

BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

- - -

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. :

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PROCEEDINGS

before Ms. Greta See and Ms. Sarah Parrot, Attorney  
Examiners, and Commissioner Asim Haque at the Public  
Utilities Commission of Ohio, 180 East Broad Street,  
Room 11-A, Columbus, Ohio, called at 9:00 a.m. on  
Thursday, January 7, 2016.

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ARMSTRONG & OKEY, INC.  
222 East Town Street, Second Floor  
Columbus, Ohio 43215-5201  
(614) 224-9481 - (800) 223-9481  
Fax - (614) 224-5724

- - -

## 1 APPEARANCES:

2 American Electric Power  
3 By Mr. Steven T. Nourse  
4 Mr. Matthew J. Satterwhite  
5 and Mr. Matthew S. McKenzie  
6 1 Riverside Plaza, 29th Floor  
7 Columbus, Ohio 43215

8 Porter, Wright, Morris & Arthur LLP  
9 By Mr. Daniel R. Conway  
10 41 South High Street  
11 Columbus, Ohio 43215

12 Ice Miller  
13 By Mr. Christopher Miller  
14 250 West Street  
15 Columbus, Ohio 43215

16 On behalf of the Ohio Power Company.

17 McNees, Wallace & Nurick LLC  
18 By Mr. Frank P. Darr  
19 Mr. Samuel C. Randazzo  
20 and Mr. Matthew R. Pritchard  
21 21 East State Street, 17th Floor  
22 Columbus, Ohio 43215

23 On behalf of the Industrial Energy Users  
24 of Ohio.

25 Vorys, Sater, Seymour & Pease, LLP  
By Mr. M. Howard Petricoff  
Ms. Gretchen Petrucci  
and Mr. Michael J. Settineri  
52 East Gay Street  
Columbus, Ohio 43215

On behalf of Retail Energy Supply  
Association, PJM Power Providers Group,  
Electric Power Supply Association,  
Constellation NewEnergy, Exelon  
Generation, LLC., and Dynegy, Inc.

1 APPEARANCES: (Continued)

2 Carpenter Lipps & Leland LLP  
3 By Mr. Joel E. Sechler  
4 280 North High Street, Suite 1300  
5 Columbus, Ohio 43215

6 On behalf of EnerNOC, Inc.

7 Ohio Environmental Council  
8 By Mr. Trent A. Dougherty  
9 1145 Chesapeake Avenue, Suite I  
10 Columbus, Ohio 43212

11 On behalf of the Ohio Environmental  
12 Council and the Environmental Defense  
13 Fund.

14 Taft, Stettinius & Hollister LLP  
15 By Mr. Mark S. Yurick  
16 65 East State Street, Suite 1000  
17 Columbus, Ohio 43215

18 On behalf of The Kroger Company.

19 Ohio Partners for Affordable Energy  
20 By Ms. Colleen L. Mooney  
21 and Mr. David C. Rinebolt  
22 231 West Lima Street  
23 Findlay, Ohio 45840

24 On behalf of the Ohio Partners for  
25 Affordable Energy.

Carpenter Lipps & Leland LLP  
By Ms. Kimberly W. Bojko  
Ms. Danielle Ghiloni  
and Mr. Ryan P. O'Rourke  
280 North High Street, Suite 1300  
Columbus, Ohio 43215

On behalf of the Ohio Manufacturers'  
Association Energy Group.

## 1 APPEARANCES: (Continued)

2 Sierra Club Environmental Law Program  
3 Ms. Kristin Henry  
4 and Mr. Tony Mendoza  
5 85 Second Street, 2nd Floor  
6 San Francisco, California 94105

7 Olson, Bzdok & Howard  
8 By Mr. Christopher M. Bzdok  
9 420 East Front Street  
10 Traverse City, Michigan 49686

11 Earthjustice  
12 By Mr. Shannon Fisk  
13 Northeast Office  
14 1617 John F. Kennedy Boulevard, Suite 1675  
15 Philadelphia, Pennsylvania 19103

16 On behalf of the Sierra Club.

17 Spilman, Thomas & Battle, PLLC  
18 By Mr. Derrick Price Williamson  
19 1100 Bent Creek Boulevard, Suite 101  
20 Mechanicsburg, Pennsylvania 17050

21 Spilman, Thomas & Battle, PLLC  
22 By Ms. Carrie Harris  
23 310 First Street, Suite 1100  
24 Roanoke, Virginia 24011

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

IGS Energy  
By Mr. Joseph Olikier  
6100 Emerald Parkway  
Dublin, Ohio 43016

On behalf of IGS Energy.

Boehm, Kurtz & Lowry  
By Mr. Michael L. Kurtz,  
Mr. Kurt J. Boehm  
and Ms. Jody Kyler Cohn  
36 East Seventh Street, Suite 1510  
Cincinnati, Ohio 45202

On behalf of the Ohio Energy Group.

## 1 APPEARANCES: (Continued)

2 Environmental Law & Policy Center  
3 By Ms. Madeline Fleisher  
4 21 West Broad Street, Suite 500  
5 Columbus, Ohio 43215

6 Environmental Law & Policy Center  
7 By Mr. Justin M. Vickers  
8 35 East Wacker Drive Suite 1600  
9 Chicago, Illinois 60601

10 On behalf of the Environmental Law &  
11 Policy Center.

12 Ohio Poverty Law Center  
13 By Mr. Michael R. Smalz  
14 555 Buttles Avenue  
15 Columbus, Ohio 43215

16 On behalf of the Appalachian Peace and  
17 Justice Network.

18 FirstEnergy Corp.  
19 By Mr. Mark Hayden  
20 and Mr. Scott J. Casto  
21 76 South Main Street  
22 Akron, Ohio 44308

23 Calfee, Halter & Griswold LLP  
24 By Mr. N. Trevor Alexander  
25 1200 Huntington Center  
41 South High Street  
Columbus, Ohio 43215

On behalf of the FirstEnergy Solutions  
Corp.

Direct Energy  
By Ms. Jennifer L. Spinosi  
21 East State Street, 19th Floor  
Columbus, Ohio 43215

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

## 1 APPEARANCES: (Continued)

2 Bruce J. Weston, Ohio Consumers' Counsel  
3 By Mr. William J. Michael  
4 Mr. Kevin F. Moore  
5 and Ms. Jodi Bair,  
6 Assistant Consumers' Counsel  
7 10 West Broad Street, Suite 1800  
8 Columbus, Ohio 43215-3485

9 Bricker & Eckler, LLP  
10 By Mr. Dane Stinson  
11 100 South Third Street  
12 Columbus, Ohio 43215-4291

13 On behalf of the Residential Consumers of  
14 the Ohio Power Company.

15 Mr. Richard L. Sites  
16 155 East Broad Street  
17 Columbus, Ohio 43215

18 Bricker & Eckler, LLP  
19 By Mr. Thomas J. O'Brien  
20 100 South Third Street  
21 Columbus, Ohio 43215-4291

22 On behalf of the Ohio Hospital  
23 Association.

24 Mike DeWine, Ohio Attorney General  
25 By Mr. William L. Wright,  
Section Chief  
Mr. Steven L. Beeler  
and Mr. Werner L. Margard, III,  
Assistant Attorneys General  
Public Utilities Section  
180 East Broad Street, 6th Floor  
Columbus, Ohio 43215

On behalf of the Staff of the PUCO.

1 APPEARANCES: (Continued)

2 Thompson Hine  
3 By Mr. Michael Austin  
4 41 South High Street, Suite 700  
5 Columbus, Ohio 43215

6 On behalf of Buckeye Power.

7 Dickson Wright PLLC  
8 By Mr. Terrence O'Donnell  
9 and Mr. Raymond D. Seiler  
10 150 East Gay Street, Suite 2400  
11 Columbus, Ohio 43215

12 On behalf of the Mid-Atlantic Renewable  
13 Energy Coalition.

14 Monitoring Analytics  
15 By Mr. Jeffrey Mayes  
16 2621 Van Buren Avenue  
17 Eagleville, Pennsylvania 19403

18 On behalf of Monitoring Analytics.

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CROSS-EXAMINATION (Continued)

By Mr. McKenzie:

Q. Mr. Cavicchi, could you please turn to your confidential Attachment AJC-S-1.

A. I'm there.

Q. I would like to ask you a couple of questions about this. First of all, for clarity, there are two Y-axes here, correct?

A. Yes.

Q. One is electric energy dollars per megawatt-hour, that's on the left, and the other is natural gas dollars per MMBtu, that's on the right, correct?

A. Yes.

Q. Now, other than the -- I see that you put gas prices below the electricity prices, other than



1 that, the scaling of these axes are just arbitrary,  
2 correct?

3 A. Yes.

4 Q. So, for example, \$80 per megawatt-hour at  
5 the top left does not correspond to \$20 per mmBtu on  
6 the top right, correct?

7 A. Yes.

8 Q. And the two blue lines on the bottom are  
9 gas prices, correct?

10 A. Yes.

11 Q. And the other three lines above them are  
12 electricity prices, correct?

13 A. Yes.

14 Q. Now, you don't have Mr. Bletzacker's gas  
15 forecast on here, correct?

16 A. That's correct.

17 Q. Also, you don't have the EIA 2015 Annual  
18 Energy Outlook forecast on here, correct?

19 A. That's correct.

20 Q. So looking at gas after 2016, you have  
21 only the Henry Hub NYMEX futures. That's the blue  
22 line at the bottom starting at 2016, correct?

23 A. Yes, that's correct.

24 Q. And you have got futures out to 2024 here,  
25 right?

1 A. Yes.

2 Q. But earlier we discussed that liquidity  
3 for futures drops off dramatically after two or three  
4 years, correct?

5 A. Yes, it drops off quickly.

6 Q. Okay. And for electricity, above it, once  
7 again, the AEP Dayton Hub, those are futures, not a  
8 projection, correct?

9 A. Yes. Futures market prices, right.

10 Q. And Mr. Bletzacker's forecast, this is  
11 also just energy, it doesn't include capacity prices,  
12 right?

13 A. Yes, that's correct.

14 Q. And, by the way, you are not offering any  
15 criticism of Mr. Bletzacker's capacity forecast,  
16 right?

17 A. I didn't analyze his capacity forecast.

18 Q. Now, earlier we discussed Clean Power Plan  
19 compliance costs. Do you see those reflected in the  
20 spike in Mr. Bletzacker's forecast in 20 -- around  
21 2022?

22 A. I see the increase there, and I am not  
23 sure it's completely attributable to the Clean Power  
24 Plan, but I know it is, in part, attributable to the  
25 Clean Power Plan.

1           Q.       Okay. And there is no corresponding spike  
2 in either of the two futures lines below it,  
3 electricity or gas, correct?

4           A.       No, there is not.

5           Q.       Okay. Okay. Could we turn to your  
6 confidential testimony, page 18, please. I'm sorry.  
7 This is a quote that's not confidential in your  
8 testimony, but I am going to ask you about your  
9 confidential workpaper just for reference.

10                    So, first, the last sentence of the first  
11 full paragraph states "Based on the data in" and you  
12 have corrected this to say "Attachment AJC-S-C, I  
13 estimated an increased cost of just over \$19 million  
14 or approximately a \$1.80 per megawatt-hour, will be  
15 rolled into the PPA rider when it is initially  
16 reconciled"; is that correct?

17          A.       Yes.

18          Q.       And then in the next paragraph, the second  
19 sentence you say "At this juncture I estimate the  
20 Company will incur just over \$70 million in  
21 unrecovered costs for the third quarter." And that's  
22 the third quarter of which year?

23          A.       2016.

24          Q.       Thank you. Now, these statements in your  
25 testimony are based on analyses you did that are

1 reflected in your confidential workpapers  
2 corresponding to Attachment AJC-S-3; is that correct?

3 A. Yes.

4 Q. Okay. Thank you. I would like to --

5 MR. McKENZIE: Your Honor, may we  
6 approach?

7 EXAMINER SEE: Yes.

8 MR. McKENZIE: Thank you. Your Honor, I  
9 am going to mark this document for reference as AEP  
10 Ohio Exhibit 55.

11 EXAMINER SEE: Mr. McKenzie, you indicated  
12 for "reference only"?

13 MR. McKENZIE: For reference for right  
14 now, your Honor.

15 EXAMINER SEE: Okay.

16 (EXHIBIT MARKED FOR IDENTIFICATION.)

17 MR. McKENZIE: And, I'm sorry, this is a  
18 confidential exhibit so it's Confidential Exhibit 55.

19 EXAMINER SEE: Okay.

20 Q. Mr. Cavicchi, do you recognize this as one  
21 of the tabs, I believe it's called the  
22 "reconciliation tab" of your AJC-S-3 workpapers?

23 A. Yes.

24 Q. If you look at the first column it's  
25 titled "Period" and under it is various dates,

1 correct?

2 A. Yes.

3 Q. And the next column is "Projected AEP PPA  
4 Revenue" in millions, correct?

5 A. Yes.

6 Q. And this column refers to the revenue that  
7 is project by AEP Ohio based on its forecast,  
8 correct?

9 A. Yes.

10 Q. And then the next column over is  
11 "Estimated Revenue" in millions and this is not AEP's  
12 estimate. This is your estimate, correct?

13 A. Yes.

14 Q. And this is based on an assumption that  
15 the AEP plants -- I'm sorry, the PPA plants would  
16 earn -- what you've estimated that they earned  
17 historically, I believe in 2012 to 2014, based on  
18 historical electricity prices in those years. Is  
19 that an accurate statement?

20 A. Yes, on average in those years, correct.

21 Q. And the third column is "Estimated Under  
22 Recovery" and that's simply the difference between  
23 the first and second columns, correct?

24 A. Yes.

25 Q. And that -- this "Estimated Under

1 Recovery" column, that provides the basis of the two  
2 numbers, 19 million and 72 million, that I read from  
3 your testimony, correct?

4 A. Yes.

5 Q. 19 million is the first cell, 72 million  
6 is the second cell, correct?

7 A. Yes.

8 Q. Okay. I am sorry. In the last column,  
9 then you have the additional rider in dollars per  
10 megawatt-hour, and this is where you show your  
11 estimated PPA rider impact. So, for example, on  
12 page 18 of your testimony when you say it's going to  
13 be a \$1.80 per megawatt-hour that corresponds to the  
14 first cell in that column; is that correct?

15 A. Yes.

16 Q. Okay. Now, you understand that the PPA  
17 rider will pass through to customers the net of PPA  
18 revenue and PPA cost, correct?

19 A. That's correct.

20 Q. So if cost goes down, that would benefit  
21 customers, correct?

22 A. All else equal, definitely, yes.

23 Q. Right. So in your final column, for  
24 example, if -- at the same time that revenue went  
25 down, costs went down, those numbers wouldn't be as

1 low as they are, correct?

2 A. Yes.

3 Q. Okay. Now, you assumed in your  
4 calculation of this final column that PPA rider costs  
5 would be stable. You didn't adjust them downward in  
6 any way, correct?

7 A. No. I understood from Mr. Bletzacker's  
8 testimony that coal prices were not volatile and  
9 generally flat, so I didn't see any reason to adjust  
10 those costs in particular which, you know, would  
11 matter with respect to the energy market performance.

12 Nor did I -- nor did I adjust the  
13 historical generation to match the proposed  
14 generation which is much higher. I just really was  
15 making an illustrative calculation that provided an  
16 estimate.

17 Q. Right. That's what I was going to ask  
18 about. You would agree that AEP's PPA revenue  
19 projections in Column 2 there, depend on assumptions  
20 about electricity prices and, therefore, the amount  
21 that the PPA units will run or will be dispatched,  
22 correct?

23 A. Yes, absolutely.

24 Q. And if prices are lower, the units would  
25 be dispatched less and run less, correct?

1           A.       Well, it depends on where the units are in  
2 the stack, actually. So it is kind of a difficult  
3 question to answer. If they are relatively  
4 efficient, if prices are down, they will probably run  
5 similarly.

6                   And actually, with units that -- many of  
7 these units are relatively efficient with what I  
8 understand to be rather decent coal prices. So it's  
9 difficult to answer your question positively. I  
10 would say it this way: There might be a period in a  
11 spring or fall or something where it gets trickier to  
12 remain operational, but I think, you know, given on  
13 the historical side, you know, I don't necessarily  
14 say the units would have run more and have them  
15 running less, then that's actually not estimated  
16 exactly either.

17          Q.       Okay. Well, you would agree AEP's  
18 projected revenue is essentially, with many  
19 simplifications, the amount that the plants are going  
20 to run for any particular time period, times the  
21 price that they would receive for those time periods,  
22 correct?

23          A.       Yes.

24          Q.       And the same goes for your estimated  
25 revenue in Column 3, correct?



1           A.       Yes.

2           Q.       Okay.  So if you could turn to your  
3 confidential Attachments AJC-S-4A through -D and here  
4 we are going to have to look at the correction.  So  
5 these confidential attachments show the --  
6 essentially the amount that each of the units that  
7 you are discussing generated over the particular time  
8 period, correct?

9           A.       According to AEP's interrogatory, but  
10 that's not the data I used in AJC-S-3.

11          Q.       Okay.  Well, you would agree that over the  
12 period when the plants -- strike that.

13                   Over the historical period that you looked  
14 at in order to determine your estimated likely  
15 revenue in Column 3 of your workpaper, the PPA units,  
16 as you point out in your testimony, generated less  
17 than AEP projected that they would generate in the  
18 future.  Do you follow me?

19          A.       Yes.

20          Q.       And if that's correct, they ran less.

21          A.       Somewhat less, as I said in the data  
22 that's provided there, we use this Ventyx data which  
23 is based on this Environmental Protection Agency  
24 Continuous Emissions Monitoring System recording of  
25 output process.  It tends to -- it overestimates in

1 my opinion. So I know that it's somewhat lower than  
2 what's shown here on these red lines, but it doesn't  
3 match exactly what was provided in response to Sierra  
4 Club INT-1-001. To be honest, it's in between;  
5 50 percent in between.

6 Q. Okay. Fair enough. Excuse me. My only  
7 point is that when AEP projected its revenue in your  
8 second column of your workpaper, there was an  
9 assumption that these units, because prices would be  
10 higher in this model, would be dispatched more and  
11 would run more, correct?

12 A. Yes.

13 Q. Okay. And you would agree that the more  
14 that a plant runs, the more it expends in fuel costs,  
15 correct?

16 A. Yes.

17 Q. So if it runs less, it spends less in  
18 fuel.

19 A. Correct.

20 Q. But when you did your calculation on your  
21 confidential attachment, you didn't give any credit  
22 on the last column for fuel savings which would be  
23 passed on to customers through the PPA rider,  
24 correct?

25 A. No, that's correct.

1 Q. Okay.

2 A. I simply looked at what the difference in  
3 revenue would be, without trying to complicate it  
4 with at this point of how production would change.

5 Q. So understanding that your conclusion is  
6 an illustration, the actual rider numbers, if prices  
7 are as they were historically, would not be as low as  
8 what you've stated if you included fuel savings,  
9 correct?

10 A. I mean, I haven't done that analysis. If  
11 you hold all else equal, there will be a difference  
12 related to fuel savings, yes. I will agree with  
13 that.

14 Q. To the benefit of the customers, correct?

15 A. I mean, if it's a savings based on -- it's  
16 going to be a benefit to customers, yes.

17 Q. I am just trying to say the PPA rider  
18 costs would be lower as the revenue was lower as  
19 well, correct?

20 A. Yes, that's correct.

21 MR. MCKENZIE: Okay. No further  
22 questions, your Honor.

23 EXAMINER SEE: Mr. Beeler?

24 MR. BEELE: No questions, thank you.

25 EXAMINER SEE: Redirect on the

1 confidential portion?

2 MR. PETRICOFF: Your Honor, could we have  
3 a minute?

4 EXAMINER SEE: Yes. Let's go off the  
5 record.

6 (Discussion off the record.)

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

9 - - -

10 REDIRECT EXAMINATION (Continued)

11 By Mr. Petricoff:

12 Q. Mr. Cavicchi, you indicated that the  
13 importance of these examples you had in the, we'll  
14 call them the 4-S series of charts, is that they  
15 were -- they were illustrative of market conditions.  
16 Why is that important?

17 A. I think you mean 3-S.

18 Q. 3-S.

19 A. S-3. Just simply that pointing out that  
20 the market conditions have changed a great deal and  
21 the expectations of revenues based on future  
22 projections by Mr. Bletzacker are clearly  
23 inconsistent with the market conditions that we're  
24 facing now.

25 MR. PETRICOFF: No further questions.

1 Thank you.

2 EXAMINER SEE: Recross on the  
3 confidential?

4 MR. McKENZIE: I'm sorry. I didn't know  
5 if you were waiting for me to speak. I have no  
6 questions.

7 EXAMINER SEE: Thank you. Just one  
8 minute, Mr. Cavicchi.

9 MR. NOURSE: Are we okay to open the  
10 doors, your Honor, or have you -- are you going to  
11 have confidential?

12 EXAMINER SEE: Just one minute. I don't  
13 think so, but let me check my notes.

14 Thank you, Mr. Cavicchi.

15 THE WITNESS: You're welcome. Thank you  
16 for having me.

17 (OPEN RECORD.) .

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Summary: Transcript of Proceedings Volume XXI Public Version electronically filed by Mr. Steven T Nourse on behalf of Ohio Power Company