying?

19 A. Yes.

20 Q. If a PPA unit is retired, do the AEP  
21 Ohio customers under this agreement pay for all of  
22 the remaining net book value in the unit?

23 A. Yes.

24 Q. Do they pay for the retirement costs?

1 Do they pay for costs that AEPGR has incurred or  
2 committed prior to the approval of the PPA and PPA  
3 rider?

4 A. Those costs that have been approved  
5 prior to the approval of the PPA rider would be  
6 reviewed in advance of approval as what we have  
7 proposed. And if approved, then, yes, they would be  
8 paid for by customers.

9 Q. So even if one of these units is retired  
10 on Day 2 of this agreement, AEP Ohio customers would  
11 still be on the hook for the entire net investment  
12 and the retirement costs, correct?

13 A. I think in that scenario, probably not.

14 Q. Why not?

15 A. Because that would be misrepresenting  
16 the intention on how to operate these plants, and I  
17 would assume that the Commission would probably have  
18 a say in that.

19 Q. If the PPA units, because of conditions  
20 different than projected, are no longer competitive  
21 to keep in service, can AEP Ohio require AEPGR to  
22 stop making capital investments in them?

23 A. Yes. AEP Ohio can -- AEP Ohio can bring  
24 to the decision-making process a recommendation like

1       that if it did not make sense to make further capital  
2       investments because of the risk of retail recovery or  
3       benefit to customers, then, yes, we absolutely could  
4       bring that to the table, and it is very likely then  
5       that those capital investments would not be made.

6             Q.     Why is it very likely?

7             A.     Because it would not serve anybody's  
8       interest to make investments that can't be recovered  
9       and that don't benefit customers.

10            Q.     They can be recovered unless the PUC  
11       takes action at some point in the future, right?

12            A.     Well, let me think. In the scenario  
13       that you've been describing around significant  
14       investments or retiring of plants, those are examples  
15       of decisions that we would bring to the PUC before  
16       making them and get explicit PUC approval on those  
17       decisions so that it would be clear what the  
18       expectations were.

19            Q.     And that --

20            A.     And what the impacts would be.

21            Q.     And that's under the process for  
22       prior --

23            A.     Yes.

24            Q.     -- Commission vetting of decisions that

1       you described earlier in your testimony --

2               A.    Yes.

3               Q.    -- today?

4                    Have you been, in the time since then,  
5       able to think of where in the testimony or discovery  
6       that appears?

7               A.    No.

8               Q.    And I'm trying to phrase this in a way  
9       that doesn't sound wrong.  When you talked about that  
10      process earlier, you talked about that being related  
11      to capital investment decisions.

12              A.    I did.

13              Q.    That prior approval process.  I'm  
14      hearing you now including retirement-related  
15      decisions in that as well.

16              A.    Yes.

17              Q.    Are there any other type of decisions  
18      for which you're proposing -- which you're proposing  
19      would be brought to the PUC for approval prior to the  
20      decision being made or implemented?

21              A.    I would characterize any decision that  
22      reflects a significant financial or operational  
23      change to the company, we would bring to the  
24      Commission for their approval.

1           Q.    And what are the criteria that would be  
2    used to make that determination?

3           A.    Size of the investment or impact to the  
4    ongoing operations of the plant.

5           Q.    And is that some kind of an explicit  
6    commitment that's being made to the Commission, or is  
7    that sort of an internal ground rule within the  
8    buyer, the seller, and the Service Corp.?

9           A.    Both.

10          Q.    And how would that explicit commitment  
11   to the Commission be embodied?  Is that going to be  
12   part of the order?  Is it going to be something --

13          A.    It could be part of the terms that the  
14   Commission sets for approval of the PPA.

15          Q.    You're proposing it as a condition of  
16   approval then?

17          A.    I'm suggesting that it could be.

18          Q.    Are the notes you were just making  
19   related to your answer to one of my recent questions?

20          A.    No.  My notes were the question of where  
21   in my testimony is the specific reference so I can  
22   find that for any future questions.

23          Q.    Okay.  I want to switch topics now.  I'm  
24   kind of jumping around as I'm finishing some things.



1                   Page 3 of your direct testimony.

2                   A.     You said Page 3?

3                   Q.     Yes.  At the bottom, again, mentions  
4                   benefits to AEP Ohio customers, Ohio's economy, and  
5                   then it talks about providing retail price certainty  
6                   that Ohio businesses desire, and then you reference  
7                   the endorsement of the OVEC PPA proposal in the ESP  
8                   III case by the Ohio Energy Group carrying on to  
9                   Page 4.  Do you see that?

10                  A.     I do.

11                  Q.     Did AEP Ohio and the Ohio Energy Group  
12                  enter into a settlement agreement related to the ESP  
13                  III docket?

14                  A.     No.

15                  Q.     And did -- any kind of an agreement  
16                  whatsoever relative to that docket?

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

18                  Q.     Was there any type of agreement or  
19                  understanding about how the Ohio Energy Group's  
20                  customers might be treated if the Commission had  
21                  approved rate recovery of that PPA rider?

22                  A.     No.

23                  Q.     Were there any discussions or informal  
24                  understandings of any kind related to that topic?

1           A.    No, there weren't.

2           Q.    On Page 12 of your testimony, you list  
3 retirement dates for all of those units, correct?

4           A.    Yes.

5           Q.    Where did the retirement dates come from  
6 for the AEPGR units?

7           A.    They were -- they came from AEPGR, and  
8 are based on the current depreciation life of the  
9 assets.

10          Q.    So are those -- so how firm are those  
11 dates if they're based on depreciation lives?

12          A.    It's an accounting provision that  
13 defines when the book life of the assets ends, and  
14 that's the basis for it. So it's as firm as that  
15 definition is.

16          Q.    The life of these agreements continues  
17 with the life of the plants, not -- it doesn't  
18 terminate with the end of their depreciation lives,  
19 right? In other words -- that was not an artful  
20 phrasing.

21                    The -- these dates on Page 12 are not  
22 necessarily the termination dates for the PPA,  
23 correct?

24          A.    I'd like to reference something if I

1       could before answering that.

2               Q.     Absolutely. Please just let me know  
3       what you're referencing.

4               A.     I'm looking at the purchase -- the Power  
5       Purchase and Sale Agreement.

6               MR. MICHAEL: Just so the record's  
7       clear, you're actually looking at the term sheet,  
8       right, Mr. Vegas, not the agreement itself?

9               THE WITNESS: I'm looking at the Summary  
10      of Major Terms Power Purchase and Sale Agreement,  
11      KDP-1, Page 1.

12              On the Term -- I'm looking at the first  
13      page. On the Term it says that the agreement of the  
14      term is through the entire commercial operational  
15      life of all the units, including any post-retirement  
16      period necessary to fill asset obligations. The  
17      currently planned retirement dates are set forth in  
18      Attachment A.

19              Those attachments is at the -- it's at  
20      the end of that -- of the summary, and those dates  
21      align with those in my testimony. So -- yes, they  
22      do. So what I'm representing here is that, absent  
23      any changes, the expectation is that the term of this  
24      PPA ends on those retirement dates. That's my

1 interpretation, the term is through the entire life,  
2 and the current planned retirement date is set forth  
3 here, and those are those dates.

4 Q. Those are tentative dates?

5 A. No. Nowhere does it say they're  
6 tentative dates. Those are the current retirement  
7 dates planned.

8 Q. And if the lives are extended, the  
9 agreement's extended?

10 A. Only if a mutual agreement is held  
11 between the buyer and the seller, and that would also  
12 be one of those subject areas that AEP Ohio would  
13 bring to the Commission in advance of changing,  
14 because that's a material change to the terms of  
15 operation.

16 MR. MICHAEL: Could we go off the record  
17 real quick?

18 (Discussion held off the record.)

19 BY MR. BZDOK:

20 Q. Your cover letter for the amended  
21 application references an April 23, 2015, earnings  
22 call. Do you see where I'm looking there?

23 A. I do.

24 Q. And a statement by the -- by Mr. Akins,

1 the AEP CEO. Were you -- did you participate in that  
2 earnings call?

3 A. No, I didn't.

4 Q. How do you know -- did you review the  
5 transcript or the presentation?

6 A. Yes, I did.

7 Q. Do you recall seeing him make a  
8 reference right at the beginning of that call to --  
9 it was more or less kind of like a shout-out to  
10 employees for -- who are working on units that either  
11 are or are soon to be in retirement. Do you recall  
12 that?

13 A. I do.

14 Q. And he talked about them operating Swiss  
15 cheese boilers. Do you remember that statement?

16 A. I do.

17 Q. What is your understanding of what a  
18 Swiss cheese boiler is?

19 A. It's a boiler that has not been invested  
20 in for a significant period of time because of its  
21 intended plan to retire.

22 Q. Swiss cheese is sort of an informal way  
23 of connoting a piece of equipment with holes in it.  
24 Is that the idea?

1 A. Yes.

2 Q. When do they become Swiss cheese  
3 boilers, is it a certain age or is it at some other  
4 situation --

5 A. No.

6 Q. -- within the arc of the life of the  
7 unit?

8 A. It occurs when you stop investing  
9 proactively in their maintenance and upkeep, because  
10 you don't have a mechanism to recover them -- to  
11 cover those costs or you don't intend to continue to  
12 operate it and expect high reliability from it.

13 Q. Has that situation occurred, whether it  
14 is still occurring or not, has that occurred with any  
15 of the proposed PPA units at any point in their life  
16 histories?

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

18 Q. Was the -- how was the -- how was the  
19 capital and major maintenance history of those units  
20 evaluated by -- on behalf of or by AEP Ohio as part  
21 of this proposal?

22 A. The capital investments and the  
23 operation plans -- operation budgets were always set  
24 based on an expectation of continued operation

1 through their full life.

2 Q. Is that a representation that someone  
3 made, or is that a conclusion of some kind of an  
4 assessment that was done for you?

5 A. It reflects my involvement in capital  
6 decisions at those plants in the years leading up to  
7 their separation as a separate company. I had direct  
8 involvement in investment decisions with all of those  
9 units, and the strategy for investment during the  
10 time that I oversaw that and was responsible for it,  
11 the decisions were made to keep investing and keep  
12 those units running with the expectation of reliable  
13 operations through their full life.

14 Q. And what timeframe are we talking about  
15 for your involvement?

16 A. The year of the corporate separation  
17 which occurred in December of 2013, I believe --  
18 2012. I need to check.

19 Q. So for you, is that 2010 to 2013?

20 A. For me personally, it's from the  
21 beginning of 2012 when I came into this role through  
22 that point in time.

23 Q. Okay. How were the historic and future  
24 ordinary capital expenditure and major maintenance

1 schedules for these plants included in the assessment  
2 of -- the assessments you were describing earlier in  
3 terms of what units to propose for the PPA?

4 A. They were factored in, because those  
5 historical spend patterns and planned spend patterns  
6 were the basis for what the costs were going to be  
7 for those units. So those detailed cost estimates  
8 would have been part of the analysis that AEPGR did  
9 and the AEP Service Company did when they analyzed  
10 the costs and the benefits of the specific units.

11 Q. How, if at all, is that evaluation or  
12 assessment included in the work of a witness in this  
13 case, if at all?

14 A. It would be included in the schedule of  
15 costs that are included in Witness Kelly's testimony  
16 for each of the units.

17 MR. NOURSE: Dr. Pearce.

18 THE WITNESS: I'm sorry. Dr. Pearce,  
19 Kelly Pearce.

20 BY MR. BZDOK:

21 Q. So there were a set of dollars that were  
22 included in the economic evaluation of the impact of  
23 the PPA rider; is that correct?

24 A. What I'm saying is that the cost to



1 maintain those plants -- specific costs which are  
2 based on the budgets, the capital plan, the O&M plan,  
3 would have been the basis for the costs that he used  
4 and presented in his testimony.

5 Q. Were the -- was the substance and  
6 adequacy of the capital and major maintenance plan  
7 reviewed and vetted as part of the assessment?

8 A. Yes.

9 Q. By who?

10 A. It would have been reviewed by Witness  
11 Thomas, Toby Thomas, to assess whether what was being  
12 represented as the expected costs, and the expected  
13 capital and O&M would have accurately and adequately  
14 funded the investment to keep the plants operating  
15 reliably for the duration.

16 Q. Give me a minute. I've just got to go  
17 back over and make sure I didn't miss anything.

18 (Pause.)

19 Q. Thank you, sir. That concludes my  
20 questions.

21 A. Okay. You're welcome.

22 MR. NOURSE: Who's going next? Bill.

23 MR. MICHAEL: I'll go, yeah.

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CROSS-EXAMINATION

BY MR. MICHAEL:

Q. Mr. Vegas, who do you report to?

A. I report to Robert Powers, executive vice-president and chief operating officer for AEP.

Q. Okay. Is AEP Ohio a wholly-owned subsidiary of AEP?

A. It is.

Q. And were any presentations made to AEP's board about the PPA?

A. No presentations, but updates on the filing and the schedule and activities related to the filing were communicated to the board.

Q. So the board did not approve the filing of the amended application, correct?

A. Correct.

Q. I wanted to talk to you a little bit about the prudence review and access to books, records, and the audit process. As AEP Ohio is proposing it, will the Commission's access to books and records be the same as AEP Ohio's access to books and records?

A. I don't know for sure. What I understand is that AEP Ohio will represent all of the

1 details that are made by the operating committee and  
2 the underlying content, information, numbers, costs,  
3 estimates that are developed as part of the records  
4 keeping process. We would make that information  
5 available to the Commission for their review and  
6 audit.

7 Specifically, what documents those would  
8 be or if they're the same documents we would look at,  
9 I don't know if they would be the same or if we would  
10 take those and we would put them in a format for the  
11 Commission to see and help prepare them. My  
12 assumption is we would prepare them for the  
13 Commission to interpret.

14 Q. Okay. If the Commission wanted access  
15 to all the source documentation under AEP Ohio's  
16 proposal, would the Commission have access to the  
17 source documents?

18 A. I hadn't considered that; so I don't  
19 know the answer to that at this point.

20 Q. Okay. So AEP Ohio would have access to  
21 source documents that at least potentially the  
22 Commission would not have access to, correct?

23 A. That's not what I said. I just said  
24 that I haven't considered that option, and I'm not

1       sure what the answer to your question would be.

2               Q.     Okay.  At least as it stands now, AEP  
3     Ohio's proposal is not to give the Commission access  
4     to all the source documents, correct?

5               MR. NOURSE:  Objection.  I think that  
6     mischaracterizes what he just explained.

7               THE WITNESS:  Yeah.

8               MR. MICHAEL:  Well, he can tell me I'm  
9     wrong then.

10              MR. NOURSE:  That's why I objected.

11              THE WITNESS:  Yeah.  What I'm saying is  
12     we would provide all of the information that we get  
13     that the -- and that the Commission needs in order to  
14     do a prudence review.  I'm not saying that isn't  
15     those documents or that it is.  I'm saying that I  
16     haven't considered what documents they are, just that  
17     all of that information would be made available to  
18     them.

19     BY MR. MICHAEL:

20              Q.     Would the documentation to which the  
21     Commission would have access for their prudence  
22     review include coal contracts?

23              A.     Yes.  It would include information in  
24     our coal contracts, yes.

1           Q.    Okay.  Are coal contracts set between  
2           the individual units and suppliers?

3           A.    The coal contracts are purchased by AEP  
4           Gen Resources, yes, and it's for operation of one or  
5           multiple units; so, yes.

6           Q.    Okay.  Would the Commission have access  
7           to information on coal purchases only by the PPA  
8           units?

9           A.    Yes.

10          Q.    Would AEP Ohio let the Commission access  
11          coal purchases made by units other than the PPA  
12          units?

13               MR. NOURSE:  I just object.  You're  
14          doing a hypothetical without really knowing the whole  
15          circumstances that may be involved and calling for  
16          speculation on a legal issue ultimately.  If you want  
17          to give your understanding, go ahead.

18               THE WITNESS:  My understanding is that  
19          the Commission wouldn't need access to coal contracts  
20          not related to PPA units as they have no impact on  
21          the operation of PPA units.

22          BY MR. MICHAEL:

23               Q.    Okay.  So I believe you --

24               A.    I don't know why they would need access

1 to those contracts.

2 Q. Okay. I believe you testified earlier  
3 that some of the coal purchases are for multiple  
4 units, correct?

5 A. Correct.

6 Q. So how would the Commission be able to  
7 tell whether or not the coal purchases are for the  
8 PPA units or non-PPA units?

9 A. AEP Ohio would commit to provide all of  
10 the coal contract information for all of the PPA  
11 units to the Commission.

12 Q. Mr. Vegas, if you'd please turn to  
13 Page 3 of your direct testimony, and I direct your  
14 attention to Line 18, please.

15 A. Yes.

16 Q. You describe on that line, Mr. Vegas,  
17 that the hedge is, quote, "necessary," correct?

18 A. Yes.

19 Q. It is not required, correct?

20 A. No.

21 Q. In whose judgment is the hedge  
22 necessary?

23 A. In AEP Ohio's judgment.

24 Q. And describe for me, if you would, how

1 the hedge works when market prices are low.

2 A. When market prices are lower than the  
3 cost of operating the -- the full cost of operating  
4 the plants, then the hedge would be the difference  
5 between the cost of operating the plants and the  
6 revenues collected from the market, there would be a  
7 cost.

8 And the inverse is true; when market  
9 prices are higher than the cost of operating the  
10 plants, the hedge would then be a credit in the  
11 amount between the costs and the revenues collected  
12 from the market.

13 Q. So when the market prices are low, the  
14 PPA rider will not move in an opposite direction to  
15 market prices, correct?

16 A. Yes, it will.

17 Q. Okay. I apologize. But I -- I  
18 understand how it purportedly works on the upside,  
19 but I don't understand when prices are low how the  
20 hedge is moving in an opposite direction to market  
21 prices.

22 A. So in the case of market prices being  
23 lower than the costs, the hedge has the effect of  
24 raising the costs; so it moves in the opposite

1 direction, market prices are lower than it, so it  
2 applies a cost, so in effect raises the cost. And  
3 the inverse; when market prices are high, it's a  
4 credit, so it in effect lowers the total cost that  
5 customers pay.

6 Q. So when market prices are low, customers  
7 are going to pay less for their energy?

8 A. Correct.

9 Q. And if market prices are lower than the  
10 cost of the PPA contract, they're going to have to  
11 pay even more because that cost is going to be passed  
12 on to them, correct?

13 A. They would pay an aggregate -- they  
14 would pay an aggregate, a lower cost, because the  
15 hedge is for approximately a third of the supply  
16 portfolio that is used to serve them. So the large  
17 majority of their costs in any scenario is going to  
18 be based on market costs. In fact, all of their --  
19 they will pay for their supply whatever the full  
20 market cost is because they're being served at market  
21 cost. So in your scenario if market costs are low,  
22 they will be paying that lower cost in total.

23 Then in that case where there is a  
24 charge through the PPA rider, then they would pay the



1 charge of the PPA rider in addition to that low  
2 supply cost.

3 Q. Okay. If you would please turn to  
4 Page 7, Mr. Vegas, of your direct testimony. I'd  
5 like to direct you first to Lines 5 and 6 on Page 7.

6 A. Yes.

7 Q. When is the PJM capacity market going to  
8 be reformed to achieve a sustainable structure and  
9 capacity prices increase?

10 A. I hope, for the benefit of customers,  
11 soon.

12 Q. I appreciate that.

13 A. I do.

14 Q. Do you have any idea about when that is  
15 going to occur more specific than soon?

16 A. I don't, because PJM has changed their  
17 rules every year. Every year they have tried to fix  
18 something wrong with their market model, and then  
19 that fix creates another problem, so then they make  
20 another fix, and they're constantly changing the  
21 rules of their market. So they continue to do that  
22 and are doing that up to this -- through 2015.

23 So I don't know when they will fully fix  
24 it, but it's this constant changing of rules,

1 requirements that is making it very difficult for  
2 generators to operate successfully in their market.

3 Q. Same page, Mr. Vegas, Line 9. You say  
4 the market reforms could come too late. Do you see  
5 that --

6 A. I do.

7 Q. -- statement?

8 When is too late?

9 A. It would be reforms that would follow  
10 the closure of the PPA units.

11 Q. If you could turn to Page 9 of your  
12 testimony, Mr. Vegas, Lines 1 and 2.

13 A. Yes.

14 Q. How many gas-fired units in the PJM  
15 units do not have firm gas supplies?

16 A. I don't know personally. My  
17 understanding is the majority do not, more than half.

18 Q. Okay. And this question is sort of  
19 directed to Lines 1 through 6 when you talk about  
20 natural gas prices and the lack of -- purported lack  
21 of firm supplies.

22 A. Yes.

23 Q. When you make those assertions, had you  
24 taken into consideration develop of the Marcellus

1 shale gas supplies?

2 A. Yes.

3 Q. And the Utica shale gas supplies?

4 A. Yes.

5 Q. And additional investment in  
6 infrastructure to move gas from those shale plays to  
7 plants?

8 A. I'm not aware of those investments.

9 Q. Okay.

10 A. My understanding is that there have not  
11 been significant investments in that.

12 Q. If you could please turn to Page 11,  
13 Mr. Vegas, of your direct testimony, Line 10.

14 A. Yes.

15 Q. Please describe for me, if you would,  
16 Mr. Vegas, how the affiliated PPA will provide the  
17 PPA units with a, quote, "known revenue stream"?

18 A. What that statement is referring to is  
19 the fact that the structure of the PPA has AEP Ohio  
20 paying the actual costs incurred by AEP Gen Resources  
21 to operate these PPA units. So since those costs  
22 will be known, the revenue stream to the PPA units  
23 will be known as well.

24 Q. Okay. And because it's known, it's

1       guaranteed, correct?

2               A.    No.   It's not guaranteed.

3               Q.    Can you explain to me why it's not,  
4       please?

5               A.    Because the PPA units, AEP Gen  
6       Resources, they are assured of being paid the  
7       revenue, but AEP Ohio is not assured of collecting  
8       that revenue.   So there is -- so maybe I  
9       misunderstood your question.

10               So you're saying -- are you asking if  
11       the revenue stream is guaranteed through Gen  
12       Resources?

13               Q.    Correct.

14               A.    Yeah.   The contract provides for paying  
15       for the actual cost of those units, that is correct.

16               Q.    And AEP Ohio would be responsible for  
17       paying that known revenue stream irrespective of  
18       whether or not the PUCO makes a disallowance,  
19       correct?

20               A.    That's correct.   Yes.

21               Q.    Okay.   Could you please turn to Page 13,  
22       Mr. Vegas, of your direct testimony, and I'll direct  
23       you to Line 21, please.

24               A.    Yes.

1           Q.    When did Ohio's transition to  
2   deregulated generation rates begin?

3           A.    For -- it began in 1999 with the passage  
4   of Senate Bill 3, but the impact to AEP Ohio's  
5   generators began after that fact, after the  
6   completion of the most -- the last retail stability  
7   price agreement that AEP Ohio entered into with the  
8   PUCO. I don't recall the exact date of that.

9           Q.    And it was the Ohio General Assembly  
10   that was responsible for moving Ohio in the direction  
11   of transitioning to deregulated generation rates,  
12   correct?

13          A.    Correct.

14          Q.    If you could please turn to Page 16,  
15   Mr. Vegas, of your direct testimony. I'll direct  
16   your attention to Line 20, please.

17          A.    Yes.

18          Q.    When are -- when is the capacity market  
19   expected to increase significantly?

20          A.    Beginning with the most recent cleared  
21   base residual auction, we see a fairly significant  
22   increase in capacity prices, the 2018/2019 auction  
23   that cleared or completed last month.

24          Q.    Okay. And do you expect that trend to

1 continue?

2 A. I do. If I could clarify one point. It  
3 might be more accurate to say within the supplemental  
4 auctions that more recently occurred that start to  
5 reflect prices in '16, '17 and '18, start to see that  
6 trend of price increases occurring beginning in '16  
7 where the market cleared at about \$120 -- \$124 a  
8 megawatt day, then increases again to 134, and then  
9 again to 150 something.

10 Q. Excuse me. If you'd please turn to  
11 Page 21 of your direct testimony, Mr. Vegas. I'm  
12 going to direct your attention to Lines 16 and 17.

13 A. Yes.

14 Q. You discuss there a purported flaw in  
15 the PJM capacity market and that flaw's affect on  
16 investment capabilities, correct?

17 A. Yes.

18 Q. And I'm wondering, can investors make  
19 short-term investments based on long-term price  
20 signals?

21 A. Yes. I think it's safe to say that an  
22 operator could make short-term investments with a  
23 view of long-term price signals.

24 Q. If you'd please turn to Page 24 of your

1 direct testimony, Mr. Vegas, Line 22 I would direct  
2 your attention to.

3 A. Yes.

4 Q. You begin that line with "PJM is  
5 responsible..." And I'm wondering what is the source  
6 of PJM's responsibility for providing adequate  
7 generation capacity?

8 And to clarify that, what I mean is: Is  
9 there a rule? Is there a statute? Is there a  
10 regulatory body that says PJM has that  
11 responsibility? So that's my question to you?

12 A. Yes. FERC has established PJM as a  
13 responsible entity to ensure adequate supply and  
14 reliability in the bulk transmission system. So  
15 FERC, through federal law, has created that  
16 accountability.

17 Q. Okay. I have no further questions,  
18 Mr. Vegas. Thank you.

19 A. Okay. You're welcome.

20 MR. OLKER: Excuse me.

21 MR. DARR: Joe, do you need to jump in?

22 MR. OLKER: Frank, do you mind if I  
23 take 10 minutes to ask him a few questions and could  
24 be done with it?

1 MR. DARR: That's fine. Go ahead.

2 MR. NOURSE: Okay.

3 THE WITNESS: Who is this?

4 MR. NOURSE: Joe Olikar.

5 THE WITNESS: From?

6 MR. NOURSE: IGS.

7 THE WITNESS: Okay.

8 - - -

9 CROSS-EXAMINATION

10 BY MR. OLIKER:

11 Q. Good afternoon, Mr. Vegas. Just a few  
12 questions for you.

13 A. Good afternoon, Joe.

14 Q. You indicated earlier that AEP is  
15 familiar with these plants because it's operated them  
16 for decades. Can you expound upon that a little  
17 more?

18 A. Since these plants were created, I'm  
19 speaking to the AEPGR units, they have been under the  
20 ownership umbrella of AEP Ohio and under the  
21 operational responsibility of AEP Ohio. And so there  
22 is a familiarity with the operational characteristics  
23 and costs and profile of these plants for a long time  
24 since their creation.



1           Q.    Were the plants operated by different  
2 people before and after they were transferred from  
3 AEP Ohio, the utility, to AEP Generation Resources?

4           A.    Largely, no. Most of the employees that  
5 were employees of AEP Ohio that operated the units  
6 locally within the power plants were transferred over  
7 to the AEP Gen Resources company and continued to  
8 operate those plants.

9           Q.    And the individuals that make investment  
10 decisions for those plants, are they still the same?

11          A.    In some cases, they are; and in some  
12 cases, they have changed over time.

13          Q.    Did they change because of the ownership  
14 of the plants?

15          A.    So they -- so I'll answer specifically  
16 that the head of the AEP Gen Resources business was  
17 appointed to that position, and that included then  
18 responsibility for investment decisions in the units.  
19 So that was a new person in that reporting chain.

20                Plant managers remain largely the same,  
21 and executives between plant managers and the head of  
22 AEP Gen Resources, some remain the same, and some  
23 changed depending on individuals leaving the company,  
24 staying with the company, moving into different

1 roles, but not necessarily specific to the  
2 restructuring of the business unit.

3 Q. Okay. You've talked a little bit about  
4 the capacity performance product that now exists at  
5 PJM. What is your familiarity with that product?

6 A. I'm familiar with its intentions and  
7 with what its purpose is.

8 Q. Would you agree -- are you familiar with  
9 the term "out of management control event"?

10 A. Outage?

11 Q. Out.

12 MR. NOURSE: Out of.

13 BY MR. OLIKER:

14 Q. Out of, sorry.

15 A. Okay. Out of management control event,  
16 I'm not specifically familiar with that term, no.

17 Q. Could you please explain your  
18 understanding of the obligations that the capacity  
19 performance product places on a resource?

20 A. I would reference from my deposition --  
21 I mean, from my interrogatory responses a white paper  
22 that specifically describes the PJM capacity  
23 performance proposal. It was submitted by PJM staff  
24 on August 20th, 2014, and within that document it

1 describes what those performance requirements are.

2 Q. Would you agree that a natural gas-fired  
3 power plant that provides the capacity performance  
4 product must deliver at all hours, no excuses?

5 A. I would change it a little bit. I would  
6 agree that they have to meet the same requirements as  
7 any other baseload generation facility to qualify for  
8 the capacity performance payments, yes.

9 Q. Is it your testimony that if a natural  
10 gas-fired power plant is cleared as a capacity  
11 performance product, that power plant cannot provide  
12 reliable generation to the grid?

13 THE WITNESS: Could you read back the  
14 question for me?

15 (Record read back as requested.)

16 THE WITNESS: No. That's not my  
17 testimony. My testimony observes that gas plants  
18 have different operation characteristics than coal  
19 plants, and those differences make them less reliable  
20 in certain circumstances.

21 BY MR. OLKER:

22 Q. Okay. Let's funnel that down a little  
23 more. If a -- strike that.

24 If a natural gas-fired power plant does,

1 in fact, provide the capacity performance product,  
2 would you agree that that resource is as reliable as  
3 a coal-fired resource?

4 A. I would not.

5 Q. And why is that?

6 A. Because of those operational  
7 characteristics that are different between a coal  
8 plant and a gas plant. A gas plant cannot store fuel  
9 on site to the same extent a coal plant can. A gas  
10 plant, without a firm contract for a commitment,  
11 cannot be guaranteed to get fuel at the time when  
12 it's needed. Those are different operational  
13 characteristics that are different between a coal and  
14 a gas plant.

15 Q. Do you believe that a natural gas-fired  
16 generator would -- let me step back.

17 Are you aware that PJM has requirements  
18 that apply to a natural gas-fired generator that  
19 provide the capacity performance product?

20 A. Yes.

21 Q. And are you aware that there is specific  
22 requirements that relate to natural gas-fired  
23 generation that provide the capacity performance  
24 product?

1           A.    Yes.

2           Q.    And do you believe a natural gas-fired  
3 generator would provide the capacity performance  
4 product if they do not have firm pipeline  
5 transportation or dual fuel capability?

6           THE WITNESS:  Can you read the question  
7 back?

8           (Record read back as requested.)

9           THE WITNESS:  Yes.  I believe they  
10 could.

11          BY MR. OLIKER:

12           Q.    And why is it that you believe they  
13 could?

14           A.    Because the requirements don't state  
15 they have to.

16           Q.    Do you believe it would be prudent for a  
17 natural gas-fired generator to provide the capacity  
18 performance product if they did not have firm  
19 transportation or dual fuel?

20           A.    That's a judgment that the owner  
21 operator of that plant would make.

22           Q.    And are you aware of any PJM  
23 requirements to demonstrate your ability to provide  
24 electricity during all hours if you are a natural

1 gas-fired generator?

2 A. Those are not the -- those are not the  
3 terms that I'm familiar with, no.

4 Q. Okay. You mentioned before that you  
5 believe less than half of the generation in PJM has  
6 firm transportation; is that correct?

7 A. Correct.

8 Q. What is the basis for that knowledge?

9 A. Conversation with executives that  
10 oversee generation at AEP and have an understanding  
11 of the way generation is bid and operated.

12 Q. Are you familiar with the level of  
13 natural gas-fired generation that cleared in the most  
14 recent transition auctions?

15 A. Yes.

16 Q. And what number is that, if you know?

17 A. I'm looking it up. I have data for gas  
18 generation that cleared in the '17/'18 auction. I  
19 don't have data for more recent than the '17/'18  
20 auction. I don't have the '18/'19 data.

21 In the '17/'18, the total capacity was  
22 5,843 megawatts, 5.8 gigawatts -- I'm sorry -- and  
23 added to 20.4 of combined cycle; so that's roughly  
24 26.3 gigawatts of generation.

1           Q.    Are you looking at the '16/'17 or the  
2    '17/'18, Mr. Vegas?

3           A.    I'm looking -- oh, I'm sorry. I'm  
4    adding up multiple years, my fault.

5                    Okay. What I'm looking at, just so  
6    everyone's clear, I'm looking at the -- from  
7    interrogatory -- Sierra Club Interrogatory 2-84,  
8    Attachment 1, I'm looking at the incremental capacity  
9    resource additions that were added between 2007 and  
10   2018. So that is just incremental capacity resources  
11   that came online.

12           Q.    I'm sorry, I didn't mean to interrupt  
13   you.

14           A.    I was finished.

15           Q.    My question is a little different.

16           A.    Yes.

17           Q.    Do you know how much natural gas-fired  
18   generation cleared in the 2017/'18 capacity  
19   performance transition auction?

20           A.    I -- I don't know the total number  
21   cleared.

22           Q.    And I'll ask you the same questions for  
23   the 2016/'17 transition auction.

24           A.    No, I don't. I don't know the total

1 amount cleared.

2 Q. Okay. And do you know how much natural  
3 gas-fired generation exists within PJM?

4 A. No, I don't.

5 Q. Okay. Are you familiar with the term  
6 "uplift"?

7 A. Generally, yes.

8 Q. What is your definition of uplift?

9 A. Well, I guess I'd have to say in  
10 context, yes, I mean, uplift, to raise. But in what  
11 context?

12 Q. Okay. Would you agree that uplift  
13 results in PJM from the dispatch of generation out of  
14 merit order?

15 A. I'm not familiar with that in that  
16 context.

17 Q. What context are you familiar with it?

18 A. I'm -- I was just familiar with the --  
19 what the word uplift means.

20 Q. Could you provide an example of how  
21 you're familiar with it?

22 A. The word uplift means to raise something  
23 up.

24 Q. And you're not familiar with what uplift



1 means in respect to the energy markets?

2 A. No, not in the context you described.

3 Q. Are you familiar with the word  
4 "balancing operating reserves payments"?

5 A. Yes, generally I am.

6 Q. Could you give us an explanation of what  
7 you believe that is?

8 A. Payments that are made by PJM to  
9 generators that provide balancing services to the  
10 grid or operating reserve -- or operating reserve  
11 services to the grid, balancing and operating reserve  
12 services.

13 Q. And you would agree that some of those  
14 payments can result from dispatching generation out  
15 of merit order, if you know?

16 A. I'm not familiar with the dispatch  
17 rules.

18 MR. NOURSE: He's saying merit order.  
19 You got that.

20 BY MR. OLIVER:

21 Q. Okay. Would you agree that one of the  
22 anticipated effects of the capacity performance  
23 product is to lower energy prices relative to the  
24 current market design?

1                   MR. NOURSE: Can you repeat that  
2 question?

3                   (Record read back as requested.)

4                   MR. OLIKER: Market design.

5                   THE WITNESS: I understand that to be  
6 PJM's belief.

7 BY MR. OLIKER:

8                 Q. And do you have an opinion of whether  
9 PJM is correct in that belief?

10                A. I don't share that belief because the  
11 process, as PJM described it, is that capacity prices  
12 would increase over time so that new generation is  
13 built, and that that new generation that is built  
14 would serve energy at a lower energy cost.

15                I believe that what will happen is  
16 energy -- what is happening today will happen in the  
17 future, which is that resource insufficiencies which  
18 are created by retirements of coal plants and nuclear  
19 plants will create very high energy prices and high  
20 capacity prices both; the high energy prices in the  
21 short-term to make up for the lack of resources, and  
22 the high capacity prices in the long-term to  
23 incentivize generation build. So I believe that for  
24 periods of time in the near future, the period that

1 we're discussing, this PPA, we will see both energy  
2 prices and capacity prices increase.

3 Q. Is it your understanding that during the  
4 polar vortex, a large part of the price increases  
5 that were experienced was a result of outages?

6 A. Yes. There was higher demand than there  
7 was availability, and that resulted in significant  
8 price increases in energy prices.

9 Q. All else being equal, would you agree if  
10 you decreased the amount of outages, the prices will  
11 go down?

12 A. There's more -- there's more than just  
13 that that influences the price of real-time energy.

14 Q. Okay. Let's flip back to the polar  
15 vortex, January 7, 2014. If the forced outage rate  
16 was half of what it was on that date, do you believe  
17 energy prices would have been lower?

18 A. I do believe they would have been lower,  
19 yes.

20 Q. Okay. Let's talk about the same  
21 response in your testimony.

22 Are you familiar with what was  
23 previously proposed as the stopgap proposal?

24 A. Proposed by whom?

1 Q. By PJM.

2 A. I'm not very familiar with the stopgap  
3 proposal.

4 Q. Have you heard of it?

5 A. Yes.

6 Q. What is your familiarity with it?

7 A. Only that an interim proposal was put  
8 forth, and then a final rule was put forth or final  
9 proposal was put forth. I'm not familiar with the  
10 substance of what was in the stopgap proposal.

11 Q. Okay. Sorry to go back to firm pipeline  
12 transportation, but would you agree that as a natural  
13 gas-fired power plant, its firm pipeline  
14 transportation can be reliable baseload generation?

15 A. Yes, it can.

16 Q. And are you familiar with what is known  
17 as an operational flow order?

18 A. No.

19 Q. Okay. And you talk about the  
20 uncertainty related to AEP Generation Resources'  
21 power plant. Would you agree if it appears the  
22 plants will recover their fuel and operation and  
23 maintenance expense plus depreciation, AEP Generation  
24 Resources won't retire the plants?

1           A.    And capital investment? Were you  
2 including capital investment in your list of costs?

3           Q.    I'm including the depreciation component  
4 in each year as the portion of capital investment.

5           A.    So you're excluding the return of  
6 cap- -- the return on the investment?

7           Q.    That's correct, as well as interest and  
8 income tax.

9           MR. NOURSE: And I object. Are you  
10 giving a timeframe for this decision, or is this just  
11 an open-ended question?

12           MR. OLIKER: Could be the next three  
13 years.

14           MR. NOURSE: Okay. Can you try to  
15 restate the question, Joe?

16           MR. OLIKER: Sure. Sure.

17 BY MR. OLIKER:

18           Q.    If AEP Ohio -- I'm sorry. Let me  
19 rephrase that.

20                   If AEP Generation Resources has a  
21 forecast of future revenues and costs that's called a  
22 profit and loss statement, and if it appears that the  
23 fuel, operation and management expense, and  
24 depreciation is less than the projected revenues, and

1 we're excluding interest, return on equity, and  
2 federal income taxes, under that hypothetical, which  
3 is focused on the next three years, would you agree  
4 that AEP Generation Resources will not retire the  
5 plants?

6 A. No. I would not agree with that.

7 Q. Why is that?

8 A. First, it's not my decision whether AEP  
9 Gen Resources retires their plants or not. Second,  
10 it's a bad business decision to continue to run  
11 plants that have no return on their investment.

12 Q. Okay. Well, let's talk about what  
13 happens if they retire. Would you agree that there  
14 is a total amount of net plant that's been invested  
15 in those?

16 A. There has been.

17 Q. A portion of is financed by debt and a  
18 portion is financed by equity, correct?

19 A. Correct.

20 Q. If those plants retire, AEP Generation  
21 Resources does not have to pay back the equity,  
22 correct?

23 A. Correct.

24 Q. But they do have to pay back the debt

1 and the interest expense, correct?

2 A. Correct.

3 Q. So wouldn't you agree that if it appears  
4 there is a likelihood of recovering a portion of that  
5 investment in each year, it would be more sensible to  
6 continue to operate the plants than it would be to  
7 retire them?

8 A. No. I would not agree to that.

9 Q. And why is that?

10 A. In my business judgment, that wouldn't  
11 be good financial management of shareholder assets.

12 Q. Well, let me ask it very basically: If  
13 you have a decision to lose a billion dollars or \$2  
14 billion, which one would you pick?

15 A. I'd pick neither.

16 Q. That's the only option you have,  
17 Mr. Vegas, 1 billion or 2 billion. Which would you  
18 pick?

19 A. I would pick the smaller.

20 Q. Okay. Thank you.

21 In your testimony, you talk about  
22 stringent standards for import capacity. Are you  
23 referring to the requirement to have firm  
24 transportation --

1 THE COURT REPORTER: I'm sorry, could  
2 you repeat that?

3 BY MR. OLIKER:

4 Q. Your testimony includes the statement,  
5 "PJM filed to establish more stringent standards for  
6 imported capacity after thousands of megawatts of  
7 imports cleared PJM, but exceeded the firm  
8 transmission capability of the existing transmission  
9 system."

10 In this statement, are you referring to  
11 the requirement that a unit be pseudo tied to PJM if  
12 it is an external resource in order to bid into the  
13 capacity market?

14 A. Yes.

15 Q. And you agree that those rules went into  
16 effect over two years ago?

17 A. Yes.

18 Q. Okay. You also talk about the credit  
19 rating risk that AEP Ohio would be taking on through  
20 this transaction, correct?

21 A. Could you refer me to where in my  
22 testimony?

23 Q. Sure. Give me a minute. I believe we  
24 are on Page 29 of your May testimony, Line 8.



1           A.    Yes.

2           Q.    Where it says, "Either of these actions  
3 would impact the Company's credit rating, which would  
4 increase the cost of investments in its distribution  
5 infrastructure."

6           A.    Yes.

7           Q.    Now, in this statement, are you  
8 indicating that it's a good thing that AEP takes on  
9 this risk?

10          A.    No.  We're responding to the question  
11 whether AEP Ohio has risk in this transaction, and  
12 we're pointing out that it does.

13          Q.    Okay.  And let's assume for a second  
14 that AEP's credit rating does go up.

15          A.    That it's adversely impacted?

16          Q.    Yes.  That AEP's credit rating is  
17 adversely impacted.  Would you agree that that could  
18 impact the cost of either debt or equity for AEP  
19 Ohio?

20          A.    Yes, it could.

21          Q.    And if that were the case, next time AEP  
22 Ohio filed a distribution rate case, that would flow  
23 through to your distribution customers, correct?

24          A.    That's correct.

1           Q.    So in the event that AEP's credit rating  
2   is diminished, the person that really loses out is  
3   the customer, correct?

4           A.    Correct.

5           Q.    Okay.  Just give me one more minute.  
6   You also discuss an impairment that AEP is taking --  
7   AEP Generation Resources is taking for certain book  
8   value, correct?

9           A.    Correct.

10          Q.    For purposes of calculating the revenue  
11   requirement in this transaction, do you know if the  
12   impairment was reversed?

13          A.    To my knowledge, it was not.

14          Q.    And --

15          A.    The impairment being referred to is not  
16   related to the units in this PPA.

17          Q.    Where is it the impairment relates to?

18          A.    To those units that were slated for  
19   retirement in May of 2015 and which have retired.

20          Q.    You cite the PJM 2014 Winter Report in  
21   your testimony, right, Mr. Vegas?

22          A.    Yes, I do.

23          Q.    Have you reviewed the 2015 Winter  
24   Report?

1           A.    Which report?  The 2015 -- what did you  
2           call it?

3           Q.    Winter Report.

4           A.    Winter Report.  No, I haven't reviewed  
5           that report yet.

6           Q.    Is there -- is there a reason why you  
7           didn't review it?

8           A.    No.

9           Q.    Would you agree that generation in the  
10          winter of 2014-'15 performed significantly better  
11          than the prior winter?

12          A.    Yes, it is my understanding.

13          Q.    Would you agree that cold-related forced  
14          outages were actually higher than natural gas  
15          interruptions?

16          A.    I'm not aware of that.  I just don't  
17          have knowledge of it.

18          Q.    Did you review the level of forced  
19          outages for all power plants in PJM during this past  
20          winter?

21          A.    I did not.

22          Q.    That's all the questions I have.  Thank  
23          you, Mr. Vegas.

24          A.    Okay.  You're welcome.

1 THE WITNESS: Mr. Darr.

2 - - -

3 CROSS-EXAMINATION

4 BY MR. DARR:

5 Q. Mr. Vegas.

6 A. It's your turn.

7 Q. Give me an idea what your timetable is  
8 at this point.

9 A. I'm good. I just have to be upstairs in  
10 this building at 3:30; so I'm good.

11 Q. Okay.

12 A. Just a few minutes before that.

13 MR. MICHAEL: Get to those other  
14 questions then, I held back on him.

15 BY MR. DARR:

16 Q. Throughout your testimony, Mr. Vegas,  
17 you used the term volatility.

18 A. Yes.

19 Q. Could you give us the definition of  
20 volatility that you're using throughout your  
21 testimony?

22 A. I'm using it generally to reflect  
23 significant increases or decreases in -- against what  
24 you could call an average over a longer period of

1 time.

2 Q. In that sense, you're not using it in  
3 the -- you're using it in what I would describe as a  
4 common parlance?

5 A. I am.

6 Q. And not in the sense of a statistical  
7 test of volatility?

8 A. Correct.

9 Q. With regard to the statistical test of  
10 volatility, are you familiar with that apart from  
11 your Master of Business Statistics course?

12 A. Only in that context in terms of, like,  
13 financial volatilities and betas and things like  
14 that. No, I'm not applying the statistical  
15 definition of it to this.

16 Q. So when you're describing volatility,  
17 for example, of January 2014, you're describing the  
18 significant changes in price that occurred over that  
19 month, correct?

20 A. Correct. Against the average during a  
21 prior similar period in a prior year, correct.

22 Q. Now, with regard to the PPA and the PPA  
23 rider, I'm going to refer to them in the collective  
24 for a moment, what is the product that a customer --

1 a retail customer is purchasing through this proposed  
2 rider and transaction? What do they get?

3 A. So the product that they get is very  
4 specifically a credit or a cost that will be in  
5 direct inverse proportion to the volatility change in  
6 price that occurs in both the real-time market.

7 So as energy and services are sold each  
8 day, price volatility that occurs during that day and  
9 over a longer period, they get that same inverse  
10 credit or charge from a long-term perspective in  
11 terms of capacity trends. So as capacity prices  
12 trend upwards or downwards in relation to the fleet  
13 of PPA units, they would get an inverse cost or  
14 credit. So they get essentially a financial product  
15 that moves in inverse proportion to the volatility in  
16 real-time pricing and long-term capacity pricing.

17 Q. Okay. So the difference or differential  
18 that we're looking at is a calculation based on the  
19 accounting costs that are identified in the draft PPA  
20 and some sort of calculation of the energy, capacity,  
21 and ancillary revenues received by AEP Ohio for the  
22 resale of those products purchased under the PPA?

23 A. Correct.

24 Q. Now, there are additional AEP Generation

1 Resources units that are not included in the purchase  
2 power agreement, and one of those is a hydro unit.

3 Why was that not considered, if you know?

4 A. I don't specifically know. However, I  
5 would -- I would assume that it wasn't considered  
6 because of its operational characteristics and its  
7 ability to be dispatched in a way that would conform  
8 with the capacity performance that was expected to be  
9 a requirement.

10 All of the units that were put on the  
11 table were expected to have an operational profile  
12 that would satisfy the capacity performance  
13 requirements of PJM.

14 Q. What about the two gas units that were  
15 not included?

16 A. Again, I would -- similar, I believe,  
17 based on their operational characteristics as well as  
18 their financial characteristics. So the  
19 qualifications or criteria that we looked at were  
20 those that were challenged economically in the  
21 current capacity pricing situation and operationally  
22 have the characteristics that we need. So I would  
23 have put the gas plants probably not meeting the  
24 requirements on both the financial and the

1 operational.

2 Q. Okay. And then there was one coal  
3 plant, Gavin.

4 A. Correct.

5 Q. That's not included. That is a baseload  
6 unit, correct?

7 A. It is.

8 Q. Is that unit not financially challenged?

9 A. I believe its financial characteristics  
10 are different than the ones -- are better than the  
11 ones that are in this PPA proposal, and as such were  
12 excluded from that.

13 Q. When you say that its financial  
14 characteristics were better, are you looking at it as  
15 a -- at the variable cost or some other metric to  
16 decide whether or not that unit is better or worse?

17 A. My understanding is that they looked at  
18 both the fixed and the variable costs in making  
19 assessments for all of the units. So I don't know  
20 which would have been distinguishing for Gavin, but  
21 they would have encompassed both fixed and variable.

22 Q. You did not seek bids, from our prior  
23 discussion, for this product that we've been  
24 discussing today, correct?



1           A.    That is correct.

2           Q.    If you were to seek bids, what is the  
3 product description that you would use?

4           A.    Well, it would be similar to I think  
5 what I discussed earlier in the deposition, and those  
6 characteristics would be plants that are known well  
7 by AEP operators, have strong reliability  
8 characteristics, are at risk of premature closing  
9 because of short-term capacity prices, continue to  
10 provide fuel diversity and continued operation to  
11 provide strong economical development support for  
12 Ohio.

13          Q.    So with those caveats or that  
14 description, is it fair to say that only an AEP-owned  
15 generating unit could meet all of those requirements?

16          A.    Yes.

17          Q.    So by definition, a bidding process  
18 would not have generated any different result in your  
19 mind?

20          A.    Correct.

21          Q.    You also in this proposal did not  
22 provide -- propose a levelization of the benefits.  
23 And by levelization, I'm using it in the same manner  
24 that Mr. Taylor suggested in his testimony in the ESP

1       III case.

2               A.    Can you remind me of Mr. Taylor's  
3       affiliation?

4               Q.    OEG.

5               A.    Thank you.

6               Q.    Are you comfortable with my using the  
7       term levelization?

8               A.    I am.

9               Q.    The company didn't propose that,  
10       correct?

11              A.    Correct.

12              Q.    Is there a reason why the company did  
13       not propose a levelization approach to this rider?

14              A.    At the time, and in the updated  
15       amendment, we see the benefits accruing positively to  
16       customers in a relatively short amount of time. The  
17       expected case -- which I use Witness Pearce's  
18       middle-of-the-road case as the expected case -- shows  
19       directly financial benefits beginning to accrue to  
20       customers in the '16/'17 PJM year.

21                       So in my judgment, those benefits would  
22       quickly get to customers which would only delay the  
23       benefits or -- of the effects of levelizing a very  
24       short amount of time, but I'm not saying that it is

1 something that the company would not be open to  
2 considering if that was a requirement of approval.

3 Q. And how long a period would the company  
4 consider a levelization approach, essentially placing  
5 the company with the responsibility of ponying up the  
6 credit? Pardon the slang, but that's the best I  
7 could come up with.

8 A. I think for a reasonable period would be  
9 a fairly short -- you know, a period of one, two,  
10 three years really is really at the most what would  
11 be reasonable. And I think there are accounting  
12 considerations beyond that that limit the ability --  
13 the company's ability to recognize revenues in a  
14 certain way and to book revenues.

15 So I think there's some accounting  
16 factors to be considered, and Witness Mitchell would  
17 certainly be able to be more clear on that point.  
18 But I think you'd have to stay inside that window for  
19 a level of reasonableness.

20 Q. Would you accept, subject to check, that  
21 a regulatory liability, I believe, can be created for  
22 a period of up to 10 years?

23 A. I believe that a regulatory liability  
24 can, but I don't believe that that's true for a

1 receivable. I believe there's different rules that  
2 apply to receivables.

3 Q. Okay. And do you know what that  
4 different rule is?

5 A. I don't know the rule, but I've heard  
6 less than three years in conversations with  
7 individuals, with specifically Witness Mitchell. So  
8 that's the framework that I'm using to very loosely  
9 and not on firm ground respond.

10 Q. Apart from the regulatory liability or  
11 regulatory asset point -- question, the accounting  
12 question, are there any other reasons why the  
13 levelization could not go beyond a three-year period?

14 A. I would -- I would want to evaluate --  
15 if we were to look at a levelization structure, I'd  
16 want to evaluate the total financial -- potential  
17 financial risk, carrying costs, you know, financial  
18 metrics of that nature to understand what the impacts  
19 would be to AEP Ohio during that period of time.  
20 Those would be the kinds of factors I would want to  
21 look at and understand better before agreeing to some  
22 kind of structure.

23 Q. Given that risk structure, wouldn't that  
24 risk structure be the same kind of risk/benefit

1 analysis that a customer would make in terms of  
2 deciding whether or not to accept this hedge or  
3 insurance as you've described it today?

4 A. I think it's difficult to compare apples  
5 to apples a corporation like AEP Ohio and its  
6 financial risk management practices and our  
7 accountabilities to credit agencies and shareholders  
8 and other stakeholders to an individual or resident.  
9 I think it's a tough comparison to make that it's  
10 equivalent.

11 Q. Well, isn't the risk management question  
12 the same in as much as the risk of levelization would  
13 fall on the company under one alternative, or in the  
14 alternative that you proposed, the risk of over or  
15 underperformance of the PPA-R falls on the customer?  
16 Aren't those questions mathematically the same?

17 A. They're mathematically the same, but the  
18 difference I think in your comparison is that we're  
19 proposing to provide all of the unlimited upside  
20 benefits to customers. We're not proposing to keep  
21 the unlimited upside benefits, or you're not  
22 proposing that you would in a levelization structure.

23 So you're asking us to take risks in the  
24 short-term with no potential upside benefits in the

1 long-term, where what we're offering is to give all  
2 upside benefits to customers throughout the period of  
3 this contract. So it's really not an equal  
4 comparison, you're only describing risks, you're not  
5 describing benefits.

6 Q. Okay. So if there were some benefit  
7 sharing, would that change your answer to my  
8 question?

9 A. It might.

10 Q. And how would it change it?

11 A. It would change the risk/reward  
12 calculation that I would use in evaluating the impact  
13 to AEP Ohio.

14 Q. So, for example, if AEP Ohio -- let's  
15 assume that the rider is approved. And if AEP Ohio  
16 agreed that this could continue as a term of the ESP,  
17 and there were a risk-sharing mechanism built into it  
18 such that if AEP Ohio, for whatever reason, was able  
19 to realize a benefit -- a financial benefit from the  
20 rider over and above the levelization, that would  
21 change your calculus in terms of whether or not  
22 levelization makes sense?

23 A. It would have an impact on the  
24 calculation, yes.

1           Q.    Just for a point of reference, have you  
2           reviewed the IMM reports -- the PJM IMM reports with  
3           regard to state of the market, either the -- one of  
4           the recent ones such as the one that was just issued  
5           or the one that preceded that?

6           A.    Very -- I think I read one of them, but  
7           I'll be honest, I wouldn't consider myself super  
8           familiar without having a chance to review it again.

9           Q.    In terms of identifying a witness for  
10          AEP Ohio, is Mr. Wittine the witness --

11          A.    Wittine.

12          Q.    -- the witness that I should refer to?

13          A.    Dr. Pearce would be a better witness for  
14          PJM market monitor analysis or interpretations.

15          Q.    Are you familiar with the current  
16          operating revenues -- let me rephrase this.

17                   Are you familiar with the current  
18          earnings situation with regard to the generating and  
19          marketing segment of AEP?  What I'm referencing here  
20          is AEP, the corporate entity.  As I understand it,  
21          you report for SEC purposes on a market segment -- on  
22          a segment basis.

23          A.    Yes.  I've seen the financial -- I've  
24          seen the external earnings reports that have been

1       communicated to Wall Street that include that  
2       segment.

3               Q.     And have you also reviewed the SEC  
4       documents that may have been filed reflecting segment  
5       information?

6               A.     I don't recall if I've reviewed those  
7       most recent SEC filings.

8               Q.     Are you familiar with the fact that over  
9       the second quarter -- quarter to quarter for 2014 and  
10      2015, the earnings of the generating and marketing  
11      segment went from \$98 million to \$82 million?

12              A.     That sounds correct.

13              Q.     And are you familiar with the fact that  
14      over the six months, January to June, 2014 and 2015,  
15      earnings increased from 261 million to 269 million?

16              A.     That sounds correct as well.

17              Q.     Now, in terms of these plants, prior to  
18      June of 2015 each of these plants was part of the FRR  
19      capacity component of PJM, correct?

20              A.     Correct.

21              Q.     And by FRR, we're talking about a fixed  
22      reliability requirement?

23              A.     Fixed resource requirement, yes.

24              Q.     Thank you. Thank you for correcting



1       that, yes.

2                   And under the arrangements between AEP  
3       Ohio and AEP Generation Resources, those plants were  
4       under contract for services provided to AEP Ohio,  
5       correct?

6           A.     Correct.

7           Q.     And there were pass-through provisions  
8       for revenues received by AEP Ohio --

9           A.     Correct.

10          Q.     -- to Generation Resources?

11          A.     To Generation Resources, correct.

12          Q.     And could you describe for us what those  
13       pass-through provisions were?

14               A.     Generally speaking, AEP Gen Resources  
15       was obligated to serve a specific percentage of AEP  
16       Ohio's SSO load during the ESP II period. That  
17       percentage changed in each of the years, and the --  
18       as the SSO load was auctioned off, portions of it  
19       were auctioned off, it was a diminishing amount of  
20       generation obligation that AEP Gen Resources had to  
21       provide to AEP Ohio SSO customers.

22               During that period, AEP Ohio collected  
23       from customers through retail rates the costs of  
24       those generation services that AEP Gen Resources

1 provided to our SSO customers, and we paid AEP Gen  
2 Resources for those services.

3 Q. And when you're talking about Generation  
4 Resources, you're talking about a diminishing portion  
5 of the energy component, correct?

6 A. Yes. Capacity was always covered by the  
7 fixed resource capacity requirement that had already  
8 been obligated through June of 2015.

9 Q. Right. Under the arrangement, basically  
10 AEP Generation Resources had the obligation for  
11 providing all capacity resources for all of the AEP  
12 Ohio load, correct?

13 A. Correct.

14 Q. With the caveat of there may have been  
15 some -- and I don't think there were -- but there may  
16 have been some CRES provider that provided capacity?

17 A. Excluding that, yes.

18 Q. That arrangement ended on June 1, 2015,  
19 correct?

20 A. That is correct.

21 Q. And is it fair to say that under the  
22 prior arrangement, AEP Generation Resources was  
23 receiving both the base generation component, the  
24 fuel component, and any capacity component that may

1 have been assigned to load that had gone to a CRES  
2 provider?

3 MR. NOURSE: Could we repeat the  
4 question, please?

5 (Record read back as requested.)

6 BY MR. DARR:

7 Q. And I should have added that had also --  
8 or had gone to an SSO provider, auction winner.

9 A. I'm getting -- I'm getting stuck on the  
10 definition -- the breakdown of base versus fuel  
11 versus capacity. We continued the -- the fuel clause  
12 remained in effect during that time period, and we  
13 continued to collect fuel expenses incurred in the  
14 delivery of power. We continued to collect capacity  
15 revenues in proportion to whatever the State mandated  
16 amount of capacity, you know, price was. On base  
17 generation, I'm -- I'm not sure.

18 Q. That's fair.

19 A. Okay.

20 Q. We can go back to the contracts that  
21 were approved by the Federal Energy Regulatory  
22 Commission and trace what went through --

23 A. Yeah.

24 Q. -- correct?

1           A.    Yes.

2           Q.    The capacity revenues that you were  
3 obligated to transfer to AEP -- when I'm speaking now  
4 of you, I mean AEP Ohio -- was obligated to transfer  
5 to AEP Generation Resources was established by the  
6 capacity order, correct?

7           A.    Correct.

8           Q.    And those were established at a rate of  
9 \$188.88 per megawatt day?

10          A.    That's correct.

11          Q.    Now, through 2014, is it fair to say  
12 that the earnings of AEP Ohio were at -- were  
13 reported to be 12.1 percent?

14          A.    Subject to check, that sounds correct.

15          Q.    And in August '15 investor meetings, for  
16 the first half of the year --

17          A.    Of 2015?

18          Q.    Of 2015, yes.

19                -- AEP was reporting -- AEP Ohio was  
20 reported to have a return on equity of 11.2 percent.  
21 Is that also correct?

22          A.    That is correct.

23          Q.    Now, is there any question about AEP  
24 Ohio's ability under its current distribution and ESP

1 rates to provide distribution facilities to meet  
2 current service standards?

3 A. No. There is no concern with that.

4 Q. Is there any concern about the company's  
5 ability to make the transmission investments that it  
6 might need to make to maintain service under the  
7 current ESP and distribution rates?

8 A. No, there isn't.

9 Q. Has there been any supply shortages due  
10 to a failure of an SSO or CRES provider?

11 A. Can you repeat the question?

12 Q. Sure. Have there been any supply  
13 shortages -- let me try that again.

14 A. Okay. Supply shortages.

15 Q. Supply shortages due to a failure of a  
16 standard service offer auction winner or a CRES  
17 provider to perform?

18 A. Just to answer very clearly, even if  
19 there were, PJM's financial -- market model is a  
20 financial model only. So even if a CRES or an SSO  
21 auction winner had a shortage of physical supply,  
22 their obligation to PJM is to make up the financial  
23 impact of that, and PJM ensures the reliability of  
24 generation supply.

1           Q.   And there haven't been any problems with  
2   regard to that other than emergency -- an emergency  
3   event like January 7th, 2014?

4           A.   That's correct.

5           Q.   Now, the auctions have just been  
6   completed -- complete the transitions by PJM for  
7   2016/'17, 2017/'18, correct?

8           A.   The -- those two transition auctions  
9   just completed.

10          Q.   And AEP recently reported publicly the  
11   effects of those transition auctions on its revenues,  
12   correct?

13          A.   That is correct.

14          Q.   And as a result of that, there has been  
15   an incremental improvement for 2016 of \$116 million;  
16   is that correct?

17          A.   I believe that's what it was reported,  
18   yes.

19          Q.   And there's been an incremental increase  
20   in revenues for 2017 of \$126 million, correct?

21          A.   That number sounds correct as well.

22          Q.   And would you agree -- are you familiar  
23   with the materials that were distributed through the  
24   AEP website that outlined the effects of the capacity

1 performance transition auction?

2 A. I'd have to see them to validate whether  
3 I was or not. I'm not sure which ones you're  
4 referring to.

5 Q. Let's mark this as Deposition Exhibit 3.

6 (EXHIBIT MARKED FOR IDENTIFICATION.)

7 BY MR. DARR:

8 Q. Do you have in front of you what's been  
9 marked as Deposition Exhibit 3?

10 A. I do.

11 Q. Have you seen this before?

12 A. I have seen the content, but not this  
13 slide.

14 Q. And the slide you're referring to is  
15 Page 3 of Deposition Exhibit 3; is that correct?

16 A. That's correct.

17 Q. And does this fairly and accurately  
18 represent the information that you're familiar with  
19 indicating the effects of the capacity performance  
20 auctions by PJM on the AEP revenue?

21 A. Yes, it is.

22 Q. That's all we'll use that for.

23 A. Okay.

24 MR. BZDOK: Could I borrow your copy

1 just for a second to look at it?

2 BY MR. DARR:

3 Q. The inclusion of the OVEC component in  
4 the proposal that was filed in May of 2015, you  
5 indicated earlier that there was a decision made, a  
6 review process entered into, and then the filing in  
7 May of 2015. All of this was responsive to the  
8 Commission's decision in February of 2015 with regard  
9 to your original OVEC proposal, correct?

10 A. That's correct.

11 Q. With regard to the OVEC facilities, has  
12 there been any material change other than the  
13 extension -- proposed extension to 2040 to the  
14 proposal with regard to just the OVEC component?

15 A. No, there hasn't.

16 Q. So if we went back and looked at the  
17 agreement between AEP Ohio and OVEC, we would be  
18 relying on the same agreement, correct?

19 A. That's correct.

20 Q. With regard to the documentation over at  
21 least the first three years of the proposal, has  
22 there been any change in the calculations associated  
23 with the performance of that part of the PPA, if you  
24 know?



1           A.    My understanding is that the updated  
2           forecast that Dr. Pearce presented for the amended  
3           May filing had updates for OVEC units as well as AEP  
4           Generation Resources units based on current budgets  
5           and current forecasts.

6           Q.    And that answers my second question.

7           A.    Yes.

8           Q.    So you adjusted both the forecasted  
9           revenues and the forecasted costs?

10          A.    Correct. That's my understanding, but I  
11          would like to confirm that with Dr. Pearce.

12          Q.    Based on the record that was developed  
13          in the prior case, I believe that there was  
14          approximately an \$8 million net credit to customers  
15          estimated by AEP Ohio. Do you know whether or not  
16          that credit, based on the changes that you just  
17          described, has increased, decreased, or remained the  
18          same?

19          A.    I believe it's increased.

20          Q.    Do you know how much?

21          A.    No, I don't, but I'm sure we could get  
22          that.

23          Q.    Would you agree with me that the  
24          generation mix of AEP -- I'm talking about the

1 corporate generation mix -- changes over time?

2 A. It does.

3 Q. And, in fact, the generation mix for AEP  
4 now includes additional natural gas, correct, natural  
5 gas generation?

6 A. It does.

7 Q. And relatively speaking, the amount of  
8 coal generation is decreasing?

9 A. It is.

10 Q. And the amount of energy efficiency is  
11 increasing as part of the generation mix?

12 A. I would have to verify that. I know  
13 what's happening with the AEP Ohio energy efficiency  
14 programs, and that is increasing or had been  
15 increasing per State requirements. I'm not sure  
16 personally what's going on with the rest of the AEP  
17 fleet.

18 Q. Would that be something that we could  
19 identify in, for example, investor statements --  
20 statements to investors?

21 A. Perhaps. It would be fair to  
22 characterize that for AEP Ohio, yeah.

23 Q. Okay. Let me hand you what's been  
24 marked as Deposition Exhibit No. 4.

1 (EXHIBIT MARKED FOR IDENTIFICATION.)

2 BY MR. DARR:

3 Q. Do you have in front of you what's been  
4 marked as Deposition Exhibit No. 4?

5 A. I do.

6 Q. Do you recognize this?

7 A. Yes. This is the investment report that  
8 was given to investors in August of this year.

9 Q. And have you reviewed this previously?

10 A. I have reviewed this.

11 Q. And in terms of the documents provided  
12 by AEP Ohio -- AEP to -- for investor meetings, do  
13 these fairly and accurately represent the statistical  
14 information that's available from the company?

15 A. They do.

16 Q. Turning your attention to Page 5 of this  
17 document. I'm not asking for you to read this in or  
18 anything like that, but is it fair to say that energy  
19 efficiency and demand response is increasing as part  
20 of the portfolio of AEP?

21 A. Yes, it is.

22 Q. Is it also fair to say that hydro, wind,  
23 solar, and pumped storage, renewable resources, are  
24 increasing as a percentage of the portfolio?

1           A.    Yes, it is.

2           Q.    And it's also fair to say that natural  
3 gas is increasing as part of the portfolio, correct?

4           A.    That is correct.

5           Q.    And in terms of the overall portfolio,  
6 is the portfolio increasing or decreasing over time  
7 in terms of total megawatts?

8           A.    The total portfolio is decreasing.

9           Q.    Okay. How is it decreasing?

10          A.    The retirements of coal units are not  
11 being replaced megawatt by megawatt with a  
12 combination of the other three sources that are  
13 listed here.

14          Q.    So, in effect, the portfolio is becoming  
15 more diverse simply because of the fact that you're  
16 having retirements or in part because you're having  
17 retirements of coal plants, particularly those in --  
18 that were closed in May of 2015?

19          A.    That's correct.

20          Q.    A couple of times today you indicated  
21 that there was information which you did not have  
22 access to because of either confidentiality  
23 requirements or some other requirement. Can you  
24 describe for us what the restrictions or constraints

1 are that you're talking about?

2 A. In general. I don't get any visibility  
3 to costs, revenue, earnings, or operational decisions  
4 that are employed by or used by the competitive  
5 generation business. And then -- so AEP Ohio is a  
6 regulated entity. Me representing AEP Ohio, I don't  
7 get visibility to that.

8 Then I was also referring to there's  
9 specific information, like bidding strategies, the  
10 number of units, the costs that they're bid at that I  
11 don't believe anybody gets access to outside of that  
12 competitive generating unit.

13 Q. And that would -- that would apply to  
14 both -- let me start again. Let's start with the  
15 first category.

16 There's certain information which is  
17 segregated by business unit; is that correct?

18 A. Correct.

19 Q. And what is the source of the rule or  
20 requirement that causes that segregation?

21 A. We -- I'm not sure the source, but we  
22 have an internal -- we call it a rules of the road,  
23 which describe what information can be shared between  
24 a competitive energy affiliate, the service

1 corporation who provides services to that unit and to  
2 regulated units, and then to any regulated units. So  
3 we have kind of those three entities.

4 And that training provides clear  
5 delineation of what kind of information can be shared  
6 between any one of those units at any point in time.  
7 That's the source of -- that I'm referring to.

8 Q. Now, the secondary reference that you  
9 made to information with regard to billing  
10 strategies --

11 A. Bidding.

12 Q. Bidding strategies, excuse me. The  
13 context that I remember that from this morning  
14 related to bidding strategies of those that were  
15 bidding into the SSO auctions.

16 A. Correct.

17 Q. Is -- are you using that in another  
18 context as well, or is it limited to that first  
19 context?

20 A. It would be the SSO auctions or into the  
21 capacity auctions.

22 Q. And there you're talking about capacity  
23 auctions where AEP Generation may be bidding in?

24 A. Correct.

1           Q.    Now, would these same restrictions apply  
2           to the business activities of your competitive retail  
3           affiliate?

4           A.    Yes, they would.

5           Q.    And by that, we're talking about AEP  
6           Retail, AEP Energy?

7           A.    AEP Energy.

8           Q.    Would both sets of requirements apply,  
9           or only the first set dealing with the sharing of --

10          A.    I believe both sets would apply  
11          because -- I don't even know. Both sets would apply.

12          Q.    Now, with regard to information that  
13          would not be available to you, would you have  
14          available to you under these rules of the road that  
15          you just described production cost information?

16               MR. NOURSE:   For what, anything?

17               THE WITNESS:   For PJM AEP Generation  
18          Resources units.

19          BY MR. DARR:

20          Q.    For AEP Generation Resources units?

21          A.    No. I would not have access to that  
22          information.

23          Q.    What about individual generator heat  
24          rates?

1           A.    No.

2           Q.    What about historical generator volumes?

3           A.    I would have access to that data up to  
4           the end of 2013 when that information was available  
5           to me. After that point in time, all the production  
6           cost information and the operational information I  
7           don't get access to.

8           Q.    And that will be true going forward as  
9           well?

10          A.    Not under the PPA. Under the PPA, we  
11          have a different expectation of information sharing.

12          Q.    Okay. What's the basis of that  
13          expectation, other than the agreement itself?

14          A.    The expectation would be that in order  
15          for me to have a contract where I'm financially  
16          obligated for those units, I become a buyer of the  
17          product, then it entitles me to more visibility and  
18          access to production costs, unit bidding, all of the  
19          types of decisions and information that would be  
20          necessary for me to be a buyer of those services from  
21          AEP Gen Resources.

22                    Today I'm not, at least not outside of  
23          an SSO auction which is done at an arm's-length  
24          transaction, I won't have any need or right to that



1 information. But under the contract, I would have a  
2 need and a right to that information.

3 Q. Okay. You used the term arm's-length  
4 transaction. What did you mean by that?

5 A. What I mean is that when we facilitate  
6 the auction process for the SSO, we have a  
7 third-party administrator come in and do it. Through  
8 a well-defined, structured process, bids are accepted  
9 and offered in to serve AEP Ohio's SSO load. That's  
10 what I mean by a third-party or an arm's-length  
11 transaction.

12 Q. So essentially what you're telling us  
13 today is that the rules of the road that would apply  
14 to your relationship with AEP Generation Resources  
15 would be altered or changed by the adoption of the  
16 PPA?

17 A. Yes. They would have to.

18 Q. Do you know if AEP Generation Resources  
19 enters into bilateral contracts today?

20 A. I'm not aware of -- I'm not aware of  
21 bilateral contracts that they are involved in. I'm  
22 sure they do. It's a normal type of contract to  
23 enter in. So I wouldn't be surprised that they do,  
24 but I'm not aware of them.

1           Q.    Are you aware of any information-sharing  
2           arrangements similar to what you've just described  
3           for the PPA that may exist for bilateral contracts  
4           between AEP Generation Resources and a third party?

5           A.    No, I'm not.

6           Q.    I want to just spend a couple minutes  
7           talking about the arrangements between AEP Ohio and  
8           its SSO auction bidders. A successful bidder is  
9           basically a price taker with regard to the price that  
10          emerges from the auction; is that correct?

11          A.    Correct.

12          Q.    And as a price taker, it assumes all  
13          supply risk for that portion of its tranches -- or  
14          for those tranches that it's successful with?

15          A.    I believe that's correct.

16          Q.    And for those tranches that it's  
17          successful with -- successful purchasing, it also  
18          assumes any wholesale price risk associated with  
19          procuring that generation, correct?

20          A.    That's correct.

21          Q.    With regard to the customer -- the  
22          retail customer, the retail customer is also a price  
23          taker, correct?

24          A.    The retail customer can shop for what

1 price it chooses to take.

2 Q. Good point. So in a sense -- in that  
3 sense, the retail customer can elect to either take  
4 the SSO price or the alternative CRES price if one is  
5 available?

6 A. Correct.

7 Q. And that CRES customer -- or that retail  
8 customer can elect to take any one of a number of  
9 different products with regard to how the price is  
10 set for his generation, correct?

11 A. Based on what's available, yes, they can  
12 elect to take any option that's available in the  
13 market.

14 Q. And those options could include, for  
15 example, a contract for a firm price for a set period  
16 of time?

17 A. It could.

18 Q. The customer could take a contract -- or  
19 enter into a contract that moves with a -- an index,  
20 correct?

21 A. That is correct.

22 Q. And the customer could come up -- could  
23 enter into a contract that might include a  
24 combination of both fixed and variable charges,

1 correct?

2 A. It could, yes, if those products were  
3 available, yes.

4 Q. Are you familiar with whether or not  
5 there are fixed contracts available?

6 A. I am.

7 Q. Are there?

8 A. Yes, there are.

9 Q. What about variable contracts?

10 A. Yes.

11 Q. What about block and firm contracts?

12 A. I believe there are, but I'm not --  
13 depending on what customer class they're available  
14 for. I'm not aware of block -- block load offers for  
15 residential customers.

16 Q. What about for commercial or industrial?

17 A. I believe they are, yes.

18 Q. And these price -- now we will tap into  
19 your Master of Business Degree. These price  
20 structures basically are risk assignments, correct?

21 A. Yeah. Risk is a significant component.

22 Q. And for the customer that wants to avoid  
23 risk, they -- over a set period of time, they could  
24 enter into a fixed contract to set that price?

1           A.    They could.

2           Q.    And those that are less concerned about  
3 the risk or more willing to take on risk could enter  
4 into a market tracking contract?

5           A.    They could.

6           Q.    Or by the same token, based on risk  
7 assessment they could block some and allow some to  
8 vary?

9           A.    That's right.

10          Q.    Now, with regard to the purchase power  
11 agreement rider, the customer would pay whatever its  
12 contract price is, whether it's under the SSO or the  
13 contract with the CRES provider, and then would  
14 adjust that price by the amount of the credit or  
15 charge, correct?

16          A.    That's correct.

17          Q.    There was something I didn't quite  
18 understand in your testimony at Page 14, Lines 2  
19 through 4. There you refer to premature closure by  
20 replacement with a variable-cost unit. What are you  
21 referring to, the variable-cost unit?

22          A.    Referring to natural gas plants.

23          Q.    And you also refer to them as being a  
24 higher variable-cost unit. What's your basis for

1 concluding that they are a higher variable-cost unit?

2 A. Using the projections that Dr. Pearce  
3 put out on the price of energy forecasts in the  
4 future, which is tied directly to the price of  
5 natural gas. So the assumption that I'm using in  
6 that statement is that natural gas prices go up,  
7 which drives those higher energy costs in the  
8 forecast, and those are the units that would be  
9 replacing the coal plants that retire.

10 Q. So the reference to higher in this  
11 instance refers -- is tied to Dr. Pearce's  
12 projections of forward gas prices?

13 A. That's correct.

14 Q. Another clarification I'd like to ask  
15 for relates to Page 23, Line 11. You state at that  
16 point, "The lack of new Ohio generation identified in  
17 the PJM Generation Queue is alarming enough..."

18 The PJM generation queue that you're  
19 referring to here, is that -- what specifically are  
20 you referring to?

21 A. I'm referring to the generation queue  
22 that is identified in Witness Wittine's testimony  
23 that lists the generation that has been identified at  
24 various stages of approval and development.

1           Q.   And going back to my question earlier  
2           about the source of this: Is this relying on the  
3           State of the Market Reports or some other source if  
4           you know?

5           A.   Is what relying on it, my observation on  
6           alarming queue?

7           Q.   Either that or Mr. Wittine's statement  
8           about what is in the queue.

9           A.   That comes, I believe, from -- directly  
10          from the PJM -- from a PJM source that identifies  
11          generation by location and by state of development.

12          Q.   I'm familiar with that in the IMM State  
13          of the Market Reports. Is there another source that  
14          you may have relied upon here?

15          A.   Let me just make a quick reference to  
16          that testimony to validate if there is another one  
17          that I was referring to. I am not certain which  
18          specific report in PJM that this table data comes  
19          from, but Witness Wittine could certainly provide  
20          that detail.

21          Q.   Thank you.

22          A.   I'm referring to Page 5, the table at  
23          the top of his testimony.

24          Q.   Another clarification I'd like to ask

1     you about is on Page 29, Line 6. There you discuss  
2     the allocation of financial risk, and indicate that  
3     AEP Ohio's at risk for the PPA rider balance being  
4     disallowed in a future proceeding or the affiliated  
5     PPA not being renewed.

6             Starting with the disallowance, this is  
7     the discussion that you and counsel for Sierra had  
8     this morning, correct?

9             A. It is.

10            Q. The review process that you were  
11     discussing this morning appeared to be a conversation  
12     or discussion or review between AEP Ohio and the  
13     Commission. Is that a correct description of what  
14     you were describing?

15            A. It is.

16            Q. If there were a disallowance, would AEP  
17     Ohio have an opportunity to contest that  
18     disallowance?

19            A. I believe it would.

20            Q. If the Commission completed a review and  
21     allowed in a cost and a third party wished to contest  
22     that allowance, would this process that you described  
23     allow for that third party to contest the allowance?

24            A. The process I'm envisioning is between



1 AEP Ohio and the Commission and not other parties; so  
2 the answer would be no.

3 Q. So it would be bilateral between the  
4 Commission and AEP Ohio?

5 A. That's the process I'm envisioning  
6 coming out of this, yes.

7 Q. Earlier today you also indicated it was  
8 always intended that the PUCO have the opportunity to  
9 review the prudence of investment decisions. And I  
10 want to follow up on that a little bit.

11 A. Yes.

12 Q. You indicated that this would be limited  
13 to significant investment decisions, and then you  
14 were asked the question: Well, what's significant?  
15 Do you recall that?

16 A. I do.

17 Q. I want to drill down another direction  
18 on this, and that is would a decision to expand or  
19 contract or convert the facilities constitute a  
20 significant investment decision?

21 A. It would.

22 Q. Would this review process take place  
23 before or after a -- an expansion, contraction, or  
24 converting of the facilities?

1           A.    I would envision it would happen before  
2           that decision was made.

3           Q.    What about the decision to modify the  
4           financing of the transaction, either by altering, for  
5           example, the debt/equity structure or a mechanism to  
6           define what the return on the investment is?

7           A.    If I could answer the last part of that  
8           question, I don't believe modifying the return on the  
9           investment is something that would be subject to  
10          change as that would be a -- kind of a predefined  
11          formula established in the contract. But if that or  
12          some other significant financing were to be proposed  
13          to be changed, that would be something that I would  
14          anticipate bringing to the Commission in advance  
15          because that would be a significant change.

16          Q.    All right. I believe you discussed with  
17          counsel for Sierra environmental upgrades. You've  
18          already identified certain environmental upgrades in  
19          the budgets. If there were additional environmental  
20          upgrades, would those be part of the review process?

21          A.    Yes, they would.

22          Q.    You indicated to counsel for Sierra that  
23          fuel would be an issue. What about fuel mix?

24          A.    I think the operating committee and

1 predominantly the operator would make the most --  
2 would be the best evaluator of fuel.

3 If I could back up and ask a question  
4 first. Are you referring to a potential co-firing  
5 situation where a coal plant is fueled by both gas  
6 and coal, or are you talking about a coal plant being  
7 fueled by different sources of coal?

8 Q. I was speaking of the latter.

9 A. Okay.

10 Q. We talked about conversion before. Any  
11 of these plants would have to be converted to go to a  
12 dual fuel?

13 A. I would expect that decisions around how  
14 to fuel plants would be done predominantly by AEP Gen  
15 Resources with knowledge of AEP Ohio, but that would  
16 not be an issue that would be a Commission  
17 approval -- preapproval scenario.

18 Q. What about decisions about consumables,  
19 for example, environmental consumables?

20 A. To the extent that those decisions don't  
21 have a material affect on retail rates, I don't  
22 envision those would have to be something  
23 preapproved.

24 Q. How about something like labor

1 contracts?

2 A. Similar answer, same answer; to the  
3 extent they don't have a material affect on rates,  
4 they wouldn't need to be preapproved.

5 Q. Okay. So it becomes very important to  
6 know what the materiality level is, correct?

7 A. Sure.

8 Q. And at this point, your definition of  
9 materiality is that it would have a substantial  
10 impact on the rate or charge?

11 A. It does. That would be the primary  
12 criteria.

13 Q. But in terms of setting a materiality  
14 threshold of a billion dollars, a million dollars, or  
15 someplace in between, can't really do that at this  
16 point; is that fair?

17 A. I think that's fair. I think we would  
18 need to discuss that more -- in more depth around the  
19 terms of structuring the review and audit process.

20 Q. You also say on Line 7 that the company  
21 faces the risk of not having the affiliated PPA  
22 renewed. I don't understand what this means. Could  
23 you explain it to us, please?

24 A. I believe what we're saying here -- I

1 think it may be a little bit misleading in terms of  
2 the words. I believe the intent here -- my intent is  
3 the PPA rider renewed, not the PPA, because the PPA,  
4 would be established for the term defined. There  
5 would be a renewal process required for that PPA.

6 So I think this is a mis- -- a  
7 miswording on what's intended. And what I am  
8 intending to say is that the PPA rider could not --  
9 might not be approved -- or may not be renewed in a  
10 future ESP period.

11 Q. So the condition under this proposal  
12 would have the option in the future ESP of suspending  
13 or terminating the rider; is that correct?

14 A. We hope not. But we expect that in  
15 their approval now that they would be indicating the  
16 intention to approve that rider in the future,  
17 otherwise we wouldn't -- because that is a  
18 significant risk. But it is a risk, yes, that they  
19 could in a future time, a different Commission with  
20 different decision criteria could say this is not in  
21 the best interest and not renew it.

22 Q. And if that were to occur under the  
23 draft purchase power agreement, there's a potential  
24 of the acceleration payment by AEP Ohio to Generation

1 Resources for the net book value of the facilities,  
2 correct?

3 A. If at the point of that decision it's  
4 decided to terminate the contract and to shut down  
5 the power plants, then, yes, that's correct.

6 Q. So there's another condition besides  
7 regulatory disapproval, the plant -- the operating  
8 committee would also have to make a decision to shut  
9 the plants?

10 A. Correct.

11 Q. Could it shut some and not others?

12 A. I think at that point, yes, a variety of  
13 options would be evaluated by the owners; shutting  
14 down, selling, converting, whatever other options  
15 might be available, but, yes.

16 Q. Also with counsel for Sierra Club, you  
17 mentioned that there was -- that the rider was  
18 reconcilable. Do you recall that?

19 A. Yes.

20 Q. And one of the things that you mentioned  
21 was that it could be reconciled for disapproved  
22 investments; is that correct?

23 A. That's correct.

24 Q. I thought a couple minutes ago that any

1 decisions about investments would be made  
2 preconstruction. So under what circumstances do you  
3 see -- preconstruction or preinclusion, under what  
4 circumstances do you see a reconciliation taking  
5 place because of a disapproval?

6 A. It could be in the circumstance of  
7 something that was below the materiality threshold to  
8 bring for preapproval, that upon a prudence review  
9 was determined to be imprudent as one example.

10 Q. Would this rider also account for  
11 changes -- excuse me -- would it also be reconciled  
12 for changes in sales or changes in volumes of  
13 generation purchased?

14 MR. NOURSE: I object. I don't  
15 understand your question.

16 MR. DARR: Does Mr. Vegas understand?

17 THE WITNESS: If I could ask a  
18 clarifying. Are you referring to changes in volumes  
19 of generation purchased and sold between AEP Gen  
20 Resources and AEP Ohio?

21 BY MR. DARR:

22 Q. Yes.

23 A. As those volumes increase and decrease,  
24 then the cost would increase and decrease. So, yes,

1       that would have an effect on the -- what needed to be  
2       credited or collected through the PPA rider.

3               Q.     Would it also be reconciled for  
4       increases or decreases in the formula rates that  
5       would take -- that may occur over the life of the  
6       rider?

7               A.     Yes, it would.

8               Q.     Would it also reconcile for any judicial  
9       findings with regard to the lawfulness or  
10      reasonableness of either the rider or any components  
11      of the rider?

12              A.     I don't know. I'm not sure how that  
13      would affect --

14              Q.     Yeah. You have not addressed that yet.

15              A.     Have not addressed that yet. My  
16      assumption would be yes, absent -- my assumption at  
17      this time would be yes.

18              Q.     Thank you.

19              A.     You're welcome.

20                      MR. NOURSE: All right.

21                      THE WITNESS: Two-minute break.

22                      MR. NOURSE: Just a quick break, and  
23      we'll start back about 3:00.

24                      (Recess taken.)



1 MR. NOURSE: We're back. Gretchen, you  
2 going to go next?

3 MS. PETRUCCI: Yes. I'd be happy to.

4 - - -

5 CROSS-EXAMINATION

6 BY MS. PETRUCCI:

7 Q. Can you tell me when AEP Ohio completed  
8 divestiture of the PPA units that are now with AEPGR?

9 A. In December of 2013.

10 Q. You said '13?

11 A. Yes.

12 Q. Thank you. Do you know when the  
13 divestiture of those PPA units with AEPGR began?

14 A. Earlier that year, that same year.

15 Q. If you could turn to Page 4 in your  
16 testimony from May of this year.

17 A. Yes.

18 Q. On Lines 3 and 4, you indicate that the  
19 PPAs will provide, among other things, reasonably  
20 priced power for years to come.

21 A. Yes.

22 Q. What time period are you talking about?

23 A. For the time period through the life of  
24 the -- of the -- this contract, through the full life

1 of that contract.

2 Q. AEP has not done forecasts of the prices  
3 beyond 2024, has it?

4 A. That's correct.

5 Q. Okay. And then with respect to what  
6 Dr. Pearce included in his testimony, there were four  
7 scenarios provided, isn't that correct?

8 A. I'm taking a look.

9 Q. It's on KDP-2.

10 A. KDP-2. There we are. Oh, yes, there's  
11 the weather normalized case, yes.

12 Q. Okay. And when you referred earlier to  
13 the medium case --

14 A. I was referring to the average of  
15 high-load and low-load forecasts.

16 Q. Thank you. With respect to  
17 reconciliation of the PPA rider, I believe you stated  
18 earlier that you -- that AEP is proposing an annual  
19 reconciliation.

20 A. That's correct. And I believe Witness  
21 Allen also notes in his testimony that more frequent  
22 reconciliation would be acceptable as well, quarterly  
23 as an example.

24 Q. Okay. Thank you.

1                   What is the more frequent reconciliation  
2                   that would be acceptable?

3                   A.     Quarterly.

4                   Q.     Who manages each of the PPA units  
5                   currently?

6                   A.     There's a plant manager underneath the  
7                   AEP Generation Resources organization that's  
8                   responsible for the operations of the units, and then  
9                   those plant managers report to an executive that have  
10                  overall operational responsibility, and that  
11                  executive is Toby Thomas.

12                  Q.     And then the OVEC units are separate,  
13                  correct?

14                  A.     That's correct. They're a different  
15                  business entity, and they report up under a different  
16                  reporting structure.

17                  Q.     Now, with the terms of the PPA agreement  
18                  that's been discussed earlier, it's going to be AEP  
19                  Ohio that's going to have what you described I think  
20                  as a 50/50 opportunity or a 50/50 say in the  
21                  authority for arranging generation, delivery, and  
22                  receipt of energy for those AEPGR PPA units, right?

23                  A.     Correct.

24                  Q.     So the current management of those

1 PPA -- the AEPGR PPA units is going to change if this  
2 PPA agreement is approved, correct?

3 A. Not necessarily, no.

4 Q. Isn't -- you indicated earlier that you  
5 personally are going to be on the operating committee  
6 and that you would have a 50/50 say, isn't that  
7 accurate?

8 A. That is correct.

9 Q. And currently you don't have a 50/50 say  
10 on the management of those AEPGR plants, do you?

11 A. I have no say in the operations of those  
12 plants today, that's correct.

13 Q. Okay. And then also on to this  
14 agreement, AEP Ohio is going to have the authority to  
15 dispatch the AEPGR units in the PPA, correct?

16 A. AEP Ohio or its agent, yes, our service  
17 company, that's correct.

18 Q. And that agent would be doing it on  
19 behalf of AEP Ohio, correct?

20 A. That's correct.

21 Q. And during this time, if this PPA is  
22 approved as it's been proposed, during this same time  
23 period the AEPGR units are going to remain divested?

24 A. That's correct. They'll remain owned by

1 AEP Generation Resources.

2 Q. I had a quick clarification about the  
3 megawatts that are involved in the plants. Your  
4 testimony on -- I'm sorry, in your chart --

5 A. Page 12.

6 Q. Thank you. You're ahead of me.

7 -- lists the OVEC units as having 440  
8 megawatts, and Mr. -- Dr. Pearce's testimony has a  
9 different megawatt figure. Is one to be relied upon  
10 versus the other, do you know? I can give you the  
11 page reference if you need Dr. Pearce's.

12 A. I do. Thank you. Could you give that  
13 to me?

14 Q. On Page 10.

15 A. On Page 10.

16 Q. Lines 16 to 17.

17 A. Thank you. Page 10. That's Page 16.

18 Q. Page 10, Lines 16 to 17.

19 A. I would rely more accurately on  
20 Dr. Pearce's. Mine looks like a rounding of the  
21 total nameplate capacity of those units, and  
22 Dr. Pearce's is more than likely a more precise  
23 measure of percentages allocated to AEP Ohio.

24 Q. Okay. Thank you.

1                   Next, if we can turn back to your  
2                   testimony on Page 13, and on Lines 13 through 19 you  
3                   listed the benefits from the PPAs. Is that an order  
4                   of -- is that a ranking of the benefits or is it just  
5                   a plain list?

6                   A.     It's just a plain list.

7                   Q.     You also describe the bubble  
8                   associated -- that each of the PPA units is on the  
9                   economic bubble. That's Page 16 of your testimony.  
10                  Are some of the units more on the bubble than others?

11                  A.     Yes. All of the units have different  
12                  cost profiles; so they would all have different  
13                  positions on that economic line.

14                  Q.     Okay. Which one's more on the bubble  
15                  than -- what I'm looking for is maybe which one or  
16                  two at the top of the bubble and which one or two at  
17                  the bottom of the bubble.

18                  A.     I don't know those specifics. I would  
19                  ask either Witness Pearce or Witness Thomas, but  
20                  probably Witness Pearce would be the best candidate  
21                  to give you that -- the best witness to give you that  
22                  information. I'm not sure the ranking of these units  
23                  economically.

24                  Q.     Okay. In that answer were you only

1 referring to the AEPGR units, or were you also  
2 referring to the OVEC units?

3 A. Also referring to the OVEC units.

4 Q. Okay. And would Witness Pearce or  
5 Witness Thomas also be able to answer with respect to  
6 the OVEC units?

7 A. Witness Pearce would.

8 Q. Okay. Thank you. I'm trying to go  
9 quickly here, and I'm jumping around.

10 Which of the units -- the PPA units  
11 qualify as a capacity performance resource?

12 A. That's confidential information. I  
13 don't know. I'm not aware which ones specifically  
14 cleared in the bidding process. We've released that  
15 information in aggregate which is part of the  
16 information that was shared by counsel for IEU, but  
17 the specific units have not been released publicly.

18 MR. NOURSE: Gretchen, I'll add, there's  
19 some discovery responses as well.

20 MS. PETRUCCI: That was going to be my  
21 next question. And it just may not have filtered  
22 down to me yet.

23 MR. NOURSE: Okay. You can call me  
24 later if you want to, I can direct you. There's some

1       that are pending and some that are already out, but  
2       it doesn't go unit by unit at this point, but --

3               THE WITNESS: Eventually it will have  
4       to, but --

5               MR. NOURSE: Yeah.

6       BY MS. PETRUCCI:

7               Q.     Turning to Page 23.

8               A.     Yes.

9               Q.     Line 7 you refer to two plants that have  
10       been identified as under construction in Ohio in the  
11       PJM generation queue. Which two plants are those?

12              A.     I'm referring to -- I think to help  
13       answer that question, I'm looking at Witness  
14       Wittine's testimony. That's where I took that  
15       information from.

16              Q.     Okay. That's fine.

17                     Were you meaning -- my next question is,  
18       because you referred to two wind projects on Page 24  
19       on that first line, I was wondering if you were --

20              A.     No.

21              Q.     -- referring to those two wind projects  
22       or not?

23              A.     Can you tell me the page of that one  
24       again?



1 Q. On Page 24, Line 1.

2 A. Yeah. Those two were -- are two wind  
3 projects that are actually in service. So the point  
4 I was trying to make is that except for those two  
5 wind projects, none have actually been put in service  
6 since the RPM model has been put in place.

7 And then the two plants that I'm  
8 referring to on Page 23 are the ones that are under  
9 construction, and I believe they're the Middletown  
10 Energy Center and the Oregon Clean Energy, I believe,  
11 or maybe -- no. Hold on. I would check with Witness  
12 Wittine on which specific plants are in the  
13 construction phase.

14 Q. Okay. Thank you.

15 A. They came from his testimony. I  
16 believe -- actually my understanding is the Carroll  
17 County and the Middletown Energy Center.

18 Q. Okay. I'm quickly looking over to see  
19 if we have time for anything else. One moment. I  
20 think that's all. Thank you very much.

21 A. You're welcome.

22 MR. NOURSE: Thanks. And Mr. Vickers.

23 - - -

24

## CROSS-EXAMINATION

BY MR. VICKERS:

Q. Yeah. In an effort to get everyone out of here on time, let me just triage a couple questions here.

When we're discussing the Commission oversight of the PPA process, what opportunities, if any, does the company envision for intervenor participation in that process going forward?

A. At this time, we haven't contemplated an intervenor process in that review. It's been considered a process between the PUCO and AEP Ohio.

Q. And any -- would there be any effect on AEPGR if rider costs were not allowed by the Commission going down the road, would there be any issue?

A. If the disallowances became so material that it would qualify under the contract definition as a significant regulatory change in the terms, then the -- then AEP Ohio would have the right to terminate that contract.

Q. And is there at this point a specific definition of what would count as material or not?

A. There's not.

1           Q.    Do you have any idea?  Would that be a  
2   dollar amount?  Would that be some other --

3           A.    It would be a threshold.

4           Q.    Okay.

5           A.    Something that would materially affect  
6   the financials of AEP Ohio.

7           Q.    And do you have any kind of estimate of  
8   what the minimum thresholds of that would be?

9           A.    I don't.

10          Q.    If -- well, so thinking about that some  
11   more, if there was an amount that didn't reach this  
12   material level such that the agreement would be  
13   terminated but that might still be a substantial  
14   amount of money, could that affect AEP Ohio's credit  
15   rating in any way?

16          A.    I suppose it could.

17          Q.    And if that were to happen, would the  
18   consequence of that -- in other words, if greater  
19   costs for AEP in general due to a change in -- bad  
20   change in the credit rating, would consumers then see  
21   that reflected in other riders or affecting their  
22   rates?

23          A.    The change in our financing costs can  
24   only be adjusted in a rate case or an ESP -- a full

1     ESP proceeding. So it would have to require some  
2     formal process like that to be reflected into rates.  
3     But I believe something that would affect -- would be  
4     material enough to affect our credit rating would  
5     probably be something that would be a candidate that  
6     would be material enough to cancel the contract over,  
7     because changing -- for a change to occur to a  
8     company of AEP Ohio's size credit rating, it needs to  
9     be a pretty significant change.

10           Q.     When you're thinking about the length of  
11     the PPAs, and just -- I apologize if we've gone over  
12     this a little bit, but I just want to get some final  
13     clarification.

14                     Why have the PPA extend all the way  
15     until retirement at this point? Is there a specific  
16     reason that retirement versus sort of just a  
17     long-term agreement to be re-evaluated down the road?  
18     Why this sort of certainty of retirement?

19           A.     The driver is so that investments that  
20     are made for the -- investments which are made are  
21     made for the life of those generating units have a  
22     predictable and reasonable path for recovery. That's  
23     the main reason.

24                     So by tying the contract to the life of

1 the units, it's clear then for the operator, AEP Gen  
2 Resources, that they can make investments to keep the  
3 plant operating sustainably for the benefit of  
4 customers through their -- through the plant's useful  
5 life. So that's why we chose end of life -- or the  
6 full life of the units as the term for the contract.

7 Q. The -- so we talked a little bit about  
8 the idea of stabilizing rates and sort of the hedging  
9 purported benefits of the agreement. And I think  
10 sort of implicit in that -- and we've talked about it  
11 a little bit today -- is that at times the customers  
12 would end up not seeing the full benefits of low  
13 wholesale market prices when they're low, you know,  
14 with the idea of stabilizing rates so that when  
15 they're high they don't see the full impact of the  
16 higher rates. So there's a tradeoff there between  
17 stability and capturing the lower market prices.  
18 Would you agree with that, that that tradeoff is  
19 something that the PPA contemplates?

20 A. Not in the way you characterize it,  
21 because I believe that the large majority of the  
22 impact of the market is still what the customer's  
23 going to experience based on the fact that their  
24 price will reflect at least two-thirds of the total

1 cost to be based on a pure market price. So if they  
2 don't lose -- I mean, there is an effect that the  
3 rider has of giving you an opposite impact to the  
4 bill of what's happening with market prices, but I  
5 don't think it's a -- you're trading low prices for a  
6 higher cost.

7 I think that it's -- there's -- in the  
8 case of very low prices, customers get the -- for the  
9 large part, the benefit of those large prices and pay  
10 a small insurance product in order to give them  
11 assurance that if it goes very high, they'll have a  
12 little bit of a mitigation against that as well,  
13 about a third of a mitigation.

14 Q. Okay. So what -- I guess when we're  
15 thinking about that, that sort of insurance, again,  
16 the premium on that insurance, regardless of whether  
17 or not that sets the entire -- accepting that  
18 two-thirds of it will still be the market rate, but  
19 is there -- sort of what's the threshold at which  
20 that premium is no longer worth the insurance that it  
21 buys, the security that it provides?

22 So, you know, is there a particular  
23 value that that premium needs to stay below in order  
24 for this to be beneficial to customers that doesn't

1 quantify this in any way?

2 A. Well, it's been quantified in the sense  
3 that using all of the four forecasts that Dr. Pearce  
4 presented, I believe that the projected amount of  
5 credit or cost that is passed through during all of  
6 those scenarios warrants the approval of the PPA  
7 rider in all of those scenarios, in the worst case  
8 all the way to the best case.

9 Q. And was there some sort of target that  
10 the company was looking to see such that, you know,  
11 if it was over \$100 million in premium costs, that  
12 that would no longer be worth it, or was it a billion  
13 dollars, or was there any sort of number used in  
14 figuring out that value?

15 A. No. We didn't have a target number when  
16 we assessed that value. We just ran the numbers  
17 based on these load assumptions, saw what the impact  
18 would be on customer rates, and assessed that those  
19 impacts were not significant in the worst cases and  
20 as such that the benefits, which were much more than  
21 just a financial hedge, were well worth the costs,  
22 the potential risk.

23 Q. So, yeah, I guess I'm trying to  
24 understand a bit better what you mean by significant,

1       that the impacts were not significant. Did you  
2       have --

3             A.    It's the rate impacts that were  
4       communicated in the -- in the proposal, in the  
5       testimony. So if you look at Witness Allen's impacts  
6       on rates, that would be what I'm referring to.

7             Q.    Right. Right. And so what would make  
8       an impact significant or not significant? Kind of  
9       what -- was there a threshold there?

10            A.    No. There wasn't a threshold defined.

11            Q.    Okay. See if there's anything else we  
12       can get in in two minutes. I think we'll just leave  
13       it at that. Thank you very much.

14            A.    Okay. You're welcome. Thank you.

15            MR. NOURSE: All right. Thanks,  
16       everyone. I think we're concluded today for  
17       Mr. Vegas. Thanks a lot.

18                   (Thereupon, the deposition concluded  
19       at 3:23 p.m. Signature not waived.)

20                   - - -



1 State of Ohio :  
2 County of : SS:  
3 :

4 I, Pablo A. Vegas, do hereby certify  
5 that I have read the foregoing transcript of my  
6 deposition given on Wednesday, September 16, 2015;  
7 that together with the correction page attached  
8 hereto noting changes in form or substance, if any,  
9 it is true and correct.

10 \_\_\_\_\_  
11 Pablo A. Vegas

12 I do hereby certify that the foregoing  
13 transcript of the deposition of Pablo A. Vegas was  
14 submitted to the witness for reading and signing;  
15 that after he had stated to the undersigned Notary  
16 Public that he had read and examined his deposition,  
17 he signed the same in my presence on the \_\_\_\_ day of  
18 \_\_\_\_\_, 2015.

19 \_\_\_\_\_  
20 Notary Public

21 My commission expires \_\_\_\_\_, \_\_\_\_\_.  
22 - - -  
23  
24

## CERTIFICATE

State of Ohio :  
: SS:  
County of Muskingum :

I, Carolyn D. Ross, Registered Professional Reporter and Notary Public in and for the State of Ohio, duly commissioned and qualified, certify that the within named Pablo A. Vegas was by me duly sworn to testify to the whole truth in the cause aforesaid; that the testimony was taken down by me in stenotype in the presence of said witness, afterwards transcribed upon a computer; that the foregoing is a true and correct transcript of the testimony given by said witness taken at the time and place in the foregoing caption specified and completed without adjournment.

I certify that I am not a relative, employee, or attorney of any of the parties hereto, or of any attorney or counsel employed by the parties, or financially interested in the action.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my seal of office at Columbus, Ohio, on this 17th day of September, 2015.

---

Carolyn D. Ross, Registered Professional Reporter and Notary Public in and for the State of Ohio.

My commission expires April 3, 2019.

(CDR-79219)

**ARMSTRONG & OKEY, INC.**  
**Registered Professional Reporters**  
**222 E. Town St. - 2nd Floor**  
**Columbus, Ohio 43215**  
**614/224-9481**

September 17, 2015

Mr. Pablo Vegas  
% Steve Nourse  
AEP

Re: In the Matter of Ohio Power Company 14-1693-EL-RDR & 14-1694-EL-AAM

Dear Mr. Vegas:

Enclosed is the transcript of your deposition taken on September 16, 2015, for examination pursuant to 4901-1-21(K) of the Ohio Rules of Practice before the Public Utilities Commission of Ohio.

The rule requires that your deposition be read by or to you. Any changes in form or substance which you desire to make shall be entered by me with a statement of the reasons given for making them.

If your deposition is not signed within 10 days of its submission to you, I am required to sign it and state the fact of the refusal to sign with the reason, if any, given therefor; and the deposition may then be used as though signed, unless on a motion to suppress the Commission holds that the reasons given for the refusal to sign require rejection of the deposition in whole or in part. By copy of this letter I am advising the attorneys in the case of the submission of your deposition.

Please have your deposition signed in the presence of a Notary Public and return to us by certified mail.

Thank you for your promptness in this matter.

Sincerely,

ARMSTRONG & OKEY, INC.

Cc: Ms. Williams

1 State of Ohio :  
2 County of : SS:  
3 :

4 I, Pablo A. Vegas, do hereby certify  
5 that I have read the foregoing transcript of my  
6 deposition given on Wednesday, September 16, 2015;  
7 that together with the correction page attached  
8 hereto noting changes in form or substance, if any,  
9 it is true and correct.

10 \_\_\_\_\_  
11 Pablo A. Vegas

12 I do hereby certify that the foregoing  
13 transcript of the deposition of Pablo A. Vegas was  
14 submitted to the witness for reading and signing;  
15 that after he had stated to the undersigned Notary  
16 Public that he had read and examined his deposition,  
17 he signed the same in my presence on the \_\_\_\_ day of  
18 \_\_\_\_\_, 2015.

19 \_\_\_\_\_  
20 Notary Public

21 My commission expires \_\_\_\_\_, \_\_\_\_\_.  
22 - - -  
23  
24

## ERRATA SHEET

Please do not write on the transcript. Any changes in form or substance you desire to make should be entered upon this sheet.

### TO THE REPORTER:

I have read the entire transcript of my deposition taken on the \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_, or the same has been read to me. I request that the following changes be entered upon the record for the reasons indicated. I have signed my name to the signature page and authorize you to attach the same to the original transcript.

Page	Line	Change	Reason

Date \_\_\_\_\_ Signature: \_\_\_\_\_

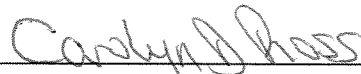
## 1 CERTIFICATE

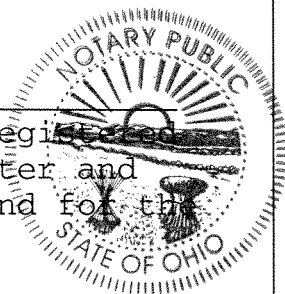
2 State of Ohio :  
3 County of Muskingum : SS:

4 I, Carolyn D. Ross, Registered  
5 Professional Reporter and Notary Public in and for  
6 the State of Ohio, duly commissioned and qualified,  
7 certify that the within named Pablo A. Vegas was by  
8 me duly sworn to testify to the whole truth in the  
9 cause aforesaid; that the testimony was taken down by  
10 me in stenotype in the presence of said witness,  
11 afterwards transcribed upon a computer; that the  
12 foregoing is a true and correct transcript of the  
13 testimony given by said witness taken at the time and  
14 place in the foregoing caption specified and  
15 completed without adjournment.

16 I certify that I am not a relative,  
17 employee, or attorney of any of the parties hereto,  
18 or of any attorney or counsel employed by the  
19 parties, or financially interested in the action.

20 IN WITNESS WHEREOF, I have hereunto set  
21 my hand and affixed my seal of office at Columbus,  
22 Ohio, on this 17th day of September, 2015.

23   
24 Carolyn D. Ross, Registered  
Professional Reporter and  
Notary Public in and for the  
State of Ohio.



My commission expires April 3, 2019.

(CDR-79219)

**This foregoing document was electronically filed with the Public Utilities**

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**Case No(s). 14-1693-EL-RDR, 14-1694-EL-AAM**

Summary: Deposition of Pablo A. Vegas electronically filed by Mr. Tony G. Mendoza on behalf of Sierra Club