

BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

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

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

- - -

PROCEEDINGS

before Ms. Greta See and Ms. Sarah Parrot, Attorney
Examiners, at the Public Utilities Commission of
Ohio, 180 East Broad Street, Room 11-D, Columbus,
Ohio, called at 9:00 a.m. on Wednesday, October 14,
2015.

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VOLUME X

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Wednesday Morning Session,
October 14, 2015.

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

MR. SATTERWHITE: Thank you, your Honor.
On behalf of the Ohio Power Company, Matthew
Satterwhite, Matt McKenzie, Steve Nourse, Dan Conway,
Christopher Miller.

MR. BOEHM: Your Honor, on behalf of the
Ohio Energy Group, Kurt Bohem, Mike Kurtz, Jody Cohn.

MR. PRITCHARD: On behalf of IEU Ohio,
Matt Pritchard, and Frank Darr.

MR. OLIKER: On behalf of IGS Energy, Joe
Oliker.

MR. BEELER: Good morning, Ohio Attorney
General Mike DeWine, Assistant Attorney Generals
Steven Beeler, and Warner Margard, on behalf of the
staff of the Public Utilities Commission of Ohio.

MR. MICHAEL: Good morning, your Honors.
On behalf of AEP-Ohio's residential utility
consumers, the Office of the Ohio Consumers' Counsel,
by William J. Michael, Jodi Bair, Kevin Moore, and as
outside counsel, Dane Stinson.

1 MS. HARRIS: On behalf of the Wal-Mart
2 Stores East, LP, and Sam's East, Inc., Carrie Harris
3 on the law firm of Spilman, Thomas & Battle.

4 MS. WILLIAMS: Good morning, your Honor.
5 On behalf of Sierra Club, Laurie Williams and Kristin
6 Henry.

7 MR. SETTINERI: Good morning, your
8 Honors. On behalf of PJM Power Providers, Electric
9 Power Supply, Constellation NewEnergy, Exelon
10 Generation, LLC, Retail Energy Supply Association, M.
11 Howard Petricoff, Michael Settineri, and Gretchen
12 Petrucci.

13 EXAMINER SEE: Mr. Michael.

14 MR. MICHAEL: OCC would like to call
15 Dr. Kenneth Rose to the stand.

16 (EXHIBIT MARKED FOR IDENTIFICATION.)

17 - - -

18 KENNETH ROSE, PH.D.
19 being first duly sworn, as prescribed by law, was
20 examined and testified as follows:

21 DIRECT EXAMINATION

22 By Mr. Michael:

23 Q. Would you state your name, please?

24 A. My name is Kenneth Rose.

25 Q. And where are you employed, Dr. Rose?

1 A. I am an independent consultant, and I
2 reside in Chicago.

3 Q. And what is your business address?

4 THE WITNESS: I'd rather not make that
5 public record, if that's okay with your Honor, since
6 I work at home.

7 EXAMINER SEE: Okay.

8 Q. Okay with me.

9 A. I believe OCC has contact information
10 that could be made available.

11 Q. And, Dr. Rose, did you cause direct
12 testimony to be filed in this matter?

13 A. I did.

14 Q. And you've been handed what was
15 previously marked as OCC Exhibit No. 11. Can you
16 identify that document?

17 A. Yes. I have it.

18 Q. And can you identify that document,
19 please?

20 A. Yes.

21 Q. And what is it?

22 A. It's my direct testimony.

23 Q. And was it prepared by you or at your
24 direction?

25 A. Yes.

1 Q. And do you have any corrections or
2 additions to what has been previously marked as OCC
3 Exhibit 11?

4 A. I do not.

5 Q. And, Dr. Rose, if I were to ask you the
6 same questions as reflected in OCC Exhibit 11, would
7 your answers be the same?

8 A. Yes.

9 MR. MICHAEL: Your Honor, I move into
10 evidence OCC Exhibit 11, subject to
11 cross-examination.

12 EXAMINER SEE: Any cross-examination for
13 this witness, Ms. Williams?

14 MS. WILLIAMS: No, your Honor.

15 EXAMINER SEE: Ms. Harris?

16 MS. HARRIS: No, your Honor.

17 EXAMINER SEE: Mr. Pritchard?

18 MR. PRITCHARD: None, your Honor.

19 EXAMINER SEE: Mr. Olikar?

20 MR. OLIKER: No, thank you.

21 EXAMINER SEE: Mr. Boehm?

22 MR. BOEHM: No questions, your Honor.

23 EXAMINER SEE: Mr. McKenzie?

24 MR. MCKENZIE: Yes, your Honor.

25 Thank you.

1 that term?

2 A. Yes, pedestrian layman's term of what a
3 legislative history is.

4 Q. And you're not purporting to offer a
5 legislative history here today, correct?

6 A. No. This is based on my experience
7 working with the Legislative Service Commission.

8 Q. Let's turn to page 11, line 5 of your
9 testimony.

10 A. Okay.

11 Q. Actually, let's go down to line 9.
12 Beginning with the word "consequently," you state,
13 "Consequently, after the enactment of Senate Bill 3,
14 market forces are to determine which power plants
15 should be operated and which power plants should be
16 retired if they are inefficient and economic." Did I
17 read that correctly?

18 A. No, you did not. It's "inefficient and
19 uneconomic."

20 Q. Thank you very much, I apologize.

21 A. Okay.

22 Q. Now, you have not worked for the
23 Legislative Service Commission since the year 2000;
24 is that correct?

25 A. That's correct.

1 Q. You're familiar with Senate Bill 221,
2 correct?

3 A. I am.

4 Q. And Senate Bill 221 was passed in 2008?

5 A. That's correct.

6 Q. You had no involvement in drafting Senate
7 Bill 221, correct?

8 A. I did not.

9 Q. Now, Senate Bill 221 is the bill that
10 created the ESP statute which is RC 4928.143; is that
11 correct?

12 A. That's correct.

13 Q. So Senate Bill 221 authorizes a
14 distribution utility to include economic and job
15 retention programs in an ESP, correct?

16 A. That's correct.

17 Q. And Senate Bill 221 authorizes a
18 distribution utility to include in an ESP a
19 nonbypassable stability charge; is that correct?

20 A. There's a provision that has a stability
21 charge as part of, among other things, if that's what
22 you're referring to.

23 EXAMINER SEE: Just a moment,
24 Mr. McKenzie. We need to go off the record for a
25 second.

1 (Recess taken.)

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

4 MR. PRITCHARD: Can I have the last
5 question and answer reread?

6 EXAMINER SEE: Yes.

7 (Record read.)

8 Q. So the answer is basically yes? Let me
9 just ask you. The answer is basically yes?

10 A. Yes.

11 Q. Senate Bill 221 also authorizes a
12 distribution utility to include in an ESP a
13 cost-based, nonbypassable charge to pay for a new
14 generation plant; is that correct?

15 A. That's CWIP provision. Is that what
16 you're referring to?

17 Q. I'm asking you.

18 A. I think you're describing that subsection
19 that deals with CWIP, new power plant where a plan is
20 approved by the Commission and for new capacity.

21 Q. Are you aware that the ESP statute also
22 includes a provision that authorizes a distribution
23 utility to include a cost-based, nonbypassable charge
24 to pay to build a new generation plant outside of the
25 CWIP concept?

1 A. That I'm not familiar with.

2 Q. Okay. Now, you said you are familiar
3 with the CWIP provision that allows new construction,
4 correct?

5 A. Correct.

6 Q. Now, do you recall that you presented
7 testimony in the FirstEnergy case that is going on
8 concurrent to this that's Case No. 14-1297-EL-SSO?

9 A. Yes.

10 Q. And you were deposed in that case,
11 correct?

12 A. Yes.

13 Q. Do you recall that your deposition in the
14 FE case -- if I say "FE," you understand that I mean
15 FirstEnergy?

16 A. Just for clarification there were two
17 depositions. There was one in the supplemental and
18 one from the direct testimony.

19 Q. Do you recall when those depositions were
20 held?

21 A. The first one on the direct testimony I
22 believe was in January of 2015; the supplemental
23 testimony I think was June or July. June, I think.

24 Q. And going back to the provision that
25 allows a distribution utility to include in an ESP a

1 cost-based nonbypassable charge to pay for a new
2 generation plant, is it fair to say that you only
3 learned about that provision after your deposition in
4 the FirstEnergy case?

5 MR. PRITCHARD: I'm going to object as
6 mischaracterizing the statute.

7 EXAMINER SEE: Did you want to respond,
8 Mr. McKenzie?

9 MR. McKENZIE: I don't think that's a
10 proper evidentiary objection. He can address that in
11 redirect or he can address that in brief if he wants
12 to. I'm asking a question. The witness seems to
13 understand it just fine.

14 EXAMINER SEE: And I'll allow the witness
15 to answer the question and request clarification if
16 he needs it.

17 THE WITNESS: Could you repeat the
18 question?

19 (Record read.)

20 A. I think it would be fair to say that I
21 was reminded. I had not worked in Ohio for several
22 years, so I had to reread; so yes, I had to refresh
23 my memory after the deposition.

24 Q. Are you saying you knew about it before
25 the deposition?

1 A. I knew about it but not at the
2 deposition. I'd forgotten about it.

3 Q. Do you recall that you testified in the
4 FirstEnergy hearing in the other hearing room?

5 A. Last week.

6 Q. Right. And you were under oath in that
7 proceeding, correct?

8 A. Yes.

9 MR. MCKENZIE: Your Honor, may I
10 approach?

11 EXAMINER SEE: Yes. Mr. Rose, we need
12 you to speak up a little bit. If you could speak up,
13 please.

14 THE WITNESS: Yes, your Honor.

15 MR. SATTERWHITE: May I approach, your
16 Honor?

17 EXAMINER SEE: Yes.

18 Q. Mr. Rose, I'm handing you --

19 MR. MICHAEL: Counsel, if you'd wait a
20 second, I don't have the exhibit yet.

21 MR. MCKENZIE: Sure. I was just going to
22 describe what I'm handing him.

23 Q. I think I said "Mr. Rose." I apologize.
24 Dr. Rose, I'm handing you a copy of the transcript
25 from the day that you testified in the FirstEnergy

1 proceeding. For the record, this is an excerpt of
2 that day's volume. It is your entire testimony, but
3 it does not include the other witnesses' testimony,
4 simply to save paper.

5 Could you please turn to page 5383?

6 Starting on line 7:

7 Question: "You don't know whether Senate
8 Bill 221 authorizes an EDU to include in an ESP a
9 cost-based nonbypassable charge to pay for a new
10 generation plant, correct?"

11 Answer: "There is -- I don't believe
12 that they have -- that there's a provision for
13 allowing for existing generation. I believe there is
14 a provision for new generation, which I believe they
15 do have a provision for new generation, which is the
16 question."

17 Question: "So the answer is yes, you
18 don't know? And yes, it is authorized?"

19 Answer: "Yes. I don't know if it's been
20 used but I know there is a provision in there."

21 Question: "And that's something you
22 learned since your deposition?"

23 Answer: "Yes."

24 "Was that your testimony in the
25 FirstEnergy proceeding?"

1 A. Yes. I believe so.

2 Q. Now, when Senate Bill 221 was proposed,
3 did you support it?

4 A. No, I would say I did not.

5 Q. So you oppose it?

6 A. I didn't oppose it either. I was not on
7 the record either way. There are provisions in there
8 that I didn't like.

9 Q. Which provisions didn't you like?

10 A. I thought that it was contrary to what
11 some of the intentions were in Senate Bill 3.

12 Q. So just so I'm clear, you feel that some
13 of the provisions of Senate Bill 221 are contrary to
14 the intentions of Senate Bill 3; is that correct?

15 A. That's correct.

16 Q. Do you believe that the passage of Senate
17 Bill 221 was good for Ohio?

18 A. Well, I think, if I can expand on that a
19 little, the context of it at the time was rising fuel
20 costs, and the legislators, I believe, like in other
21 states, too, not just Ohio, were trying to avoid rate
22 shock, and so they put those provisions in there.
23 Those stability charges that would allow the
24 companies to recover the cost, but it would soften
25 the blow from increasing rates.

1 Q. Let me ask this, now do you believe that
2 the legislature should repeal Senate Bill 221?

3 A. Well, there's a lot of things in 221,
4 like the renewable portfolio standards and
5 conservation provisions and other things. I think
6 that would be difficult to do at this point.

7 Q. How about the ESP statute, should the
8 legislature repeal the ESP portion of Senate Bill
9 221?

10 MR. MICHAEL: Objection. Relevance.

11 EXAMINER SEE: Mr. McKenzie, would you
12 like to respond?

13 MR. MCKENZIE: I think the relevance of
14 the ESP statute speaks for itself. This witness is
15 saying that AEP-Ohio's PPA proposal is inconsistent
16 with Senate Bill 3. I'm pointing out that Senate
17 Bill 221 is inconsistent with Senate Bill 3, which
18 this witness has admitted, and I'm asking him if he
19 supports Senate Bill 221 as it goes forward today.
20 That's the --

21 MR. MICHAEL: If I might quickly, your
22 Honor, I did not hear Dr. Rose indicate that SB 221
23 and SB 3 were inconsistent, so I reiterate the
24 relevance objection.

25 EXAMINER SEE: And the objection is

1 overruled. Dr. Rose can answer the question.

2 THE WITNESS: If you don't mind, could
3 you repeat the question?

4 EXAMINER SEE: Would you like to have it
5 read back?

6 MR. McKENZIE: I can do it.

7 Q. (By Mr. McKenzie) Dr. Rose, the ESP
8 statute part of Senate Bill 221, should the
9 legislature repeal the ESP portion of Senate Bill
10 221?

11 A. If I were advising the legislators today,
12 I would probably suggest that they modify it or amend
13 it to make it clearer, so that it was clearer for all
14 the parties about what kind of costs can be recovered
15 and cannot be recovered; so I would amend it, not
16 repeal it.

17 Q. Now, throughout your testimony you refer
18 to AEP-Ohio's PPA proposal as providing AEPGR a
19 subsidy, correct?

20 A. That's correct.

21 Q. And if I say "AEPGR," you understand that
22 I'm referring to AEP Generation Resources?

23 A. Correct.

24 Q. So, first of all, to economists like you,
25 the term "subsidy" is a neutral term, it's not

1 necessarily a bad thing, correct?

2 A. That's right. We analyze subsidies that
3 are provided all the time, and sometimes they're
4 good, sometimes they're bad.

5 Q. So you're not opposed to all subsidies?

6 A. No.

7 Q. But here you believe that any
8 above-market payment of generation costs would
9 constitute a subsidy, correct?

10 A. That's correct.

11 Q. Let me give you a hypothetical. Let's
12 say AEP-Ohio's PPA proposal is granted and we're in
13 the year 2020. The PPA in this year results in a
14 \$100 million credit to ratepayers. Do you understand
15 that hypothetical?

16 A. Yes.

17 Q. Would you agree that in this
18 hypothetical, in the year 2020 customers would
19 not be subsidizing AEPGR?

20 A. In that hypothetical, yes.

21 Q. And is it fair to say that customers will
22 not be paying AEPGR's cost of generation in any year
23 in which the PPA rider is a credit?

24 A. In the year that has credit, yes.

25 Q. And if the PPA rider were a credit over

1 its full term, that would not be a subsidy to AEPGR,
2 correct?

3 A. That's correct.

4 Q. Okay, let's turn to page 7, line 21 of
5 your testimony, please.

6 A. I'm sorry, 21?

7 Q. Yes. And starting on line 21, you're
8 citing the testimony of AEP-Ohio Witness Vegas,
9 correct?

10 A. Correct.

11 Q. And here Mr. Vegas says, "Ohio's
12 neighbors, Indiana, Michigan, Virginia, West
13 Virginia, and Kentucky, all provide regulated
14 recovery of generation investments, providing
15 investors more clarity regarding the return on such
16 large investments."

17 First of all, you don't have any reason
18 to doubt Mr. Vegas' statement that Indiana, Michigan,
19 Virginia, West Virginia, and Kentucky all provide
20 regulated recovery of generation investments, do you?

21 A. I didn't argue that point, no.

22 Q. And sitting here today, you don't have
23 any reason to doubt that?

24 A. No. Michigan's fairly complicated is
25 probably the only thing I would add because they have

1 a limited retail market.

2 Q. They have 10 percent shopping; is that
3 correct?

4 A. 10 percent of load, yes.

5 Q. But other than that, it's cost-based
6 generation rates in Michigan, correct?

7 A. Correct.

8 Q. Including the part of Michigan that's in
9 PJM?

10 A. That's correct.

11 Q. Back to page 8 of your testimony, please,
12 line 1. Again, you're quoting Mr. Vegas, "Virginia
13 not only provides regulated cost recovery but also
14 employs rate incentives and accelerated cost recovery
15 mechanisms to encourage new generation investments to
16 serve native load."

17 Again, you don't have any reason to doubt
18 Mr. Vegas' statement that Virginia employs rate
19 incentives and accelerated cost recovery mechanisms
20 to encourage new generation investments, correct?

21 A. That's correct.

22 Q. Do you believe that the cost-based
23 generation rates provided in Indiana, Michigan,
24 Virginia, West Virginia, and Kentucky constitute a
25 subsidy?

1 A. Well, those are cost-based regulated
2 states, so that's very -- that's a very different
3 model. That's based on costs and allowed rate of
4 return that they're granted from the Commission.
5 It's not a subsidy unless specifically granted by the
6 Commission.

7 Q. So since the cost-based rates are
8 specifically granted by the Commission in these
9 states, would you consider a subsidy in those states
10 cost-based generation rates?

11 A. No. It may include subsidies, they often
12 do, but not from generation costs, no.

13 Q. So just if I understand you correctly,
14 the traditional cost-based generation rates that
15 exist in many states are not subsidies in and of
16 themselves?

17 MR. MICHAEL: Objection. Asked and
18 answered.

19 MR. MCKENZIE: Your Honor, I'm just
20 clarifying. He gave a compound answer.

21 EXAMINER SEE: You can answer the
22 question, Dr. Rose.

23 A. I believe that's correct.

24 Q. Let me ask you this, do you believe that
25 Indiana, Michigan, Virginia, West Virginia, and

1 Kentucky should end the cost-based generation rates
2 and implement a market-based generation model?

3 MR. MICHAEL: Objection. Relevance.

4 MR. McKENZIE: Your Honor, throughout his
5 testimony he says that Ohio should continue to pursue
6 the market-based model and for that reason should
7 deny AEP-Ohio's PPA proposal. I've established with
8 him that many other states have a different model,
9 and I'm asking him if he's going to be consistent and
10 say that those other states should repeal their
11 cost-based models.

12 MR. MICHAEL: Well, Dr. Rose, your Honor,
13 pointed out that no states -- it was a very different
14 model. We're here in Ohio before the Ohio Public
15 Utilities Commission with an Ohio utility making a
16 PPA proposal, and what Dr. Rose thinks about what's
17 going on in other states that have completely
18 different models is irrelevant to anything we're
19 considering here --

20 MR. McKENZIE: If I may, your Honor.

21 EXAMINER SEE: The objection is
22 overruled. You can answer the question.

23 A. If I could restate the question, you're
24 basically saying Indiana, Michigan, West Virginia,
25 Kentucky do at this point. And I have to say, given

1 what's happened in restructured states, I really
2 can't recommend they do restructuring at this time.
3 And that's only based on what's happened in recent
4 years.

5 Q. And when you say what's happened in
6 restructured states in recent years, what are you
7 referring to?

8 A. During the period of 2002 to 2008, the
9 structured states clearly were seeing much higher
10 prices, and that's partly -- it's a complicated
11 economic answer why, but I think it's basically the
12 marginal costs being passed through to the customers.

13 And since then since 2008 some states
14 have started to see some of the benefits of
15 restructuring, but shall we say utilities have found
16 a way to prevent those costs from being passed
17 through to their customers like Ohio. So it's turned
18 out to be much more complicated than anybody
19 anticipated, certainly in 1999.

20 Q. Renewable resources currently participate
21 in PJM market, correct?

22 A. Yes.

23 Q. Are you aware that renewable resources
24 receive out-of-market revenues from things like tax
25 incentive state renewable programs?

1 A. Yes.

2 Q. And you believe that renewable resources'
3 participation in PJM distorts the PJM market,
4 correct?

5 A. It has -- it distorts the market.
6 Probably you would have more renewable energy
7 participating than without those.

8 Q. Let's go to your testimony page 9, line
9 11. You say, "It should also be noted that AEP-Ohio
10 does not own any generation plants at this time
11 except the entitlement to OVEC."

12 A. Yes.

13 Q. Now, AEP-Ohio would not technically own
14 the PPA units under this proposal. The proposal is a
15 power purchase agreement, correct?

16 A. Correct.

17 Q. Are you aware that AEP-Ohio currently has
18 two PPAs with wind generators?

19 A. I was not aware of that, but I'm not
20 surprised.

21 Q. Well, assuming that AEP-Ohio sells its
22 entitlement from the wind PPAs into the PJM markets
23 and passes through the net cost of those PPAs to
24 ratepayers, would you say that those wind PPAs are
25 subsidies?

1 A. You're paying them the market price?

2 Q. Well, let's assume that the wind PPAs
3 have a PPA price. AEP-Ohio takes its entitlement
4 from the wind PPAs and sells it in the PJM market and
5 then passes through the difference to ratepayers. Do
6 you understand that?

7 A. Well, I don't know what's going on with
8 the PPAs, so I'm not sure if I can answer that.

9 Q. Well, whatever it is, AEP-Ohio passes on
10 the difference to ratepayers. Do you understand?

11 A. Okay.

12 Q. Would you consider that to be a subsidy?

13 A. Well, there are subsidies of -- wind
14 already has subsidies in the price, so -- and there
15 are provisions in Ohio law which I'm not intimately
16 familiar with that also provides incentives, not
17 subsidies, and if that's true, yes, I would say it's
18 a subsidy.

19 Q. Would you say that those wind PPAs
20 distort the PJM market?

21 A. Again, probably like all renewable energy
22 has an affect of allowing more renewable than what
23 you would have without.

24 Q. And that's a distortion of the market?

25 A. That changes the market of what it would

1 be without the subsidies.

2 Q. Let's go to your testimony, page 10, line
3 4. You say, "I do not believe that the company
4 should be allowed to collect the above-market costs
5 for OVEC units and then transfer the collected
6 revenue to OVEC through a bilateral contract price
7 not regulated by the FERC or the PUCO."

8 Do you see that?

9 A. Yes.

10 Q. So, first of all, is your testimony that
11 the OVEC intercompany power agreement contract that
12 gives AEP-Ohio its OVEC entitlement has not been
13 authorized by FERC?

14 A. No. What I'm saying is that the prices
15 that regulate -- the wholesale prices is not
16 regulated by FERC or the PUCO.

17 Q. But the contract, including the price
18 terms in the contract, has been authorized by FERC,
19 correct?

20 A. Right. Yes.

21 Q. Are you aware that AEP-Ohio's OVEC
22 entitlement has previously been recovered in
23 AEP-Ohio's retail rates?

24 A. I don't know that for -- but I'm not
25 surprised, because I know the OVEC contracts go back

1 to regulated days.

2 Q. Do you know that AEP-Ohio's OVEC
3 entitlement has been recovered in AEP-Ohio's rates
4 under an ESP?

5 A. Yes, that's probably -- I would believe
6 that to be likely.

7 Q. So you believe the Commission made a
8 mistake when it previously allowed AEP-Ohio to pass
9 through the net costs of its OVEC entitlement in
10 retail rates?

11 A. As I said in my testimony, I don't
12 believe that those costs above the market ought to be
13 recovered.

14 Q. So when they were previously recovered in
15 AEP-Ohio's rates, the Commission was wrong to allow
16 that in your opinion, correct?

17 MR. MICHAEL: Objection. Asked and
18 answered.

19 MR. McKENZIE: He didn't answer that
20 question.

21 MR. MICHAEL: I think he did. You just
22 don't like it.

23 MR. McKENZIE: No, he didn't.

24 EXAMINER SEE: Thank you both.

25 The objection is sustained.

1 Q. Okay, let's turn to page 6, line 6 of
2 your testimony. Here you say that the PPA proposal
3 "uses a self-regulation mechanism between AEP's own
4 affiliates." See that?

5 A. Yes.

6 Q. And let's go to one other page, page 14
7 of your testimony, lines 13 through 14, and here you
8 say "As discussed above, AEP-Ohio's proposal lacks
9 the important checks and balances that usually
10 accompany traditional or cost-based regulation such
11 as review -- such as a review by the PUCO of costs
12 incurred."

13 Do you see that?

14 A. Yes.

15 Q. Are you aware that as part of this
16 proceeding AEP-Ohio has proposed that the Commission
17 will undertake an annual financial and managerial
18 audit?

19 A. Well, I was going by what I cited here as
20 an internal review that AEP would be -- I'm sorry,
21 that AEP-Ohio would be doing, and then that would be
22 subject to a review by the Commission. And my point
23 here was that this is not the same kind of -- as I
24 said later in that paragraph, it's not the same as
25 what you see under a cost-based regulation, same kind

1 of review process that you see in cost-based
2 regulation.

3 Q. Well, are you aware that as part of a
4 proposed managerial audit, the Commission will review
5 the prudence of AEP-Ohio's decisions on the PPA unit
6 operating committee?

7 A. Yes, I saw that in the testimony.

8 Q. And are you aware that AEP-Ohio's
9 decisions on the PPA unit operating committee will
10 include decisions regarding operation and
11 maintenance, costs and capital investments at the
12 plants?

13 A. Yes.

14 Q. And are you aware that under the proposed
15 affiliate PPA contract, AEP-Ohio essentially has a
16 veto on significant capital expenditures at the PPA
17 units?

18 A. That I don't recall.

19 Q. As we discussed before, AEP-Ohio's OVEC
20 entitlements were previously included in AEP-Ohio's
21 rates. I think you indicated that sounded right to
22 you?

23 A. Yes.

24 Q. Do you know what the review process was
25 the Commission used when the OVEC entitlement was

1 previously in AEP-Ohio's rates?

2 A. The ESP provision?

3 Q. I'm asking you.

4 A. I don't know what you're referring to,
5 under regulation or under the ESP provision?

6 Q. Let's do both. First under the ESP
7 provision.

8 A. That -- I was not involved in those cases
9 so I don't know.

10 Q. And in the regulated environment before
11 1999?

12 A. I'm going to assume that in the regulated
13 environment those costs were reviewed by the
14 Commission, at least if there were any changes, and
15 certainly in any rate case, thorough rate case,
16 complete look at all costs.

17 Q. Now, are you aware that AEP-Ohio is one
18 among many owners of OVEC?

19 A. Yes.

20 Q. And do you know what the operation
21 agreement for OVEC is?

22 A. I looked at that when I started this. I
23 don't recall the details of it, but I did look at it.

24 Q. Let me ask this, do you know whether
25 AEP-Ohio can dictate what costs, either operation,

1 maintenance, or capital, are incurred at the OVEC
2 plants?

3 A. I don't know.

4 Q. Assuming that AEP-Ohio cannot dictate
5 that, what review would the Commission have conducted
6 of the OVEC costs in a regulated environment prior to
7 1999? ROSE

8 A. The generation was -- well, they probably
9 still had some kind of purchase power agreement that
10 could be reviewed by the Commission.

11 Q. So the Commission would review the
12 purchase power agreement and AEP-Ohio's decisions
13 under that agreement?

14 A. Right. That's just based on my general
15 knowledge of regulation, not because I'm familiar
16 with exactly what they did at that time.

17 Q. So let's move to the affiliate PPA units.
18 When those -- those units used to be in
19 cost-of-service rates for either Ohio Power Company
20 or Columbus Southern Power, correct?

21 A. That's correct.

22 Q. And do you know what the Commission's
23 cost review process involved as affiliate PPA units?

24 A. I'm sorry, are you talking again
25 regulation?

1 Q. Yeah, at that time when they were in
2 cost-of-service rates.

3 A. Again, I don't have direct experience
4 with that.

5 Q. Now, are you familiar with the fact that
6 some of the PPA units are co-owned, meaning AEP-Ohio
7 co-owns them with another company?

8 A. Right.

9 Q. And some of the those units AEP-Ohio does
10 not operate, correct?

11 A. AEP-Ohio does not operate?

12 Q. I'm sorry. You're right. Let me start
13 that over. Let's start from the beginning. You're
14 aware that some of the PPA units are co-owned between
15 AEPGR and another company, correct?

16 A. That's correct.

17 Q. And AEPGR does not operate some of those
18 co-owned units, correct?

19 A. I believe that's correct, but I don't
20 know. I'd have to check that.

21 Q. Let me ask this, then. Before 1999 in
22 Ohio when there was traditional cost-of-service
23 ratemaking, utilities owned generating units with
24 other companies sometimes, correct?

25 A. That's correct.

1 Q. And sometimes a utility would include in
2 rates the cost of those co-owned units even when the
3 utility didn't operate the unit, correct?

4 A. Correct.

5 Q. And in that scenario where a utility
6 co-owned a unit and did not operate it but included
7 its cost in rates, what was the Commission's review
8 of those costs?

9 A. Well, they would look at whether or not
10 those costs ought to be included in the revenue
11 requirement for the company, and if it's wholesale,
12 it would still be subject to FERC jurisdiction. And
13 sometimes that would limit the ability of the state
14 to be able to deny those costs. But typically they
15 would be able to pass those costs through.

16 Q. Let me refine the question. Let's assume
17 that there's no wholesale PPA, that you have a
18 utility that co-owns a unit with another utility and
19 the utility whose rates we're talking about, that
20 utility does not operate the unit. You understand?

21 A. If the utility we're talking about --

22 Q. Let's call it Utility A and Utility B.

23 A. Oddly, I think I follow.

24 Q. When we're doing a cost-of-service
25 ratemaking proceeding for Utility A that owns but

1 does not operate the units and there's no wholesale
2 contract, what is the Commission's prudence review of
3 the costs incurred at that plant?

4 A. Now, this is all retail in your
5 hypothetical?

6 Q. Before 1999 in Ohio.

7 A. But this is all retail. There is an
8 important provision there in FERC jurisdiction in
9 limiting the amount that can be reviewed, and that's
10 a legal question which I'm probably not competent to
11 answer.

12 Q. So you're not familiar with how the
13 Commission reviewed costs when a utility co-owned and
14 did not operate a power plant in the traditional
15 cost-of-service regime; is that correct?

16 A. I'm trying to follow your hypothetical
17 and I'm not sure I know the answer to that.

18 Q. Do you not know the answer or can you not
19 follow the hypothetical?

20 MR. MICHAEL: Objection. Asked and
21 answered.

22 EXAMINER SEE: The objection is
23 overruled.

24 A. I've got to say both.

25 Q. Okay.

1 A. I can't see how -- I'll clarify. I don't
2 understand how you can have a PPA in your
3 hypothetical, if I did follow it, that would not
4 involve wholesale.

5 Q. I think I see the disconnect. Let me
6 start over. Hypothetically, before 1999 in Ohio
7 we're reviewing the rates of Utility A, not talking
8 about a PPA at all, okay? Utility A co-owns a
9 generating unit with Utility B. Are you with me so
10 far?

11 A. Let's say, to make it simpler, Utility B
12 is subject to a PUCO or state jurisdiction.

13 Q. Okay. Sure.

14 A. Because I think that's where you're
15 going.

16 Q. And Utility B operates the plant, unit.

17 A. Okay.

18 Q. Okay. Now, when we're doing utility A's
19 cost-of-service generation rates, first of all,
20 Utility A generally can pass through the costs of
21 this co-owned unit, correct?

22 A. Yes.

23 Q. And the Commission will review the costs
24 of that unit even though Utility A cannot directly
25 control them, correct?

1 A. Because they're not the operator of the
2 unit, yes.

3 Q. And that's the historic review process
4 that you reference in your testimony, correct?

5 A. Now we're referring to which part of the
6 testimony?

7 Q. Sure. Page 6, line 21 -- 22.

8 A. I would just -- I'd say the answer is
9 yes, but I would add that what I had in mind was the
10 whole evidentiary hearings and process that the
11 Commission goes through in order to authorize its
12 costs.

13 Q. And are you aware that in AEP-Ohio's PPA
14 proposal AEP-Ohio has proposed to provide the
15 Commission all the information that AEP has --
16 AEP-Ohio has access to?

17 A. I believe that's true, but it sounds to
18 my -- what I read that it's a limited review and not
19 the same review that you have in cost-of-service
20 regulation.

21 Q. Let's go to page 20, line 2 of your
22 testimony. Here you reference the February 26, 2015,
23 Opinion and Order issued in AEP's latest ESP
24 proceeding, which is Case No. 13-2385-EL-SSO. So
25 you're familiar with that Order, correct?

1 A. Yes, I am.

2 Q. And you're familiar with the four factors
3 the Commission established to evaluate AEP-Ohio's PPA
4 proposal in that Order, correct?

5 A. Yes.

6 Q. And you believe the Commission got it
7 wrong in the February 26, 2015, order, correct?

8 A. I disagree with it, yes.

9 Q. And you disagree with each of the four
10 factors established by the Commission in the AEP
11 ESP III Order, correct?

12 A. These four that I identified here that
13 were the four main ones.

14 Q. I'm sorry. Just for the record, you
15 disagree with all those?

16 A. Yes.

17 Q. Let me just ask you briefly about
18 reliability. Would you agree that the Commission is
19 statutorily authorized to consider the reliability
20 when evaluating AEP-Ohio's proposal?

21 A. Well, the Commission, yes, should
22 consider it, but the argument that I made is that
23 this is now pretty much a regional issue that PJM is
24 responsible for.

25 Q. So you don't think the Commission should

1 consider reliability?

2 A. Well, they can consider it to the extent
3 of how it involves distribution reliability, but not
4 in terms of generation reliability.

5 Q. So you don't think the Commission should
6 consider generation supply reliability; is that
7 correct?

8 A. Yes, that's correct.

9 Q. Let's go to the attachment to your
10 testimony, please.

11 A. I don't have that. I don't have it in
12 front of me.

13 Q. I'd like to refer to it.

14 A. I have it now.

15 Q. Okay. So this is Attachment KR-1. Could
16 you please turn to page 12 of 20 of that attachment?

17 A. Okay.

18 Q. The first item listed under "Testimony
19 and Presentations Before Legislatures," it says here
20 that you testified before the Michigan House Energy
21 and Technology Committee on March 12, 2013; is that
22 correct?

23 A. That's correct.

24 Q. And the title of your testimony was
25 "Electric Markets, Price Trends, and Electric

1 Choice"; is that correct?

2 A. That's correct.

3 MR. McKENZIE: Your Honor, may we
4 approach?

5 EXAMINER SEE: Yes.

6 MR. McKENZIE: Your Honor, I'd like to
7 have this document marked AEP-Ohio Exhibit 14,
8 please. That's what I have.

9 EXAMINER SEE: So marked.

10 (EXHIBIT MARKED FOR IDENTIFICATION.)

11 Q. Dr. Rose, I apologize for the quality of
12 this. I got this off the Michigan legislature
13 website.

14 A. I could have given you a better copy.

15 Q. I have no doubt that that's true.

16 So you are familiar with this document.
17 This is the testimony that you provided the Michigan
18 House Energy and Technology Committee on March 12,
19 2013?

20 A. Yes.

21 Q. Could you go to page 2 of the
22 presentation or the testimony which is on the first
23 page of the document I've handed you in the upper
24 right quadrant, "Some National Price Trends." Do you
25 see that?

1 A. Yes.

2 Q. Let's go to the fourth bullet point.

3 "For states that still regulate, prices continue to
4 increase, but are still below states that
5 restructured."

6 Is that what you told the Michigan
7 legislature?

8 A. Yes.

9 Q. If you could go to page 3 of the
10 testimony, which is the bottom left quadrant. Am I
11 correct that this shows energy prices in different
12 states?

13 A. Electricity prices.

14 Q. Electricity prices. Thank you. And I
15 believe there are three lines here, but the bottom
16 line is very hard to read.

17 A. The bottom line is the regulated states.

18 Q. And the top line is?

19 A. Those are the states what I say is retail
20 access. Those are basically restructured states.

21 Q. And Ohio is in the top line, correct?

22 A. Yes.

23 Q. And the bottom line showing lower prices
24 in regulated states, Indiana is in that line,
25 correct?

1 A. Yeah.

2 Q. And Virginia is in that line, correct?

3 A. I don't think so.

4 Q. No?

5 A. I left out states that are partially --
6 Virginia is partial retail access. So Virginia is a
7 case where large customers have choice. I left that
8 out. I wanted just the states that are all regulated
9 or all restructured.

10 Q. Let me just clarify with you then. If
11 you look at the list of regulated states, the fourth
12 line starts OR, and then SC, SD, TN, and then mine
13 starts -- again, unreadable "U" something and "V"
14 something. Do you know what the "V" state was?

15 A. It's probably Vermont.

16 Q. And then the next line West Virginia is
17 included here, correct?

18 A. Probably Utah, Vermont.

19 Q. Fair enough.

20 West Virginia is included in the
21 regulated states line, correct?

22 A. Right.

23 Q. Okay.

24 A. That's Wisconsin. Washington, Wisconsin,
25 West Virginia, Wyoming.

1 Q. Thank you for that clarification.

2 Just for the record, the middle line is
3 the U.S. total?

4 A. That's all states, yes.

5 Q. Let's go to page 23 of the testimony.

6 A. We're talking about the Michigan or Ohio?

7 Q. I apologize, the Michigan testimony, page
8 23 of the Michigan testimony, which is the
9 second-to-last page of the document I've handed you.
10 In the bottom left corner, the one starting "Wrapping
11 up." Tell me when you're there.

12 A. 23, okay.

13 Q. 23. Okay. "Wrapping up, not saying that
14 one option is clearly worse or better than the
15 other - retail access v. regulation, but there
16 appears to be no clear benefit for retail customers,
17 unless you look at just the last couple years with
18 retail choice, and that could quickly change if
19 natural gas prices increase again (as they have in
20 the not too distant past)."

21 Is that what you told the Michigan
22 legislature?

23 A. Yes.

24 Q. Next bullet, "Cost-based regulation was
25 no simple matter, but if the restructured model can't

1 beat it, then something's wrong."

2 Is that what you told Michigan
3 legislation?

4 A. Yes.

5 Q. Next bullet, "Not always sure what
6 competition has to do with what we have been doing
7 the past 20 years, replace a complex, cumbersome, and
8 expensive regulatory system with a complex,
9 cumbersome, and expensive deregulatory system."

10 Is that what you told the Michigan
11 legislature?

12 A. Yes. CK and I submit this hearing as
13 Exhibit A, the second part of that.

14 Q. Next bullet, "The current RTO (wholesale)
15 and retail access-base model is a composite of
16 different markets that are highly regulated and
17 frequently adjusted by FERC and the states."

18 Is that what you told the Michigan
19 legislation?

20 A. Yes.

21 MR. McKENZIE: I have no more questions,
22 your Honor.

23 EXAMINER SEE: Mr. Beeler?

24 MR. BEELER: No questions, your Honor.
25 Thank you.

1 EXAMINER SEE: Redirect, Mr. Michael?

2 MR. MICHAEL: Your Honor, may we have a
3 moment to confer, please?

4 EXAMINER SEE: Certainly.

5 MR. MICHAEL: Thank you very much.

6 (Off the record.)

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

9 Mr. Michael?

10 MR. MICHAEL: We have no redirect, your
11 Honor.

12 EXAMINER SEE: And I believe you already
13 moved for the admission of OCC Exhibit 11. Are there
14 any objections?

15 MR. McKENZIE: No, your Honor.

16 EXAMINER SEE: OCC Exhibit 11 is admitted
17 into the record.

18 (EXHIBIT ADMITTED INTO EVIDENCE.)

19 EXAMINER SEE: Mr. McKenzie?

20 MR. McKENZIE: I would move for the
21 admission of AEP Exhibit 14.

22 EXAMINER SEE: Are there any objections?

23 MR. MICHAEL: No objection, your Honor.
24 But we would request a more clear copy, when we get
25 ahold of one. I believe the witness indicated that

1 he would be in a position to share a cleaner copy
2 just because, as counsel indicated, it's not the most
3 legible document in the world. So if we could make,
4 supplement or change this exhibit out with a more
5 clear copy.

6 MR. McKENZIE: I'm perfectly fine with
7 that. If you want to give it to me, we can do it on
8 the record at a later date.

9 MR. MICHAEL: Okay.

10 EXAMINER SEE: That would be appreciated.
11 With that, AEP Exhibit 11 is admitted into the
12 record -- I'm sorry, 14.

13 (EXHIBIT ADMITTED INTO EVIDENCE.)

14 EXAMINER SEE: Let's go off the record.

15 (Off the record.)

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

18 Thank you, Dr. Rose. You're excused.

19 THE WITNESS: Thank you.

20 EXAMINER SEE: At this point we'll take a
21 brief recess till about 10:30.

22 MR. MICHAEL: Your Honor, I was just
23 unclear as to whether or not you accepted OCC
24 Exhibit 11 into the record. I believe we
25 acknowledged it was moved and no objection, but I

1 don't recall with certainty that it was accepted into
2 the record. And if you did, I apologize but -- you
3 did. Thank you.

4 (Recess taken.)

5 EXAMINER PARROT: Go back on the record.

6 (Witness sworn.)

7 EXAMINER PARROT: Mr. Oliker.

8 MR. OLIKER: Thank you. IGS Energy calls
9 Joseph Haugen to the stand.

10 - - -

11 JOSEPH HAUGEN

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

14 DIRECT EXAMINATION

15 By Mr. Oliker:

16 Q. Could you please state your name for the
17 record.

18 A. Joseph Haugen.

19 Q. And did you prepare testimony in this
20 proceeding?

21 A. I did.

22 Q. And is that document in front of you?

23 A. It is.

24 MR. OLIKER: Your Honor, we'd like to
25 mark as IGS Exhibit 5 the Direct Testimony of Joseph

1 Haugen.

2 EXAMINER PARROT: So marked.

3 (EXHIBIT MARKED FOR IDENTIFICATION.)

4 Q. And could you state your employer,
5 please?

6 A. IGS Energy.

7 Q. And the document that's been marked as
8 Exhibit 5, do you have any changes that you would
9 like to make to that document?

10 A. On page 9, line 12, the question states
11 "the RRS." That should say "the PPA."

12 Q. Do you have any additional changes to
13 your testimony?

14 A. That's it.

15 Q. If asked these same questions today,
16 would your answers be the same?

17 A. They would.

18 MR. OLIKER: Your Honor, I would move for
19 the admission of IGS Exhibit 5 and tender the witness
20 for cross-examination.

21 EXAMINER PARROT: Thank you, Mr. Oliker.

22 Ms. Harris, any questions?

23 MS. HARRIS: No, ma'am.

24 EXAMINER PARROT: Mr. Michael?

25 MR. MICHAEL: No questions, your Honor.

1 EXAMINER PARROT: Mr. Daugherty?

2 MR. DAUGHERTY: No questions, your Honor.

3 EXAMINER PARROT: Mr. Pritchard?

4 MR. PRITCHARD: No questions, your Honor.

5 EXAMINER PARROT: Mr. Boehm?

6 MR. BOEHM: No questions, your Honor.

7 EXAMINER PARROT: Mr. McKenzie?

8 MR. MCKENZIE: Yes, your Honor.

9 - - -

10 CROSS-EXAMINATION

11 By Mr. McKenzie:

12 Q. Good morning, Mr. Haugen. My name is
13 Matthew McKenzie on behalf the Ohio Power Company.
14 I've been pronouncing your name Haugen, so if I say
15 that, I sincerely apologize.

16 A. It is an alternate pronunciation, so...

17 Q. Is it fair to say that the total sum of
18 your experience in the industry is about eight years?

19 A. Right around that.

20 Q. And your Bachelor of Arts degree was in
21 English, correct?

22 A. That is one of my degrees.

23 Q. And you don't hold yourself out as an
24 economist, correct?

25 A. I'm not an economist by title.

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

2 A. I'm not an attorney.

3 Q. You're not currently a member of any PJM
4 committee, correct?

5 A. Not currently.

6 Q. And you used to work at Buckeye Rural
7 Electric Co-op; is that right?

8 A. It's Buckeye Power.

9 Q. Buckeye Power.

10 And when you worked at Buckeye Power,
11 were you a member of any PJM committee?

12 A. I was not a member, but I did listen to
13 the committees.

14 Q. Is it true that except for a very small
15 landfill generator, IGS doesn't own much other
16 generation?

17 A. That's correct.

18 Q. What's IGS' interest in this case?

19 MR. OLIKER: Objection. Extremely vague.

20 If the witness has an answer, go ahead.

21 EXAMINER PARROT: Overruled.

22 A. IGS is concerned when wholesale energy
23 markets and rates are being -- let me start over.

24 IGS is concerned that wholesale energy
25 market prices and costs will be passed on to

1 distribution customers.

2 Q. I guess my question is why is IGS
3 concerned about that?

4 A. As we take market positions to hedge our
5 customers' demand and offer them products, we believe
6 that the wholesale market should remain competitive,
7 and by subsidizing generation units with distribution
8 customers, that creates disincentives for the
9 wholesale markets.

10 Q. If the PPA proposal is granted here, will
11 IGS be harmed?

12 A. I believe that harming the wholesale
13 energy markets and disincentivizing them could harm
14 everyone.

15 Q. Other than the harm to everyone, will
16 there be any specific harm to IGS if the PPA proposal
17 is granted?

18 MR. OLIKER: Objection. Asked and
19 answered.

20 EXAMINER PARROT: Overruled.

21 A. I believe it could harm our customers
22 because one of the things that we do for our
23 customers is provide them stable prices over time.
24 If we offer a customer a fixed product over time and
25 then they have a separate nonbypassable charge

1 related to generation services, that can change
2 unknowingly. It would reduce the volatility for our
3 customers.

4 Q. Is it fair to say there wouldn't be any
5 harm to IGS itself?

6 MR. OLIKER: Objection. Asked and
7 answered.

8 EXAMINER PARROT: Overruled.

9 A. I believe it could harm IGS itself as
10 customers -- as we wouldn't be able to make these
11 same services available as ascriptive as we are
12 today.

13 Q. What services wouldn't you be able to
14 make available if the PPA proposal is granted?

15 A. One of the things we try to convey to our
16 customers is that we provide stability over a set
17 amount of time, which they desire. By having a
18 generation service that can vary over time, it could
19 harm our usefulness to our customers.

20 Q. So you would agree with me that IGS'
21 customers desire rate stability; is that correct?

22 A. Different customers have different
23 tolerances for rate stability over time.

24 Q. But I think you just testified, did you
25 not, that IGS tries to provide rate stability to

1 certain customers; is that correct?

2 A. That is one thing that we provide, yes.

3 Q. But those customers -- those customers
4 desire rate stability?

5 A. They do.

6 Q. Is there a certain type of customer that
7 is?

8 A. I don't want to go into too much of our
9 specific marketing tactics, but overall we see that a
10 lot of residential customers like to have stable
11 products within one and three years.

12 Q. And I think you previously said -- or let
13 me just ask it this way. Is it fair to say that IGS'
14 goal is to provide rate stability to its customers?

15 A. For specific customers who we targeted as
16 their desire, we provide those products.

17 Q. That includes residential customers?

18 A. That does.

19 Q. Let me ask the question in a narrow way.
20 If the PPA proposal was granted, will IGS suffer
21 direct financial harm?

22 A. I would have to speculate on that. Would
23 you like me to?

24 Q. Do you know the answer to that question?

25 A. IGS Energy has wholesale market positions

1 that we've taken for our customers. If there are
2 specific plants that are acting -- are
3 disincentivized to act within the market rules, it
4 could adjust the markets in a position that we'd
5 have -- there is a possibility we could have
6 financial impact because of it.

7 Q. Is that the speculation you were
8 referring to?

9 A. It's difficult to determine how plants
10 who are disincentivized to operate within the market
11 rules will behave in the future.

12 Q. Would you say it's possible, depending on
13 how the plants you were referring to participate in
14 the market, that IGS will suffer no harm?

15 A. As I just explained, it's difficult to
16 speculate how the markets will move when plants are
17 disincentivized to operate in the wholesale market,
18 so any possibility could occur.

19 Q. Let's go to page 9, line 5 of your
20 testimony, please. At the end of line 5 you state,
21 "The problem with the PPA proposal is that it allows
22 AEPGR to receive a different level compensation than
23 the uniform locational clearing price."

24 Did I read that correctly?

25 A. You did.

1 Q. And AEPGR is AEP Generation Resources,
2 correct?

3 A. That's correct.

4 Q. Is it fair to say that a generator or
5 generation supplier receiving compensation other than
6 the locational clearing price is not prohibited by
7 PJM rules?

8 A. I believe that is correct.

9 Q. I'd like to ask you about OVEC. You're
10 familiar with OVEC, correct?

11 A. I am.

12 Q. OVEC is receiving a different level of
13 compensation for its capacity than the uniform
14 locational clearing price, correct?

15 MR. OLIKER: Objection. Does this
16 question relate to energy capacity? I guess the
17 question is vague.

18 MR. MCKENZIE: It's related to capacity.

19 EXAMINER PARROT: Overruled.

20 A. OVEC is not the active market participant
21 in the markets, so what they receive is not
22 reflective of the wholesale energy market.

23 Q. I'll ask again. Is OVEC receiving a
24 different level of compensation for its capacity than
25 the uniform locational clearing price?

1 MR. OLIKER: Your Honor, he answered that
2 question.

3 MR. McKENZIE: I don't believe he did.

4 A. OVEC is receiving --

5 EXAMINER PARROT: Overruled. Let's try
6 it one more time. Go ahead.

7 A. OVEC is receiving a different level of
8 compensation, but they are not the active market
9 participant. The active market participants are
10 receiving a locational price.

11 Q. Do you recall you testified in the
12 FirstEnergy proceeding that's going on concurrently
13 with this case?

14 A. I did.

15 MR. McKENZIE: Your Honor, may we
16 approach?

17 EXAMINER PARROT: You may.

18 Q. For the record, Mr. Haugen, my co-counsel
19 has handed you a transcript from when you testified
20 in the FirstEnergy hearing, Case No. 14-1297-EL-SSO.

21 MR. McKENZIE: For the record, that is an
22 excerpt from the volume of the day when you testified
23 with the first page and then his full testimony, but
24 not the testimony of the other witnesses that day.

25 Q. Mr. Haugen, could you please turn to page

1 4930, line 18?

2 Question: "Isn't it true that OVEC is
3 receiving a different level of compensation for its
4 capacity than the uniform locational clearing price?"

5 Answer: "That's true."

6 That was your testimony, correct?

7 MR. OLIKER: Objection. Consistent with
8 his answer, it merely has an explanation, and the
9 same explanation is also contained further up in the
10 transcript on page 4929 at the bottom going on to
11 4930. Doesn't impeach it at all.

12 MR. McKENZIE: Your Honor, he gave a
13 qualified answer this time. He gave an unqualified
14 answer the last time in the FirstEnergy hearing. I
15 think that's perfectly fair.

16 MR. OLIKER: The qualification is in that
17 transcript as well.

18 EXAMINER PARROT: Let's keep moving.
19 Overruled.

20 Q. (By Mr. McKenzie) Do you believe that the
21 compensation provided to OVEC is a subsidy?

22 MR. OLIKER: Objection. What
23 compensation from who?

24 EXAMINER PARROT: Overruled. If the
25 witness needs clarification, he can request it.

1 A. Can you describe -- a subsidy for what?

2 Q. Do you know what a subsidy means?

3 A. I'm familiar.

4 Q. Do you call AEP's PPA proposal here a
5 subsidy?

6 A. I do.

7 Q. Okay. Using your definition of subsidy,
8 do you believe that the compensation provided to OVEC
9 is a subsidy?

10 A. OVEC is not a market participant, so they
11 wouldn't be getting any revenue that's a subsidy
12 towards anything.

13 Q. When you say OVEC isn't a market
14 participant, what do you mean?

15 A. I mean, the various participants that are
16 owners of OVEC operate as the market participants
17 independent of the organization.

18 Q. And you understand, do you not, that
19 under AEP-Ohio's PPA proposal, AEP Ohio will take
20 title to the energy capacity and ancillary services
21 and be the market participant, correct?

22 A. They will.

23 Q. So given the similarity between the two,
24 would you agree that the compensation provided to
25 OVEC is a subsidy in the same way that the

1 compensation provided by AEP Ohio to AEPGR the PPA
2 units is a subsidy?

3 A. I do not.

4 Q. Okay. Is there a way in which AEP Ohio
5 as a market participant for the OVEC units will be
6 different than AEP Ohio as market participant for the
7 PPA units?

8 A. Can you restate?

9 Q. What didn't you understand?

10 A. I just want to hear the question again.

11 (Record read.)

12 A. I believe they would be very similar.

13 Q. Do you know if the OVEC intercompany
14 agreement is, roughly speaking, a cost-based
15 compensation agreement?

16 A. That's the way I understand it.

17 Q. And the proposed affiliate PPA would be a
18 cost-based compensation agreement, correct?

19 A. That's the way I understand it.

20 Q. Do you understand the OVEC intercompany
21 Power agreement has already been signed and
22 authorized by FERC?

23 A. I do.

24 Q. And OVEC will continue to receive
25 payments under the intercompany power agreement

1 regardless of whether the PPA proposal here is
2 approved, correct?

3 A. I believe that's correct.

4 Q. Are you aware that AEP-Ohio's OVEC
5 entitlement was previously recovered in AEP-Ohio's
6 rates?

7 A. At some point in history, all generation
8 services would have been recovered through rates.

9 Q. Are you aware that AEP Ohio's OVEC
10 entitlement was previously recovered as part of AEP
11 Ohio's ESP?

12 A. I was not aware of that, but I'd want to
13 see the detail behind it.

14 Q. Okay. I believe you said you previously
15 worked at Buckeye Power; is that correct?

16 A. That's correct.

17 Q. Was Buckeye Power a cooperative?

18 A. They're considered a generation and
19 transmission cooperative.

20 Q. So now I'm not asking about any bidding
21 strategies. I just want a yes or no. Did Buckeye
22 offer the output of its plants into the PJM markets?

23 A. Several of its plants were, yes.

24 Q. But Buckeye receives cost-based
25 compensation from its member co-ops, correct?

1 A. That's correct.

2 Q. And then Buckeye's member co-ops pass
3 through generation costs to the retail rate members,
4 correct?

5 A. That's correct.

6 Q. So it's fair to say that Buckeye has
7 received out-of-market compensation, correct?

8 A. From its member customers, yes.

9 Q. Now, you're aware there are other
10 cooperatives in PJM, correct?

11 A. I believe so.

12 Q. Are you aware that -- well, first of all,
13 you understand that cooperatives are sometimes called
14 co-ops?

15 A. Yes.

16 Q. Are you aware that co-ops often enter
17 into PPAs for generation supply?

18 MR. OLIKER: I would object to the extent
19 it calls for speculation, but if the witness knows,
20 then I'll withdraw the objection. I don't want him
21 speculating.

22 EXAMINER PARROT: You're instructed to
23 answer the question.

24 A. I cannot speculate on specific co-ops
25 throughout PJM, but I know it is common at Buckeye

1 Power to enter into those sort of arrangements.

2 Q. And so just to be clear, you don't know
3 whether other co-ops in PJM are entering into PPAs,
4 is that what you're saying?

5 A. I'm not familiar with other areas'
6 cooperatives.

7 Q. For Buckeye did it recover the cost of
8 its PPAs through cost-based compensation from its
9 member co-ops?

10 MR. OLIKER: Could we go off the record
11 for a second?

12 EXAMINER PARROT: Yes.

13 (Off the record.)

14 EXAMINER PARROT: Go back on the record.

15 MR. OLIKER: I'd just advise the witness
16 not to provide confidential information of a third
17 party, but if you can answer that with a public
18 statement, that's fine.

19 A. I was never directly involved with any of
20 the rates that were charged to member customers with
21 Buckeye Power. My general knowledge is that rates
22 were proposed to a board of directors, which were
23 voted on for each specific cooperative's members, and
24 they had to approve those rates.

25 Q. And without getting into any specifics

1 about specific PPAs or terms or conditions of those
2 PPAs -- first of all, just as foundation, it's fair
3 to say that the member co-ops provided Buckeye
4 cost-based compensation, correct?

5 MS. HARRIS: I'm confused. I thought he
6 was testifying on behalf of IGS, and we're spending a
7 lot of time on Buckeye Power, and I'm confused as to
8 the relevance of this line of questioning.

9 MR. McKENZIE: You're making a relevance
10 objection?

11 MS. HARRIS: Absolutely. If it was
12 IGS-related testimony, I'd understand, but I'm just
13 trying to figure out --

14 MR. McKENZIE: He states throughout his
15 testimony that the problem with our proposal is that
16 it allows AEPGR to receive a different level of
17 compensation. He says that that is inconsistent RPM,
18 which includes the entire PJM footprint, which I've
19 established includes Buckeye. He has personal
20 knowledge of Buckeye because he worked there, so I'm
21 undercutting his statement in his testimony that
22 these things are inconsistent with RPM and the PJM
23 markets, based on his personal knowledge.

24 EXAMINER PARROT: Objection's overruled.

25 MR. McKENZIE: Is there a question

1 pending?

2 (Record read.)

3 MR. OLIKER: I also object. I think that
4 has been asked and answered at least twice.

5 MR. McKENZIE: This is actually just a
6 set-up question.

7 EXAMINER PARROT: Overruled.

8 A. I was never privy to any of the
9 conversations with how rate designs were passed on to
10 the members.

11 Q. Do you know if PPAs were included -- the
12 cost of PPAs were included in Buckeye's cost-based
13 rates?

14 MR. OLIKER: Objection. Mischaracterizes
15 his earlier testimony, the rates are cost-based. He
16 also answered the question.

17 MR. McKENZIE: I'm obviously not
18 characterizing his testimony. If he says no, I'll
19 move on. If he says yes, I'll have a follow-up
20 question.

21 EXAMINER PARROT: Overruled.

22 A. I don't directly know how the rates were
23 designed that were passed on to the member
24 cooperatives.

25 Q. Are you familiar with Eastern Kentucky

1 Power Cooperative?

2 A. No.

3 Q. You're familiar with alternative energy
4 mandates, at least at a high level, correct?

5 A. Correct.

6 Q. And you consider alternative energy
7 mandates to be a subsidy, correct?

8 A. They can be.

9 Q. It's fair to say that alternative energy
10 mandates provide additional compensation to renewable
11 resources independent of the wholesale markets,
12 correct?

13 A. That's correct.

14 Q. Renewable resources also get tax credits,
15 correct?

16 A. Can, yes.

17 Q. And you're aware that renewable resources
18 can participate in the PJM market, correct?

19 A. They can.

20 Q. And they do, right?

21 A. They do.

22 Q. Are you aware that AEP Ohio currently has
23 two PPAs with wind generators?

24 A. I didn't know that specifically.

25 Q. Assuming that AEP Ohio has two wind PPAs

1 and that the net cost of those PPAs are passed
2 through in AEP-Ohio's rates -- are you with me so
3 far?

4 A. Okay.

5 Q. Is it fair to say that these units are
6 receiving "a different level of compensation than the
7 uniform locational clearing price"?

8 MR. OLIKER: Objection. I think it's an
9 incomplete hypothetical in several respects. He
10 hasn't described whether --

11 MR. MCKENZIE: Your Honor, I'd like to
12 cut him off because he's coaching the witness with
13 these objections.

14 EXAMINER PARROT: Let him finish.

15 MR. OLIKER: In the hypothetical he
16 hasn't described what type of rates, whether it's
17 comparable at all to the type of PPA that we're
18 talking about here. And I think it's extremely vague
19 and misleading from that standpoint, as your Honors
20 both know, what type of PPAs those are. And there's
21 not enough foundation for him to answer that
22 question.

23 EXAMINER PARROT: And I'm going to
24 instruct you to answer the question to the best of
25 your ability. If you need clarification, you may ask

1 for it.

2 THE WITNESS: May I have it reread?

3 MR. OLIKER: I'm sorry. Could I ask that
4 you read the question above that, the answer, and
5 then the question that's pending, please.

6 (Record read.)

7 A. States are allowed to provide many
8 different ways to compensate generators throughout
9 their states. But without looking at the details of
10 these specific contracts, my understanding that those
11 costs that can be passed on would not be directly
12 tied to the revenue received through the wholesale
13 energy markets.

14 Would you like me to clarify with an
15 example?

16 Q. No. I'm trying to understand your last
17 answer. Do you understand how the cost-based wind
18 PPAs are passed on to ratepayers?

19 A. I'm not familiar with these specific
20 PPAs.

21 Q. Okay, let's move on.

22 On page 10, line 4 of your testimony, you
23 say that, "The RPM order also specifically indicated
24 that cost-of-service regulation is contrary to RPM
25 because it does not provide incentives to minimize

1 costs or maximize revenue..."

2 Did I read that correctly, acknowledging
3 that it's an excerpt?

4 A. It is a portion of the sentence.

5 Q. So then let me ask, is that how you read
6 the RPM order that you referred to, that
7 cost-of-service regulation is contrary to RPM?

8 A. I believe it can provide disincentives to
9 the RPM market.

10 Q. So cost-of-service regulation is contrary
11 to RPM, as you state in your testimony?

12 A. Yes. Can be.

13 Q. And RPM exists throughout PJM, correct?

14 A. That's correct.

15 Q. Do you know if any in Virginia are in
16 PJM?

17 A. I believe it is.

18 Q. For retail rates, is there
19 cost-of-service regulation for generation in
20 Virginia?

21 A. I'm not familiar with states other than
22 Ohio in their rates.

23 Q. Okay. So you're not aware of -- to be
24 clear, you're not aware of whether there is
25 cost-of-service regulation in any state in PJM

1 outside of Ohio?

2 A. I'm not familiar with any other state and
3 how their rates are passed on to consumers.

4 Q. Are you familiar with the term "FRR" as
5 it relates to PJM, fixed resource requirement?

6 A. Yes.

7 Q. Do you know what entities are FRR?

8 A. I believe AEP was, but I'm not sure if
9 they still are.

10 Q. Do you know which AEP affiliates?

11 A. I do not.

12 Q. Do you know if any FRR entities receive
13 cost-based generation rates?

14 A. I believe they could.

15 Q. Do you know if those FRR entities that
16 receive cost-based generation rates participate in
17 the PJM energy markets?

18 A. I believe they probably do.

19 Q. At the very least, you understand that
20 there are areas of PJM that do not have retail
21 choice; is that correct?

22 A. That's correct.

23 Q. You just don't know if utilities owning
24 generation in those areas receive generation through
25 a cost-of-service model; is that right?

1 A. I'm not familiar with the rate design in
2 those areas.

3 Q. Okay. Let me refer to the 2017-18 BRA,
4 okay?

5 A. Okay.

6 Q. Are you aware that between 160 and 180
7 thousand megawatts of generation cleared in that BRA?

8 A. I believe that number sounds correct.

9 Q. Would you say that for sellers in the PJM
10 capacity auctions, bidding at zero is a very common
11 strategy?

12 A. It is a strategy that a lot of utilities
13 use.

14 Q. Is it very common?

15 A. Yes.

16 Q. And you would agree that in the 2017-18
17 BRA, about 140,000 megawatts of generation bid in at
18 zero? Does that sound about right?

19 A. I can't recall exactly, but that sounds
20 reasonable.

21 Q. Let's go to page 6, line 16, of your
22 testimony, please. You say, "AEP assumes that the
23 PPA will provide a credit when market prices rise and
24 a charge when market prices are low. This conclusion
25 is based upon the assumption that AEPGR's cost of

1 producing electricity will remain constant or
2 otherwise does not rise faster than electric
3 generation costs throughout the electric generation
4 industry."

5 Did I read that correctly?

6 A. That's correct.

7 Q. Is it fair to say that you do not follow
8 the price of coal very closely?

9 A. I do not follow it closely.

10 Q. And you don't know if coal prices are
11 relatively stable as compared to natural gas prices,
12 correct?

13 MR. OLIKER: Objection. It's vague and
14 no time frame specified.

15 EXAMINER PARROT: Overruled.

16 A. Historically speaking, most of the
17 industry has believed that coal prices are relatively
18 stable, but I do not know the specific numbers to
19 compare that to.

20 Q. So let me ask you now. Historically, on
21 a long-term time range, coal prices have been more
22 stable than gas prices; is that correct?

23 A. On a very large time frame, that would be
24 correct.

25 Q. Would you say that as a historical

1 matter, generally wholesale energy prices in PJM are
2 typically driven at the margin by natural gas prices?

3 A. Historically speaking, on certain hours
4 of the day, that's what's typically believed.

5 Q. Could you turn to your FirstEnergy
6 transcript, please, page 4941, line 19.

7 Question: "Now, you understand, also, do
8 you not, that wholesale prices in PJM aren't --
9 wholesale energy prices are typically driven at the
10 margin by natural gas prices, correct?"

11 Answer: "Historically, that's been a
12 general understanding."

13 That was your testimony in the
14 FirstEnergy case, correct?

15 MR. OLIKER: Objection. That's exactly
16 what he just said.

17 MR. McKENZIE: His answer here was
18 qualified by certain hours of the day and wasn't in
19 the FirstEnergy case. That's perfectly fair.

20 A. Higher in the page, lines 9 and 10, I had
21 qualified a lot of these answers, that there are a
22 lot of different factors that go into setting prices.

23 EXAMINER PARROT: Thank you.

24 MR. McKENZIE: I'll move on.

25 EXAMINER PARROT: Yes, let's do.

1 Q. Let me give you a hypothetical. Holding
2 all other factors steady, as more gas-fired power
3 plants are coming online in PJM, natural gas prices
4 will have a stronger influence on energy prices,
5 correct?

6 A. So I'm assuming that everything is
7 steady. We were just having more natural gas power
8 plants online?

9 Q. Correct.

10 A. That's correct, more supply would affect
11 prices.

12 Q. And I'm asking natural gas prices will
13 have a stronger influence on energy prices in this
14 hypothetical, correct?

15 A. That's correct.

16 Q. Let's go to page 7, line 10 of your
17 testimony. You say, "An increased carbon tax will
18 likely make the PPA units less competitive with
19 respect to other generation, which in turn off-set
20 any benefit the PPA units receive from higher
21 electric prices. Specifically an increased carbon
22 tax will likely push coal plants even further to the
23 margin in the dispatch order - or to push them
24 completely out of the stack of resources selected for
25 dispatch."

1 Did I read that correctly?

2 A. That's correct.

3 Q. Now, you've reviewed the testimony of AEP
4 Ohio Witnesses Bletzacker and Pearce, correct?

5 A. I've read them.

6 Q. And you're aware, as I think you actually
7 state here on this page, that Witness Bletzacker
8 included a \$15 per metric ton of CO2 emissions tax
9 adder?

10 A. That's correct.

11 Q. And, first of all, you haven't done any
12 analysis to arrive at a different figure other than
13 \$15 per metric ton of CO2, have you?

14 A. It's difficult to forecast the effect of
15 a CO2 tax, so it seemed reasonable.

16 Q. So the \$15 per metric ton of CO2
17 assumption seems reasonable?

18 A. To my knowledge, yes.

19 Q. Are you aware that this \$15 per metric
20 ton carbon cost was included in the dispatch model
21 that Witness Pearce describes in his testimony?

22 A. I believe it probably would have.

23 Q. So you're aware that the projections
24 offered by the company here account for carbon costs
25 in their dispatch order analysis, correct?

1 A. That's correct.

2 Q. And you haven't done any dispatch
3 modeling for the PPA units, correct?

4 A. Have not.

5 Q. Now, IGS is a CRES provider in Ohio; is
6 that correct?

7 A. That's correct.

8 Q. And you're familiar with IGS's CRES
9 offerings?

10 A. Many of them.

11 Q. Now, when an IGS CRES contract expires,
12 when the contract term is over, the customer may sign
13 a new contract at that point, correct?

14 A. I mean, when one contract ends, they can
15 sign another one, yes.

16 Q. And that contract may have a new price
17 from the old contract, right?

18 A. It may.

19 Q. Now, if a customer at the end of the
20 contractual term does not sign a new contract, then
21 typically his or her price would fluctuate up or
22 down; is that correct?

23 A. I would need to see the specific
24 contracts, but, in general, for specific customers
25 they would roll over to an variable product.

1 Q. And the price of the variable product can
2 fluctuate up to 30 percent, correct?

3 A. Dependent on the contract, a variable
4 product would not be contractually bound by a
5 percentage.

6 Q. But it could vary, in your experience, up
7 to 30 percent?

8 A. A variable product could vary by 80
9 percentage.

10 Q. It could vary by a hundred percent?

11 A. Dependent on the contract and the term,
12 anything is possible. That would not be a very good
13 product.

14 Q. Let's go to page 4, lines 6 through 9 of
15 your testimony, please. On line 6 you say, "PJM
16 experienced an all-time winter peak record on
17 February 20, 2015 - even greater than the electric
18 demand seen during the polar vortex. But generator
19 performance - specifically forced outage rates -
20 improved significantly relative to the prior year."

21 Did I read that correctly?

22 A. You did.

23 Q. Now, the basis of this statement in your
24 testimony is that PJM 2015 Winter Report, which is
25 attached to your testimony, correct?

1 A. Correct.

2 Q. So let's go to that report, please,
3 specifically page 5. The paragraph about midway down
4 that starts "In addition." Tell me when you're
5 there.

6 A. I'm there.

7 Q. This says, "In addition to the extremely
8 cold temperatures, PJM also reviewed effective
9 temperatures or wind chill data for select cities
10 throughout the footprint for both 2014 and 2015.
11 This analysis indicated January 2014 actually felt
12 colder just about everywhere when compared to 2015,
13 especially Columbus, Cleveland, and Chicago, where
14 effective temperatures were between 14 and 16 degrees
15 warmer in 2015. The significant wind chill
16 experienced during 2014 could have contributed to the
17 higher amount of generator forced outages encountered
18 in 2015. By comparison, the less severe warmer
19 effective temperature, wind chill, in 2015 may have
20 contributed to improved generator performance."

21 See that?

22 A. I see that.

23 Q. You don't have any reason to doubt PJM's
24 conclusion that the significant wind chill in 2014
25 could have contributed to the higher amount of

1 generator-forced outages 2014, correct?

2 A. I have no reason to doubt that that is
3 possibly one of the things that contributed.

4 Q. And you don't have any reason to doubt
5 PJM's conclusion that the less severe, warmer
6 temperature wind chill in 2015 may have contributed
7 to improved generator performance in 2015, correct?

8 A. I have no reason to doubt that it may
9 have.

10 Q. Let's go to page 6 of this report,
11 please. The paragraph almost at the end, second to
12 last says, "Despite more natural gas."

13 A. I'm there.

14 Q. This says, "Despite more natural gas, LNG
15 and storage, there were just as many, if not more,
16 restrictions issued by the pipelines. Units that had
17 gas supply restricted by their pipelines were forced
18 to take an outage, ask for an exception to some of
19 their unit parameters (e.g. minimum run time) or run
20 on an alternate fuel, if the unit was capable of
21 doing so and the alternate fuel was available. On
22 the morning of February 20, forced outages from gas
23 issues totaled 7,420 MW or 29.9 percent of total
24 forced outages. In comparison, at the January 7,
25 2014, peak, 9,300 MW of gas-fired capacity was out of

1 service because of natural gas unavailability, or
2 about 25 percent of the total outages."

3 Do you see that?

4 A. Yes.

5 Q. First, a clarification. Based on your
6 understanding, on line 4 where it says, "On the
7 morning of February 20," is it your understanding
8 that PJM means February 20, 2015?

9 A. Yes.

10 Q. Okay. Now, you don't have any reason to
11 doubt PJM's conclusion that "there were just as many,
12 if not more, restrictions issued" by the natural gas
13 pipelines in the winter of 2015, correct?

14 A. I have no reason to doubt their
15 sentences.

16 Q. And you have no reason to doubt their
17 conclusions here, too, correct?

18 A. I have no reason to doubt their
19 conclusions.

20 Q. Now, do you see in the final two lines of
21 this paragraph where it says the percentage of forced
22 outages from gas unavailability was 25 percent in
23 2014? Did I read that correctly, 25 percent of total
24 outages?

25 A. That's correct.

1 Q. And then if you go up one more sentence,
2 while the total megawatts decrease, the percentage of
3 forced outages from gas-supply issues increased to
4 29.9 percent of total forced outages in 2015,
5 correct?

6 A. It does say that.

7 Q. And you don't have any reason to doubt
8 that, correct?

9 A. I have no reason to doubt that, but I
10 believe this is one of the justifications for the
11 market rule changes that have occurred since then.

12 MR. McKENZIE: Okay. No further
13 questions.

14 EXAMINER PARROT: Thank you.

15 Mr. Beeler?

16 MR. BEELER: No questions, your Honor.
17 Thanks.

18 EXAMINER PARROT: Redirect, Mr. Olier?

19 MR. OLIER: Could we have just a few
20 minutes, your Honor?

21 EXAMINER PARROT: You may.

22 (Off the record.)

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

25 Any redirect?

1 MR. OLIKER: Very briefly, your Honor.

2 - - -

3 REDIRECT EXAMINATION

4 By Mr. Oliker:

5 Q. Mr. Haugen, do you remember a series of
6 questions that you received from counsel for AEP
7 about the performance or interruptible nature of
8 natural gas-fired generation during the polar vortex
9 in the winter of 2015?

10 A. I do.

11 Q. And do you have any thoughts on how
12 natural gas-fired generation will perform in the
13 future?

14 MR. MCKENZIE: Objection. Your Honor, I
15 think it's vague and calls for speculation.

16 MR. OLIKER: Your Honor, merely asking
17 for his personal opinion.

18 EXAMINER PARROT: I'll allow it.

19 A. I believe that the forced outages are
20 indicative of market contracts that will not occur in
21 the future as PJM has implemented the capacity
22 performance proposal. As you look at the different
23 units that cleared in the capacity performance
24 product, a large portion of them were natural gas and
25 should be able to respond more reliably going into

1 the future.

2 MR. OLIKER: No more questions, your
3 Honor. Thank you.

4 EXAMINER PARROT: Thank you, Mr. Oliker.
5 Ms. Williams?

6 MS. WILLIAMS: No questions, your Honor.

7 EXAMINER PARROT: Ms. Harris.

8 MR. HARRIS: No questions, your Honor.

9 EXAMINER PARROT: Mr. Dougherty.

10 MR. DOUGHERTY: No questions, your Honor.

11 EXAMINER PARROT: Mr. Michael.

12 MR. MICHAEL: No questions, your Honor.

13 EXAMINER PARROT: Mr. McKenzie?

14 MR. MCKENZIE: No recross. Thank you.

15 EXAMINER PARROT: Mr. Beeler?

16 MR. BEELER: Nothing your Honor. Thank
17 you.

18 EXAMINER PARROT: Thank you very much.

19 MR. OLIKER: Then IGS would move for the
20 admission of Exhibit 5.

21 EXAMINER PARROT: Are there any
22 objections to the admission of IGS Exhibit 5?

23 Hearing none, it is admitted into the
24 record. Thank you very much.

25 (EXHIBIT ADMITTED INTO EVIDENCE.)

1 EXAMINER SEE: Let's continue with our
2 next witness.

3 Can you go ahead and call Mr. Chriss?

4 Yes, thank you. The Bench is ready for
5 Wal-Mart's 's next witness.

6 MS. HARRIS: Thank you, your Honor.

7 (Witness sworn.)

8 - - -

9 STEVE W. CHRISS

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

12 By Ms. Harris:

13 Q. Good morning, Mr. Chris. Could you state
14 your name, position of employment, and business
15 address for the record.

16 A. My name is Steve W. Chriss, C-h-r-i-s-s.
17 I'm senior manager, Energy Regulatory Analysis for
18 Wal-Mart Stores, Inc.

19 Q. And, Mr. Chriss, do you have before you a
20 document entitled "The Direct Testimony and Exhibits
21 of Steve W. Chriss prepared on behalf of Wal-Mart
22 Stores East, LP and Sam's East, Inc," prepared and
23 filed on September 11, 2015, consisting of 18 pages
24 of typed question and answers and four exhibits?

25 A. Yes.

1 MS. HARRIS: At this time can I have
2 Mr. Chriss' direct testimony marked for
3 identification as Wal-Mart Exhibit 1, and I have
4 copies if anybody wants them.

5 EXAMINER SEE: So marked.

6 (EXHIBIT MARKED FOR IDENTIFICATION.)

7 Q. Mr. Chris, was this document prepared by
8 you or under your direction or supervision?

9 A. Yes.

10 Q. Do you have any corrections or additions
11 to this document?

12 A. No.

13 Q. If you were asked the same questions
14 today, would you provide the same answers?

15 A. Yes.

16 Q. Do you wish to sponsor this document as
17 your direct testimony in this proceeding?

18 A. Yes.

19 MS. HARRIS: I'd move for admission of
20 Mr. Chriss' direct testimony as Wal-Mart Exhibit 1,
21 and Mr. Chriss is available for cross-examination.

22 EXAMINER SEE: Ms. Williams?

23 MS. WILLIAMS: No questions.

24 EXAMINER SEE: Mr. Daugherty?

25 MR. DAUGHERTY: No questions.

1 EXAMINER SEE: Mr. Michael?

2 MR. MICHAEL: No questions, your Honor.

3 Thank you.

4 EXAMINER SEE: Mr. Olikar?

5 MR. OLICKER: No questions, your Honor.

6 EXAMINER SEE: Mr. Pritchard?

7 MR. PRITCHARD: No questions, your Honor.

8 EXAMINER SEE: Mr. Boehm?

9 MR. BOEHM: No questions, your Honor.

10 EXAMINER SEE: And Mr. Conway?

11 MR. CONWAY: Thank you, your Honor.

12 - - -

13 CROSS-EXAMINATION

14 By Mr. Conway:

15 Q. Good morning, Mr. Chriss.

16 A. Good morning.

17 Q. I'm Dan Conway. I'm one the lawyers for
18 the Ohio Power Company. I have just a few questions
19 for you this morning yet. Hopefully we can get done
20 sometime shortly this afternoon.

21 With regard to your testimony,
22 Mr. Chriss, at the bottom of page 3, you state in
23 your first recommendation at the bottom of page 3.
24 Roughly starting at lines 19 and going on through 21,
25 you state that, "The Commission, if it approves some

1 amount of recovery of the Company's proposed PPA
2 units through the PPA rider, should make that
3 recovery subject to refund until the appeals process
4 is complete."

5 Do you see that?

6 A. I do.

7 Q. And I think that you also refer to that
8 at page 5, that same recommendation at page 5, lines
9 18 through 20; is that correct?

10 A. Yes, sir.

11 Q. And with regard to the amount of recovery
12 that you reference, is that the revenue requirement
13 of the PPA rider that you also discuss in your
14 testimony?

15 A. Yes. That recovery would be the revenue
16 requirement of the PPA rider.

17 Q. And that's the difference between the PPA
18 units' costs and the OVEC entitlement's costs, on the
19 one hand, and the market revenue realized from the
20 sale of the PPA units' output and the OVEC
21 entitlement power, right?

22 A. Yes.

23 Q. And that difference can be a positive or
24 negative amount, right?

25 A. That's correct.

1 Q. And so it can be under the company's
2 proposal either a charge or a credit to customers,
3 right?

4 A. That's correct. However, my
5 understanding is that in the early years it looks
6 like it will be a charge.

7 Q. But it could be a charge or a credit in
8 any one of the years that the PPA rider is in effect?

9 A. It could be, yes.

10 Q. And so if that net amount is positive for
11 any particular year or over any particular period of
12 time, that is, the market revenue succeeds the costs,
13 then the bill credits that AEP-Ohio's customers would
14 receive through the rider during the pendency of the
15 appeals that you reference, those bill credits would
16 be refunded back to AEP Ohio's customers, per your
17 recommendation, right?

18 A. That's correct.

19 Q. And how would you accomplish that,
20 through the PPA rider itself or through some other
21 mechanism?

22 MS. HARRIS: I'm going to object. That's
23 really outside the scope of his direct examination.

24 MR. CONWAY: Your Honor, I'm entitled to
25 inquire of the witness about what his opinions are,

1 any of his opinions that are relevant to the case, I
2 think.

3 EXAMINER SEE: And the objection is
4 overruled.

5 You can answer the question, Mr. Chriss.

6 A. Could you please repeat your question?

7 Q. Yes. So how would the refund be
8 accomplished? Would it be through the use of the PPA
9 rider itself or some other mechanism?

10 A. Ultimately, it would have go through a
11 mechanism that has been determined to be legal by the
12 Commission and the courts. If the PPA rider could be
13 used to do that, then it would make sense to choose
14 the PPA rider to do that. If a separate mechanism is
15 required, then the Commission could determine that
16 that's the need.

17 Q. Let me turn to page 10 of your testimony.
18 And I'm focusing on the question that starts on line
19 1 on page 10, and the answer that then ensues and
20 continues over through the top of page 11, and then
21 the next question at the top of page 11 at lines 4 to
22 7. Do you have that portion of your testimony in
23 front of you?

24 A. I do.

25 Q. And in this portion of your testimony you

1 explain some of the concerns you have regarding the
2 company's proposals in this case, correct?

3 A. That's correct.

4 Q. And have you reviewed the filings made by
5 the parties or the orders of the Commission in the
6 company's most recent electric security plan
7 proceeding, Case No. 13-2385, which I believe you
8 reference in your answer?

9 A. Yes, I've reviewed it. I don't have it
10 memorized.

11 Q. But you've read some, if not all, of the
12 filings and some, if not all, of the orders that the
13 Commission issued in that proceeding?

14 A. Certainly the order. I've probably been
15 through all the filings. I review a lot of documents
16 in a lot of places. I'm happy to answer any
17 questions you have.

18 Q. Do you know whether any of the concerns
19 that you articulate in your answer to the question on
20 page 10 that continues over to the top of page 11
21 were also before the Commission, those concerns were
22 raised in the Commission in that previous ESP
23 proceeding?

24 A. That's my understanding.

25 Q. And you are, of course, then aware that

1 the Commission, in its order in the 13-2385 case,
2 nevertheless approved the establishment of the PPA
3 rider in that case?

4 A. That's my understanding.

5 MR. MICHAEL: Objection.
6 Mischaracterizes the decision in the ESP III case.

7 MR. CONWAY: Your Honor, he answered the
8 question already, I believe. And, secondly, I
9 disagree with the objection that's been raised by
10 Mr. Michael.

11 EXAMINER SEE: And as you indicated, the
12 witness has already answered the question. You can
13 move on.

14 Q. Mr. Chriss, your third recommendation in
15 your testimony, which you summarize, I believe, on
16 page 4 and then discuss in more detail at pages 11 to
17 18 -- if you'd like to turn your attention to those
18 pages, that would be helpful. Your recommendations
19 there -- your third recommendation, excuse me, is
20 that if the Commission is going to approve the
21 company's amended application in this proceeding, it
22 should set the ROE for the PPA at a level similar to
23 what would be appropriate for vertically integrated
24 utilities. Did I capture the essence of your
25 recommendation?

1 A. That's correct.

2 Q. Now, the PUCO has authority to review and
3 determine whether it would be prudent for AEP Ohio,
4 Ohio Power to enter into the PPA with AEP Generation
5 Resources; is that your understanding?

6 A. I'm not an attorney so I'm not providing
7 any sort of statutory analysis here. My
8 understanding is the Commission stated in the 2385
9 order -- I may be getting my numbers mixed up.

10 Q. You got it right.

11 A. In the ESP order, my understanding is the
12 Commission states to some effect that they do have
13 that authority.

14 Q. And is it your understanding also that
15 the FERC, the Federal Energy Regulatory Commission,
16 is the body that would actually decide whether to
17 approve any PPA that AEP Ohio, Ohio Power Company and
18 AEP Generation Resources enters into?

19 A. My general understanding is that the FERC
20 would have jurisdiction over the wholesale
21 transaction. I don't know the specifics.

22 Q. Fair enough. Thank you. Now, getting
23 back to more of the details of your recommendation,
24 the return on equity data that you discuss at pages
25 12 to 13 of your testimony, those data are from SNL

1 Financial; is that right?

2 A. That's correct.

3 Q. And then you provide that data, at least
4 by my way of looking at it, you provide it in more
5 detail in your Exhibit SWC-2?

6 A. That's correct.

7 Q. And the data that's in Exhibit SWC-2 you
8 provide in detail that you also refer to in your
9 testimony at pages 12 to 13, that data is not limited
10 to ROEs or vertically integrated utilities, correct?

11 A. That's correct. And it's indicated in
12 both the dataset and in the discussion in the
13 testimony which are vertically integrated, which are
14 distribution only, and then talks about the
15 separation of those two data or those two types of
16 data.

17 Q. And the data that you provide in your
18 Exhibit SWC-2 that you discuss in your testimony, it
19 isn't limited to ROEs for generation-only utilities
20 either, is it?

21 A. Define "generation-only utility."

22 Q. Utilities that own only generation assets
23 as opposed to utilities that are either vertically
24 integrated or wires-only distribution-type utilities.

25 MS. HARRIS: I'm going to object. Asked

1 and answered.

2 MR. CONWAY: I don't think he answered
3 this question, your Honor.

4 EXAMINER PARROT: The objection is
5 overruled. The witness can answer the question.

6 A. So the data that's in the set are
7 reported returns on equity for vertically integrated
8 and distribution-only rate cases. Limited-issue
9 riders, generation riders like the ones in Virginia,
10 transmission ROEs like from Texas, those are excluded
11 from the dataset.

12 Q. Just so I understand, vertically
13 integrated utilities' ROEs are in there and
14 distribution-only ROEs are in there, but other types
15 of ROEs outside of those two categories are not in
16 the data; is that right?

17 A. That's correct.

18 Q. Are any of the ROE values that are
19 included in the exhibit firms that supply wholesale
20 power through FERC jurisdictional power purchase
21 agreements?

22 A. I don't know specifically, but I'd
23 imagine that most, if not all, of the
24 generation-owning utilities have some sort of
25 wholesale business that they conduct.

1 Q. All right. Let me try it again. Are any
2 of the ROE values included in the exhibit values that
3 were extracted from FERC jurisdictional purchase
4 power agreements approved by FERC?

5 MS. HARRIS: Objection. Asked and
6 answered.

7 MR. CONWAY: Once again, your Honor, I
8 don't think he answered that question.

9 MS. HARRIS: Your Honors, respectfully,
10 he said, "I don't know," but I expect -- that, I
11 imagine. That's clearly an answer.

12 MR. CONWAY: If the answer is he doesn't
13 know or if the answer is there aren't any such ROEs
14 in the data, then I'm happy to move on.

15 Q. (By Mr. Conway) So can you answer in one
16 of the two ways that I just described?

17 EXAMINER SEE: The objection is
18 overruled. The witness can answer this question.

19 A. There are no FERC jurisdictional returns
20 on equity included in the dataset.

21 Q. Thank you. And you did not conduct a
22 cost-of-equity study or analysis for AEP Generation
23 Resources as part of your work in this case, did you?

24 A. That's correct.

25 Q. With regard to the Illinois formula ROE

1 that you discuss at pages 14 to 15, is it your
2 understanding that Illinois has undertaken to
3 restructure its integrated electric utilities?

4 A. Can you define "restructure its
5 integrated electric utilities"?

6 Q. It has undertaken to require, cause its
7 vertically integrated utilities to separate their
8 generation assets from their wires business
9 components.

10 MS. HARRIS: Just going to object to the
11 extent it calls for a legal conclusion; otherwise, he
12 can answer.

13 MR. CONWAY: I'm not asking for a legal
14 conclusion here, your Honor. I'm just asking for his
15 understanding about what's gone on in Illinois with
16 regard to the restructuring of electric utilities,
17 and he asked me for clarification of my question,
18 which I just provided him, and in that context, I
19 think he should be allowed to answer the question.

20 EXAMINER SEE: With the understanding
21 that Mr. Chriss is not an attorney, you can answer
22 the question.

23 A. Sure. Illinois has restructured. The
24 Ameren Illinois and Commonwealth Edison returns that
25 are listed for their distribution-only business, and

1 the legislation that enables the formula is also for
2 their distribution business only.

3 Q. So just to be clear then, the Illinois
4 ROE formula that you discussed is used to set ROE for
5 wires-only, distribution-only utilities in Illinois?

6 A. That's true. And I note that on page 15
7 of my testimony.

8 Q. Do you believe that generation-only
9 businesses face different risks than
10 distribution-only utilities?

11 A. Generally, yes, in that the assets that
12 they own and operate within their business are
13 different. However, the paradigm under which those
14 costs are recovered matters as well. So regulated
15 versus unregulated does make a difference.

16 Q. And would you agree that businesses that
17 own and operate only generation assets can face
18 higher costs of equity than businesses that are
19 devoted to distribution-only functions?

20 A. Generally, yes. However, again, the cost
21 recovery paradigm does matter. And to the extent
22 that a generation-only business has vertically
23 integrated, like cost-recovery protections, that
24 should certainly be factored in any consideration of
25 an approved ROE.

1 Q. And with regard to the company's proposed
2 cap on the PPA's ROE of 59.9 percent, you're familiar
3 with that aspect of the proposal, are you not?

4 A. I am.

5 Q. And your review, I believe you state,
6 shows that it would have been triggered, "it" being
7 the cap, would have been triggered in 18 of 96 years
8 going back to 1929; is that correct?

9 A. That's correct.

10 Q. So that's about 20 percent of the time,
11 right?

12 A. Give or take.

13 Q. So that would be on average one out of
14 every five years?

15 A. Yes. However, I note in my testimony the
16 most recent year was 1990, so it's not a regular
17 interval.

18 Q. Not every fifth year, but one out of
19 every five years, on average, the cap would have been
20 triggered over the last 96 years, if it had been in
21 effect for that period, correct?

22 A. Correct.

23 MR. CONWAY: That's all I have, your
24 Honor.

25 Thank you, Mr. Chriss.

1 EXAMINER SEE: Mr. Beeler?

2 MR. BEELEER: Nothing, your Honor.

3 EXAMINER SEE: Any redirect?

4 MS. HARRIS: No. I would at this time,
5 though, have Mr. Chriss' direct testimony that has
6 been marked as Wal-Mart Exhibit 1 moved into the
7 record.

8 EXAMINER SEE: Are there any objections
9 to admission of Wal-Mart Exhibit 1?

10 MR. CONWAY: No objection, your Honor.

11 EXAMINER SEE: Wal-Mart Exhibit 1 is
12 admitted into the record.

13 (EXHIBIT ADMITTED INTO EVIDENCE.).

14 EXAMINER SEE: Thank you, Mr. Chriss.

15 MS. HARRIS: Thank you, your Honor.

16 MR. OLIKER: Are we off the record?

17 HEARING EXAMINER: Let's go off the
18 record for a moment.

19 (Off the record.)

20 EXAMINER SEE: Back on the record.

21 It's now almost 12:20. We'll take a
22 lunch break until 1:30 and reconvene.

23 MR. OLIKER: Thank you, your Honor.

24 (Lunch recess taken.)

25 - - -

1 Wednesday Afternoon Session,
2 October 14, 2015.

3 - - -

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

6 Mr. Michael.

7 MR. MICHAEL: Thank you, your Honor. At
8 the end of Dr. Rose's testimony we requested the
9 ability to supply a clean copy of what had been
10 marked as AEP Exhibit 14. I have had the opportunity
11 to obtain a clean copy of what was marked as AEP
12 Exhibit 14. I shared it with counsel for AEP-Ohio.
13 Counsel is okay with us switching out what was
14 previously marked as AEP 14 with the clean color copy
15 that I now have, and if it's acceptable to the Bench,
16 I'll go ahead and provide a copy to the court
17 reporter.

18 EXAMINER PARROT: That sounds good to me,
19 Mr. Michael. I appreciate it.

20 MR. McKENZIE: And just for the record,
21 your Honor, the color copy is identical in every way
22 to the other copy. It's just in color.

23 EXAMINER SEE: Mr. Michael, is there only
24 one?

25 MR. MICHAEL: There was three. AEP has

1 one. I gave one to you, and I'll give one to the
2 court reporter.

3 MR. McKENZIE: I'll give you mine.

4 EXAMINER PARROT: Do you want to call
5 your next witness?

6 MR. OLIKER: Your Honor, we've had some
7 discussions with Dynegy and the company, and due to
8 Mr. Ellis being an out-of-town witness, I think it's
9 been agreed among the parties that it would make
10 sense to have Mr. Ellis go next, with Mr. Leanza to
11 follow.

12 EXAMINER PARROT: Just a general reminder
13 to let the Bench know when we make these arrangements
14 for the future. Thank you.

15 MR. DORTCH: My apologies. I should have
16 done so.

17 EXAMINER PARROT: All right, Mr. Dortch.

18 MR. DORTCH: Thank you, your Honor.
19 Dynegy, Inc. would call Mr. Ellis to the stand.

20 (Witness sworn.)

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DEAN ELLIS

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

DIRECT EXAMINATION

By Mr. Dortch:

Q. Mr. Ellis, would you please state your
name for the record.

A. Yes. My name is Dean Ellis.

Q. And by whom are you employed, sir?

A. Dynegy, Inc.

Q. And would you provide your business
address?

A. Sure. 601 Travis Street, Suite 1400,
Houston, Texas 77002.

Q. And what is your title, sir?

A. Vice president, regulatory affairs.

Q. And did you prefile testimony in this
case?

A. Yes, I did.

MR. DORTCH: Your Honor, at this point I
would like to mark the prefiled testimony of
Mr. Ellis as Dynegy Exhibit No. 1.

EXAMINER PARROT: So marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Mr. Ellis, do you have before what you

1 has been marked for identification as Dynegy
2 Exhibit No. 1?

3 A. Yes, I do.

4 Q. And would you identify that document for
5 me?

6 A. Yes.

7 Q. Would you identify it as your prefiled
8 testimony?

9 A. It is my prefiled testimony.

10 Q. And was that testimony prepared by you or
11 under your direction?

12 A. Yes, it was.

13 Q. Do you have any additions or corrections
14 you would like to make to that document today?

15 A. No, I do not.

16 Q. If I asked you the questions that appear
17 in Dynegy Exhibit No. 1, would the answers be as they
18 appear in Dynegy Exhibit No. 1?

19 A. Yes, they would.

20 MR. DORTCH: Thank you, Mr. Ellis.

21 Your Honors, I move the admission into
22 evidence of Dynegy Exhibit No. 1 and offer Mr. Ellis
23 for cross-examination.

24 EXAMINER PARROT: Thank you.

25 Ms. Williams?

1 MR. WILLIAMS: No questions.

2 MR. DORTCH: And, your Honor, I do have
3 extra copies of Mr. Ellis' testimony should anybody
4 desire a copy.

5 MR. WILLIAMS: No questions, your Honor.

6 EXAMINER SEE: Thank you.

7 EXAMINER PARROT: Ms. Mooney?

8 MS. MOONEY: No questions.

9 EXAMINER PARROT: Mr. Petricoff?

10 MR. PETRICOFF: No questions, your Honor.

11 EXAMINER PARROT: Mr. Michael?

12 MR. MICHAEL: No questions, your Honor.

13 EXAMINER PARROT: Mr. Oliker?

14 MR. OLIKER: No questions, your Honor.

15 EXAMINER PARROT: Mr. Pritchard?

16 MR. PRITCHARD: No questions.

17 EXAMINER PARROT: Mr. Boehm?

18 MR. BOEHM: No questions.

19 EXAMINER PARROT: Mr. Satterwhite?

20 MR. SATTERWHITE: Thank you, your Honor.

21 - - -

22 CROSS-EXAMINATION

23 By Mr. Satterwhite:

24 Q. Good afternoon, Mr. Ellis. My name is
25 Matthew Satterwhite. I'm one the attorneys for AEP

1 Ohio. I have a couple questions to ask you today.

2 You state on page 1 of your testimony
3 that you're offering this testimony on behalf of
4 Dynegy in opposition to AEP-Ohio's proposal, correct?

5 A. Correct.

6 Q. Let's explore a little bit who Dynegy is.
7 Who do you report to in the corporate ladder?

8 A. I report to the chief administrative
9 officer.

10 Q. What's that person's name?

11 A. Julius Cox.

12 Q. How do you spell that last name?

13 A. C-o-x.

14 Q. And then who does Julius report to?

15 A. The CEO, Robert Flexon, F-l-e-x-o-n.

16 Q. Is Julius a male or female?

17 A. Male.

18 Q. I don't want to say him or her and get it
19 wrong. And what do you do to support your boss,
20 Julius Cox, in the corporation?

21 A. My responsibilities are environmental
22 policy, retail markets policy, wholesale markets
23 policy, and government legislative affairs.

24 Q. And under the purview of your job, in
25 your job responsibilities, you speak to the press a

1 lot, correct?

2 A. I wouldn't characterize it as a lot. We
3 do have an affairs person whose primary
4 responsibilities it is to speak with the press.

5 Q. But in your responsibility as a vice
6 president, you're aware of the corporate positions
7 that are taken at the time, correct?

8 A. Yes, I am.

9 Q. And, in particular, I know we talked to
10 your counsel ahead of time, you're aware of the
11 Investor Day presentations that are provided by the
12 company, correct?

13 A. Yes, I am.

14 Q. And as well as from time to time there
15 are forums or speeches given by Mr. Flexon where
16 presentations are given. You're aware of those as
17 well, correct?

18 A. Yes, I am.

19 Q. For example, those are found on the
20 Investor Relations site, like the one you gave
21 recently to a dealership conference, correct?

22 A. That's correct. I believe you're
23 referring to the World Leadership Conference.

24 Q. And where was that conference?

25 A. I believe it was in New York City, but I

1 didn't attend it.

2 Q. And who is Hank Jones?

3 A. Hank Jones is our chief commercial
4 officer or our executive vice president responsible
5 for commercial operations.

6 Q. And what is he responsible for and what
7 are the job duties?

8 A. Primarily commercialization of the
9 wholesale and retail business, buying and selling
10 wholesale power.

11 Q. Do you deal with him on a regular basis?

12 A. Yes, I do.

13 Q. Are there other senior management members
14 that you deal with on a regular basis?

15 A. I would say that I interact with most of
16 the senior management on a regular basis, including
17 Sheree Petrone, our executive vice president in
18 charge of retail, Catherine Callaway, our executive
19 vice president in charge of legal, among others.

20 Q. And this senior management staff, are
21 they all located in Houston, Texas with you?

22 A. The majority are. Sheree Petrone is
23 located in our Collinsville, Illinois office.

24 Q. And how many generation assets does
25 Dynegy own within the state of Texas?

1 A. Within the state of Texas, Dynegy does
2 not own any generation.

3 Q. Looking at your testimony in general, is
4 it safe to say Dynegy is a supporter of competitive
5 electric markets?

6 A. Yes, it is.

7 Q. In fact, you believe that as long as
8 customers are being served safely and reliably, it is
9 most beneficial to provide energy via the most
10 competitive, cost-effective manner, correct?

11 A. That's correct.

12 Q. In your testimony you tout the benefits
13 of a greater regional market interconnected on the
14 grid as a fundamental advantage of an RTO, correct?

15 A. That's correct.

16 Q. And one of those benefits is that the
17 exact location of generation is irrelevant as long as
18 the market can provide the need, correct?

19 A. I wouldn't agree that the location of the
20 generation is irrelevant, but one of the advantages
21 of a regional market is the ability of a locality to
22 take advantage of generation located throughout the
23 greater region.

24 Q. When you say not irrelevant, is that due
25 to there could be cost components due to location of

1 where the generation exists?

2 A. There could be cost components or other
3 technical reasons to locate generation in certain
4 areas, such as voltage support.

5 Q. I believe you state in your testimony
6 that the laws of physics pretty much dictate that not
7 everyone can be a net exporter of energy, correct?

8 A. In an interconnected power system, not
9 every individual entity can be a net exporter,
10 correct.

11 Q. Let's talk a little bit about Dynegy's
12 experience within the MISO footprint, okay? Now,
13 you've had some issues with how prices are figured in
14 the MISO district. When I say "district," I mean,
15 RTO.

16 A. The MISO RTO consists of 15 states, 14 of
17 which are vertically integrated, traditionally
18 regulated utilities. We operate in the one state,
19 Illinois, that is not vertically integrated.

20 Q. And Dynegy's been critical of the MISO
21 RTO, correct?

22 A. We've been critical of the MISO market
23 construct.

24 Q. In fact, you've been quoted in the press
25 to say how Dynegy needs to get its assets into PJM so

1 that the company can make more revenue, correct?

2 A. No. What we've suggested is that there's
3 multiple avenues to improve the MISO market
4 construct, one of which is to move southern Illinois
5 into PJM.

6 Q. But haven't you provided quotes to the
7 press saying that if you're unable to move assets to
8 the PJM market, you might have to retire certain
9 assets in Illinois?

10 A. I believe what we've said is if the
11 construct doesn't improve, and one of those
12 improvements could be moving to PJM, that we could
13 potentially have to retire assets.

14 Q. And Dynegy sought to buy the Duke assets
15 in 2014, correct?

16 A. Correct.

17 Q. And that was approved in early 2015,
18 correct?

19 A. Correct.

20 Q. And Dynegy acquired assets in the Ohio
21 market because in 2013 you saw tightening reserve
22 margins with expected coal retirements and
23 opportunity in 2015 because of a more volatile and
24 less stable power market, correct?

25 A. There were a number of factors that went

1 into Dynegy's evaluation of whether or not to
2 purchase Duke Ohio's assets.

3 Q. So you're saying that wasn't a factor?

4 A. I would tell you I wasn't personally
5 involved on the merger and acquisition team, nor
6 directly involved with evaluation of the assets. I
7 believe that the market outlook in Ohio and PJM was
8 most likely a consideration.

9 MR. SATTERWHITE: At this time, I'd like
10 to mark AEP Exhibit 15. I'll identify it as the
11 June 25, 2015, transcript for the Dynegy Corporate
12 Investor Day.

13 EXAMINER PARROT: So marked.

14 (EXHIBIT MARKED FOR IDENTIFICATION.)

15 MR. SATTERWHITE: May I approach?

16 EXAMINER PARROT: You may.

17 Q. Mr. Ellis, do you have that document?

18 A. Yes, I do.

19 Q. Is this one of the documents we were
20 talking about earlier that we had preprovided to your
21 counsel?

22 A. I believe we talked about Investor Day
23 materials, and this is one of the materials, yes.

24 Q. And can you identify this document?

25 A. It appears to be the transcripts from

1 Investor Day.

2 Q. And you're familiar with these type of
3 documents for Dynegy, correct?

4 A. Yes, I am.

5 Q. I'd like to ask you to turn to page 3.
6 I'd ask you to review the last three paragraphs on
7 the bottom there, and I have a question. Let me know
8 when you've reviewed that.

9 A. Yes.

10 Q. Is it fair to characterize this as -- the
11 first paragraph starts "In 2013," correct?

12 A. Correct.

13 Q. What I asked to you read?

14 A. Yes.

15 Q. So I'm going to paraphrase here, and you
16 tell me if it's a fair characterization. This is a
17 description that in 2013, Dynegy saw forthcoming
18 structural changes within the market, including the
19 coal retirements that would take place in 2015, and
20 that led to the bottom paragraph where it says, "So
21 these changes have created a more volatile and less
22 stable power market and we anticipated this as we
23 approached 2015. We deployed our balance sheet
24 capacity to reshape our portfolio by expanding to
25 markets where these fundamental changes were

1 occurring." Do you see that?

2 A. That's correct, yes.

3 Q. So the question we had asked earlier is
4 why Dynegy had moved into the Ohio market. Is this a
5 fair characterization of the opportunity that Dynegy
6 saw to move into the market, due to the volatile and
7 less stable power market that was anticipated?

8 A. Yes. I believe your question was
9 specific to the evaluation of the Duke Ohio
10 generation assets, but this statement here also talks
11 about the tightening market in PJM.

12 Q. Okay. And Dynegy in the past -- you're
13 familiar with the ESP III proceeding where a prior
14 purchase power agreement for the OVEC assets was
15 requested by AEP-Ohio, correct?

16 A. To some extent, yes.

17 Q. And Dynegy lobbied the Ohio Statehouse to
18 deny the prior attempt to establish a PPA in Ohio,
19 correct?

20 A. When you say "lobbied," could you define
21 that for me?

22 Q. What do you think of when someone says
23 "lobbied"?

24 A. Outreach to policymakers to educate them
25 on your views of your industry and other related

1 matters.

2 Q. We'll start there. So with your
3 definition of lobby, did Dynegy officials lobby the
4 Ohio Statehouse?

5 A. We lobbied certain policymakers and
6 legislators in the Ohio Statehouse, yes.

7 Q. And was that just education on facts
8 within the industry or were you portraying a position
9 that you were hoping would come out of the PUCO
10 proceedings to state legislators?

11 A. I believe it was a combination of both.
12 To some extent it was education. It was education
13 around Dynegy, Dynegy's views, Dynegy's experience in
14 different markets, but also it was around some of the
15 potential outcomes and results that could be -- that
16 could come out of the ESP III proceeding.

17 Q. And was that limited to state
18 representatives and senators or were there also
19 lobbying efforts at the Governor's Office?

20 A. We also met with Governor Kasich, yes.

21 Q. And is that same practice being done
22 during this case?

23 A. Yes. I would say that our education and
24 outreach is continuing.

25 Q. What about trying to take a position on

1 the outcome of the case beyond education, is that
2 still going on in this case?

3 A. I would believe as part of our education
4 that, yes, we're discussing the, again, potential
5 outcomes from the case.

6 Q. I worded it poorly. I think the word I
7 was searching for before was advocating for a result
8 that the PPA would be denied, correct?

9 A. Yes, we're advocating for that result.

10 Q. So if the AEP plants are retired, that
11 assists in Dynegy's strategy to deploy in the PPA
12 market because there's less supply for you to compete
13 against, correct?

14 A. Our fundamental strategy is
15 well-functioning markets where competitors don't
16 receive an unfair advantage. In this particular
17 case, we view propping up an otherwise uncompetitive
18 competitor as failure to rationalize the market,
19 failure for the market to send the proper signals.

20 Q. But if the PPA is denied and some units
21 retire in the state of Ohio, that's good for Dynegy's
22 bottom line, correct?

23 A. As I explain in my testimony, it's
24 difficult to say exactly, because for every market
25 action, there's always a market reaction, and if

1 plants were to retire potentially, presumably other
2 supply could come in to replace those plants.

3 Q. We'll discuss that later. But for right
4 now, all else being held equal, if AEP's plants are
5 no longer in the picture, there's less supply and
6 higher revenues for Dynegy, correct?

7 A. I can tell you that we have not done any
8 studies or analysis that would otherwise prove that.

9 Q. What do you think?

10 A. You could reasonably make an assumption
11 that if there were not other competitors in the
12 market, that there could potentially be an increase
13 in the wholesale market prices.

14 Q. You've also been quoted to say Dynegy
15 would be very interested in buying the AEP units if
16 they were sold, correct?

17 A. That's correct. I was quoted such.

18 Q. Is that a correct quote?

19 A. That quote was relayed via Twitter, and
20 it was part of a larger interview that we gave, and
21 the question that I was asked is, "If "AEP's
22 generation assets were to come on the market, would
23 Dynegy be interested?" And I said, "We would be very
24 interested," as part of my answer.

25 Q. And is that still the same today?

1 A. I would say that Dynegy takes a rational
2 approach to every potential opportunity. We evaluate
3 the opportunities on their own merits, and we would,
4 of course, be interested in any opportunity, but we
5 evaluate each one of them very carefully, again, on
6 their own merits.

7 Q. A couple places in your testimony, some
8 examples are page 17 and page 14, predict that prices
9 will fall in the future, and you also include a PJM
10 forecast that reserve margins will be in excess of
11 the required reserve margin. Do you recall that?

12 A. That's correct, yes.

13 Q. But Dynegy's corporate position is that
14 capacity and energy prices will be volatile in the
15 future, correct?

16 A. That's not exactly true. For example,
17 with regard to the reserve margin, even though there
18 will be a tightening of the reserve margin, and PJM
19 predicts a tightening of the reserve margin, as you
20 stated, the reserve margin will still be in excess of
21 the requirement.

22 Q. And that will provide more volatile
23 pricing, correct?

24 A. Yes. I will add that it could
25 potentially add volatility to pricing.

1 Q. I'll ask you to turn to page 27 of AEP
2 Exhibit 15. Let me know when you get there.

3 A. I have page 27.

4 Q. And eight paragraphs down, let me know if
5 I read this correctly. "We expect the first wave of
6 generation retirements to raise energy prices not
7 only in PJM but also in New England and MISO as well.
8 As the full impact of asset retirements take hold,
9 price scarcity premiums may be substantial and will
10 become evident during high demand periods and system
11 shortage events possibly as early as this summer, but
12 certainly by the summer of 2016." You see that?

13 A. Yes, I do.

14 Q. Is that consistent with your last
15 statement that it might be a possibility?

16 A. I still believe that it's a possibility.
17 As we've seen in the summer of 2015, that while the
18 average daily temperatures were above normal, the
19 peak daily temperatures were well below normal. So
20 what we've seen in the summer of 2015 is very little,
21 if any, volatility in the market.

22 Q. So is your testimony here today that
23 Dynegy believes there won't be volatility in the
24 future in the market?

25 A. No. With regard to 2015, we did not see

1 the volatility. We still believe that as uneconomic
2 units retire, the market sends those price signals to
3 those units to retire, that there will be increased
4 volatility in the market.

5 Q. And, in fact, in 2017 you've really kept
6 your options open because you think there will be
7 higher energy prices and increased volatility in that
8 time period, correct?

9 A. Dynegy does not -- has not hedged forward
10 as much in 2017 as it has in 2016.

11 Q. Because of the expectation of higher
12 energy prices in that time period?

13 A. Among other reasons. Dynegy's hedging
14 strategy is based on a number of factors, and that is
15 one input.

16 Q. I'd like you to look two paragraphs later
17 or three paragraphs later. Let me know if I read
18 this correctly: "Our position in 2017 is largely
19 open and reflects our bias that the structural
20 changes we have discussed will lead to higher energy
21 prices and increased volatility that is yet to be
22 recognized in forward markets"; is that correct?

23 A. Yes.

24 MR. SATTERWHITE: I'd like to mark
25 another exhibit, AEP Exhibit 16. And this is the

1 June 25, 2015, Investor Day PowerPoint that goes
2 along with the transcript that was provided, just to
3 make sure we're complete here. I've provided the
4 Bench a single slide on each page, but for the
5 intervenors, I put four to a page for convenience,
6 and the witness has a full page copy.

7 EXAMINER PARROT: The exhibit is marked
8 as AEP Exhibit 16.

9 (EXHIBIT MARKED FOR IDENTIFICATION.)

10 Q. Mr. Ellis, can you identify this
11 document?

12 A. This document appears to be Dynegy's
13 presentation for our Investor Day June 25, 2015.

14 Q. And this is the PowerPoint that
15 accompanies the transcript that we were talking about
16 in AEP Exhibit 15, correct?

17 A. Yes, correct.

18 Q. I'd like you to turn to page 63 of this
19 document. Are you there?

20 A. Yes, I am on page 63.

21 Q. And under "System Instability" there's a
22 header that says, "Volatile Power Prices." Do you
23 see that?

24 A. Yes.

25 Q. And it says underneath that -- can you

1 read the bullet that's underneath that?

2 A. Yes. The subbullet or the bullet under
3 the heading "More Volatile Power Prices," says "More
4 volatile energy prices as reserve margins tighten."

5 Q. And this is what we were talking about
6 earlier and what led to a lot of the conversation in
7 the transcript, correct?

8 A. It's a related issue, yes.

9 Q. So is it fair to say then your testimony
10 that discussed prices falling really dealt with the
11 past, but Dynegy's official position in the future is
12 an expectation of rising volatile prices?

13 A. When you describe my testimony as saying
14 that prices will fall, could you direct me to the
15 testimony so that I'm --

16 Q. I apologize. Were you done? Earlier we
17 talked about some testimony on page 14 and on page
18 17.

19 A. Yes, I have both 14 and 17.

20 Q. And earlier I believe when we were
21 talking about prices, you had mentioned that on a
22 historical look, you thought prices were stable, and
23 I was just comparing that to marry that up with the
24 corporate position which appears to say prices will
25 be volatile and increase, trying to understand the

1 difference.

2 And it's my understanding that your
3 analysis was based on the past in your testimony, but
4 the corporate position that's provided to investors
5 is focused on the future, correct?

6 A. Our corporate position in my testimony is
7 consistent, and I'll explain why. So in my testimony
8 I refer to the two charts that AEP had provided for
9 historical energy prices, and I commented on the
10 relative stability and lack of volatility in those
11 two charts.

12 On page 17 I mention where PJM has said
13 as a result of capacity performance that wholesale
14 energy prices are predicted to actually decline in
15 the future. And here our corporate position on
16 Investor Day, and our corporate position remains, as
17 the system tightens, there will be more volatility
18 going forward in the system

19 Q. In your footnote on page 17 you rely on a
20 PJM media release, correct?

21 A. Yes.

22 Q. You did not rely on the Investor Day data
23 provided in these AEP Exhibits 15 and 16 for your
24 testimony here, correct?

25 A. I did not refer to the Investor Day

1 slides in my testimony.

2 Q. And the Investor Day data relied on the
3 internal assumptions of Dynegy as opposed to your
4 testimony relying on the PJM exhibits, correct?

5 A. In this specific case, I referred to the
6 PJM news report and I did not rely again on the
7 Dynegy Investor Day, mainly because these were two
8 different time frames in question.

9 Q. The past versus the future, correct?

10 A. Primarily, yes.

11 Q. And no where in your testimony do you
12 talk about those forward-looking assumptions of
13 Dynegy, correct?

14 A. That's correct.

15 Q. Just for completeness, I'd like to ask
16 you to turn to page 47 of the AEP Exhibit 15, which
17 is the transcript. Let me know when you get there.

18 MR. DORTCH: I'm sorry, Mr. Satterwhite,
19 I have the --

20 MR. SATTERWHITE: 47.

21 A. I'm on page 47.

22 Q. And do you see the section that has Bob
23 Flexon, and this is the Robert Flexon I believe you
24 mentioned earlier, the CEO, correct?

25 A. Yes.

1 Q. And the second-to-last statement he makes
2 in this answer is, "So our fundamental thesis behind
3 keeping the energy price portion open is that the
4 supply-side is very different than what it has been,
5 and it is going to be stressed, it is going to cause
6 volatility," correct?

7 A. That's correct. That's what the
8 transcript says, yes.

9 Q. Do you disagree with Mr. Flexon?

10 A. I agree -- I largely agree with
11 Mr. Flexon, yes, that the -- I'll just leave it at
12 that. I agree with Mr. Flexon.

13 Q. Between you and Mr. Flexion, who do you
14 think has more authority to speak for the company?

15 A. Mr. Flexon does.

16 Q. Okay. Are all of the PJM assets owned by
17 Dynegy bid into the capacity market?

18 A. Off the top of my head, I'm not sure if
19 we disclosed what our offer strategy has been, but
20 safe to say that the majority of our capacity is
21 offered into the PJM capacity market.

22 Q. How does Dynegy sell its energy and
23 capacity in MISO?

24 A. Very similar to other regions. Dynegy
25 offers our capacity -- offers our -- excuse me --

1 offers our capacity into the capacity market. We
2 offer our energy into the energy market. We also
3 have other channels to market, such as selling
4 directly to wholesale entities. We also can sell
5 to -- through our retail business we can sell
6 directly to retail customers.

7 Q. So bilateral, is that the wholesale
8 context you might have with individuals? You have a
9 bilateral contract with them to provide the power?

10 A. That's correct.

11 Q. And under those contracts, are those
12 parties able to resell that power in the MISO market?

13 A. I believe in most cases they can.

14 Q. And those are negotiated prices between
15 Dynegy and whatever party you might create a contract
16 with, correct?

17 A. That's correct.

18 Q. So Dynegy has the opportunity to put more
19 of its costs from running its plants into bilateral
20 agreements, correct?

21 MR. OLIVER: Objection.

22 MR. DORTCH: Objection.

23 MR. OLIVER: You go first.

24 MR. DORTCH: Your Honor, I don't
25 understand the question when he says "more of the

1 cost." Precisely what is he referring to? What's
2 the comparison?

3 MR. OLIKER: And I'd object that we
4 continue to talk about MISO. It's a very different
5 independent system operator and it has no relevance
6 to this case.

7 MR. SATTERWHITE: I'm happy to rephrase,
8 but I can answer the objection if we're going to have
9 the same objection when I rephrase the question.

10 EXAMINER PARROT: Let's go ahead and
11 rephrase it and go from there.

12 Q. (By Mr. Satterwhite) In the MISO market
13 Dynegy has the opportunity to recover whatever cost
14 it wants to, that it can negotiate in a bilateral
15 agreement with somebody else, correct?

16 A. I would disagree with that statement. We
17 don't have the opportunity necessarily to recover our
18 costs in a bilateral agreement. We might have the
19 opportunity to attempt to price that into a bilateral
20 agreement, but there may or may not be any guarantee
21 that our costs are recovered.

22 Q. I understand that. I'm not asking for a
23 guarantee, but there's definitely an opportunity -- I
24 assume you guys negotiate a lot, correct?

25 A. I think that's a fair statement.

1 Q. And part of that negotiation is an
2 attempt to try to recover as much of your cost as
3 possible whenever you can, correct?

4 A. I think that's a fair statement also.

5 Q. And so in these bilateral agreements
6 there's the opportunity for Dynegy to try to recover
7 as much of those costs as they can from their
8 facilities, correct?

9 A. Again, I would say that's a fair
10 statement.

11 MR. SATTERWHITE: One second, your Honor.

12 Q. Has Dynegy ever engaged in improper
13 trading practices to try to seek a benefit in the
14 wholesale market?

15 MR. DORTCH: Objection.

16 EXAMINER PARROT: Grounds?

17 MR. DORTCH: Can we have a definition of
18 what -- there are a lot of trading practices. May I
19 have a definition of what you're referring to?

20 MR. SATTERWHITE: Your Honor, if the
21 witness needs to ask further questions because he
22 doesn't understand my question, I'm happy to explore
23 that with him.

24 MR. OLIKER: I'd also object to the
25 relevance.

1 EXAMINER PARROT: I'm going to ask you to
2 answer the question. If you need further
3 clarification from Mr. Satterwhite, don't hesitate to
4 say that.

5 THE WITNESS: Sure.

6 A. If you could further clarify or define
7 "improper trading practice."

8 Q. Have you heard of a term like "improper
9 trading practice" in the wholesale market?

10 A. Yes.

11 Q. And what's your understanding of where
12 that would be?

13 A. Operating or otherwise bidding or other
14 behavior outside of a defined set of rules.

15 Q. And Dynegy has more than one generation
16 unit that you bid into the wholesale market, correct?

17 A. Correct.

18 Q. And it's possible that someone could use
19 different units to bid different prices to try to get
20 an advantage in the wholesale market, correct?

21 A. It is conceptually possible. At the same
22 time, there are a number of protections and
23 provisions that do prevent that from happening or
24 attempt to prevent that from happening.

25 Q. So Dynegy's never participated in that

1 type of improper transaction, correct?

2 A. I've been with Dynegy since 2009, and
3 since that time I'm not aware of Dynegy having been
4 found of improper trading practices.

5 Q. And you mentioned that there are checks
6 and balances -- that's my term, not yours. Tell me
7 if that's okay.

8 A. Correct.

9 Q. -- to stop an entity like Dynegy from
10 doing that, correct?

11 A. Correct.

12 Q. Can you think of any of those checks and
13 balances?

14 A. Absolutely. For example, in the energy
15 market there are energy reference price levels, and
16 if suppliers exceed those price levels under certain
17 conditions, their price then can be mitigated.

18 There's a similar concept in the capacity
19 market where if suppliers' offers for capacity exceed
20 certain reference levels as predetermined by an
21 independent market monitor, the suppliers' offers are
22 then mitigated to a specific level.

23 Q. And that would be the same answer, in
24 case I wasn't clear enough, regardless of whether
25 this was MISO, PJM, New England, correct?

1 A. Each market has similar provisions to
2 varying degrees, yes.

3 Q. And are those effective provisions, in
4 your opinion?

5 A. I believe for the most part those have
6 been effective provisions. There are definitely
7 circumstances by which those provisions, though, are
8 ineffective. For example, it is very often that
9 supplier's real costs exceed the reference level that
10 was predetermined by the ISO or the independent
11 market monitor.

12 Q. But that doesn't justify some type of
13 improper trading effort, correct?

14 A. I would not say that, in that particular
15 case, it is improper trading behavior.

16 Q. And you're not suggesting that if that
17 were the situation, that Dynegy would try to do
18 something improper to recover the level of cost it
19 felt it needed to recover, correct?

20 A. Absolutely not. Dynegy operates within
21 the rules and the tariffs under which we operate.

22 Q. Dynegy is opposed to the -- if I say the
23 PPA rider, will you know what I'm referring to?

24 A. Yes.

25 Q. And that is the mechanism being requested

1 in this case, correct?

2 A. Yes.

3 Q. Dynegey is opposed to a PPA rider just as
4 a construct, as a mechanism, correct?

5 A. Correct.

6 Q. In fact, Dynegey opposes any type of
7 regulatory construct that impacts the market in a
8 manner that assures benefits to one participant,
9 correct?

10 A. Dynegey has no captive customers. We have
11 no captive ratepayers. We depend solely on the
12 markets to provide us revenue, and when there are
13 schemes where other subsidies influence those market
14 outcomes, in particular suppressed market prices, and
15 don't provide adequate or reasonable prices, that
16 harms our company.

17 Q. And your concern, I believe, was what you
18 call your argument for a subsidy, is that the
19 competitor is going to be agnostic to what they bid
20 into the market because it got a recovery in a
21 different mechanism, correct?

22 A. When a competitor has a guaranteed
23 revenue stream, they become agnostic to the market.

24 Q. But you understand that it's AEP-Ohio
25 selling the power into the market under this

1 proposal, correct?

2 A. Correct.

3 Q. And you understand that AEP Ohio's
4 decisions are reviewed by the PUCO under this
5 construct, correct?

6 A. I believe that's how it would work, yes.

7 Q. And then around page 23 you're talking
8 about nonbypassable riders and your opposition to
9 nonbypassable riders. You also take issue with the
10 Commission deferring payment for items like fuel
11 cost, correct?

12 A. And this is page 23 of my testimony?

13 Q. Correct. Of your prefiled direct, which
14 is Dynegy Exhibit 1.

15 A. In my testimony I do say that
16 nonbypassable riders can and fundamentally do
17 disguise the real or true cost of service.

18 Q. And you go on to take issue -- you give
19 an example that things like a potential storm
20 recovery might be a good example of a good reason to
21 have a nonbypassable rider, but things like deferred
22 fuel are not good reasons to have a nonbypassable
23 rider, correct?

24 A. That's correct.

25 Q. So you disagree with the Commission's

1 decisions in the past to defer those type of items,
2 correct?

3 A. I'm not familiar necessarily with which
4 decisions you're talking about, but, in general, yes,
5 we do disagree with those decisions.

6 Q. And you also don't agree with the
7 Commission's decision -- and if I refer to the ESP
8 III decision, will you know what I'm referring to?

9 A. Could you clarify?

10 Q. Sure. The decision that the last
11 electric security plan that was filed here at the
12 Commission, where the Commission ruled on the four
13 factors that we're considering in this proceeding.
14 Are you familiar with that?

15 A. Yes.

16 Q. And you disagree with the Commission's
17 creation of the mechanism in that proceeding that led
18 to us trying to populate that in this proceeding,
19 correct?

20 A. Yes, that's correct.

21 Q. I'd like to talk for a second about the
22 PRIDE initiative. What is the PRIDE initiative?

23 A. PRIDE is an acronym at Dynegy for
24 Dynegy's corporate improvement program, that is, we
25 empower employees to find ways to not only save

1 costs, but also find positive cost-benefit
2 investments in the company to improve the operation
3 of the company.

4 Q. And that's really focused on cutting O&M
5 costs, correct?

6 A. That's not correct. PRIDE is not a
7 cost-cutting -- exclusively a cost-cutting program.

8 Q. Not exclusively, but the majority of it
9 is to seek to cut O&M expenses, correct?

10 A. A large part of it is reducing O&M.

11 Q. And to date, the PRIDE initiative is
12 focused on consolidating regional offices and
13 decreasing property taxes, correct?

14 A. Those are initiatives that are included
15 in the PRIDE program.

16 Q. And the CEO, Mr. Flexon, recently
17 announced an accelerated PRIDE program as part of
18 that Wolfe leadership conference we talked about
19 earlier, correct?

20 A. That's correct.

21 MR. SATTERWHITE: Your Honor, I'd like to
22 mark as AEP Exhibit 17 a September 29, 2015,
23 PowerPoint presentation, Wolfe Research Power & Gas
24 Leaders Conference.

25 EXAMINER PARROT: So marked.

1 (EXHIBIT MARKED FOR IDENTIFICATION.)

2 Q. Would you identify what we've marked as
3 AEP Exhibit 17?

4 A. Yes. This appears to be the presentation
5 that Dynegy gave on September 29, 2015, at the Wolfe
6 Research Power & Gas Leaders Conference.

7 Q. And this is the same document we talked
8 about earlier in the cross-examination that you're
9 familiar with, correct?

10 A. Yes.

11 Q. I'd like you to turn to page 14 of this
12 document. The heading is "PRIDE Accelerated becomes
13 PRIDE Energized." Do you see that?

14 A. Yes.

15 Q. And is this supposed to represent the
16 increase from the initial PRIDE program into the sort
17 of the new goal set by the CEO, which is supposed to
18 be achieved in the next few years?

19 A. This is a comparison of the previous
20 PRIDE program to now PRIDE as it goes forward.

21 Q. And the initial PRIDE program was
22 initiated prior to the acquisition of the new assets
23 and the PJM and New England market, correct?

24 A. That's correct. The PRIDE program was
25 initiated prior to the acquisition of the Duke Ohio

1 and EquiPower Assets.

2 Q. After Dynegy secured or acquired the new
3 assets, its O&M spending went up significantly,
4 correct?

5 A. Our O&M increased consistent with the
6 increased fleet size.

7 Q. And that seems logical. You have more
8 assets, you'd have more O&M, correct?

9 A. Correct.

10 Q. But you acquired a significant amount of
11 assets in 2015, correct?

12 A. Yes. We acquired approximately
13 11,000 megawatts of generation.

14 Q. And what did you have prior to that?

15 A. We had approximately 13,000.

16 Q. So that's a significant increase on the
17 O&M experienced by the company, correct?

18 A. O&M expense would follow, largely follow,
19 the size of the fleet.

20 Q. So is the change in the goal laid out by
21 Mr. Flexon related to the fact that there are new
22 assets and a whole new set of O&M costs to focus on
23 that?

24 A. I would say the new program is based on a
25 number of factors, and one of those factors is being

1 able to capture what we term synergies, from having a
2 core set of employees able to absorb a larger fleet
3 of assets and being able to take care of other
4 scale -- that scalability, I should say, that we
5 offer.

6 Q. And the prior initiative didn't have --
7 the new assets didn't have the benefit of the prior
8 initiative, so the new initiative really focused on
9 the new assets that were acquired, correct?

10 A. The new initiative focuses on both the
11 assets that we added prior to that and also the new
12 assets.

13 Q. Right. Prior to the acquisition of all
14 the new assets that we've been talking about, PJM and
15 New England, the PRIDE program was applied to all the
16 operations of Dynegy before, correct?

17 A. That's correct, the PRIDE program applied
18 to all of the assets we had at that time.

19 Q. So this is the first time really that
20 PRIDE could be applied to the new assets and decrease
21 O&M of the new assets that were acquired by Dynegy,
22 correct?

23 A. That's largely correct.

24 Q. Now, you talk about the 2003 blackout on
25 page 13 of your testimony. I'll let you find that

1 real quick, bottom of 12, top of 13.

2 A. Yes, I have 12.

3 Q. You talk about the causes of the
4 blackout, the 2003 blackout report, and the relation
5 or nonrelation, in your opinion, of the transmission,
6 correct?

7 A. More specifically I discussed it in the
8 context of AEP's claim that transmission should not
9 be used as a proxy for generation.

10 Q. But the transmission system did have a
11 role in the blackout because the longer transmission
12 lines were not integrated into the network, and that
13 tripped quickly and split the grid between those
14 areas that could recover quickly and those that
15 couldn't, correct?

16 A. My understanding of the blackout and as
17 reading the NERC final 2003 blackout report is there
18 were three fundamental causes of the blackout, and as
19 you describe there, those are not one of the three
20 fundamental causes.

21 Q. So that report didn't discuss the role
22 transmission played in dividing the system, dividing
23 the grid?

24 A. It absolutely talked about the role of
25 transmission. It talked about where the transmission

1 tripped, how that subsequently then separated the
2 interconnected power system into different islands.

3 Q. And the fact it raised that as a concern
4 and identified that some areas were able to recover
5 quickly because they didn't have the long
6 transmission lines that weren't integrated into the
7 network, correct?

8 A. I would have to refresh my memory on the
9 exact details of the blackout.

10 Q. Would it help to take a look at the
11 report that you identify in your footnote?

12 A. Absolutely.

13 MR. SATTERWHITE: Your Honor, may we
14 approach to refresh the witness' recollection of the
15 report?

16 EXAMINER PARROT: You may.

17 Q. And I draw your attention to page 91 of
18 that report.

19 A. I have page 91.

20 Q. What's that?

21 A. I have page 91.

22 Q. If you take a -- read quickly to yourself
23 why the blackout stopped and where it did, and see if
24 that helps your recollection of what we're talking
25 about right now.

1 A. Yes.

2 Q. Did that help refresh your recollection
3 of the importance of the transmission lines and the
4 long lines that weren't interconnected as part of the
5 2003 blackout?

6 A. I would say your characterization is an
7 oversimplification of the issue. The blackout report
8 in this particular sentence does identify long lines,
9 but more specifically how the protective relays are
10 used or were used at that time to protect those
11 lines. Since then there have been a number of
12 improvements and recommendations in how those
13 protective relays are set to protect long lines.

14 Q. And this really is dealing with the
15 concept of cascading, correct?

16 A. This particular section specifically
17 applies not to cascading but protection of individual
18 lines. Conceivably that could eventually lead to
19 cascading.

20 Q. And the PJM report goes on to say that
21 this same phenomenon was seen in the Pacific
22 Northwest blackouts in 1996 when long lines were
23 tripped before more networked electrical supported
24 lines, correct?

25 A. I'd have to refresh my memory on that

1 1996 report.

2 Q. But that's what's in the PJM report of
3 what you just refreshed your recollection with,
4 correct?

5 A. What I have in front of me is the NERC
6 report. If this section of the NERC report cited
7 that PJM report, then that might be true.

8 Q. But this is the report that you cite in
9 your testimony, correct?

10 A. That's correct, from the 2003 Northeast
11 blackout.

12 Q. But you're not arguing with this
13 statement that the same issue happened in the Pacific
14 Northwest with these long lines, correct?

15 A. Just point me to the section in this
16 report that refers to the Pacific Northwest. I only
17 read the first page.

18 Q. There's a paragraph above Figure 6.23,
19 and it starts "On August 14."

20 A. Yes.

21 Q. And at the end of that, after talking
22 about the concept of the long lines not
23 interconnected causing splitting the grid, it refers
24 to the same situation of the Pacific Northwest. Do
25 you see that?

1 A. It does refer to the Pacific Northwest.
2 My understanding of this statement is that they're
3 not specifically talking about so much the long lines
4 but how the long lines are specifically protected.

5 Q. And how well they're interconnected
6 within the network, correct?

7 A. I don't believe that this is necessarily
8 making a conclusion of how well the lines are
9 integrated into the network. It is referring to how
10 well the network is integrated, though.

11 Q. And really the point of this section
12 talked about the longer lines that weren't as
13 interconnected are the ones that split the grid and
14 made some areas able to recover that were well
15 interconnected and others not recovered during the
16 blackout, correct?

17 A. This is saying that due to the protection
18 practices at that time, that those longer lines
19 tended to be the ones that tripped.

20 Q. And this is directly related to how the
21 transmission system is set up to prevent future
22 problems like this, correct?

23 A. That's correct.

24 Q. Now, as part of the acquisition -- and
25 I'll call it the 2015 acquisition, because that's

1 when it was approved. Is that okay?

2 A. The acquisition was approved and closed
3 on in 2015.

4 Q. Fair enough. So I'll call that the
5 acquisition of assets, if that's fair.

6 A. Yes.

7 Q. I believe you acquired a facility called
8 Edwards; is that correct?

9 A. No. We acquired the Edwards facility as
10 part of the 2013 acquisition of the Ameren assets.

11 Q. I apologize. But the plan is to retire
12 that facility, correct?

13 A. The previous owner of the Edwards Unit 1,
14 which is one of three generating units at that plant,
15 had filed to retire that unit. Dynegy, by virtue of
16 acquiring the Edwards plant, is obligated to continue
17 with the retirement of Edwards Unit 1.

18 Q. So what your statement is, is that you
19 couldn't have sought to bring it out of the
20 retirement path; is that correct?

21 A. In MISO, if an owner wishes to rescind
22 retirement, that owner then is responsible for
23 compensating the transmission owner for any
24 transmission upgrades that the transmission owner may
25 have made to facilitate the retirement.

1 Q. So you could have kept it online; you
2 just chose not to because you would have had to pay
3 for those transmission costs, correct?

4 A. It was not economically feasible. In
5 addition, there were other factors around Edwards
6 including, but not limited to, environmental
7 considerations.

8 Q. So the test is whether it's economically
9 feasible whether something's going to be retired or
10 not, correct?

11 A. The primary driver for retirement would
12 be economics.

13 Q. Are there plans to retire any of the
14 other units in the Dynegy system?

15 A. At this point we have a plant in
16 Massachusetts called Breakpoint, similar to Edwards
17 Unit 1. The previous owner had filed to retire that
18 plant. That plant, by law and regulation, is
19 obligated to retire on May 31, 2017. That plant then
20 by virtue of Dynegy acquiring it, must retire it on
21 May 31, 2017.

22 Q. I'm sorry, are you done?

23 A. (Nods head.)

24 Q. And you've been involved in requesting or
25 notifying the plans to retire a plant, correct?

1 A. I have been involved to varying degrees,
2 yes.

3 Q. In fact, at one point you asked for a
4 waiver of the time periods so that something could
5 retire quicker than normal, correct?

6 A. That's correct.

7 Q. And that I believe were you trying to
8 waive the 90 days and get something to retire sooner?

9 A. I'm not familiar with exactly the case
10 that you're discussing, but we had a plant that was
11 in New York State that was damaged by Superstorm
12 Sandy. It was, for all practical purposes,
13 irreparably damaged. We filed then to retire the
14 plant rather than try to somehow fit within the
15 required 180-day regulatory requirement to give
16 notice prior to retiring a plant. Because the plant
17 was inoperable, we asked to waive the statutory
18 notification.

19 Q. And that was granted, correct?

20 A. And it was granted, that's correct.

21 Q. So there's possibilities or opportunities
22 for generation owners to retire things on a faster
23 track than was listed in the general process,
24 correct?

25 A. Depending on the circumstances. And it

1 is definitely site by the site and site specific.

2 Q. Fair enough. On page 13 of your
3 testimony we talk about the reliability must-run
4 agreements. I'd like to talk to you a little bit
5 about that. You want to turn to your testimony or
6 have me ask questions?

7 A. Yes, I have page 13.

8 Q. RMR, okay, if I say that you'll
9 understand what I'm talking about?

10 A. Yes.

11 Q. So an RMR agreement is a last resort
12 option requested by PJM after they're notified of a
13 request for retirement, correct?

14 A. I would characterize it as it's an option
15 after retirement notice is filed.

16 Q. Initiated by PJM asking the generator to
17 consider being an RMR, correct?

18 A. Largely speaking, yes.

19 Q. And the process of an RMR is it only pays
20 the costs going forward, correct?

21 A. That's correct.

22 Q. So there's no depreciation or any type of
23 extra recovery for the generation unit, correct?

24 A. Or a return on some costs generally not.

25 Q. And the generation company has to agree

1 to the RMR agreement; PJM can't force it, correct?

2 A. That's correct.

3 Q. And typically these are done to allow the
4 transmission system to be changed to reflect the
5 retirement, correct?

6 A. That's correct. If the retirement does
7 trigger a reliability need, that could include a
8 transmission fix, but it could also include a number
9 of nontransmission alternatives, again, if there is a
10 reliability need identified.

11 Q. And around page 21 of your testimony
12 where you talk about the new build in generation, are
13 you familiar with that part of your testimony?

14 A. Yes.

15 Q. But the environment currently does not
16 support investment in new generation, correct?

17 A. Currently there are multiple projects in
18 Ohio under various stages of development and
19 construction, so that would suggest that the current
20 environment does support new development.

21 Q. But that's inconsistent with Dynegy's
22 point of view that the current environment doesn't
23 support the building of new generation, correct?

24 A. I believe Dynegy's characterization was
25 there are obstacles to new build, and in our context

1 we described a large number of projects that are in
2 the ISO queues, and traditionally and historically
3 not all of those projects get built.

4 Q. In fact -- well, let's just turn to page
5 79 of AEP Exhibit 15. I'm sorry, 79 of 16, which is
6 the PowerPoint. This is the slide that's entitled
7 "New Entry Face Hurdles Across Markets"; do you see
8 that?

9 A. Yes, that's correct.

10 Q. In the PJM category we talk about the
11 high financial hurdles for new build on past
12 performance, it states that only 20 percent of
13 announced new entry is actually built, correct?

14 A. In PJM the queue of potential generation
15 is very large, and only about 20 percent of that
16 generation does actually get built.

17 Q. And then back on 63 that we had discussed
18 earlier -- I'll let you get back there.

19 A. Yes, I'm with you.

20 Q. Under Wave 2, "Additional Asset
21 Retirements," there's a category called "New Build
22 Challenged." Do you see that?

23 A. Yes.

24 Q. And that discusses some of the other
25 challenges to disincentivize new builds, correct?

1 A. Those are additional challenges to new
2 build, yes.

3 Q. And then let's switch to AEP Exhibit No.
4 17, which is the recent presentation given on
5 September 29 by CEO Bob Flexon. And on page 12 of
6 that -- let you get there to page 12.

7 A. I'm on 12.

8 Q. In the title it's called "Capacity
9 Exiting with Hurdles to New Build," correct?

10 A. Capacity Exiting with Hurdles to New
11 Build, yes.

12 Q. And what is the slide on the bottom
13 that's supposed to -- I assume that's supposed to be
14 what the slide's about. What does that say?

15 A. Our takeaway in the bottom slide is that
16 new build hype is overgrown.

17 Q. And you give a number of reasons why the
18 hurdles for new build on the right side of that
19 document, correct?

20 A. That's correct.

21 Q. Economics don't work, not required to
22 complete facility studies prior to participating in
23 CP auctions, which adds more time, talks about credit
24 requirements, and the risk profile, correct?

25 A. Given the large number of projects that

1 are in the PJM queue, there are a number of those
2 projects that will not be able to surpass these
3 hurdles.

4 Q. And this also talks about the PJM queue,
5 and this says that 75 percent of the projects will
6 not be built, correct?

7 A. Correct.

8 Q. And Dynegy believes the lack of new build
9 generation will provide higher capacity energy prices
10 for years to come, correct?

11 A. Presumably the retirements will provide
12 some level of higher energy and capacity prices.

13 Q. Turn to page 25 of AEP Exhibit 15, which
14 is the transcript that accompanied the PowerPoint
15 presentation.

16 A. I have 25.

17 Q. And five paragraphs up I believe this
18 states Dynegy's position, correct me if I'm wrong:
19 "Given the challenges facing new builds and the speed
20 with which older, less reliable assets will retire
21 under CP and PI, new build will struggle to keep
22 pace. For these reasons we expect tight reserve
23 margins and the associated higher capacity and energy
24 prices to persist for years to come." Correct?

25 A. That's correct. That's what it says.

1 Q. And that's a statement by Hank Jones, who
2 I believe you said you dealt with earlier, who's on
3 the senior management staff of Dynegy, correct?

4 A. Yes, correct.

5 Q. And you don't disagree with that
6 statement, correct?

7 A. No, I don't disagree with that statement.

8 MR. SATTERWHITE: One second, your Honor.

9 Q. May I ask you to turn to page 20 of your
10 testimony. Just one little wrap-up point.

11 A. Yes, I have 20.

12 Q. Do you have the Middletown Energy Center?
13 Do you see that?

14 A. Yes.

15 Q. It says construction commenced on
16 9/11/2015.

17 A. Yes.

18 Q. And that's the day you filed your
19 testimony, correct?

20 A. That's correct.

21 Q. Were you able to verify before you filed
22 that construction started that day?

23 A. Yes. I believe I went to the Ohio Siting
24 Board website, and there was a reference to
25 construction commencing on that date.

1 Q. But you weren't able to go to the site
2 and confirm; it was just representation that the
3 intention was to start construction on that day,
4 correct?

5 A. I did not go to the site, number one.
6 Number two, the representation was that construction
7 had actually commenced.

8 MR. SATTERWHITE: One minute, make sure I
9 haven't missed anything. I might be done.

10 EXAMINER PARROT: You may.

11 MR. SATTERWHITE: That is all I have.
12 Thank you.

13 EXAMINER PARROT: Thank you.

14 Mr. Margard?

15 MR. MARGARD: No questions. Thank you.

16 EXAMINER PARROT: Any redirect?

17 MR. DORTCH: No, your Honor.

18 MR. SATTERWHITE: At this point -- I'll
19 wait. I won't jump the --

20 EXAMINER PARROT: Mr. Dortch first. I
21 believe he's already moved for the admission of
22 Dynergy Exhibit No. 1.

23 MR. DORTCH: I have. And, your Honor, I
24 will renew that motion.

25 EXAMINER PARROT: Dynergy Exhibit No. 1 is

1 admitted.

2 (EXHIBIT ADMITTED INTO EVIDENCE.)

3 MR. SATTERWHITE: I'll move for the
4 admission of AEP Exhibits 15, 16, and 17.

5 EXAMINER PARROT: Any objections to the
6 admission of AEP Exhibits 15, 16, 17.

7 Hearing none they are admitted into the
8 record.

9 (EXHIBITS ADMITTED INTO EVIDENCE.)

10 EXAMINER PARROT: Thank you very much,
11 Mr. Ellis.

12 MR. OLIKER: Your Honor, before we
13 proceed, could we just have a two-minute break?

14 EXAMINER SEE: Sure.

15 (Off the record.)

16 EXAMINER SEE: Let's go back on the
17 record. Mr. Oliker.

18 MR. OLIKER: Thank you, your Honor.

19 - - -

20 PAUL LEANZA

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

23 DIRECT EXAMINATION

24 By Mr. Oliker:

25 Q. Good afternoon. Would you please state

1 your name for record?

2 A. My name is Paul Leanza.

3 Q. And who is your employer?

4 A. Interstate Gas Supply in Dublin, Ohio.

5 Q. And have you prepared direct testimony in
6 this proceeding?

7 A. Yes, I have.

8 Q. And did you also prepare an errata to
9 that direct testimony?

10 A. Yes, I did.

11 Q. And is the errata as well as "the clean
12 version" of your final direct testimony in front of
13 you today?

14 A. Yes, it is.

15 MR. OLIKER: Your Honor, IGS Energy would
16 mark the errata to Mr. Leanza's direct testimony
17 which contains excerpted redline as IGS Exhibit 6.

18 EXAMINER SEE: So marked.

19 (EXHIBIT MARKED FOR IDENTIFICATION.)

20 MR. OLIKER: And IGS would mark the clean
21 version of Mr. Leanza's direct testimony as IGS
22 Exhibit 7.

23 MR. CONWAY: Your Honor, may I inquire of
24 counsel when you're referring to the clean version,
25 are you referring to the version that was filed in

1 September or --

2 MR. OLIKER: The one that incorporates
3 the redline changes, so I'm not referring to
4 September. Thank you for that clarification,
5 Mr. Conway.

6 EXAMINER SEE: The exhibit is so marked.
7 (EXHIBIT MARKED FOR IDENTIFICATION.)

8 Q. (By Mr. Oliker) Mr. Leanza, are the
9 documents marked as IGS Exhibits 6 and 7 documents
10 that were prepared by you or under your direction?

11 A. Yes, they were.

12 Q. And if asked you the same questions in
13 those documents as modified and presented today,
14 would your answers be the same?

15 A. Yes, they would.

16 MR. OLIKER: With that, your Honor, I
17 would move the admission of the exhibits and tender
18 the witness for cross-examination.

19 EXAMINER SEE: And for the Bench's
20 convenience, can you provide us with a final clean
21 copy of the document that's being marked as IGS
22 Exhibit 7?

23 MR. OLIKER: Yes, your Honor.

24 EXAMINER SEE: Any cross-examination for
25 this witness, Ms. Williams?

1 MS. WILLIAMS: No, your Honor.

2 EXAMINER SEE: Mr. Michael?

3 MR. MICHAEL: No, your Honor.

4 EXAMINER SEE: Mr. Pritchard?

5 MR. PRITCHARD: None, your Honor.

6 EXAMINER SEE: Mr. Boehm?

7 MR. BOEHM: No, your Honor.

8 EXAMINER SEE: Mr. Conway.

9 MR. CONWAY: Thank you, your Honor.

10 - - -

11 CROSS-EXAMINATION

12 By Mr. Conway:

13 Q. Good afternoon, Mr. Leanza.

14 A. Good afternoon.

15 Q. I'm going to start immediately with your
16 testimony. Would you turn to page 5 of your
17 testimony, actually, pages 5 and 6.

18 A. Okay.

19 Q. Just as an initial comment, I think that
20 I've got all the page references correct. If it
21 turns out that I appear to be off with my page
22 references, please let me know.

23 A. I understand.

24 Q. On pages 5 and 6 you compare Company
25 Witness Bletzacker's forecasted natural gas prices

1 with several forecasts of natural gas prices provided
2 by the U.S. Energy Information Administration in its
3 Energy Outlook 2015, correct?

4 A. Yes, I do.

5 MR. OLIKER: Dan, I'm sorry to interrupt
6 you. I just wanted to make sure this is clear. We
7 referred to the two documents as one being an errata
8 and one being a redline. I don't think we made it
9 clear that figure 1 in the errata, although it's not
10 in red, figure 1 replaces figure 1 in the direct
11 testimony. I just want to make that clarification
12 before we move on.

13 MR. CONWAY: Thank you, counsel.

14 EXAMINER SEE: Go on, Mr. Conway.

15 MR. CONWAY: Thank you, your Honor.

16 Q. (By Mr. Conway) So, Mr. Leanza, you rely
17 upon, in part, the U.S. Energy Information
18 Administration's Energy Outlook 2015 in the course of
19 making some of your comparisons between the EIA's
20 price forecast and Mr. Bletzacker's forecast,
21 correct?

22 A. Yes. I used both the EIA and the current
23 NYMEX prices to compare Mr. Bletzacker's.

24 Q. I'd like to initially talk to you about
25 the EIA forecast base comparisons that you make, and

1 then later I'll turn to the forward base and price
2 comparisons that you also provide.

3 A. Okay.

4 Q. If that's acceptable to you.

5 A. Sure.

6 Q. With regard to the EIA Energy Outlook
7 2015 forecast, the EIA provides four different price
8 cases or forecasts for, among other things, future
9 natural gas prices, correct?

10 A. That's correct.

11 Q. One is the base case, which is being
12 referred to as "the reference case" at EIA, correct?

13 A. That's correct.

14 Q. And then another one, EIA has prepared
15 another price forecast or scenario that they've
16 prepared is the high oil scenario; is that right?

17 A. Yes.

18 Q. And then there's also a low oil price
19 scenario?

20 A. That's correct.

21 Q. And then there's also a fourth one, a
22 high oil and gas resource scenario?

23 A. That's correct.

24 Q. And the prices that you list for the 2014
25 to 2040 period on figure 1, which is on page 6 of

1 your testimony --

2 A. You know what, I'm sorry, my testimony,
3 modified version, goes through 2030. I don't have
4 the --

5 Q. Thank you for that correction. That's my
6 mistake, not yours. The prices that you list for the
7 2014 through 2030 period in your revised figure 1 on
8 page 6 of your testimony are from the EIA's Annual
9 Energy Outlook 2015, right?

10 A. These figures are not exactly those
11 figures. I've taken the figures from the EIA in all
12 four cases and modified them to get them into nominal
13 terms to take over the inflation, so they're
14 different.

15 Q. So the prices that you list for the 2014
16 through 2030 period in your revised figure 1 are
17 based upon EIA's Annual Energy Outlook 2015, correct?

18 A. They are based upon those.

19 Q. And then what you've done is you've
20 converted the real dollar figures that appeared in
21 the forecast that you originally relied upon, and you
22 escalated them using the 2 percent inflation factor
23 every year, correct?

24 A. That's correct.

25 Q. And the EIA's Annual Energy Outlook 2015

1 was released in April of this year; is that right?

2 A. I believe that is correct, yes.

3 Q. And you reviewed the EIA's Annual Energy
4 Outlook 2015 in the course of preparing your
5 testimony?

6 A. As it relates to natural gas, yes.

7 MR. CONWAY: At this time your Honor I'd
8 like to mark as an exhibit what would be AEP
9 Exhibit No. 18 I believe.

10 EXAMINER SEE: Yes.

11 (EXHIBIT MARKED FOR IDENTIFICATION.)

12 MR. CONWAY: I'd like to mark as AEP
13 Exhibit No. 18 the EIA Annual Energy Outlook 2015,
14 your Honor.

15 EXAMINER SEE: So marked.

16 (EXHIBIT MARKED FOR IDENTIFICATION.)

17 Q. And while my co-counsel is distributing
18 copies of the document, Mr. Leanza, could you just
19 take a moment and confirm for yourself that this is
20 the document that you relied upon in your testimony.

21 A. One second here. Yes, I believe it is.

22 Q. So you're familiar with this document,
23 you used it, and relied upon it in the course of
24 preparing your testimony; is that correct?

25 A. Yes. As it pertains to natural gas, yes.

1 Q. And in that regard you actually make
2 references to it at several point in your testimony;
3 for example, at page 5 of your testimony at lines 3
4 to 4 and then again in the next answer you also refer
5 to it, do you not?

6 A. In the next answer I do see it on lines 3
7 and 4, and I do see it in lines 11 and 7 and 17.

8 Q. And that again is at page 8. I guess the
9 sentence starts on page 7 and then continues on to
10 the top of page 8. You refer to it again there, do
11 you not?

12 MR. OLIKER: Dan, what was the last
13 reference?

14 MR. CONWAY: At the bottom of page 7 of
15 my redline copy was testimony. The sentence that
16 begins with the word "The," then continues over to
17 the top of page 8, lines 1 through 3 at the top of
18 page 8.

19 A. Yes, I see reference to EIA, page 7, line
20 8, and on page 8, line 1.

21 Q. And since you relied upon the EIA
22 forecast of natural gas prices in your testimony, I
23 take it that you found them to be credible for the
24 purposes that you put there.

25 A. I think, in general, the EIA is looked

1 upon as credible source of information that's relied
2 on by a lot of different industries, yes.

3 Q. So you think that the EIA's, the work
4 that they put into their Annual Energy Outlook 2015
5 was thorough and suitable for you to use in your
6 testimony?

7 A. I believe they do a good job, yes.

8 Q. Now, at page 9 of your testimony at line
9 2 you refer to Mr. Bletzacker's testimony and the
10 forecasting price that he has developed for natural
11 gas of \$8.52 for MMBTU for 2030; do you see that?

12 A. Yes, I do.

13 Q. And MMBTUs -- excuse me. MMBTU is a
14 million BTUs; is that right?

15 A. Yes.

16 Q. And your revised nominal price for EIA's
17 reference case, as you have escalated it with your
18 2 percent inflation factor, is reflected on figure 1
19 for the year 2030 as \$7.967; is that right?

20 A. That is correct. Looking at the
21 reference case?

22 Q. Yes.

23 A. Yes, that's correct.

24 Q. And would you agree, subject to check,
25 that that's within 7 percent of Mr. Bletzacker's

1 forecasted price of \$8.52 for that year?

2 A. Subject to check, yes.

3 Q. And would you agree that in your figure 1
4 you have calculated that EIA's high oil scenario
5 price for 2030 in nominal dollar terms is \$11 and a
6 little less than 5 cents, 11.48?

7 A. Yes. In the high oil case EIA assumes
8 that the price of oil in 2040 would be \$250 a barrel
9 in 2013 dollars, and we assume -- we nominalize that
10 at about 403 -- \$450 a barrel of oil, and 2040 when
11 you nominalize the original number, you do get the
12 \$11 figure.

13 Q. And that would be 30 percent higher than
14 Mr. Bletzacker's \$8.52 for his forecast for natural
15 gas prices in nominal terms, right?

16 A. Subject to check.

17 EXAMINER SEE: Mr. Leanza, you're going
18 to have to speak up throughout your entire response,
19 okay?

20 THE WITNESS: Okay, I'm sorry. Should I
21 point more this way?

22 EXAMINER SEE: So long as you speak up,
23 we're fine.

24 THE WITNESS: Okay.

25 Q. And I think we already went over this,

1 but just to confirm, when you converted EIA's Annual
2 Energy Outlook, real dollar natural gas prices to
3 nominal values, you used an inflation rate of
4 2 percent per year; is that right?

5 A. Yes, I did.

6 Q. And that's because -- you used that
7 because your understanding, that 2 percent inflation
8 rate is the EIA inflation rate.

9 A. Yes.

10 Q. And can you point to me within the Annual
11 Energy Outlook where the EIA explains and uses or
12 expects the 2 percent inflation rate?

13 If you'd like I'll give you a reference.

14 MR. OLIKER: Either that or a computer.

15 A. I'd have to --

16 Q. I'm not really trying to test you,
17 Mr. Leanza. If you would go to page 3 of the
18 report -- I'm sorry, the Annual Energy Outlook.

19 A. Okay.

20 Q. And in the second paragraph on that page,
21 the last sentence it states, would you agree, that
22 the inflation rate is measured by growth in the
23 consumer price index or CPI, averages 2 percent from
24 2013 to 2040 in a reference case.

25 A. Yes.

1 Q. You see that?

2 A. I do see that.

3 Q. Is that possibly where you got your
4 information?

5 A. That's correct.

6 Q. Mr. Leanza, is it your understanding that
7 the EIA's projections are based on federal, state,
8 and local laws and regulations that are in effect as
9 of the end -- or were in effect as of the end of
10 October 2014?

11 A. The EIA has a policy statement or initial
12 statement, it's the third page in, Roman numeral III,
13 highlighted in blue. And they say within the
14 structure of this that the EIA, given the assumptions
15 and methodologies used for any particular case, the
16 reference case projections is a business-as-usual
17 estimate given known technology and known technical
18 and demographic trends.

19 They further go on to state in the last
20 sentence that EIA has endeavored to make these
21 projections as objective and reliable as possible.
22 The last part of it is "a complete and focused
23 analysis of public policy initiatives."

24 So it's my understanding that in the
25 reference cases and high oil case and low oil case,

1 the EIA tends to keep everything constant, including
2 technology and including public policy and current
3 regulations.

4 Q. Let me refer you to the previous page of
5 the document.

6 A. The preface?

7 Q. The preface, yes. And in particular
8 direct you to the next-to-last paragraph in the
9 preface and ask you to read that paragraph to
10 yourself.

11 A. I'm sorry, the one that starts out with
12 "The AEO2015 projections"?

13 Q. Yes. And then when you're done, I have
14 several questions for you.

15 Okay. So again, it is your
16 understanding -- or is it your understanding that the
17 EIA's projections in this 2015 Annual Energy Outlook
18 are based on federal, state, and local laws and
19 regulations in effect as of the end of October of
20 2014?

21 A. Yes, it's my understanding that the
22 technology is the current technology and the federal
23 and state regulations are held constant.

24 Q. As of October of 2014?

25 A. Yes, that's correct.

1 Q. And that was your understanding when you
2 prepared the testimony?

3 A. Yes, it was.

4 Q. And is it also your understanding that
5 the potential impacts of pending or proposed
6 legislation, regulations, and standards are not
7 reflected in the projections of the Annual Energy
8 Outlook for 2015?

9 A. Can you restate the question?

10 Q. Sure. Let me slow down. Is it your
11 understanding also that the potential impacts of
12 pending or proposed legislation, regulations, and
13 standards, pending proposed regulations, legislation
14 and standards, are not reflected in the projections?

15 A. Yes. To the extent that they do make it
16 clear that the law regulations take effect shortly
17 after the 2015 is completed, the 2015 report.

18 Q. Which have been sometime in April or
19 April of 2015?

20 A. Correct. That's my understanding.

21 Q. But as of about that point in time
22 there's nothing pending or proposed with regard to
23 legislation, regulation, or standards that's
24 reflected in the forecast projections, right?

25 A. That's my understanding.

1 Q. And so, for example, the projections in
2 the Annual Energy Outlook 2015 don't reflect the
3 impacts of the proposed Clean Power Plan on its
4 forecast of natural gas prices or electricity prices,
5 correct?

6 A. That take effect in 2022, that would be
7 correct.

8 Q. Assume that it does take effect in 2022.
9 In that case would you agree that my statement is
10 correct?

11 A. I would.

12 Q. So as a result, the EIA's forecast of
13 natural gas prices and other prices that they
14 forecast, including electricity, do not include any
15 estimate impacts for future regulation of CO2
16 emissions, correct?

17 A. That would be correct.

18 Q. And, on the other hand, is it your
19 understanding that Mr. Bletzacker's AEP fundamentals
20 forecast that he was responsible for preparing does
21 include an estimate of the impacts of CO2 emissions
22 regulations?

23 A. It's my understanding that his figures
24 did include some adjustments.

25 Q. I'm sorry?

1 A. Did include adjustments, correct.

2 Q. For that, being the CO2 emissions
3 regulations in the future?

4 A. Yes.

5 Q. Could you turn to page 7 of your
6 testimony? And at lines 11 and 12 you have a
7 reference to -- excuse me -- you have a reference
8 there to Mr. Bletzacker's CSAPR forecast, you see
9 that?

10 A. Yes, I do.

11 Q. And is that pronounced Casper?

12 A. I believe it's pronounced Casper. I've
13 heard it called that.

14 Q. So Casper's CSPAR. And the CSAPR
15 forecast, is it your understanding that the CSAPR
16 forecast that Mr. Bletzacker had prepared is an
17 iteration of the fundamental's forecast by AEP that
18 was issued prior to the 2013 fundamentals forecast?

19 A. I'm sorry, could you repeat that?

20 Q. Is it your understanding that the CSAPR
21 forecast that you reference in your testimony at
22 lines 11 to 12 is a version or iteration of AEP's
23 fundamentals forecast that was issued prior to the
24 2013 fundamentals forecast?

25 A. That the CSAPR forecast was --

1 Q. It's an earlier forecast.

2 A. I was not aware of that.

3 Q. Okay. So you were not aware that
4 AEP-Ohio's presentation in this case regarding its
5 PPA rider proposal doesn't rely upon that CSAPR
6 forecast then?

7 MR. OLIKER: Objection. Characterizing
8 his testimony.

9 MR. CONWAY: I simply asked him a
10 question, your Honor, about what his awareness is of
11 the use of the CSAPR forecast in the company's
12 presentation. If he doesn't understand the question
13 or can't answer it, I'll be happy to follow up on it.

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

16 (Off the record.)

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

19 MR. CONWAY: I can rephrase the question,
20 your Honor.

21 EXAMINER SEE: Okay. Go ahead,
22 Mr. Conway.

23 Q. (By Mr. Conway) Mr. Leanza, is it your
24 understanding that AEP's -- AEP-Ohio's presentation
25 in this case regarding its PPA rider proposal is

1 based in part on the 2013 fundamentals forecast?

2 A. I saw when reviewing Mr. Bletzacker's
3 testimony, and specifically the prices of the
4 original version that I saw, there were two, looks
5 like, model runs, I'll call them for lack of a better
6 term. One was the CSAPR and one was the first half
7 2013 model run. Those are the two versions that I
8 saw. They looked fairly similar price-wise.

9 Q. So is it your belief that AEP-Ohio is
10 basing its presentation in this case in support of
11 its PPA rider on a forecast that was issued prior to
12 the 2013 fundamentals forecast?

13 A. Prior to the 2014 or 2013?

14 Q. 2013.

15 A. Like I said, I've seen the two versions.
16 I wasn't -- I'm not sure exactly how those two
17 versions fit into the process, but I did -- I have
18 reviewed both those model runs for prices.

19 Q. So you don't know whether -- sitting here
20 today, you don't know whether the CSAPR forecast was
21 actually utilized by the company in support of its
22 presentation in this case?

23 A. It's my understanding that the first half
24 of 2013 model run is what's being used.

25 Q. And do you know whether that's the CSAPR

1 forecast model or the 2013 fundamentals forecast?

2 A. The 2013 fundamentals forecast, not the
3 CSAPR.

4 Q. So that we're clear, I'm just trying to
5 understand what your belief is regarding the use of
6 the CSAPR forecast, and I'm ready to move on,
7 actually, but I just want to confirm that either you
8 think that we're relying on the CSAPR forecast. You
9 think we're not relying on the CSAPR forecast, or you
10 don't know whether we're relying.

11 A. You are not relying on the CSAPR
12 forecast. You're relying on the first half of 2013
13 forecast. I reference the CSAPR forecast because it
14 was mentioned in the original version of
15 Mr. Bletzacker's testimony that I was reviewing.

16 Q. So would you agree that a criticism of
17 his forecasted prices, based on the assumption that
18 the forecasted prices that you're criticizing is not
19 the one that's being used by the company in this case
20 is not a sound basis for such a criticism?

21 MR. OLIKER: Could I have the question
22 read back?

23 (Record read.)

24 MR. CONWAY: Let me restate the question.
25 I apologize.

1 Q. Would you agree that a criticism of
2 Mr. Bletzacker's forecast prices, which is a
3 criticism of prices, that he did not use in this case
4 to support the company's proposals is a criticism
5 without basis?

6 A. As I mentioned, I looked at two of the
7 model runs, the CSAPR run and the first half 2013
8 run, and I criticized both of them.

9 Q. I understand you criticized the 2013
10 forecast prices. But would you agree that it's not
11 very useful to criticize the previous forecast prices
12 when they're not being used in this case?

13 A. The two forecasts, from what I recollect,
14 were extremely close as far as prices go to the point
15 where it's nominal.

16 Q. Let me change topics, Mr. Leanza. I'd
17 like to discuss with you your criticisms which are
18 reliant upon natural gas futures contract prices.
19 And I noticed that you refer to these kinds of
20 contracts as futures contracts. And are those the
21 same kinds of contracts that other people might have
22 referred to or might refer to as forwards contracts?

23 A. Yes. You would probably hear them
24 referred to as futures, swaps, forward contracts, and
25 probably a couple other items.

1 Q. So if individuals in this case, including
2 in our discussion today, use the phrase "forwards
3 contracts," you would understand that to mean futures
4 contracts, right?

5 A. I would understand NYMEX has forecasted
6 prices to assume that, yes.

7 Q. That means we're talking about futures.

8 A. Futures.

9 Q. The futures contracts could involve a
10 number of different types of products. Natural gas
11 is one, right?

12 A. Correct.

13 Q. And electricity is another one?

14 A. Correct.

15 Q. And then there are others types of
16 commodities?

17 A. Correct.

18 Q. At page 4 of your testimony, if you could
19 refer to your testimony at lines 21 through 22, you
20 state that "A futures contract allows a buyer to
21 purchase natural gas today for delivery at some point
22 in the future." Do you see that?

23 A. Yes, I do.

24 Q. So just to be kind of -- just to expand
25 on that, perhaps a little bit and discuss it a little

1 further, a futures contract is an agreement that
2 allows a buyer to buy a set amount of a commodity,
3 such as natural gas, at a predetermined price for
4 delivery at a future date?

5 A. Correct. And futures have a couple
6 different meanings from the standpoint of they can be
7 a physically settled future, which means it has a
8 physical component to it, and that's what's traded on
9 the NYMEX. It can also be a financially settled
10 future that doesn't have the physical component
11 associated to it.

12 But, yes, it does allow the buyer to lock
13 in a price, a future price for natural gas.

14 Q. For delivery at a future date.

15 A. For delivery at a future date.

16 Q. And then conversely, a futures contract
17 is also an agreement that allows a seller to sell a
18 set amount of a commodity, such as natural gas, at a
19 predetermined price for delivery at a future date?

20 A. That's correct.

21 Q. And would you agree that the buyer uses
22 the futures contract to avoid the risks associated
23 with the price fluctuations of the commodity?

24 A. It could be many different instances.
25 Price fluctuation could be one of them. Budgetary

1 constraints or budgetary processes might be another.
2 There's probably quite a few reasons that people
3 would enter into an arrangement.

4 Q. And, similarly, on the seller's side of
5 it, the same explanation would apply about why they
6 might enter into a futures contract?

7 A. Yes.

8 Q. So would you agree that parties to a
9 futures contract aren't necessarily trying to predict
10 what the future spot prices of a commodity will
11 actually be but simply trying to hedge against the
12 risk that they're concerned about?

13 A. So about the parties predicting, I don't
14 know necessarily that parties are predicting. This
15 is the market signal that's given for natural gas
16 going out in the future of what willing buyers and
17 willing sellers are willing to transact at at that
18 point in time.

19 Q. And at pages 6 and 7 of your testimony in
20 your figure 2, the end in your figure 2 on page 7,
21 you compare Mr. Bletzacker's natural gas forecast
22 prices to NYMEX futures prices for natural gas,
23 right?

24 A. Yes, I do.

25 Q. In footnote 3 at the bottom of page 7 you

1 reference a web page address that is the source of
2 the data that you used for the NYMEX futures prices
3 that you included in figure 2.

4 A. That's correct.

5 Q. And it's also the source -- that web page
6 address is also the source of the NYMEX future prices
7 that you reference in the narrative part of your
8 testimony. I'll give you a reference as an example,
9 page 7, line 14.

10 A. Page 8?

11 Q. I'm sorry, page 6, line 14. The \$4.50
12 reference at the bottom of page, line 14, and
13 continues on to -- that sentence continues on to page
14 7, that reference there, that \$4.50.

15 A. Yes.

16 Q. That reference there in the testimony to
17 the \$4.50 contract price or value, the value that you
18 have there is a value that you developed using the
19 source that you reference in footnote 3, right?

20 A. Yes, sir. I took the weighted average
21 prices for all 12 months of 2007 and came up with the
22 under \$4.50.

23 Q. For 2027?

24 A. For 2027, yes.

25 MR. CONWAY: Your Honor, at this time I'd

1 like to mark as AEP-Ohio Exhibit 19 the Henry Hub
2 Natural Gas Futures Settlements Report published by
3 CME Group as of October 12, 2015.

4 EXAMINER SEE: So marked.

5 (EXHIBIT MARKED FOR IDENTIFICATION.)

6 Q. And, Mr. Leanza, again, as copies of this
7 document are being distributed would you take a
8 moment to review it, flip through this document that
9 was just handed to you.

10 A. These are the settlement prices for trade
11 date Monday, October 12, final. Okay.

12 Q. And is this the database -- is this
13 report from the same database that you reference in
14 your footnote 3?

15 A. Yes, it is.

16 Q. It's just updated to October 12 from
17 September 10; is that right?

18 A. I don't know the exact dates I used, but
19 yes.

20 Q. So you're familiar with this --

21 A. Yes, I am.

22 Q. -- document.

23 And can you, in your words, describe to
24 me what it is?

25 A. So this document tells you by month what

1 the open, high, low, last, change, and settle price
2 is, the estimated volume associated with that
3 contract going out in time. So it basically gives
4 you the parameters of what happened that day for that
5 particular contract, and it also gives you the
6 settlement price for that particular day.

7 Q. And just to organize the discussion about
8 the document a little bit, could you turn your --
9 well, first of all, just to be clear before I get
10 into that, having used it in your own testimony, you
11 are familiar with this report that CME Group
12 publishes and updates daily for the Henry Hub natural
13 gas futures settlements prices, right?

14 A. I am familiar with this report, yes.

15 Q. And now turning your attention to the
16 headings above each of the columns in the report,
17 could you focus on that and briefly explain where
18 information is being reported in the columns below,
19 each of headings starting on the left, "Month"
20 referenced.

21 A. Okay. So the "Month" is November '15.
22 That's the first month that you're able to trade
23 futures on the CME. The "Open" is what the market
24 opens at, at that particular time what price the
25 market opens at.

1 The "High" is the high point of that
2 particular day. The "Low" is the low price of that
3 particular day. The "Last" is the -- I'm not sure
4 what the last is. The "Change" is the day-over-day
5 change from yesterday's settle, so it would be from
6 Friday the 9th's settle. Looks at the change
7 versus November on the Friday before to this -- to
8 the Monday based on the sheet, and then comes up with
9 and provides a settlement for the November 15
10 contract at the end of day.

11 Q. And the settlement, that's a price?

12 A. The settlement is a price, too, yes. The
13 estimated volume is the volume estimated that changed
14 hands, so to speak.

15 Q. For what period of time?

16 A. For the day.

17 Q. Okay. And then the "Prior Day Open
18 Interest"?

19 A. I'm not necessarily sure what the prior
20 day open interest means.

21 Q. Now under the month, column do you see
22 that?

23 A. Yes.

24 Q. Taking as an example the first entry, the
25 November of 2015 entry, does that indicate the month

1 when the futures contract calls for delivery of the
2 commodity?

3 A. Yes. Yes, it does. And that November
4 '15 will settle three days prior to November
5 starting, three business days. So by the end of
6 October, November will go off the board, so to speak.

7 Q. And how many BTUs of gas does each
8 individual contract represent?

9 A. In the case of CME one contract equals
10 10,000 MMBTU.

11 Q. So that's 10 billion BTUs per contract.
12 Right?

13 A. Okay, yeah.

14 Q. Okay. 10,000 MMBTUs or 10 billion BTUs,
15 right?

16 A. Subject to the math part, yes.

17 Q. Subject to check, that's fine.

18 Let me just discuss with you for a moment
19 that last column, the Open Interest column. You
20 indicated that you were a little bit uncertain about
21 what that means; is that correct?

22 A. That's correct.

23 Q. Let me read you or provide you with some
24 statements and see if it jogs your memory. Do you
25 think that open interest -- do you believe that open

1 interest is the total number of futures contracts,
2 long or short, in a delivery month for market that
3 has been entered into and not yet offset or fulfilled
4 by delivery? Do you think that's what it means?

5 A. I would think that's what it means.

6 Q. Have you ever heard of that category or
7 that status of a futures contract referred to as open
8 contracts or open commitments?

9 A. I have not, no.

10 Q. You would agree with me that each open
11 transaction, that is, each futures transaction, has
12 not yet been offset or fulfilled by delivery, each
13 open futures transaction has a buyer on the one hand
14 and seller on the other.

15 A. I think I would agree with that.

16 Q. And is it your understanding -- do you
17 have an understanding that the open interest
18 statistic lists for each contract just one buyer, not
19 it doesn't count it twice but just counts as one
20 transaction a buyer and seller?

21 A. My understanding, that would be yes.

22 Q. So just to be clear, the open interest
23 for a particular delivery month, like November, it is
24 the total number of contracts for that delivery month
25 that had been entered into, but not yet offset or

1 fulfilled by delivery, right.

2 A. I think you're correct, yes.

3 Q. And then as an example, again for
4 November of 2015, the number of futures contracts for
5 gas to be delivered in November of 2015, which is
6 just next month this year, that are currently in
7 effect and haven't been fulfilled by delivery, it
8 stood at 222,845 contracts as of end of day
9 October 12, right?

10 A. I'm sorry, could you repeat?

11 Q. Okay. Just as an example, looking at
12 November for 2015, this report indicates that the
13 prior day open interest is 222,845 contracts, right?

14 A. Yes.

15 Q. And then by December of 2016, as of
16 October 12, 2015 for December of '16, the open
17 interest has declined to 10,185, right?

18 A. That is correct.

19 Q. And by the end of 2017, flip the page,
20 the open interest is down to 3,244 contracts, right?

21 A. It's important, I think, to note that
22 this is one -- this is the natural gas -- the NYMEX
23 natural gas physically settled futures, and this is
24 just one element of the market. When you get out
25 past 2017, most of the market trades in a different

1 platform.

2 Q. But on this platform -- this is a
3 significant platform, is it not, the CME market?

4 A. Yes. This is a significant platform, but
5 when you get out more into the future dates, there is
6 an even more significant platform.

7 Q. And let me continue. The open interest
8 is at zero for all the 2027 and then back up to 2025,
9 right? You go to the end of the document and move
10 forward from there.

11 A. That means on this particular platform,
12 which is not the most liquid going out, people use a
13 different platform called ICE, Intercontinental
14 Exchange, where quite a bit more of the outer
15 elements are done. But you are correct for this
16 particular platform, the open interest in 2027 is
17 zero.

18 Q. And for 2026 it's zero?

19 A. For 2026 it's zero.

20 Q. And for 2025 it's zero.

21 A. And for 2025 it's zero.

22 Q. And then for 2024, the total of the
23 contracts for the whole year is 10 or less in the
24 open interest category?

25 A. According to this report, NYMEX natural

1 gas physically settled futures is less than 10.

2 Q. And if you do the same calculation for
3 2023 and 2022, you'll agree that the total open
4 interest for each of those years, if you accumulated
5 across all 12 months for each of those years, is also
6 less than 10 contracts?

7 A. For this particular platform, yes.

8 Q. And then would you agree with me, subject
9 to check, that for 2021 the total open interest for
10 all 12 months of the year 2023 is 361 contracts.

11 A. For?

12 Q. For 2021.

13 A. And I'm sorry, what was your --

14 Q. 361 contracts.

15 A. Roughly, subject to check, yes.

16 Q. And it's 30 contracts every month except
17 for one that's 31, correct?

18 A. Correct.

19 Q. So that's 361, right?

20 A. Well, I see two at 31.

21 Q. Thank you. 362 then. Thank you.

22 And then if we go back to 2020, would you
23 agree with me that the total open interest for the
24 year is somewhere around 500 contracts for the year?

25 MR. OLKER: Objection.

1 EXAMINER SEE: Basis?

2 MR. OLIKER: He said the total open
3 contracts for the year. He didn't clarify if he
4 meant on this trade date or if he meant for the
5 entire year in total.

6 MR. CONWAY: What I'm referring to -- and
7 I'm happy to clarify that.

8 Q. What I'm referring to is is total number
9 of contracts in effect as of October 12, 2015, as
10 reported in this document for all 12 months of 2020.
11 Would you agree that it's approximately 500?

12 A. I would agree with the prior date open
13 interest for 2020 is approximately or right around
14 500, give or take.

15 Q. And just bear with me. If we back up one
16 more year in 2019, would you agree with me that the
17 total open interest for 2019, if you added up all the
18 contracts in effect as of October 12, 2015, for
19 delivery in months of 2019, would be approximately
20 5,000 contracts?

21 A. Subject to check, it looks like less than
22 500. I'm sorry. What was your value? What was your
23 total amount?

24 Q. Would you agree with me, subject to
25 check, that it's somewhere around 5,000 or less?

1 A. Subject to check, I would agree.

2 Q. And then one more for 2018. If we did
3 the same exercise, would you agree with me that the
4 total open interest for that year as of October 12,
5 2015, is about 7,500 contracts?

6 A. Subject to check, less than 8,000.

7 Q. Now, next do you know what EIA's estimate
8 of total annual natural gas consumption in the U.S.
9 is in BTUs? And the period I'm focusing on is EIA
10 2015 Annual Energy Outlook range which goes from 2013
11 out to 2040.

12 A. This is their annual usage? I'm sorry.

13 Q. Yes, usage or consumption.

14 A. I believe the EIA, doing the math, is
15 going to be somewhere around --

16 Q. Let me help out. If you turn to page 16,
17 when you get there if you could refer to the second
18 paragraph on page 16, first sentence. Just read that
19 for me.

20 A. Sure. Natural gas consumption in the
21 2015 reference case increases from 2.69 Tcf to 26.2
22 Tcf in 2013 to 29.7 Tcf in 2040.

23 Q. And does it also indicate that if you
24 presented the values in terms of BTUs, that it would
25 grow from 26.9 quadrillion BTUs in 2013 to 30.5

1 quadrillion BTUs in 2040?

2 A. That's what they state, yes.

3 Q. So roughly over the period 2013 to 2040,
4 EIA forecasts consumption of natural gas at a level
5 that's basically 30 quadrillion BTUs per year. Is
6 that fair to put it that way, in round numbers?

7 A. I'm sorry. So that's roughly 3.5 Tcf.

8 Q. Well, it says in the report, does it not,
9 what the value is in terms of BTUs?

10 A. Yes, it does.

11 Q. So my question is simply the range of
12 consumption for natural gas during the 2013 to 2040
13 period as forecasted by EIA in this version of its
14 Annual Energy Outlook is about 30 quadrillion BTUs.

15 A. For a total of 30 quadrillion in 2040, 30
16 and a half.

17 Q. So it's roughly 30 quadrillion BTUs per
18 year of natural gas, right?

19 A. As far as demand goes in 2040.

20 Q. Just to kind of ballpark for the entire
21 period.

22 A. I don't know if I'd say it's a ballpark
23 for the entire period. I read that as you start out
24 at 26.2 Tcf in 2013 and work your way up to 29.7 Tcf
25 in 2040.

1 Q. Or 26.9 quadrillion BTUs in 2013 and work
2 your way up to 30.5 quadrillion BTUs in 2040, right?

3 A. You work your way up, yeah.

4 Q. I wasn't trying to argue with you.
5 Actually, I was just trying it see whether we can
6 agree it's roughly 30 quadrillion BTUs of natural gas
7 during the course of that period per year.

8 A. No. I think it says that it's 30.5
9 quadrillion by the time you get to 2040.

10 Q. That's fine. All right.

11 Going back to the Henry Hub Natural Gas
12 Futures Settlements Report, which we marked as
13 Exhibit 19, AEP Exhibit 19 -- are you there?

14 A. Yes.

15 Q. Since the open interest for futures
16 contract for delivery of natural gas in that 2025
17 through 2027 period is currently zero for each of
18 those years, would you agree that futures market
19 participants using this platform are not providing
20 pricing information for futures contracts with
21 delivery months in those years?

22 A. I would disagree with that.

23 Q. Would you agree with me that in 2027
24 this report indicates that on this platform there are
25 no open futures contracts for delivery of gas during

1 that period 2027?

2 A. I agree that there is no open interest,
3 but like I mentioned before, there are other
4 platforms that people trade on, and it's my
5 understanding that the CME looks for information for
6 those other platforms to determine pricing out, even
7 if nothing was traded on the platform.

8 Q. But on the CME platform there is no
9 pricing information being provided by participants on
10 that platform for 2027, correct?

11 A. For this particular platform, there are
12 no participants, no deals occurred.

13 Q. And do you know what the volume of
14 contracts is on these other platforms that you are
15 representing may be used as a basis for generating
16 pricing information?

17 A. Do I know the volume specifically?

18 Q. Right.

19 A. I do not know the volume specifically. I
20 do know that yesterday, maybe even the day before,
21 there have been numerous trades. When you get out
22 into 2020, 2021, then there's typically bids and
23 offers out through 2022 or 2023 every day.

24 Q. But you don't know what the volume of
25 transactions were for any of these months of delivery

1 referenced on this report for the periods in 2027,
2 2026, 2025?

3 A. I do not have that available to me right
4 now. I believe that information is retrievable,
5 though.

6 Q. And, similarly, then is it your -- not
7 similarly, scratch that. Is it your understanding
8 that the pricing information that is provided for
9 2024, as an example -- do you see that?

10 A. 2024?

11 Q. You see that portion of the report?

12 A. Yes.

13 Q. Where there are nine contracts during
14 that year or somewhere around ten contracts for the
15 whole year?

16 A. Yes.

17 Q. Do you know what the volume of any other
18 contracts might be reflected in the pricing data
19 that's shown here for 2024?

20 A. It's my understanding that the CME works
21 very closely with the Intercontinental Exchange and
22 potentially brokers in the market to determine what
23 deals have, in fact, gone through the market off
24 platform to determine those prices.

25 Q. But my question was, do you have any idea

1 what the volume of such transactions are that might
2 have been factored into the information for 2024?

3 A. I am not privy to the CME volumes.

4 Q. And would the answer be the same if I
5 asked you the same question for 2023 annual period
6 and 2022 and 2021 period?

7 A. My answer would be the same in that the
8 CME does go to various other platforms and into the
9 broker market to determine the change in prices when
10 they don't have the proper trading activity on their
11 platform, credit.

12 Q. But you don't know what the volume is of
13 the transactions or the basis for any such
14 adjustments you think might be made?

15 A. Do not know the information that the CME
16 has gone out to retrieve from those platforms.

17 Q. And is it your understanding that CME is
18 blending that kind of pricing information into all
19 the periods on which it's reporting prices in this
20 report?

21 A. I don't necessarily understand the
22 question. I'm sorry.

23 Q. Is it your understanding that the CME is
24 reaching out and borrowing pricing information from
25 other platforms for each of the periods that is

1 reflected in this report?

2 A. I don't think they do that for the front
3 part of the curve. I think when they get out to the
4 back part of the curve, it's my understanding that
5 they do go out and survey the market for that.

6 Q. And where is the cutoff where they stop
7 relying solely on information generated from activity
8 on their platform and start borrowing the information
9 from other platforms?

10 A. You know, there may be no cutoff. There
11 may be that they go out to the Intercontinental
12 Exchange and various brokers from November. I don't
13 know what that cutoff is. I don't know where CME
14 determines that cutoff.

15 Q. And you did not go to these other
16 exchanges and rely upon pricing information from any
17 of these other platforms in the preparation of your
18 testimony, did you?

19 A. For the purposes of the financial
20 products that relate to natural gas, there are some
21 indexes that refer to other points, but the gold
22 standard is generally the CME Group that everything
23 is liquidated towards.

24 Q. And that's --

25 A. And that's what I used.

1 Q. And that's what you used for purposes of
2 your testimony, the CME Group's report, right?

3 A. I did, yes.

4 MR. CONWAY: Just a moment, your Honor.

5 Q. So you would agree that, would you not,
6 that the CME Group's platform is a very thinly traded
7 platform for extended periods of these months that
8 are reported here in this exhibit?

9 A. When you go off the curve, there are
10 definitely better platforms to trade on.

11 Q. For example, would you agree, subject to
12 check, that for the year 2016 the total number of
13 contracts that are listed for each of the delivery
14 months of 2016 are in excess of 500,000?

15 A. For 2016? 500,000, subject to check.

16 Q. And so would you agree that the number of
17 contracts being traded on this exchange for any year
18 past 2016 is substantially less liquid, represents a
19 substantially less liquid market, than the market
20 that's described by the trading that's going on in
21 2016?

22 MR. OLKER: Objection. Object to the
23 use of the word "substantially." It's not defined.
24 It's vague.

25 MR. CONWAY: Your Honor, he's presented

1 himself as an expert. If he doesn't understand, he
2 can ask for clarification.

3 EXAMINER SEE: I'll allow the question.

4 A. Could you repeat the question?

5 Q. Sure. Would you agree that the amount of
6 trading that's occurring for years subsequent to
7 2017 -- '16, excuse me, is substantially less liquid,
8 represents a substantially less liquid market than
9 the trading that has occurred or is occurring for
10 2016?

11 A. So at some point in time the further out
12 you go the less buyers and sellers do transact.
13 Liquidity does diminish after you get out past
14 2017-2018 to a degree. It's still liquid though.

15 Q. And would you agree that in 2020 that
16 where the total number of contracts is around 500 you
17 would agree to accept, subject to check, would you
18 agree at that point liquidity has declined
19 materially?

20 A. For this particular platform and for that
21 particular year the liquidity has decreased but I
22 would not call it a liquid market.

23 Q. And what about would you say the same for
24 2021, would you still regard that as a liquid market
25 even though there's only 362 contracts currently in

1 effect for the entire year?

2 A. The liquidity does go down but I would
3 not call it a liquid market.

4 Q. And would you then also take the position
5 that for 2021 where by my count there's three
6 contracts currently in effect for the entire year,
7 would that represent a liquid market in the CME
8 Group's platform?

9 A. I'm sorry, what year?

10 Q. 2022.

11 A. '22. On the CME platform there is less
12 liquidity.

13 Q. Would you agree that it's illiquid at
14 that point?

15 A. I would not agree that '22 is an illiquid
16 market in general as far as natural gas goes. I
17 would agree that there is very little trading on the
18 CME platform but I would not agree that you cannot
19 hedge 2022 natural gas.

20 Q. And then your answer would be the same if
21 I asked you -- posed the same question each of the
22 other years on this document out to 2027?

23 A. My answer would be the same. As you --
24 yes, my answer would be the same.

25 Q. Let me turn your attention back to your

1 testimony, Mr. Leanza. And if you could refer to
2 page 9 where you comment on Mr. Bletzacker's view
3 regarding natural gas price volatility. Do you see
4 that?

5 A. Yes.

6 Q. At this point in your testimony you are
7 addressing, are you not, Mr. Bletzacker's opinion
8 that gas prices will remain volatile as they are
9 primarily affected by weather's deviation from normal
10 measured by heating degree days resulting impacts up
11 or down on natural gas storage levels?

12 A. I'm sorry, could you restate that?

13 Q. Turn to page 9 and look at lines roughly
14 6 to 14 in your testimony.

15 A. Okay.

16 Q. And at this part of your testimony you
17 refer to Mr. Bletzacker's testimony, correct?

18 A. Correct.

19 Q. And you address his opinion that gas
20 prices will remain volatile as they are primarily
21 affected by weather's deviation from normal measured
22 by heating degree days and then resulting impacts up
23 or down of natural gas storage levels.

24 A. That is correct.

25 Q. Would you agree that heating degree days

1 during the 2014-2015 winter were significantly lower
2 during the last part of January through the third
3 week of February 2015 as compared to the period from
4 the prior year?

5 A. I don't know offhand what that is.

6 Q. You don't know whether the heating degree
7 days during that period were significantly lower for
8 2015 than they were in 2014?

9 A. No, I don't know that.

10 Q. Would you agree that natural gas
11 inventory levels during the December 2013 through
12 February 2014 period were below the levels that were
13 experienced in the subsequent year, this past
14 December of 2014 through February of 2015?

15 A. I was in my comments in my testimony
16 defending the cold aspect I believe that when the
17 winter is -- Mr. Bletzacker said when the winter is
18 cooler than normal that the tendency would be for
19 prices to run to potentially \$8 in the winter of 2014
20 to '15 we saw much cooler-than-normal conditions with
21 a price that never got close to \$8.

22 Q. Is it your -- you reviewed
23 Mr. Bletzacker's testimony before you made your
24 comments at this point in your testimony, correct?

25 A. That is correct. I believe in this

1 portion of my testimony though I don't really
2 remember seeing -- I don't see anything about storage
3 and it's all about temperature. So the correlation
4 made by Mr. Bletzacker was cooler-than-normal winter
5 will therefore cause prices in Ohio to run toward \$8.

6 Q. Let me back up just a little bit. You do
7 quote his testimony on page 9 of your testimony,
8 right?

9 A. I believe I do.

10 Q. Starting at line 8.

11 A. Yes.

12 Q. Okay. And the fragment of his testimony
13 that you quote there states "Near-term natural gas
14 prices will remain volatile as they are primarily
15 affected by weather's deviation from normal (known as
16 heating degree day departure) which then results in
17 deficit or surplus levels of natural gas storage
18 inventory." Do you see that?

19 A. I do.

20 Q. And you put that in your testimony,
21 right?

22 A. I put that in my testimony to address the
23 weather deviation aspect of Mr. Bletzacker's
24 testimony.

25 Q. And the weather deviation from normal

1 that Mr. Bletzacker described is heating degree day
2 departure from normal, correct?

3 A. He did, yes.

4 Q. And that's not the same deviation that
5 you were just talking about in the criticism of him,
6 is it? Your deviation is simply temperatures being
7 colder than normal, right?

8 MR. OLIKER: Objection. Compound
9 question, argumentative, and mischaracterizes
10 testimony.

11 MR. CONWAY: Your Honor, it's a question
12 posed to him, I was giving him the starting point and
13 comparison point, Mr. Bletzacker's starting point,
14 his comparison point, and asking him whether or not
15 they're different.

16 EXAMINER SEE: I'll allow the witness to
17 answer the question.

18 A. I'm sorry, can you repeat the question?

19 EXAMINER SEE: Or you can have it read
20 back, Mr. Leanza.

21 Q. I'll just restate the question.

22 The weather deviation from normal that
23 Mr. Bletzacker described is heating degree day
24 departure from normal, right?

25 A. Yes.

1 Q. And that's not the same deviation from
2 normal that you were just talking about in your
3 criticism of him, is it? Your deviation is simply
4 referring to temperatures being cooler than normal,
5 correct?

6 A. In my understanding heating degree days
7 when you're looking at the winter is based on an
8 average temperature of 65 degrees and as you move
9 cooler than that, that's known as a heating degree
10 day. The two are very, very, very, very close.

11 Q. And then the second part of
12 Mr. Bletzacker's equation is the impact of those
13 departures from normal on the heating degree days
14 side on natural gas storage levels, correct?

15 A. Seems like Mr. Bletzacker is making a
16 comparison of if it's colder, it will have an impact
17 on storage, which may or may not be the case. It
18 definitely was not the case in the winter of 2014 to
19 2015. We saw much cooler temperatures than normal,
20 as a matter of fact in the past 30 years the '13
21 that -- the 2014 to 2015 winter ranked second over
22 the past 30 years slightly behind the polar vortex
23 winter, so.

24 Q. But -- I'm sorry --

25 MR. OLIKER: Sorry, was he done with his

1 answer?

2 Q. I apologize, continue.

3 EXAMINER SEE: Finish your answer,
4 Mr. Leanza.

5 A. I'm done.

6 Q. Okay. Just to go back a step or two, you
7 don't know whether the heating degree days were below
8 normal for the period the last week of January 2015
9 through third week of February 2015 compared to the
10 period, same period in 2014, right?

11 A. I do not have that data, no.

12 Q. So your comment about weather being a
13 proxy colder than normal weather or temperatures
14 being a proxy for heating degree days you don't know
15 whether that applies for a period during the period
16 2015 compared to the winter of 2014, right?

17 MR. OLIKER: Could I have that question
18 read back?

19 (Record read.)

20 MR. OLIKER: Object to the question. And
21 I don't think that question can be answered and I
22 think it's very vague, but.

23 EXAMINER SEE: Try it again, Mr. Conway.

24 Q. Okay. Your comment about colder than
25 normal weather being a proxy for heating degree days

1 being greater than normal, you don't know whether
2 that applies to the period fourth week of
3 January 2015 through the third week of February 2015
4 as compared to the same period in the prior year.

5 A. If you're asking me to compare the
6 weathers in heating degree days or temperatures for
7 that particular time period, I don't have that
8 information.

9 Q. Okay. And you don't know what the status
10 of natural gas storage levels were during the winter
11 of 2014-'15 compared to the winter 2013-'14, do you?

12 A. I have a general idea.

13 Q. And is your general idea that storage
14 levels ended up being below normal during the prior
15 winter and not below normal during the last winter?

16 A. It's my understanding that the two
17 winters taken over the course of the winter from
18 November through March had relatively similar
19 temperatures and probably similar heating degree days
20 and the polar vortex winter, the 2013 to 2014 the
21 storage levels given a similar type of temperature
22 the storage levels were less in 2013 and '14 than
23 they were in the winter of '14 and '15.

24 Q. Doesn't the volatility of natural gas
25 prices depend primarily during the winter period on

1 the extent to which storage levels are below normal?

2 A. I don't know. I was more looking at the
3 weather deviation from normal based on a comparative
4 between the winter of 2013 and '14 versus the winter
5 of 2014 and '15. Given the same situation of
6 weather, not identically but very, very close, we're
7 talking the first coldest winter in 30 years versus
8 the second coldest winter in 30 years, the price
9 action associated with that given weather was
10 drastically different.

11 Q. So you did not focus on in your research
12 for this part of your testimony the extent to which
13 storage levels of natural gas during the winter of
14 2013 and 2014 was materially lower compared to normal
15 than what they were in this past winter 2014 to 2015.

16 A. No, I was looking at it from a weather
17 standpoint given comparative weather and looking at
18 the prices how the two interacted.

19 Q. So you don't believe that the primary
20 driver of volatility and natural gas prices during
21 the winter period is the extent to which storage
22 levels are below normal.

23 A. I believe storage levels are a component
24 that could make up volatility, not the only
25 component.

1 Q. But you don't believe they're a primary
2 component; is that right?

3 A. I believe that they are a component of
4 prices.

5 Q. Do you think that they're a primary
6 driver of the price volatility during the winter
7 period that is what it may be the extent to which
8 storage levels below normal?

9 A. I believe they can be a driver.

10 Q. But you did not take that into account
11 for the purposes of your analysis at this point in
12 your testimony.

13 A. No, from this aspect I looked at the
14 weather deviation aspect of the testimony, how it
15 affects price.

16 Q. Let me ask you then, I think I know what
17 the answer is but let me just confirm it. If natural
18 gas inventory levels remained at relatively robust
19 levels this past winter, the 2014-2015 winter --

20 A. I'm sorry, is this my -- are you reading
21 from my --

22 Q. I'm reading from my notes actually.

23 A. I'm sorry.

24 Q. I'll try to keep eye contact with you.
25 Would you agree, Mr. Leanza, that if natural gas

1 inventory levels remained at relatively robust levels
2 this past winter compared to the levels of inventory
3 that prevailed during the polar vortex of the
4 2013-2014 winter, that could explain the lesser
5 volatility experience this past winter?

6 A. I would not characterize the storage
7 levels this past winter as being robust by any
8 stretch. I would say that they were very normal.

9 We came out of the winter with I believe
10 roughly 1.6 to 1.7, call it 1.6 Tcf of gas in
11 storage. I would say something that might be
12 characterized as robust might be over 2 Tcf. In the
13 1.6 level is probably more normal and not robust.

14 Q. And my question was phrased "relatively
15 robust" and by that I meant in comparison to the
16 prior winter. So if the storage levels were
17 relatively robust this past winter, even assuming
18 they were a normal level during the winter compared
19 to history, compared to the polar vortex winter, they
20 were substantially more robust, would you agree that
21 that could be an explanatory factor in why there was
22 less volatility this past winter?

23 MR. OLKER: Objection. I'm sorry, Dan,
24 to stop your question. I'll wait till you finish,
25 then I'll object.

1 MR. CONWAY: Just finished.

2 MR. OLKER: I object, the witness
3 already disagreed to the characterization there was
4 robust storage levels and I think it's misleading to
5 use that line of characterization or definition in
6 this question.

7 MR. CONWAY: All I was doing was
8 explaining to him what was a relative term that I was
9 using comparing the past winter to the 2013-2014
10 winter.

11 EXAMINER SEE: I'll allow the witness to
12 answer the question.

13 A. I'll go to say that this past winter,
14 again, was not robust by any stretch of the
15 imagination and the but prior the winter the storage
16 balance was definitely less than it was for this past
17 winter. I would agree that the polar vortex winter
18 we had less gas in storage coming out of the winter
19 than we did this prior winter.

20 Q. And did you agree that Mr. Bletzacker's
21 view on \$8 per million BTU natural gas prices would
22 be impossible depending on higher-than-normal heating
23 degree days and then resulting in lower-than-normal
24 natural gas storage levels? Isn't that the point of
25 his testimony?

1 A. The point I got out of his testimony I
2 believe was the relative how cold is the winter. I
3 looked at it as a cold winter, causes less inventory
4 in storage which leads to higher prices, and as we've
5 seen this past winter, that doesn't hold.

6 Q. One other reference to Mr. Bletzacker's
7 testimony I'd like to cover with you. At page 10 of
8 your testimony, lines 10 through 11.

9 A. Page 10?

10 Q. Page 10?

11 A. Line 10, okay.

12 Q. You claim that Mr. Bletzacker also
13 predicted that natural gas prices would rise to
14 \$30 per million BTU during colder-than-normal winters
15 at certain local trading hubs. See that?

16 A. I do.

17 Q. And then you contend in the next three
18 lines that Mr. Bletzacker's predictions were
19 incorrect as local prices do not reach nearly the
20 \$30 per million BTU level anywhere in Ohio even
21 during the coldest days of the winter. Do you see
22 that?

23 A. I do.

24 Q. And the winter that you're referring to
25 is this past winter 2014-2015?

1 A. That is correct.

2 Q. And do you have Mr. Bletzacker's
3 testimony with you?

4 A. I do not.

5 MR. CONWAY: May I approach, your Honor?

6 EXAMINER SEE: Yes.

7 MR. CONWAY: Give the witness a copy of
8 the Mr. Bletzacker's testimony which has been
9 admitted as AEP Exhibit No. 6.

10 Q. And your criticism here of Mr. Bletzacker
11 is based on his testimony at page 5, lines 9 through
12 10; is that right? And if it's not right, tell me
13 where it is that you're referring to. You don't have
14 a citation in your testimony which you're referring
15 to. My question is are you referring to his
16 testimony at page 5, lines 9 through 10.

17 A. Yes, that is the area.

18 Q. So at page 5, lines 9 through 10 of
19 Mr. Bletzacker's testimony, he says there that prices
20 exceeded 30 million -- \$30 per million BTUs at many
21 locations that winter. Do you see that?

22 A. I do, yes.

23 Q. And he's referring to the polar vortex
24 winter, right?

25 A. I believe so, yes.

1 Q. That's 2013-2014.

2 A. Correct.

3 Q. And is it your understanding that in the
4 polar vortex winter prices did exceed \$30 per million
5 BTUs in many locations?

6 A. Not in Ohio, no.

7 Q. But in many locations? Do you know?

8 A. I believe they did, yes.

9 Q. So his testimony is not incorrect, is it?

10 A. That in locations throughout the United
11 States there were indications -- this were prices
12 over \$30, certain locations, that did not include
13 Ohio.

14 Q. So Mr. Bletzacker at that point did not
15 predict that this would be \$30 per million BTU gas in
16 Ohio in the winter of 2014-'15, did he?

17 A. I believe he predicted that there could
18 be prices that exceeded \$8.

19 Q. But he doesn't say that there was going
20 to be \$30 per million BTU natural gas in Ohio in
21 2014-'15, did he?

22 A. No, but again, I believe there was a
23 prediction of \$8.

24 MR. CONWAY: Just a moment, your Honor.

25 No further questions, your Honor.

1 Thank you, Mr. Leanza.

2 EXAMINER SEE: Mr. Margard.

3 MR. MARGARD: No questions. Thank you.

4 EXAMINER SEE: Mr. Olikar?

5 MR. OLIKER: Just a minute with the
6 witness, your Honor? If there's any redirect, it
7 will be very brief.

8 EXAMINER SEE: Okay. Let's go off the
9 record.

10 (Off the record.)

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

13 Mr. Olikar, any redirect.

14 MR. OLIKER: We have no redirect, your
15 Honor. At this time we would move for the admission
16 of IGS Exhibits 6 and 7.

17 EXAMINER SEE: Are there any objections
18 to the admission of IGS Exhibit 6 or IGS Exhibit 7?

19 MR. CONWAY: No objection.

20 EXAMINER SEE: IGS Exhibits 6 and 7 are
21 admitted into the record.

22 (EXHIBITS ADMITTED INTO EVIDENCE.)

23 EXAMINER SEE: Mr. Conway.

24 MR. CONWAY: Thank you, your Honor. The
25 company would request the admission of AEP Exhibits

1 18 and 19.

2 EXAMINER SEE: Any objections?

3 MR. OLIKER: No objections, your Honor.

4 EXAMINER SEE: AEP Exhibits 18 and 19 are
5 admitted into the record.

6 (EXHIBITS ADMITTED INTO EVIDENCE.)

7 EXAMINER SEE: According to the schedule
8 that I have, we have two witnesses scheduled for
9 tomorrow, Mr. Chernick and Mr. Baron. We'll resume
10 the hearing tomorrow at 9:00 a.m. Thank you.

11 (The hearing adjourned at 4:30 p.m.)

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CERTIFICATE

I do hereby certify that the foregoing is a true and correct transcript of the proceedings taken by me in this matter on Wednesday, October 14, 2015, and carefully compared with my original stenographic notes.

Julieanna Hennebert,
Registered Professional Reporter,
RMR, and Notary Public in and for
the State of Ohio.

My commission expires February 19, 2018.

Rosemary Foster Anderson,
Registered Professional Reporter
and Notary Public in and for the
State of Ohio.

My commission expires April 5, 2019.

(rfa-79513)

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Case No(s). 14-1693-EL-RDR, 14-1694-EL-AAM

Summary: Transcript In the Matter of the application of Ohio Power Company hearing held on 10/14/15 - Volume X electronically filed by Mr. Ken Spencer on behalf of Armstrong & Okey, Inc. and Anderson, Rosemary Foster Mrs.