1 BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

2 - - -

3 In the Matter of the :
Application of Columbus :
4 Southern Power Company for:
Approval of its Electric :
5 Security Plan; an : Case No. 08-917-EL-SSO
Amendment to its Corporate:
6 Separation Plan; and the :
Sale or Transfer of :
7 Certain Generating Assets.:
:
8 In the Matter of the :
Application of Ohio Power :
9 Company for Approval of :
its Electric Security : Case No. 08-918-EL-SSO
10 Plan; and an Amendment to :
its Corporate Separation :
11 Plan. :

12 - - -

13 PROCEEDINGS

14 before Ms. Kimberly W. Bojko and Ms. Greta See,

15 Hearing Examiners, at the Public Utilities Commission

16 of Ohio, 180 East Broad Street, Room 11-C, Columbus,

17 Ohio, called at 9:00 a.m. on Wednesday, November 19,

18 2008.

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20 VOLUME III

21 - - -

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Wednesday Morning Session,

November 19, 2008.

- - -

EXAMINER SEE: Let's go on the record.

Let's take abbreviated appearances of counsel present here On. today behalf of the company.

MR. RESNIK: For the companies, Marvin Resnik, Steve Nourse, and Dan Conway.

EXAMINER SEE: Next.

MR. SMALZ: On behalf of the Appalachian People's Action Coalition, Michael Smalz and Joseph Maskovyak.

MR. O'BRIEN: With the Ohio Hospital Association, Rick Sites and Tom O'Brien.

MR. MARGARD: Werner L. Margard, John H. Jones, and Thomas Lindgren, assistant attorneys general on behalf of the Commission staff.

MR. PETRICOFF: Howard Petricoff on

behalf of Integrys Energy, Constellation NewEnergy, and the Ohio School Business Association.

MR. SINGH: Bobby Singh on behalf of Integrys Energy Services.

MS. GRADY: Maureen Grady, Jacqueline Roberts, and Michael Idzkowski on behalf of the

Office of Consumers' Counsel on behalf of the residential ratepayers of the companies.

MR. RANDAZZO: Lisa McAlister, Joe Clark, Sam Randazzo on behalf of the Industrial Energy Users of Ohio.

MS. WUNG: Grace Wung on behalf of the commercial group.

MR. BOEHM: David Boehm and Michael Kurtz on behalf of the Ohio Energy Group.

MR. BELL: Langdon Bell on behalf of the Ohio Manufacturers Association.

MR. YURICK: John Bentine, Mark Yurick, and Matt White on behalf of the Kroger Company.

MR. RINEBOLT: David Rinebolt and Colleen Mooney on behalf of Ohio Partners for Affordable Energy.

EXAMINER SEE: Thank you.

When we left yesterday, Mr. Resnik had made a request, a request that I believe Mr. Resnik

20 wanted the hearing to continue on weekends starting

21 this weekend, the Friday after Thanksgiving and that

22 weekend, is that correct, Mr. Resnik?

23 MR. RESNIK: That was the nature of the

24 request. I'll note it was not a motion, it was a

25 request that you reconsider given where we are so far

in this hearing, and, if possible, to extend the hearing day. I'm not sure if I mentioned that, but these hearing days, if it's possible, to go any later, that might alleviate some of the need for the weekend portion.

But the nature of the request, however it might be implemented, is to do whatever we can to try to assure that we can meet the 150-day time period.

EXAMINER BOJKO: I'm sorry, did you say go later? You meant later in the day, later than 6:15 last night later?

MR. RESNIK: Yes.

EXAMINER SEE: I think I can speak for both Ms. Bojko and myself, that going later into the day most days is not a problem, within reason. Days are long when we start at 9, 9:15, to go until 6, somewhat later. If feasible, we will try to warn everyone when it gets late in the day that we intend to finish a witness or finish the next couple of

20 witnesses and we'll see where that gets us.

21 In response to your request to work

22 weekends and the Friday after Thanksgiving, it was

23 announced at the prehearing conference we would not

24 be holding the hearing that day. We don't believe it

25 is likely to yield the result, to guarantee to yield

the result that Mr. Resnik is hoping for. We will extend the days and we'll move on. We are not willing to add weekends to hold this hearing on weekends. We both are dedicated to other projects for the Commission on the weekends.

MR. RESNIK: I appreciate your consideration.

(Discussion off the record.)

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

I think we're starting with Mr. Wolfe, so Mr. Petricoff.

MR. PETRICOFF: Thank you, your Honor. Your Honor, at this time I would like to get two documents marked.

EXAMINER SEE: Mr. Petricoff let's start with the rebuttal for the V.E plan.

MR. PETRICOFF: Yes, I was going to mark both of them now, but we will take the rebuttal

first.

EXAMINER SEE: Okay.

MR. PETRICOFF: Your Honor, at this time I would like to have marked as Integrys Exhibit No. 1 the Rebuttal Testimony of Samuel R. Wolfe.

EXAMINER SEE: It will be so marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

MR. PETRICOFF: I would also like to have marked as Integrys Exhibit No. 2 the Direct Prepared Testimony of Samuel R. Wolfe.

EXAMINER SEE: That will also be marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

MR. PETRICOFF: And then, your Honor, I have prepared an errata sheet that we will -- for the direct testimony that I will pass out now to the parties. There were a few typographical errors on the direct testimony. I was not planning on marking that as an exhibit. We'll go over that on the stand.

Your Honor, at this time I would like to call to the stand Samuel R. Wolfe.

EXAMINER SEE: Mr. Wolfe, if you will raise your right hand.

(Witness sworn.)

EXAMINER SEE: Thank you. Have a seat.

- - -

20 SAMUEL R. WOLFE

21 being first duly sworn, as prescribed by law, was

22 examined and testified as follows:

23 DIRECT EXAMINATION

24 By Mr. Petricoff:

25 Q. Please state your name and business

address for the record.

A. My name is Samuel R. Wolfe. Business address is 300 West Wilson Bridge Road, Suite 350, Worthington, Ohio 43085.

Q. And, Mr. Wolfe, on whose behalf do you appear today?

A. I appear today on behalf of Integrys Energy Services.

Q. Mr. Wolfe, do you have with you what has been marked now as Integrys Exhibit No. 1?

A. That would be the errata sheet?

Q. No, that would be your rebuttal testimony.

A. Yes, I do.

Q. And did you prepare this yourself or was it prepared under your direction?

A. It was prepared under my direction.

Q. And is it true and accurate to the best of your knowledge?

A. Yes, it is.

Q. And if I were to ask you the same questions today that are contained in Exhibit 1, would your answers be the same?

A. Yes, they would.

Q. Do you have any changes or corrections to

this testimony?

A. I do have changes to the direct testimony.

Q. This is the rebuttal testimony, Exhibit No. 1.

A. The rebuttal, no.

Q. Okay.

MR. PETRICOFF: Thank you, your Honor. The witness is available for cross-examination.

EXAMINER SEE: Any volunteers for first? None? We'll start at this end, Mr. Yurick.

MR. YURICK: I have no questions for this witness. Thank you, your Honor.

EXAMINER SEE: Mr. Bell.

MR. BELL: Yes.

- - -

CROSS-EXAMINATION

By Mr. Bell:

20 Q. Good morning, Mr. Wolfe. My name is

21 Langdon Bell, and I'm here on behalf of the Ohio

22 Manufacturers Association. My questions will be

23 directed toward clarifying your testimony, or at

24 least my understanding of your testimony.

25 On page 1 of your testimony, on line 19,

1 would that sentence be more accurate if, in fact,
2 between the word "testimony" and "response" the word
3 "only" would be appropriate?
4 A. That's correct.
5 Q. And on page 3, line 4, would it be more
6 accurate to strike the word "the" between the words
7 "generally" and "interim" and insert the words
8 "Mr. Hess's"? Would that be a more accurate
9 reflection of your testimony?
10 A. That could be used.
11 EXAMINER SEE: Hold up for just a second.
12 THE WITNESS: Your Honors, may I slightly
13 amend my previous responses?
14 EXAMINER SEE: Let's read it first.
15 THE WITNESS: I would like to say that
16 these comments could also apply to any interim plan.
17 Q. If you will bear with me a few moments
18 with the next two questions, I think you need not
19 amend your response to my last question, Mr. Wolfe.

20 Please bear with me and just answer the questions,

21 and then if your esteemed counsel wants to redirect,

22 fine, but that is just clarification. It's not

23 friendly cross. I'm trying to understand your

24 position, nothing more or less.

25 MR. PETRICOFF: Your Honor, I assume that

the answer to the last question stands.

EXAMINER SEE: Yes.

MR. PETRICOFF: Thank you.

Q. Going to page 4, line 11, the second sentence which begins "My first concern," do you see that?

A. Yes.

Q. Would it be more a accurate depiction of your testimony and position for the word "the" in that line, that sentence, be stricken and replaced with the word "any" so that the sentence would read: "My first concern is that any interim plan" -- insert also the word "that -- "is silent as to the treatment of CSP and OPC customers who are currently committed to participating in the PJM demand response program, particularly the ILR program for the 08-09 planning period"?

A. That would be appropriate.

Q. And finally, on the next page, Mr. Wolfe,

20 would it be a more accurate depiction of your

21 testimony and position to revise your testimony

22 appearing on lines 9 -- on line 9 of that testimony,

23 page 5, to delete the first "the" word appearing in

24 that sentence and so that it would read: "I

25 respectfully recommend that any interim plan" -- and

then insert after the word "plan" -- "which might or which may be approved by the Commission."

A. That would be appropriate.

Q. That would more accurately reflect your position in these case, correct?

A. Yes.

Q. Thank you.

MR. BELL: I have nothing further.

MR. BOEHM: No questions.

EXAMINER SEE: Mr. Rinebolt.

MR. RINEBOLT: No questions, your Honor.

MS. WUNG: No questions, your Honor.

MR. RANDAZZO: Just a couple if I may.

- - -

CROSS-EXAMINATION

By Mr. Randazzo:

Q. Mr. Wolfe, on page 6 of your rebuttal testimony, which has been marked as Integrys Exhibit 1, at line 9 you discuss uncertainty and its impact

20 on customer participation in PJM. If you're aware,

21 when a customer either directly or indirectly seeks

22 to enroll in PJM's programs, is it common that AEP

23 protests that effort?

24 A. There is a review process. AEP can in

25 some cases make comments. In the case of the PJM ILR

program, I believe currently they approve the information in the registration.

Q. Has it been your experience that AEP protests efforts on the part of customers to enroll in PJM's programs?

A. My experiences in the ILR program, AEP has protested but PJM has accepted the registrations. In the economic program several years ago I'm aware of a protest, and I believe that was referred to the PUCO by PJM at that time.

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

EXAMINER SEE: Ms. Roberts.

MS. ROBERTS: Thank you.

- - -

CROSS-EXAMINATION

By Ms. Roberts:

Q. Mr. Wolfe, if you know, what would the effect of a decision by this Commission be on whether

20 AEP's retail customers could participate -- what

21 would the effect of a decision by this Commission

22 prohibiting retail customers from participating in

23 PJM demand response programs, like the ILR program,

24 what effect would that have on the ability of a

25 customer to participate in PJM's programs?

A. Well, it depends on the timing of any approval of denial of participation in the PJM programs. The commitment period for the PJM ILR program begins January 1st, 2009, and extends through March 2nd, 2009.

My testimony today is that if there is an interim period and if the issue of whether participation in PJM programs is allowed is not settled, many of the end-users who would commit to PJM in that period would be at risk of default if they were denied participation after that.

Approximately -- or, currently there are 526 megawatts enrolled in AEP territory in the ILR program for emergency purposes and 148 megawatts enrolled in the demand response program at PJM, and I can state from experience that many of those will be committing during this January 5th, 2009, through March 2nd period, and at that point there would have to be a determination as to whether they would

20 be in default at PJM or, you know, they would be at

21 risk of being in default in PJM and potentially that

22 amount of megawatts could be removed from the grid in

23 an emergency situation.

24 Q. Have you had conversations with AEP about

25 why they've taken this position?

A. I have not.

MR. RANDAZZO: Thank you.

EXAMINER SEE: Mr. Jones or Mr. Margard?

MR. MARGARD: No questions, your Honor. Thank you.

EXAMINER SEE: Mr. O'Brien.

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

EXAMINER SEE: Mr. Smalz.

MR. SMALZ: No questions, your Honor.

EXAMINER SEE: Mr. Nourse?

MR. NOURSE: Thank you, your Honor.

- - -

CROSS-EXAMINATION

By Mr. Nourse:

Q. Good morning, Mr. Wolfe.

A. Good morning.

Q. As I understand your rebuttal testimony, you have two concerns about the -- I guess any interim plan not accounting for the PJM demand

20 response issue, correct?

21 A. Concerning the PJM planning year for 2009

22 and 2010, which would be June 1, 2009, through May

23 31st, 2010.

24 Q. Well, I'm referring to page 4 of your

25 testimony where you say you have two concerns, one of

1 them, the first concern, relates to the '08-'09
2 planning period, correct?
3 A. That's correct.
4 Q. Now, were you aware -- I don't think you
5 were present, but were you aware of statements made
6 by company witness Mr. Baker during his testimony in
7 this case earlier this week where he addressed
8 concern No. 1?
9 A. I was advised by counsel -- I was not in
10 the room -- that it would be acceptable to allow
11 continued participation in the '08-'09 planning year
12 at PJM.
13 Q. Okay. And does that resolve your first
14 concern?
15 A. That would satisfy the first concern.
16 Q. Okay. Let's talk about your second
17 concern, which relates to the '09-'10 planning
18 period, correct?
19 A. Correct.

20 Q. Okay. First of all, the registration for

21 that period, I think you mentioned a moment ago, goes

22 through March 1st; is that correct?

23 A. March 2nd I believe.

24 Q. March 2nd. So it commences on January

25 1st.

A. That's correct.

Q. Okay. Now, so is it safe to say, then, if the Commission decides the issue that's been presented about participation in the demand response programs and, again, as clarified by Mr. Baker, this is focused on the '09-'10 planning period, if the Commission decides that issue prior to March 2nd giving potential registrants an opportunity to understand that position, that decision, and then register in a timely fashion, does that resolve your second concern?

A. If it were prior to January 5th, that might resolve that concern.

Q. Why do you say that?

A. Because end-users will begin to commit to PJM beginning January 5th.

Q. But you have a three-month period to -- two-month period, excuse me, to register. There's no difference from a person that registers on January

20 5th or March 2nd in terms of taking advantage of

21 the program, is there?

22 A. Well, there is a, I believe, proposed

23 ten-day review process at PJM, and we would recommend

24 that our customers commit early on so that any issues

25 could be resolved prior to the acceptance deadline of

March 2nd.

Q. Okay. So does that take us back to February then?

A. My belief is there are certain customers that will begin registering shortly after January 5th.

Q. Understood. So you're saying anything after January 5th is unacceptable to you.

A. Any what?

Q. To be able to register anytime after January 5th, any delay is unacceptable.

A. I'm saying there's uncertainty should there not be a decision on the underlying issue of whether end-users can participate in PJM programs. Any decision after January 5th would cause uncertainty and put end-users at risk should they commit in that time frame.

Q. Are you saying there presently is not uncertainty as to whether an Ohio retail customer can

20 successfully register and participate in PJM demand

21 response programs?

22 A. There is uncertainty, yes.

23 Q. There's currently uncertainty.

24 A. For the '09 and 2010 period.

25 Q. Now, is it your position that the PUCO

does not have an appropriate role in deciding the question that AEP has presented as to whether retail customers can participate in the PJM demand response programs?

A. In my opinion -- that is a legal opinion. I do not have an opinion as to whether they have a role.

Q. You're not aware of any requirement or ability of the PUCO to weigh in on this subject?

A. Oh, I am aware that they have the ability to weigh in.

Q. And is it your understanding that AEP has queued up this issue and presented it as part of a filing in this ESP case?

A. Yes, I'm aware.

Q. So would you agree the PUCO has a right to decide this issue?

A. I agree.

Q. Okay. And is it your understanding that

the -- are you aware of any statutory deadline for the Commission to address this ESP case?

A. The ESP case, to my understanding, has to be addressed within 150 days of an order this summer, and I believe that places it somewhere near the end of 2008.

Q. And if that were the case and there were a decision to result resolving that issue, that satisfies your criteria with respect to concern No. 2, right?

A. That is correct. At that point an interim plan would not be needed. My rebuttal testimony addresses what would be needed in an interim plan.

Q. That's correct. And with respect to that, you're saying even though there is uncertainty today, there's some incremental uncertainty that's added by a PUCO decision being delayed in this case.

A. Absolutely.

Q. Okay. Now, so how long have you been aware of AEP's position -- in particular let's talk about the ILR program. Unless I mention another program, let's talk about that.

A. How long have I been aware of AEP's position?

Q. Yes.

A. Shortly after Mr. Roush's initial testimony was filed.

Q. That was the first time you became aware of it?

A. Yes.

Q. Had you been involved in the demand response programs from PJM -- for how long?

A. Significant focus for a year and a half.

Q. And -- go ahead. Did you want to say something?

A. No.

Q. Does that include the Ohio area?

A. Yes.

Q. As well the whole PJM?

A. All of PJM.

Q. Okay.

A. Including Ohio.

Q. For a year and a half. And you were not aware of AEP's decision or position prior to reading Mr. Roush's testimony.

EXAMINER BOJKO: I'm sorry, Mr. Nourse, are you talking about AEP's position in the ESP proceeding, or AEP's position about the demand response.

MR. NOURSE: Thank you, your Honor.

About ILR and about the PJM demand response program.

A. I was aware that AEP was not in favor of participation, and after Mr. Roush's testimony I became aware that they planned to put that in their terms and conditions, that participation would be

prohibited.

Q. So you were aware of AEP's position on ILR prior to reading Mr. Roush's testimony.

A. I was aware that they were not in favor of participation.

Q. Yes.

MR. BELL: Mr. Nourse, could you keep your voice up. I apologize, but you're talking to the witness at the other end of the hearing room, and those of us at this end are experiencing some difficulty hearing you.

Q. Now, if your position is accepted, Mr. Wolfe, about the '09-'10 --

EXAMINER SEE: Mr. Nourse, I'm sorry, is your mic on?

MR. BELL: No, it's not.

MR. NOURSE: It's blinking.

Thank you. Is that better?

MS. ROBERTS: Much better.

20 Q. Mr. Wolfe, if your position is accepted

21 then for the '09-'10 planning year, and let's for

22 this question presume that AEP would be in the same

23 position it's already stated in '08-'09, in other

24 words, once you register and are accepted, then that

25 would be a settled matter throughout that planning

period, that would take us to what, June 2010?

A. Are you saying that if AEP would accept a commitment by an end-user at PJM --

Q. Let me ask it differently. I'll rephrase that to try to help you. If the Commission accepts your recommendation and allows participants to register starting January 5th, pending any final decision in this case during the period of an interim plan, that would take us out through June 2010 before any Commission decision that would agree with AEP, for example, later in January say that decision comes out, it can't be implemented until June 2010; is that correct?

A. That would be correct.

Q. And is your understanding that the ESP plan as a whole is a three-year plan through the end of 2011?

A. I understand that.

Q. So that would be halfway through the

20 entire period of the plan, correct?

21 A. Approximately.

22 Q. Okay.

23 A. However, I might add that most of the --

24 any emergency calls as a result of the ILR program

25 are likely to occur in the June '09 through September

'09 period.

Q. Well, nonetheless, the participation in the program --

A. Would be through May 2010.

Q. Through the end of May 2010, which is approximately --

A. As a result of this interim measure --

Q. Which is --

A. -- which I am recommending.

Q. Okay. You keep adding statements. Which again goes back to my question. That's approximately halfway through the term of the ESP.

A. Correct.

Q. Correct. Are you aware of a FERC ruling on the PJM demand response programs that came out in October this year?

A. Somewhat.

Q. And does your familiarity extend to the decision aspect that the FERC addressed relative to

20 state commission approval of the participation of

21 retail customers?

22 A. I know a little bit about that.

23 Q. What's your understanding of that

24 decision?

25 A. My understanding is that FERC would allow

1 states to opt out through some sort of Commission
2 order or statute on a statewide basis from wholesale
3 demand response programs.
4 Q. And so given that that issue has been
5 queued up by -- presented by AEP in this case and
6 given the PUCO's right to address it under the FERC
7 rules, wouldn't you agree that if the Commission
8 decides the case by mid-February, that your --
9 Integrys and other marketers and service providers in
10 Ohio would not be prejudiced by that scenario?
11 A. Could you repeat the question, please?
12 MR. NOURSE: Could you read it back?
13 (Record read.)
14 A. I'm not sure what you mean by "not be
15 prejudiced."
16 Q. You'd still have the ability to timely
17 register even under your ten-day safeguard advice in
18 the program in a timely manner, correct?
19 A. Once again, it depends on the timing of

20 any -- and my understanding is it would have to be a

21 statewide order declaring that end-users could not

22 participate directly in wholesale programs.

23 Q. Are you saying by statewide order you

24 don't think a Commission order in this case involving

25 AEP-Ohio would control over whether retail customers

in AEP-Ohio's territory could participate?

A. I don't know the answer to that. That would be a legal question.

Q. But you just stated that you thought it should be a statewide order. I'm asking you --

A. That's my understanding.

Q. -- what you meant by that.

A. That's my understanding of the FERC order language.

Q. Which means what? What's the statewide order you're talking about?

A. Some sort of determination by the Public Utility Commission or regulatory authority that for the state of Ohio they would opt out of participation in wholesale demand response programs.

Q. Mr. Wolfe, I thought we established earlier that the PUCO had a right to decide this issue. AEP presented this issue, and it was your understanding under the FERC rules that that could be

decided in this case.

MR. PETRICOFF: Objection, your Honor. I think he's misstating the premise as to what the prior testimony has been.

EXAMINER SEE: I think he has.

MR. PETRICOFF: I would also like to add

it's a compound question.

MR. NOURSE: I'm sorry, your Honor, I couldn't hear you.

EXAMINER SEE: I think you've misstated the testimony presented by Mr. Wolfe.

MR. NOURSE: Well, we have to go through that again then because I thought it was clear.

EXAMINER SEE: Okay, rephrase your question, Mr. Nourse.

Q. (By Mr. Nourse) Mr. Wolfe, are you familiar with the FERC rule that came out in October?

A. Somewhat.

Q. And as we talked about before, do you agree that state commissions, such as the PUCO, have the right to decide whether retail customers in their jurisdiction are able to participate in demand response programs?

A. I agree.

Q. So the FERC has clearly recognized that

20 the PUCO can decide the issue that's presented by

21 AEP-Ohio in this case; is that correct?

22 A. That's correct.

23 Q. And so if the PUCO decides that issue in

24 this case, would that not resolve the question of

25 whether retail customers of AEP-Ohio can participate

in PJM demand response programs?

A. Once again, in my mind there would have to be a legal decision made because my understanding of the FERC order is it has to be a statewide order of some sort, and if it were approved for AEP only, I can't answer whether that would constitute a statewide approval as defined by FERC.

Q. The statewide approval concept, where did you get that? Out of FERC's order?

A. Yes.

Q. And if I were to show you the order that that section -- that section of the order, would you be able to show me -- point me to that concept?

MR. PETRICOFF: Your Honor, I'd like to object at this point. The witness is not offered here as a legal expert, and so showing him a FERC order and having him interpret it is, in essence, asking him to render a legal opinion.

Now, he can say what he believes the FERC

has done, and he has done that, but I don't think it's proper to grill him on the meaning of the language in a FERC order.

MR. NOURSE: Your Honor, he's raised this concept of a statewide order on his own.

THE WITNESS: I've stated --

EXAMINER SEE: I'm sorry, excuse me.

MR. NOURSE: He stated that was his understanding of the FERC order, so my attempt to explore that is he appears to be saying now that a Commission decision in this case will not resolve the issue as to whether customers can participate, and that was the whole premise of the line of questioning that was established twice now.

EXAMINER SEE: Just a second.

Mr. Randazzo.

MR. RANDAZZO: Yes, your Honor. The order will either show that the witness's understanding is wrong or right. Counsel for the companies invited the answer, got the answer, is stuck with the answer. But if it's wrong, it's wrong. If it's right, it's right.

And in the interest of trying to move these proceedings along, I would suggest that we do that and move on to another line of questioning.

20 MR. NOURSE: Well, your Honor, you know,

21 I recognize some people don't want to talk about

22 this, but he's the one who raised it, and it's tied

23 in with his recommendation about the interim plan as

24 to whether or not the Commission will even resolve

25 this issue and merit a decision in this case.

THE WITNESS: May I respond to that?

EXAMINER SEE: No.

MR. PETRICOFF: I might note, your Honor, it is not an objection that -- the witness is enjoying the process too much. At this point whether "statewide" means just AEP or AEP and other electric distribution companies in Ohio is a matter for brief. We'll be glad to address it on brief, and so could the company.

MR. NOURSE: Your Honor, I'll offer to rephrase my question. I think we can get around this.

EXAMINER SEE: Okay, go ahead.

Q. (By Mr. Nourse) Mr. Wolfe, let's assume for purposes of my following question that the Commission's order in this case resolving AEP-Ohio's position in this case constitutes a ruling by the state commission that satisfies the FERC criteria, whatever they may be. Can you assume that with me?

20 A. Yes.

21 Q. Okay. So if such a decision by the PUCO

22 comes out in mid-February, isn't it the case that

23 Integrys and any other curtailment service provider

24 in Ohio wishing to provide services, any other retail

25 customer wishing to participate in PJM demand

1 response programs will be fully capable of pursuing
2 registration, getting back any mistakes they have in
3 the registration and getting that resolved by March
4 2nd?
5 A. Are you asking can the commitments be
6 withdrawn?
7 Q. No. I'm asking you if they could pursue
8 registration after a mid-February decision that
9 satisfies the FERC criteria as I said to assume.
10 A. If there were a mid-February decision, I
11 would assume they would not be able to pursue it
12 after that time. My concern is for the people who
13 have committed prior to that.
14 Q. Well, let's clarify that as part of the
15 example. In an interim plan, if there is no safe
16 harbor, I'll call it, as you're recommending, to say
17 go ahead and register while it's pending, those that
18 wait, recognizing uncertainty that exists or
19 recognizing that uncertainty if they wait until they

20 hear a Commission decision here in this case

21 mid-February, couldn't they still register by March

22 2nd?

23 A. They could. It would be a compressed

24 time frame.

25 Q. Okay.

MR. NOURSE: Thank you, your Honor. That's all I have on the rebuttal testimony.

EXAMINER SEE: Okay.

MR. PETRICOFF: Your Honor, could we have a moment?

EXAMINER SEE: Okay.

MR. PETRICOFF: Your Honor, we have no redirect. Thank you.

EXAMINER SEE: Okay. Unfortunately you have to stay there, Mr. Wolfe, and let's move to his direct.

MR. PETRICOFF: Thank you, your Honor.

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SAMUEL R. WOLFE

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

DIRECT EXAMINATION

By Mr. Petricoff:

Q. Mr. Wolfe, do you have with you what has

20 been marked as Integrys Exhibit No. 2?

21 A. Would that be the direct testimony?

22 Q. That would be your direct prepared

23 testimony.

24 A. Yes, I do.

25 Q. And was this prepared under your

direction?

A. Yes.

Q. And are there any changes that you would like to make to that testimony at this time?

A. Yes.

Q. Could you review the changes you'd like to make?

A. Those are provided in the errata sheet.

On page 9, line 8, insert "per MW," megawatt, after "$100."

Page 9, line 9, after the word "$100" add "per MW."

Page 15, line 18, eliminate the word "Emergency."

Page 15, line 18, change "ILP" to "ILR."

Page 18, line 6, add "AEP" after "Ohio."

Q. With those corrections, if I were to ask you the questions that appear in Integrys Exhibit No. 2 today, would your answers be the same?

A. Yes.

MR. PETRICOFF: Your Honor, the witness is available for cross-examination on his direct prepared testimony.

EXAMINER SEE: Mr. Yurick?

MR. YURICK: No questions, thank you,

your Honor.

EXAMINER SEE: Mr. Bell.

MR. BELL: No questions, your Honor.

EXAMINER SEE: Mr. Boehm.

MR. BOEHM: No questions, your Honor.

EXAMINER SEE: Mr. Rinebolt.

MR. RINEBOLT: No questions, your Honor.

EXAMINER SEE: Ms. Wung.

MS. WUNG: No questions, your Honor.

EXAMINER SEE: Mr. Randazzo.

MR. RANDAZZO: No questions.

EXAMINER SEE: Ms. Roberts?

MS. ROBERTS: No questions.

EXAMINER SEE: Mr. Margard.

MR. MARGARD: No questions, your Honor.

EXAMINER SEE: Mr. Smalz?

MR. SMALZ: No questions, your Honor.

EXAMINER SEE: Mr. Nourse?

MR. NOURSE: Good morning again,

Mr. Wolfe.

THE WITNESS: Good morning, good to see you again.

- - -

CROSS-EXAMINATION

By Mr. Nourse:

Q. Now we're talking about your direct testimony so I want to get a little bit more background about Integrys and your understanding of the curtailment service provider role in the PJM demand response program.

Can you tell me what's your -- as a curtailment service provider, what's your role in those programs, and please include a description of your fee, how you make your money in doing that, if you could.

A. As a curtailment service provider, Integrys provides PJM membership. They provide advice and registration capability for the end-user. They provide the ability to notify customers upon a PJM emergency. They provide settlement calculations on behalf of the customer. We receive payments, and then we are compensated through taking generally a percentage of those payments that are made from PJM

to the curtailment service provider.

Q. Okay. And what percentage is that?

MR. PETRICOFF: Your Honor, I object.

Two grounds: One, it's irrelevant what Integrys or

any other service provider is charging for this

essentially wholesale fee, and second, it's

proprietary information.

EXAMINER SEE: Your objection is sustained.

MR. NOURSE: Well, your Honor, the proprietary part I would like to try to work with, but I certainly think in comparing the programs that are being offered here in comparison to existing retail programs that AEP-Ohio has, we're entitled to explore how these programs work in general.

Q. So can I ask you -- you're saying that there is a percentage. Without getting into what it is, there's a percentage that you take as a curtailment service provider of the revenue that the retail customer would receive in the program.

A. That's correct.

Q. Okay. And that is in exchange for the things you mentioned in your response as far as the services that you described in the CSP role and interface.

20 A. That's correct.

21 Q. And you're basically, then, interfacing

22 the retail customers into the wholesale power market;

23 is that correct?

24 A. That is correct.

25 Q. Okay. And as an interface or a broker,

1 would that be another fair term to use?

2 A. There's a lot of definitions of broker.

3 Q. Okay. But the ultimate purpose of the

4 transaction is to facilitate a retail or a sale into

5 the wholesale power market, correct?

6 A. I would not characterize it as a resale

7 or sale.

8 Q. You don't think it's a sale or a resale?

9 A. I think it's payments being made by PJM

10 to make end-users available for reducing load during

11 time of an emergency.

12 Q. Is it your understanding of the FERC

13 decisions in this set of programs that they would

14 consider that a sale or resale?

15 A. I don't have a legal opinion on that.

16 Q. I'm not asking you a legal question. I'm

17 asking you whether -- if you're familiar with the

18 FERC decisions and your understanding of how the

19 program works, if that's a resale of power.

20 MR. PETRICOFF: Your Honor, I object.

21 That is asking for a legal opinion: Are you familiar

22 with FERC orders and what they mean as to a precise

23 definition.

24 MR. NOURSE: Well, your Honor, this is a

25 regulatory proceeding. I'm talking about regulatory

orders. We're comparing the FERC program examining the aspects that he's here as an expert to testify about.

MR. PETRICOFF: That's right, your Honor, and he has just testified that he doesn't consider them a sale, so the question is does FERC consider them a sale. That's a legal question.

EXAMINER BOJKO: Objection is sustained. I think he already gave you his opinion and we don't need an interpretation. The witness said his opinion is that it wasn't a resale.

MR. NOURSE: I understand. I was asking him about FERC's orders that he's here as an expert to testify about the programs.

EXAMINER BOJKO: And he said his understanding was it wasn't a resale. The objection is sustained.

Move on.

Q. (By Mr. Nourse) Mr. Wolfe, in your

20 testimony on page 3, line 22, you talk about the

21 programs being financially lucrative for end-users.

22 Do you see that?

23 EXAMINER BOJKO: I'm sorry, I didn't hear

24 which page you said.

25 MR. NOURSE: Page 3, line 22.

EXAMINER BOJKO: Thank you.

Q. Do you see that?

A. Yes.

Q. What do you mean by "financially lucrative"?

A. That in return for reducing load during an emergency situation, there are attractive payments to end-users from PJM.

Q. As in a profit opportunity for these transactions in the wholesale market?

A. A revenue stream, yes, in return for the service offered to reduce load.

Q. Well, we're not talking about your percentage fee. I'm talking about -- aren't you talking about end-users here?

A. Yes.

Q. So it's the opportunity for profit from end-users, retail customers, is that what you're referring to?

MR. RANDAZZO: I object.

EXAMINER BOJKO: Grounds?

MR. RANDAZZO: What do you mean by profit?

MR. BELL: I join in the objection. It's revenue, not profit.

MR. NOURSE: Well, if the witness doesn't understand a term, he can state that, your Honor.

EXAMINER BOJKO: Right.

THE WITNESS: I would clarify it as revenue stream.

Q. (By Mr. Nourse) Okay. And by revenue are you saying there are costs that offset the entirety of the revenue or is there a profit component?

A. Sometimes end-users will incur costs for possibly metering equipment.

Q. Okay. What would a typical cost be for the metering investment?

A. It could be anywhere from a few hundred dollars to possibly $10,000.

Q. So in your experience are you suggesting that that cost added to your fee would offset the entire revenue stream and leave no profit for the end-user?

A. I'm not suggesting that.

20 Q. In fact, the opposite occurs, doesn't it?

21 MR. RANDAZZO: I object. It's

22 irrelevant. It is completely irrelevant as to

23 whether or not a customer makes a revenue gain as a

24 result of these programs. The question is whether or

25 not they ought to be prohibited. It has nothing to

do with it.

MR. NOURSE: Well, your Honor, he's raised this in his testimony saying they're financially lucrative, and we can get into more of the policies and how this relates to the retail programs as we go through cross-examination, but this is something that's stated. I'm clarifying what he meant, what he said.

MR. BELL: Your Honor, I join Mr. Randazzo. I think intervenors' counsel magnanimously attempted to accommodate Mr. Resnik's request by not having any cross-examination of this witness. Now Mr. Resnik's own co-counsel is unduly prolonging this record with irrelevant examination.

EXAMINER BOJKO: Okay. Because the witness used the terms in his testimony, you may explore it, but we're not going to go too much further with this, Mr. Nourse.

MR. NOURSE: Well, that was my question.

MR. PETRICOFF: Could we have the question read back, your Honor?

THE WITNESS: Yes, could you please reread the question.

EXAMINER BOJKO: And in the future I appreciate if counsel keeps making arguments to the

Bench, please, and not each other.

And, witness, please wait before you respond.

(Record read.)

THE WITNESS: I answered that question.

MR. PETRICOFF: Could you read it again?

(Record read.)

EXAMINER BOJKO: You may answer, Mr. Wolfe.

A. I'm not suggesting that the costs associated to the end-user would exceed the revenue stream they receive, for clarification.

Q. Thank you.

Moving on to page 4 of your testimony, at line 10 you talk about being competitively disadvantaged. Do you see that?

A. Yes.

Q. And could you explain what you meant by that?

20 A. If they were denied participation in Ohio

21 and they had competitors in other states that allowed

22 participation, they would not have access to revenue

23 streams that their competitors might.

24 Q. And would you say that's a competitive

25 disadvantage -- you're talking about, first of all,

the retail, the end-users, if they're a steel plant or something like that?

A. Correct.

Q. Okay. And would you -- let me ask you this. Under the FERC decisions and your understanding of them and your experience in dealing with these programs, is it fair to say that different retail markets and retail regulation in different states are entitled to different results or outcomes with respect to these programs?

MR. PETRICOFF: Your Honor, could I have the question read back because, quite frankly, I had trouble following it.

MR. RANDAZZO: Well, I object, it's irrelevant.

MR. BELL: I join.

EXAMINER BOJKO: Without reading the question back just quite yet, Mr. Nourse, I think you're getting far afield of the testimony. I'm not

20 sure that your questions are relevant to his

21 testimony.

22 MR. NOURSE: Your Honor, you know, when

23 we said we wanted to move the proceeding along, that

24 doesn't mean we are not entitled to do

25 cross-examination.

EXAMINER BOJKO: And I understand that I have not given any credence to those types of arguments. I've heard them just like the rest of you, and I have not stated anything to that effect so don't imply that I am, please.

MR. NOURSE: No.

EXAMINER BOJKO: What I'm stating is I think there's a comparison between a prohibition of AEP doing it and an allowance of AEP doing it, and I think you're taking that a step further, so I think you need to rephrase your question.

MR. NOURSE: Okay.

Q. (By Mr. Nourse) Well, first of all, Mr. Wolfe, whenever I'm talking about these differences, I've been talking about the whole time that the PUCO would have the right to decide this issue, not AEP. The PUCO would decide this issue, and I think you've stated, consistent with your understanding of the FERC regime and the FERC --

these programs are done under FERC's authority to begin with, correct?

MR. PETRICOFF: Your Honor, I'm going to object. This is asked and answered.

EXAMINER BOJKO: Well, I'm not sure which question he's asking.

MR. NOURSE: I'm going back to the foundation.

EXAMINER BOJKO: You're asking compound questions, and I'm not sure what you're asking him to affirm anyway, so could you please rephrase? What would you -- you switched midstream. I thought you were affirming previous testimony, and then you just asked a question that I don't think he answered -- I don't think he answered, but I'm not sure what you're asking him to affirm.

MR. NOURSE: Okay. I was going back to lay the foundation, your Honor, to your point about prohibitions, and this is not -- none of my questions relate to does AEP have the unilateral authority to do anything or prohibit any customer from participating. All my questions go to is the PUCO deciding this matter in this case pursuant to the FERC regime which says PUCO can decide the matter.

EXAMINER BOJKO: Okay.

MR. NOURSE: So that's a clarification for all my questions.

EXAMINER BOJKO: Just ask your question, please. Don't testify. Just ask your question. What is your question? What did you want him to affirm in the last compound question?

MR. NOURSE: Your Honor, I'm going to move on to something else, okay?

EXAMINER BOJKO: Thank you.

Q. (By Mr. Nourse) Mr. Wolfe, on page 7 of your testimony you're talking about, starting in line 16, the ILR program and the penality associated with that. Do you see that?

A. I see that.

Q. Okay. So this penalty example you're talking about with 20 percent of annual capacity payment received by the participant for each event of noncompliance; do you see that?

A. Yes.

Q. Okay. So this customer in this example has received the capacity payment for participation in the ILR program through the RPM auction. Is that correct, they've already received that payment?

A. They receive payments on a monthly basis.

Q. Okay.

20 A. And so depending on when the

21 noncompliance would occur, they may or may not have

22 received payment.

23 Q. So let me ask you then to clarify that.

24 On page 9 you've got this chart for preliminary zonal

25 capacity price, dollar per megawatt year. Do you see

that?

A. Yes.

Q. And you've got a value of 40,000 plus in 2008-'09 planning year?

A. That's correct.

Q. So how would that customer under that example of 1 megawatt receive that $40,000?

A. There is a delay in the PJM payments to the curtailment service provider because of settlement issues, so the first monthly payment, roughly 1/12 of that would go to the curtailment service provider and in approximately the September time frame, and the payments would be distributed in 12 consecutive months.

Q. Throughout the course of the planning year and maybe a few months after?

A. Correct.

Q. Okay. So back to page 17 -- excuse me, page 7, line 17, the 20 percent penality you're

20 referring to there, so that would be taken off or

21 netted against the payments that the customer would

22 otherwise receive.

23 A. That's correct.

24 Q. So regardless of the timing of that and

25 the payment stream that we talked about, the $40,000,

1 20 percent of that $40,000 would be netted back or
2 not given to the customer based on the noncompliance
3 for an event.
4 A. For each noncompliance event.
5 Q. Correct. So the customer with this
6 20 percent penalty would have to ignore or not
7 respond to five events before they would even be back
8 to -- through the $40,000 payment.
9 A. That's correct.
10 Q. So they would have to really ignore or
11 not respond to the event six times before they would
12 really be out or before there would really be a
13 penalty; isn't that true?
14 A. The way the program is structured, the
15 penalty is capped at a hundred percent of the
16 revenues that are received.
17 Q. So it's really not punitive in the sense
18 that customers don't have anything to lose even if
19 they ignore the directives or the requests for

20 curtailment.

21 A. Potentially, depending on the contract

22 structure, they could be out the CSP fee. Contracts

23 are structured differently.

24 Q. Okay. But in terms of Integrys, you

25 testified it's a percentage, so a percentage of

nothing would be nothing, right?

A. Depending on how the contract's structured.

Q. Okay. Now, you've also indicated that there's an average of three events per planning year; is that correct?

A. I believe I -- where are you referring to?

Q. Page 6, line 22.

A. I said historically there have not been more than three interruptions in any one planning year.

Q. Yes. So under that example we were just on, page 7, even if there were that three historical indicator of interruptions and all three were ignored, then how much would the customer make under that 1 megawatt example that you provided?

A. Excluding the CSP fee, the payments, if there were three missed opportunities, complete

20 noncompliance, the customer would only receive

21 40 percent of the payments.

22 Q. So it would receive 40 percent for --

23 A. The payments from PJM would be 40 percent

24 of the annual.

25 Q. They would receive 40 percent for signing

up, ignoring all the curtailment requests, they'd still receive 40 percent of $40,000.

A. That's correct.

Q. And can you tell me in your Attachment A where you indicate these -- this was really the full history of PJM load management events; isn't it?

A. Yes.

Q. And how many events occurred in Ohio?

A. I'm not certain of when AEP joined PJM. I believe it is in the 2004-2005 time frame. But since 2005 there have been no emergency calls in the RTO region of PJM, which includes AEP-Ohio companies.

Q. You say since 2005. In the entire history of these programs --

A. I believe the events prior to 2005, which were all in 2002, were systemwide; however, I believe at that time AEP was not a part of PJM.

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

MR. PETRICOFF: Could we have a minute or two, your Honor?

EXAMINER BOJKO: Yes.

MR. PETRICOFF: Your Honor, we do have a couple of redirect questions.

EXAMINER BOJKO: One moment.

Okay, please begin.

MR. PETRICOFF: Thank you, your Honor.

- - -

REDIRECT EXAMINATION

By Mr. Petricoff:

Q. Mr. Wolfe, there was a line of questions that you were asked by Mr. Nourse concerning costs associated, this would be the cost to a retail customer, associated with curtailment, if they had to curtail.

Could you articulate for us the kinds of costs that a customer participating in the ILR program would experience if they had to curtail?

A. Well, obviously there would be lost production costs.

Q. What do you mean by "lost production costs"?

A. If they had to curtail, they could not produce product, so there's a cost associated with

that. There may be metering costs, could be as little as signing up for a program with the utility and having access to their hourly data. There could be meter upgrades at the utility level, and there could be metering equipment that needs to be attached to the utility metering.

MR. PETRICOFF: Thank you, Mr. Wolfe.

No further questions, your Honor.

EXAMINER BOJKO: Any recross?

MR. NOURSE: Just on that point, your Honor.

- - -

RECROSS-EXAMINATION

By Mr. Nourse:

Q. So, Mr. Wolfe, when customers sign up for the programs and when they make individual decisions as to whether to get the payments that would be coming through the program, you're saying they considered the costs of -- their own cost of interruption of power supply.

A. I'm certain they do.

Q. Okay.

MR. NOURSE: Thank you.

- - -

EXAMINATION

By Examiner Bojko:

Q. Mr. Wolfe, just to clarify for me, when you are listing items in response to the question on page 3, that is a comparison you're saying of programs established by PJM versus not being allowed to participate in the PJM programs and just being

allowed to participate in the AEP programs if they exist.

A. On page 3?

Q. Yeah, when you're saying they're more lucrative, you're talking about PJM versus zero programs or PJM versus an AEP program.

A. More lucrative in general than the AEP programs.

Q. Okay. And the same is true for the rest of the bullet points where you say "will likely be greater," terms of that nature, you're talking about a comparison; is that right?

A. Which page, please?

Q. Page 4, the next bullet point.

A. Which bullet point?

Q. Top of page 4, line 1.

A. As a combination of the financial benefits and the provisions of the programs, the combination of those have already shown to spur more

20 participation than the AEP programs by themselves.

21 Q. The PJM programs over the AEP programs.

22 A. Yes.

23 Q. Okay.

24 A. There's more participants in the PJM

25 programs.

EXAMINER BOJKO: Thank you for that clarification. You may step down, Mr. Wolfe.

THE WITNESS: Thank you.

MR. PETRICOFF: Yes, your Honor, at this time we move for admission into the record Integrys Exhibits 1 and 2.

EXAMINER BOJKO: Any objections to the admission of Integrys Exhibits 1 and 2?

Hearing none, they will be admitted.

(EXHIBITS ADMITTED INTO EVIDENCE.)

EXAMINER BOJKO: Let's just take a five-minute recess before we get Mr. Hamrock on the stand.

(Recess taken.)

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

Mr. Resnik, would you like to call your -- I'm sorry. Mr. Nourse, would you like to call your, I guess your first witness.

MR. NOURSE: Our first witness.

EXAMINER BOJKO: In your case-in-chief.

MR. NOURSE: We call Joseph Hamrock to the stand, your Honor.

EXAMINER BOJKO: Mr. Hamrock, would you please raise your right hand?

(Witness sworn.)

EXAMINER BOJKO: Please be seated.

MR. NOURSE: Your Honor, I'd like to mark Mr. Hamrock's prefiled direct testimony as Company's Exhibit 3.

EXAMINER BOJKO: It will be so marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

- - -

JOSEPH HAMROCK

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

DIRECT EXAMINATION

By Mr. Nourse:

Q. Good morning, Mr. Hamrock.

A. Good morning, Mr. Nourse.

Q. Can you indicate your full name and indicate by whom you're employed and in what capacity?

A. Joseph Hamrock, president and chief

20 operating officer of AEP-Ohio, 850 Tech Center Drive,

21 Gahanna, Ohio 43230.

22 Q. And do you have the document marked

23 Companies' Exhibit No. 3 in front of you?

24 A. I do.

25 Q. Is that your direct testimony that was

prefiled in this case?

A. It is.

Q. Was it prepared by you or under your direction?

A. Yes.

Q. Do you have any corrections, additions, or changes you'd like to make to your testimony this morning?

A. No.

Q. If I were to ask you all the questions this morning under oath, would your answers be the same?

A. Yes.

MR. NOURSE: Thank you, your Honor. Companies move for admission of Exhibit No. 3 subject to cross-examination.

EXAMINER BOJKO: Subject to cross-examination. We will take it up at the end.

Mr. Randazzo, I believe you wanted to

begin first.

MR. RANDAZZO: Yes, your Honor. Thank you.

- - -

CROSS-EXAMINATION

By Mr. Randazzo:

Q. Mr. Hamrock, welcome.

A. Thank you.

Q. You've been sitting in, patiently sitting in the proceedings, have you not?

A. I have. I'm glad to be in a comfortable chair.

Q. Well, I'll try to make it even more comfortable for you.

On page 4 of your testimony, which is Companies' Exhibit No. 3, you identify that you're the overall policy witness in this case; is that correct?

A. That's correct.

Q. And part of your responsibility for this proceeding was to address AEP-Ohio's vision for the future. Is that correct as well?

A. That is correct.

Q. And is that vision one that has a term of

20 three years?

21 A. No, not at all.

22 Q. Okay. And can you tell me, then, why it

23 is that AEP's Ohio companies have proposed in this

24 proceeding a term of three years for the ESP?

25 A. We proposed a term of three years to

implement the first phase of a number of aspects of that vision, including the first phase of our gridSMART initiative, some of our electric service reliability plans, the energy efficiency and demand response programs, many other aspects of our plan that will be beneficial to customers in the first phase of a longer term vision.

Q. Okay. And where is it that we would see in either testimony or exhibits the next phase of AEP's vision for the future?

A. In this proposal in these testimonies we reflect only the three-year plan.

Q. Now, there are aspects of the company's ESP proposal that involve prices beyond the three-year term of the plan itself, correct? For example, there is an amortization of some deferrals that would occur beyond the three-year term of the ESP plan, right?

A. That is correct.

20 Q. Now, part of what you also include in

21 your testimony is the corporate sustainability

22 report, which is actually an attachment to your

23 testimony, Exhibit JH-1 I believe; is that correct?

24 A. Correct.

25 Q. Now, it's the 2008 Corporate

1 Sustainability Report. It's actually the 2007
2 report; is that correct?
3 A. It's labeled the 2008 Corporate
4 Sustainability Report.
5 Q. If you would turn to page 5 of that
6 report, 5 of 68 I believe it is, in the first full
7 paragraph in the right-hand column the report itself
8 really deals with 2007, doesn't it?
9 A. You're referring to the paragraph that
10 begins with question "We envision"?
11 Q. No, "We have renamed this report."
12 A. I'm sorry. I'm looking at page 5 of --
13 Q. Excuse me. I had the wrong reference.
14 There's a typed 5 in the upper right-hand corner of
15 the report. It's actually page 7 of 68.
16 MR. BELL: Thank you.
17 MR. RANDAZZO: Sorry, my mistake.
18 Q. On the page where Mr. Welch's signature
19 is in the lower right-hand corner.

20 A. Yes, I see that.

21 Q. Okay. Now --

22 MR. BELL: I'm sorry, did the witness

23 respond to the question? I think all he said was "I

24 see that." He didn't respond to the question of

25 Mr. Randazzo as to whether this is really the 2007.

A. I see a sentence that says: "Also, several stakeholders suggested we identify it as the 2008 report, rather than the 2007 report" --

Q. Right.

A. -- "because we look forward as much as we review past performance."

Q. Right.

A. I believe that's the sentence.

Q. In any event, the report itself was published in April of 2008, correct?

A. That's my understanding, yes.

Q. And in this report, if you will turn to page 5 of 68, this is the introduction to the report that's authored by Mr. Morris, the chairman, president, and chief executive officer, correct?

A. Correct.

Q. And in the first full paragraph on the top of that page, right column, is Mr. Morris there discussing your understanding of the future vision of

20 AEP?

21 A. In the paragraph referring to advanced

22 coal technologies?

23 Q. No. First full paragraph right column

24 that starts: "We envision an enhanced electric

25 distribution system giving our customers far more

control and choice over their electricity."

A. Yes.

Q. Now, Mr. Hamrock, you heard this morning some cross-examination related to a provision in AEP's ESP that prohibits customers from participating in PJM's demand response program. Can you reconcile that aspect of the ESP with this long-term vision that AEP is articulating?

MR. NOURSE: Objection. I think that assumes that this statement he quoted in the report is referring to Ohio.

EXAMINER BOJKO: The witness can answer if he knows.

MR. RANDAZZO: Well, I'll withdraw the question.

EXAMINER BOJKO: Okay.

Q. Mr. Hamrock, was the long-term vision or vision for the future that are articulated at page 4 of your testimony a vision that has anything to do

with Ohio?

A. Yes. Absolutely.

Q. Okay. And is the sustainability report that you attached to your testimony something that's directed at AEP's operations outside Ohio, or does it include Ohio?

A. It's for all of AEP.

Q. Okay. Now we have that cleared up.

If we could turn to page 5 of 68 in the report and the paragraph that we were talking about that begins "We envision," and can you tell me why it is that AEP has imposed as part of its ESP in this proceeding a prohibition on customers participating in PJM's demand response programs?

A. Witness Baker refers to that in his testimony, I believe, and that is associated with what we have I think referred to as a philosophical point of view regarding customers' opportunities to buy at tariff and participate in a program that recognizes wholesale value of electricity.

Q. Okay. Let's go down to the next paragraph that begins "This distribution system." And there the sustainability report is talking about the gridSMART initiative; am I correct there?

A. That's correct.

20 Q. How long has this initiative been in

21 place?

22 A. The gridSMART initiative within AEP

23 started, my recollection, is in mid-2006.

24 Q. And so the gridSMART initiative actually

25 was something that was developed within AEP before

1 Senate Bill 221 was even thought of, correct?

2 A. The beginning of that, yes. And it has

3 evolved over time.

4 Q. At page 33 of 68 of the report in the box

5 in the lower right-hand corner that is dotted -- it's

6 got a dotted line around it -- am I correct that that

7 box is providing some general information regarding

8 AEP's energy efficiency and DSM policy? Do you see

9 that?

10 A. That is correct.

11 Q. And again, the discussion here is not

12 just a discussion that's applicable to areas outside

13 Ohio. It would include your perspective on what

14 needs to happen in Ohio as well; is that correct?

15 A. It would.

16 Q. And in the second bullet point within

17 that box it states: "Cost-effective energy

18 efficiency and DSM are important components of our

19 Integrated Resource Plan." Do you see that there?

20 A. Yeah. It's the second of three bullets.

21 Q. Exactly. And Integrated Resource Plan,

22 the first letter in each of those three words is

23 capitalized. Do you see that?

24 A. I do.

25 Q. Have you supplied your Integrated

Resource Plan as part of your ESP proposal?

A. No, we have not.

Q. On the next page, page 34 of 68, the last sentence, full sentence on that page on the right-hand side there which begins with "AEP has self," do you see that, sir?

A. I do.

Q. And can you -- and that sentence is referring to a self-imposed goal that AEP has established to reduce demand by a thousand megawatts by 2012, correct?

A. Yes.

Q. And when was that goal established?

A. My recollection, that goal was established mid-2006, maybe late-2006.

Q. Approximately, as I understand that goal, and it's discussed further on the next page, page 35 of 68, approximately 85 percent of that objective is something that AEP has targeted as being supplied

20 from customer programs; is that correct?

21 A. That's correct. In taking it in total

22 with the policy that you culled out on page 33 of 68,

23 some of the principles to support that also include

24 regulatory recovery of investments and threshold --

25 as a threshold to the implementation of DSM programs,

so it's that whole set of principles that we're espousing in this report.

Q. Right. And again, the objective, whether we're talking about the smart grid or demand response or energy efficiency, as you understand the requirements in Ohio, those objectives need to be served irrespective of whether you have an ESP or some other regulatory structure; is that correct?

A. The targets for energy efficiency?

Q. Right.

A. In DSM? That is my understanding.

Q. Right. And in the vision that you reference in your testimony and as further described in JH-1, that vision was not one that was dependent upon an ESP or an MRO or some other regulatory construct, was it?

A. This vision that we're talking about here preceded even the passage of Senate Bill 221.

Q. Okay. Now, on page 51 of 68 there's a

graphic on the top of that page. My understanding of the picture is it's designed to represent the configuration of your gridSMART initiative.

MR. BELL: I'm sorry, what page was that?

MR. RANDAZZO: Page 51 of 68.

MR. BELL: Thank you.

Q. Is my understanding correct?

A. It is a portrayal of some of the aspects of the gridSMART vision.

Q. Okay. And in the picture, at least, we see the generation function. We see the transmission function. We see the distribution function, and we see customers, various types of customers, multifamily housing, commercial, and industrial, utility, offices.

Am I correct that in order to appreciate the virtues of gridSMART we need to -- we would need to have an understanding of how all of those different functions, generation, transmission, distribution, and load, in this example, are integrated?

A. In the broadest view of gridSMART I would agree with that, yes.

Q. Okay. And in your ESP proposal have you discussed how gridSMART is going to be integrated,

20 for example, with what is going on in the generation

21 function?

22 A. I believe Karen Sloneker's -- Witness

23 Sloneker's testimony references that.

24 Q. Okay. So we would talk to her then. I

25 don't know I, believe she's scheduled to testify

1 next, so this is a hint, talk to her about that
2 subject.
3 A. Well, no, I didn't mean to just
4 absolutely pass that off. I think -- can you
5 rephrase the question for me?
6 Q. That's fine. I'll withdraw the comment
7 and we'll move on.
8 Now, if I could go back to your testimony
9 at page 9, at the top of that page you have -- you're
10 discussing there what the company is -- companies
11 have proposed in the way of distribution
12 infrastructure and modernization incentives. Am I
13 correct about that?
14 A. That's correct.
15 Q. And are you aware of -- and you refer to
16 Senate Bill 221 there as providing for an opportunity
17 to bring that kind of initiative forward; is that
18 correct?
19 A. That's correct.

20 Q. And if you know, are there any conditions

21 that are imposed on how that initiative needs to be

22 brought forward in terms of things that need to be

23 done either by the utility or the Commission as part

24 of considering that initiative?

25 A. I'm not sure I understand what you mean

1 by "the conditions."

2 Q. Well, for example, is there any

3 obligation as far as you know that the Commission

4 examine reliability of the electric distribution

5 utility's distribution system and ensure that

6 customers and the electric distribution utility's

7 expectations are aligned?

8 A. I do recall language about aligning

9 customers' expectations with the companies' programs,

10 yes.

11 Q. And part of the responsibility in this

12 context, if you know, on the part of the Commission

13 would also be to ensure that there is sufficient

14 emphasis on dedicating adequate resources to

15 reliability; is that correct?

16 A. I don't have that in front of me, but

17 that sounds correct.

18 Q. In the application that was submitted

19 containing the company's proposed ESP, was there any

20 provision dealing with an earnings test?

21 A. If you'll give me a moment to look at the

22 application.

23 Q. Sure.

24 A. I don't see a specific reference to that

25 in the application, though a number of witnesses

specifically deal with the significantly exessive earnings test in their testimony.

Q. Thank you.

MR. RANDAZZO: That's all I have.

Thank you, Mr. Hamrock.

EXAMINER BOJKO: Mr. Rinebolt, while you're computer's still working.

MR. RINEBOLT: Thank you, your Honor.

- - -

CROSS-EXAMINATION

By Mr. Rinebolt:

Q. Good morning, Mr. Hamrock. How are you?

A. Good morning, Mr. Rinebolt.

Q. Let's turn to page 6 of your testimony if you would, please. And between lines 1 and lines 11 you discuss increases in the price of inputs to electricity production and delivery. Let's look particularly at the coal prices which you indicate have increased by 151 percent in nine months. Is

20 that increase in spot prices?

21 A. That's market prices provided by our fuel

22 supply group, data provided by them, and my

23 understanding is that it is spot market prices.

24 Q. All right. Now, does AEP buy all of its

25 coal on the spot market?

A. No. No. We structure deals with counterparties to the best of our ability in the market.

Q. Right. So you buy under long-term contracts and a variety of other mechanisms.

A. Correct.

Q. Does AEP own coal mines?

A. Not in the eastern footprint.

Q. Now, what is the actual increase in AEP's price of coal in the past nine months?

A. Witness Nelson lays out our fuel cost, FAC cost buildup. I don't have a specific number to report relative to the nine-month increase in our coal premium cost.

Q. I'll wait for the next witness. Thank you.

But you do talk about natural gas prices here and the increase. I know that natural gas prices have fallen significantly since August, in the

20 40 percent range. Would that change the percentage

21 that's in your testimony here?

22 A. These percentages on this page?

23 Q. Yes.

24 A. Sure. If we updated this today, we'd see

25 different numbers, I'm sure.

Q. All right. Let's move to the next bullet point where you talk about modernizing systems. In general do your existing mechanical meters work?

A. Mechanical meters?

Q. The existing meters that are on my house, do those meters work --

A. Sure.

Q. -- pretty well?

A. They serve the purpose they've always served.

Q. Okay. And so you're not having any problem collecting revenues because of dysfunctional meters or a dysfunctional distribution system.

A. Not to my knowledge, no.

Q. All right. Speaking of reliability, is AEP -- are Columbus Southern Power and Ohio Power currently meeting regulatory reliability requirements?

A. Are you referring to ESSS rules with that

20 question?

21 Q. Yes.

22 A. My understanding is we're meeting some

23 and not meeting others.

24 Q. And farther down you talk about a variety

25 of environmental issues. This is lines 24 through

1 27. I'm curious, did AEP support the CAIR, the
2 interstate transport rules, or the CAMR rules,
3 mercury rules? Have you supported those rules?
4 A. That's a broad question. Do you mean in
5 concept or specific?
6 Q. Were you a party in the lawsuit that
7 resulted in overturning those rules?
8 A. I don't know, to be honest.
9 Q. Okay. Now, you indicate that
10 customers -- you want to offer more opportunities for
11 customers to actively shape their energy consumption
12 patterns. Do you have any studies to indicate that
13 customers want to shape their energy consumption
14 patterns?
15 A. As in market potential studies, those
16 types of --
17 Q. Attitudinal studies. Have your
18 residential customers indicated that they want to
19 shape their energy consumption patterns?

20 A. I can't point to a specific study that

21 talks in terms of customers' attitudes about shaping,

22 although we do recognize customer interest in energy

23 efficiency growing, customers' interest in ability to

24 actively participate in purchasing decisions and

25 managing their energy consumption, and that could be

1 described as shaping, I suppose.

2 Q. Well, but would you think that customers

3 are interested in that because they want to reduce

4 their bills?

5 A. I think some are motivated by that.

6 Others may be motivated by concerns about the

7 environment. It's hard for me to determine

8 motivation, but that seems logical.

9 Q. I see. Well, speaking of saving the

10 environment, if, for instance, residential customers

11 engaging in energy efficiency programs reduced their

12 demand -- their usage of electricity by 10 percent,

13 would AEP's generation fleet produce 10 percent less

14 electricity?

15 A. Not necessarily. There's not a direct

16 relationship between the generation supply side and

17 the retail customers' end-use load.

18 Q. So if I cut energy usage in my home, that

19 doesn't necessarily equate into a reduction in

20 environmental -- in emissions from your power plants

21 or release of greenhouse gases.

22 A. It equates to reduction in supply in the

23 broad footprint of the wholesale markets, but that

24 doesn't necessarily translate into AEP's unit

25 dispatch order.

Q. All righty. Let's turn to page 7, lines 7 to 9, and you talk about deployment of advanced technologies. I think this is a little band to your gridSMART project. Do customers need gridSMART to control their energy consumption?

A. No, not necessarily. There are many different ways to control energy consumption. Energy efficiency programs like weatherization, lighting retrofits can control energy consumption without gridSMART.

GridSMART would enable another level of control that could be responsive to pricing signals or other signals or even in-home signals in terms of overall energy instantaneous demand management.

Q. All right. You indicate beginning on line 20 that AEP-Ohio recognizes Ohioans are experiencing increasing costs in nearly every aspect of their lives and that the companies remain consistently responsive to this fact. What exactly

20 are you doing to be responsive to the fact that

21 Ohioans are experiencing increasing costs?

22 A. I think there are a number of aspects of

23 our proposed electric security plan that are

24 responsive to that, not the least of which is the

25 proposal to phase-in the FAC component of rates over

time to give customers time to adjust to the increases associated with fuel costs and to take other measures like the energy efficiency programs that we've proposed in our plan as well to offset through reduced consumption some of the impact of the fuel cost increases and other increases.

We've also proposed the partnership with Ohio funding to support low-income customers in part and economic development in part. So there are a number of features of our plan that I think are responsive to this point.

Q. But your plan is not to lower your price.

A. No. We are seeing cost increases that are very real and very dramatic, especially in the fuel components business.

Q. Turning to page 8 you did just mention a Partnership with Ohio fund. Where does the shareholder money come from?

A. A return on investments.

20 Q. So ultimately it's the ratepayer that

21 pays that money and that becomes profit and that's

22 the shareholder money.

23 A. Like any business, our revenues are the

24 source of -- first source of income.

25 Q. Now, how exactly do you plan to spend

that $75 million? I know, for example, in the rate stabilization plan AEP, the Ohio Department of Development, and the PUCO collectively made the decisions about how you would spend that money. Is that the proposal that you have for this $75 million?

A. Our proposal is to work closely with the appropriate agencies at the state and local level to target these funds to their highest and best use both for low income assistance. Typically we would like to channel those available funds to classes of customers who otherwise aren't eligible for current forms of assistance and to make sure there's another layer of support there.

And then on the economic development side, to work, we hope, with Ohio Department of Development, local economic development agencies to provide support for businesses to expand, new job growth in the various areas of the state that we serve.

20 Q. Can you give me any indication of how you

21 intend to divide this money up?

22 A. We're flexible on that. We don't presume

23 to know the best overall allocation of these kinds of

24 funds, although we do believe more than half or

25 approximately half should be targeted toward the low

1 income and energy efficiency programs and leave some
2 capacity for economic development as well.
3 Q. Wonderful.
4 You talk then down around line 11-12
5 about the gridSMART program again. Senate Bill 221
6 does not mandate advanced metering, does it?
7 A. I don't believe it does. It states as a
8 policy objective of the state to promote advanced
9 metering.
10 Q. Okay. Farther down on page 8, very much
11 at the end, lines 18 to 21, you talk about your
12 existing practices that have led to new business
13 development, job creation, and retention. How many
14 industrial jobs, to your knowledge, have been created
15 as a result of AEP's practices?
16 A. I don't have that number specifically
17 available.
18 Q. Can you illuminate to me what those
19 practices are, the existing practices?

20 A. Sure. We have a team that works with

21 local economic development agencies to make sure that

22 appropriate infrastructure can be sited, to make sure

23 we're working together with state agencies to promote

24 the attractiveness of our region of the state for new

25 industrials, and to make sure that -- or

manufacturers of any sort, and to make sure that we're cooperating with the state to help promote and attract growth and new investment in the state.

Q. Okay. Turning to the next page at the top, you talk again about distribution infrastructure and modernization incentives on line 3 as being included in Senate Bill 221. Could you tell me what the incentives in Senate Bill 221 are for infrastructure and modernization?

A. Specifically the term "incentives" I believe what we're referring to there is the single issue rate-making provision of Senate Bill 221, the opportunity to promote new investment and incremental programs under a single issue rate-making provision.

Q. Moving down to the question and answer that begins on line 6, and specifically line 9, you talk about "non-fuel base generation annual rate adjustments." Now, is there any cost justification for these annual adjustments?

20 A. I'm sorry, what page?

21 Q. Same page.

22 A. Same page, line?

23 Q. I'm sorry, page 10. Page 10, my

24 apologies. Now, it's line 9, and I was interested, I

25 know you have rising costs, but are the annual rate

adjustment costs justified specifically?

A. The trueup proceedings, are you referring to the --

Q. No, I'm referring to --

A. The trueups we propose in our plan?

Q. No. The nonfuel base generation annual rate adjustments.

A. No. Those are provided for under the automatic increase provision.

Q. So they're not based on a cost of service increase in any way.

A. They're not a traditional cost of service revenue requirement basis.

Q. And in your next bullet you talk about the provider of last resort charge. To your knowledge have any of your residential customers ever shopped for power or ever signed up with a marketer?

A. I know we have some customers of Columbus Southern Power who have shopped. I don't know the

20 mix of residential, commercial, and industrial.

21 Q. All right. Let's turn to page 11,

22 please, and you talk about the fact that you will

23 limit your increases to approximately 15 percent per

24 year. Now, that's is a percent on the bill, correct?

25 A. That's what the customer would see, is

1 approximately a 15 percent increase from the prior
2 year.
3 Q. But the actual cost increases that
4 customers will incur will be higher than that
5 15 percent, won't they?
6 A. Will incur meaning?
7 Q. Meaning will ultimately be liable to pay.
8 A. Because of the deferral specifically?
9 Q. Yes.
10 A. Yes. Absolutely. The deferral is the
11 technique that we have proposed to recover that over
12 a subsequent seven-year period.
13 Q. So what would the increase be in 2009
14 under this proposal without the deferral?
15 A. I have not seen that calculation,
16 although I have seen staff's calculation of the Ohio
17 Power increase of 24 percent without a deferral. So
18 there's a reference point there, but I haven't -- I
19 don't recall what that would be for the AEP plan. It

20 would be significantly more, though.

21 Q. Let's turn to page 17, and you talk about

22 solar-ready equipment in school buildings and I'm --

23 what is solar-ready equipment? Do you know?

24 A. I believe that would mean preparing the

25 school to install solar panels, ensuring that they

had the right electric infrastructure in place to support a solar installation.

Q. All righty. I just have a couple more questions. Let's turn to page 19 of your testimony, and lines 1 through 7 you talk about the economic impact that AEP has in Ohio. And you mention that local and state taxes total almost $300 million. Do ratepayers pay those taxes? The ratepayers fund a source of revenue that pays those taxes.

A. As I said earlier, revenues are the source of all the cash flow that the company ultimately manages, but ratepayers do not directly pay those taxes.

MR. RINEBOLT: Thank you very much, Mr. Hamrock, I appreciate it.

EXAMINER BOJKO: Thank you.

Mr. Boehm?

MR. BOEHM: Yes, thank you.

- - -

CROSS-EXAMINATION

By Mr. Boehm:

Q. Good morning, Mr. Hamrock.

A. Good morning, Mr. Boehm.

Q. Mr. Hamrock, as I read your testimony, it's sort of a high altitude look at things so I'm

1 going to ask you some fairly high altitude questions
2 about what the company envisions that it is doing
3 here with the ESP process.
4 Part of it gets back to a question that
5 Mr. Rinebolt touched on a moment ago about whether or
6 not the nonfuel base generation costs that were
7 proposed by the company are cost based. Let me just
8 ask you this general question. Do you see the
9 company's ESP filing in this case as cost based?
10 A. No. The ESP has a number of different
11 components. Some are as provided for under laws, to
12 my understanding, cost based, others are very
13 different forms of regulation.
14 Q. And just as it's not cost based, I guess
15 I would assume that you agree then that it is not
16 least cost; is that correct?
17 A. I'm not sure I understand.
18 Q. Would you agree that the increases and
19 the costs that the company seeks to recover here in

20 the ESP are not costs that were designed to be the

21 lowest costs by the company for the materials or

22 services to be provided?

23 A. They are not -- in the specific item that

24 I think you're referring to, the automatic increase

25 provision for generation, they basically say let's

set the rate based on an expectation of spending, but the risk of inflation goes to the company in a case like that. So it may or may not be least cost depending on what happens with the underlying factors.

Q. Let me try to get at it this way I guess. Let's assume for the moment that it were established that an MRO -- which is largely I think you will agree, largely a market-based rate -- an MRO for the company was about, I may be off on this, but let's call it 88 bucks a megawatt-hour. And I'm not sure that's the right number, but let's assume for the purpose of my hypothetical that's what it is.

And let's assume the company proposed a ESP that was 86 bucks a megawatt-hour. In AEP's vision of what it's filed here, would it have to justify on a cost basis the increases that brought its ESP up to $86, or would it be just sufficient that the ESP was lower than the MRO?

20 A. First, my understanding of the MRO is

21 that it wouldn't result in an $88 price. That would

22 be -- if that's the market price, that would be

23 10 percent of the contribution to the rate and the

24 rest would be --

25 Q. Okay.

A. -- an SSO adjustment. But moving on to the question in terms of is it sufficient to just view the plan relative to the MRO?

Q. Right.

A. We do believe that is the test that the Commission must apply, although there are underlying components that are clearly cost based, so there's a mix of cost-based factors in the plan as well as the overall plan being compared.

Q. And what do you believe -- excuse me, I'm sorry. What do you believe are the cost-based factors?

A. The FAC adjustment. In our proposal, the enhanced distribution reliability is proposed under a very traditional revenue requirements cost-of-service basis. Recovery of the energy efficiency and demand response programs are a cost recovery mechanism. So many components of the plan are direct cost recovery elements.

Q. All right.

A. But not all.

Q. Okay. When you say "direct cost recovery," can we use the word "least cost" there or not, the term?

A. In a very general sense?

Q. Yeah.

A. Yeah. I'm not sure of the intent of applying least cost to those components.

Q. Well, I'll give you an example. I think you just said you thought that the FAC should be cost based; is that right? Did you say it should be or that it was?

A. No. The FAC component going forward would be adjusted for changes in costs.

Q. And it's the company's proposal here to buy increasing amounts of energy from the market to serve load over the three years of the plan; isn't that right?

A. That's correct.

Q. Okay. Did the company in making its decision to make those purchases look to see whether that was the cheapest way to serve the load?

A. As Witness Baker outlines in his testimony, there's a very specific rationale for the

20 what I think you're referring to as the 5 percent

21 purchased power adjustment to reflect the Ormet and

22 Mon Power loads, in part, and to reflect the ongoing

23 economic development. So I think it's a different

24 technique than you're describing.

25 Q. It's a different technique, you're

1 saying, than least cost.

2 A. Relative to that aspect of the plan.

3 Q. So that may or may not be the least cost

4 way to serve those loads.

5 A. I don't know.

6 Q. All right. But in any event, that was

7 not part of the company's analysis as to whether or

8 not that was least cost; is that correct?

9 A. Whether that was the least cost --

10 Q. Yes.

11 A. -- approach to serving those loads

12 meaning Ormet and Mon Power?

13 Q. Yeah. For whatever reason that those

14 blocks of power were being purchased, you're saying,

15 as I understand it, that it was not part of the

16 company's analysis in serving those loads as to

17 whether or not that would be the least cost way to

18 serve them; is that correct?

19 A. I don't know the technique that was

20 applied there.

21 Q. Who would know that?

22 A. Witness Baker talks about that aspect of

23 the FAC specifically.

24 Q. Okay. Did the company in preparing its

25 ESP plan look to see whether the items that it

intended to be included in the ESP, the costs that were intended to be included in the ESP, were prudently incurred?

A. There are many different aspects of the plan, so --

Q. How about the fuel adjustment clause, did it look to see whether the fuel adjustment costs were prudently incurred?

MR. NOURSE: Your Honor, I object. I think Mr. Hamrock's already stated that the company looked at the whole plan under the "better than the expected results" under the MRO standard. He's indicated certain aspects were cost based, listed those off.

If you're asking about whether something was prudently incurred, that's a future question that doesn't relate to the planning of the filing.

MR. BOEHM: Your Honor, if I may, the statute requires that all costs, including fuel

20 costs, must be prudently incurred. It's a specific

21 statutory requirement. Now, I've asked him about

22 whether or not they were cost based. I've asked him

23 about whether or not they were least cost. I haven't

24 asked him about whether they're prudent, and I want

25 to see whether in the company's judgment prudent

means least cost, what does prudent mean in their judgment, and did they even consider prudency when they entered into these agreements.

EXAMINER BOJKO: Could you reread the question, Maria?

(Record read.)

EXAMINER BOJKO: I'll allow it.

Mr. Boehm, why don't you lay a little foundation. Maybe you just did through your response, but I'm not sure we've asked whether he's aware of that provision in Senate Bill 221 or not.

MR. BOEHM: Okay. I'm sorry.

Q. (By Mr. Boehm) I have assumed, Mr. Hamrock, as a witness who is giving the overview of this plan you are familiar with the provisions of 221, that you've been advised about them by your counsel. Is that correct?

A. Yes.

Q. Okay. And were you advised about Section

20 4928.143(B)(2)(a)? I'm sure you don't know this by

21 section number --

22 A. I don't.

23 Q. -- but that under that provision the act

24 calls for automatic recovery of any of the following

25 costs of the electric distribution utility provided

the cost is prudently incurred, and those are the cost of fuel, among other things, the cost of fuel used to generate the electricity supplied under the offer, the cost of fuel purchased, the cost of purchased power to supply under the offer, including the cost of energy and capacity, and there's some others.

Were you advised that those costs must be prudently incurred?

A. I'm familiar with that, yes.

Q. Okay. Did you regard that word prudently incurred to be synonymous or similar to least cost or cost based? I'm sorry, let me take those one at a time. Those are two questions.

Did you regard that word "prudency" to be synonymous with least cost?

A. Not necessarily, I don't.

Q. Did you regard that word "prudency" to be synonymous with cost?

20 A. Prudent with cost?

21 MR. NOURSE: Your Honor, I'd like a

22 clarification at least. Did you regard -- again, are

23 we talking about future fuel cases where actual costs

24 would be reviewed for prudency? Your earlier

25 question was about in planning for the filing, so I'm

not clear what's being asked here.

MR. BOEHM: Okay.

EXAMINER BOJKO: Could you rephrase?

MR. BOEHM: Let me clarify it, your Honor.

Q. (By Mr. Boehm) With respect to the proposal of the company to purchase power to serve, as I understand it, the Monongahela and Ormet loads, did the company regard that in making those purchases it was required to make those purchases prudently?

A. I would think so, yes, prudent in regards to the history of the Ormet and Mon Power loads.

Q. In regard to the history. What do you mean by that, Mr. Hamrock?

A. Not having been previously served by the AEP system, by the AEP-Ohio system and Witness Baker, again, talks about the background for that. He could provide much greater detail in terms of the question you're asking.

20 Q. But you are the witness, Mr. Hamrock, to

21 testify philosophically and from a broad general

22 point of view why the company made the filing the way

23 they did.

24 A. Right.

25 Q. Am I correct?

A. Correct. But on the very specific question you're asking about, consideration of the purchased power portion of the FAC, I wasn't as deeply involved in those aspects as Witness Baker has been.

Q. So you don't know whether or not Witness Baker or whoever went out to make purchases did so with the idea that they had -- that those purchases had to be made prudently?

MR. NOURSE: Objection. He asked whenever, whoever went out to make the purchases. That mischaracterizes the proposal.

Q. Whoever will go out to make the purchases, that they are required to do that prudently.

A. I'm sure they are, and I'm sure they will.

Q. And in your mind does that word "prudently" mean least cost?

20 A. I think I answered that.

21 Q. I'm not sure that you did, Mr. Hamrock.

22 A. Not necessarily.

23 Q. Not necessarily.

24 Do you see, Mr. Hamrock, that AEP's

25 filing in this case, their three-year filing, is a

transition to the market?

A. It's not clear that it's a transition directly to a market. I think the MRO path is more clearly a transition to market. The ESP, again, will be demonstrated as more favorable in the aggregate than the MRO path. It's clearly a hybrid of continuing to promote development of markets in Ohio, as well as providing some aspects of cost-based regulation.

Q. I'm sorry, I guess what I meant, when you say it's not clear, it is -- is it the intention of AEP in making this filing to use this filing as a transition to the marketplace?

A. Again, no, I don't think it's a deliberate intention to use this filing as a transition toward market. An MRO path would clearly do that or the MRO option would clearly do that. This provides other benefits for our customers.

Q. Let me go back to something because it's

20 not clear in my mind, and if you feel that you've

21 answered this question, if you could please let me

22 know what it is. For maybe the same reason that I

23 forgot my telephone in here, I don't remember the

24 answer to this question.

25 We were talking before about assuming

1 that the MRO -- and again I ask you to assume because
2 I don't know what it is, I don't remember what it
3 is -- was $88 a megawatt-hour. That would be the MRO
4 price. And the company made a filing in this case
5 that was, say, $86 a megawatt-hour for its ESP.
6 Is it the company's viewpoint that the
7 costs that are included in those $86 a megawatt-hour
8 have to be justified as being prudent costs?
9 A. I do think we've explored that question.
10 Q. Okay. Can you remind me, what was the
11 answer?
12 A. Yes. And there are different aspects of
13 this plan that are traditional cost of service
14 revenue requirements based and others that are
15 automatic increases, others that are -- those costs
16 are reflected in a very different and unique way.
17 Q. The ones that are automatic increases,
18 then, okay, the annualized increases, you say -- even
19 though I think you told Mr. Rinebolt that those

20 weren't cost based, they are still in your mind

21 prudent?

22 A. Prudent, yes. Absolutely.

23 Q. So again, prudent in your mind doesn't

24 mean least cost or cost based.

25 A. I don't think so under the new law. I

don't understand that those connections are necessarily there.

MR. BOEHM: I think that's all the questions I have. Thank you, Mr. Hamrock.

EXAMINER BOJKO: Let's go off the record for one minute.

(Discussion off the record.)

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

Mr. Bell.

MR. BELL: Thank you, your Honor.

- - -

CROSS-EXAMINATION

By Mr. Bell:

Q. Mr. Hamrock, your testimony was filed with the Commission on July 31, 2008; was it not, sir?

A. That's correct.

Q. Over what period of time was that

20 testimony prepared?

21 A. Oh, probably a month or two, different

22 pieces of it.

23 Q. And was that prepared by you in concert

24 with others?

25 A. Yes.

Q. Stated differently, you did not write this testimony on your own.

MR. NOURSE: Your Honor, I object.

MR. BELL: I'll withdraw the question. I didn't mean any inference there. It's immaterial.

Q. Would you agree that your testimony effectively consists of a summarization, an abbreviated summarization of the company's vision, which is your attachment which constitutes the bulk of the pages comprising your direct testimony?

A. Are you referring to the Corporate Sustainability Report?

Q. Yes. Exhibit JH-1.

A. If you're asking does that report reflect the AEP-Ohio summary of the AEP-Ohio plan, I wouldn't agree with that.

Q. As you have testified in the preceding 22 pages, 23 pages.

A. Yes.

20 Q. You're nodding your head. Is your

21 response yes?

22 A. That is an exhibit to my plan.

23 Q. All right.

24 A. To my testimony.

25 Q. I made the same observations that

1 Mr. Randazzo did in going over that plan, and that is
2 that it appears to be a plan that's designed for all
3 ages, in view of the fact that there were so many
4 blanks, if you will, in the plan. And let me give
5 you an example. I'm not trying to unfairly
6 characterize the plan. I'm just trying to understand
7 it.
8 For instance, on page 52 of 68 of that
9 plan as an example.
10 EXAMINER BOJKO: 68?
11 MR. BELL: Page 52 of the 68 pages in
12 that plan.
13 MR. NOURSE: Your Honor, can I clarify?
14 When you say "plan," you're talking about the
15 sustainability report that's --
16 MR. BELL: Yes, I'm talking about Exhibit
17 JH-1. Thank you, Mr. Nourse.
18 Q. Do you see in the second full paragraph
19 in the column off to the right it says: The system,

20 as proposed, would cost approximately zero billion

21 dollars to build in 2000-blank dollars; that is,

22 there are blanks throughout this --

23 A. My report says 60 billion.

24 EXAMINER BOJKO: Yes. Mr. Nourse, could

25 you provide that extra copy you were going to give to

me to Mr. Bell?

MR. NOURSE: Certainly.

EXAMINER BOJKO: There are not blanks in my copy and --

THE WITNESS:

MR. BELL: I'm sorry, there were blanks provided in the plan that I . . .

MR. NOURSE: Could we go off the record for a moment?

EXAMINER BOJKO: Yes, let's go off the record.

(Discussion off the record.)

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

MR. BELL: During an off-the-record discussion between myself and Mr. Resnik, counsel for the company, it appears as though an explanation exists for the numerous blanks that exist on Exhibit JH-1 that I have because I downloaded, if you will,

20 JH-1 from the CD that was provided to me directly

21 from the company as reflecting the plan, and the

22 testimony of the parties is that apparently it's an

23 electronic glitch that the company didn't intend, and

24 it wasn't directed toward me, and I don't want any

25 inferences to be drawn. I was just trying to clear

it up in this line of examination, nothing more, nothing less, and I'll move on.

EXAMINER BOJKO: Just so the record's clear, it seems that all other parties have a correct copy of the JH-1 exhibit.

MR. BELL: If they bothered to read the entirety of this document as I have.

MS. ROBERTS: I did.

MR. BELL: All right.

EXAMINER BOJKO: I will assume that they have. Let's move on.

MR. BELL: Thank you.

Q. (By Mr. Bell) Now, would you agree, Mr. Hamrock, that since the June or July period that you have written this testimony there has been a sea change of seismic proportions in the economic climate of this country, and particularly the state of Ohio, being focused on the automotive and heavily industrialized industries?

20 A. The economy has clearly changed since the

21 day we filed this case, and that has had an impact on

22 us as it has on our customers and many other sectors

23 of the economy.

24 Q. And would you agree that as a result

25 the -- your testimony as presented being written in

1 June or July of 2008 does not necessarily reflect the
2 existing conditions of the economy, prices,
3 et cetera, et cetera?
4 A. Are you referring to, for example, the
5 you fuel prices and the commodity --
6 Q. Just in general right now. We can get
7 into specifics. I'm just talking about in general.
8 Would it be fair to state that this testimony does
9 not reflect the current conditions?
10 A. I believe that the amplitude of the
11 issues for all parties is greater than it was the day
12 we filed this case. We see many customers facing
13 challenges. We face challenge as a capital-intensive
14 industry with the credit crisis, significant
15 uncertainties for the future. I would agree.
16 Q. Thank you, Mr. Hamrock. And I plan on
17 exploring both sides of the fence, the changes as
18 they affect the company as well as the consumer. I
19 didn't mean to suggest they're one sided. Is that

20 fair?

21 A. That's fair.

22 Q. Okay. For instance, on the top of page 6

23 you talk about the cost increasing, cost increasing

24 as far as customers as well. Did you happen to

25 notice news reports today that consumer prices have

1 decreased for the first time in 61 years?

2 A. I did not see that report.

3 Q. You do recognize, do you not, that -- and

4 I'm looking at the first bullet point on page 6 of

5 your direct testimony. You there cite the horrendous

6 increase in the costs that are depicted under that

7 bullet point, do you not?

8 A. I do.

9 Q. And you would acknowledge, would you not,

10 that many of those prices have fallen dramatically

11 since your testimony was written and may conceivably

12 continue to decline?

13 A. Specifically the fuel prices, coal prices

14 have moderated since the time of this testimony,

15 though they're still well above their historic

16 levels.

17 Q. Natural gas?

18 A. Natural gas has moderated. And our

19 proposal would simply pass through those costs as

they change.

Q. I'm not addressing specific proposals now, I'm just talking about commodities in general. This testimony reflects the apex in the cost of those commodities over the last several years, does it not?

A. To the current day, yes, that would be

true. That's my understanding of most of these prices.

Q. And they've subsided since then.

A. Yes.

Q. Nothing more, nothing less, fair?

A. Yes. Though not to historic low levels.

Q. And they may continue to fall, may they not?

A. Don't know. Yes.

Q. All right. Page 9, you note, and I'm referencing your testimony on page 10, that this is a critical time for AEP-Ohio and all of the investor-owned electric distribution utilities. Do you see that?

EXAMINER BOJKO: I'm sorry, did you say 9 or 10? Page 9?

MR. BELL: Page 9, line 10, I'm sorry.

A. Yes.

Q. Would you also agree it's a critical time

20 for consumers?

21 A. Yes.

22 Q. Would you agree that based upon the media

23 reports today that the consumer is tapped out with

24 respect to home values, tapped out with respect to

25 using home equity, tapped out with respect to using

1 credit cards, and is effectively tapped out with
2 respect to his ability to purchase anything other
3 than necessities; that is, they've developed a bunker
4 mentality with respect to spending money on what
5 might be described as discretionary items?
6 MR. NOURSE: Your Honor, I object.
7 EXAMINER BOJKO: Sustained.
8 Q. You characterize and have characterized
9 in response to questions of earlier inquiring counsel
10 how AEP has sought to recognize the plight of the
11 consumer today with the moderateness of the proposal
12 encompassed in your ESP, have you not?
13 A. Specifically by phasing in the fuel
14 increases, deferring those increases over a longer
15 period of time, by providing energy efficiency
16 programs for all classes of customers to help them
17 with the tools they need to moderate some of the
18 impact through reduced consumption, through our
19 Partnership with Ohio funding, through a number of

20 different aspects of our plan, yes.

21 Q. That's fair.

22 Would you agree that the portrayal of the

23 increases as shown on your Witness Roush's Exhibit

24 DMR-1, page 1 of 2 and 2 of 2, might be considered

25 misleading as to the increase that the company

proposes?

MR. NOURSE: Objection to the term "misleading." It's fully explained in Mr. Roush's testimony concerning deferrals.

EXAMINER BOJKO: I'm sorry, my concern, do you even have Mr. Roush's exhibit that's being referred to?

THE WITNESS: I do. I have DMR-1.

MR. BELL: I'll withdraw the question and approach it in different fashion and make my point, and I'm not suggesting Mr. Roush intended to mislead Mr. Moore (sic).

Q. Would you agree that the increases there which the company has heavily publicized as 15 percent increases are 15 percent year over year?

A. Yes; and we've been very clear about that.

Q. And that, in effect, the increases proposed aggregate 50 percent over the 2008 revenue

levels. Would you accept that?

A. Again, we've been very clear about the plan.

Q. And that's with respect to Columbus & Southern. And with respect to Ohio Power, it's a 52 percent increase, correct?

A. Did you distinguish the two?

Q. Yes. I said Columbus & Southern Power it's a 50 percent and I believe for Ohio Power it's in the order of 52 percent.

A. I haven't looked at them independently that way.

Q. Okay. In response to a question by my colleague, Mr. Rinebolt, you indicated that without the deferrals, the increases of the -- proposed by the company would be much greater than what has been indicated.

Could you enlighten me, Mr. Hamrock, on, for instance, Columbus & Southern, how much greater the increase would be above and beyond the 50 percent which I've just identified for Columbus & Southern, the increase would be if, in fact, there were no deferrals?

MR. NOURSE: Your Honor, I think this specific question was already covered during prior

cross-examination.

MR. BELL: Mr. Rinebolt asked, and the witness said, I believe, that he didn't know, and I was wondering if he could provide that information.

EXAMINER BOJKO: Mr. Bell, again, direct your comments, please, to the Bench.

If the witness knows, he may answer.

A. I haven't calculated the total percentage including the deferrals, if that's what you're asking.

Q. Yes. Could you give me an approximation?

A. I'd have to look up the CSP deferrals and add that to the mix.

Q. Could you look at it? I mean, that's not a lengthy undertaking, is it, Mr. Hamrock?

MR. NOURSE: Your Honor, while he's looking, could I ask Mr. Bell to allow Witness Hamrock to finish his responses before jumping in with another question?

EXAMINER BOJKO: Yes.

Mr. Bell, you do seem to be cutting off Mr. Hamrock. Let's let him finish, please.

MR. BELL: I apologize, I fear a lot of counsel in this case have been doing that, unintentionally of course. We're just eager to move

20 these proceedings along.

21 EXAMINER BOJKO: Mr. Bell, I've heard

22 your position on that request of AEP numerous times

23 today. Let's move on without commentary.

24 MR. BELL: I'm awaiting the witness's

25 response.

A. Subject to check, I think by looking at LVA-1 to get a picture of the deferral impact and adding that to the mix, you'd see another -- for CSP, I think you're asking about CSP.

Q. Yes.

A. -- another 118 or so -- 112 million added to that mix. So we've seen these kinds of increases in other states. We've just seen in Virginia, for example, where we had a very similar construct of a transition period rates being held low for some period of time, reintroducing fuel charges and other increases in one year a 42 percent increase. So we simply proposed a deferral to moderate those increases, not to hide anything, as you suggested.

Q. I'm not suggesting you did it to hide it. I'm attempting to just quantify it, nothing more or less, Mr. Hamrock.

EXAMINER BOJKO: Mr. Hamrock, where did you obtain that $112 million? Which witness?

THE WITNESS: I'm looking at Assante Exhibit LVA-1.

EXAMINER BOJKO: Thank you.

Please continue.

Q. Could you give me the order of magnitude for Ohio Power as well?

A. The same exhibit, LVA-1, I see a deferred FAC expense of 300 in 2009, 300 million, 139 in 2010. So you add that to the DMR that I think is responsive to your question.

Q. Thank you, it is.

Mr. Rinebolt asked you with respect to the company's proposed economic development, the partnership aspect which you had dwelt on. Is it the intention of the company to spend the pledged amount of 25 million per year in each of those years? Is that an absolute commitment without any guidelines or restrictions?

A. By guidelines or restrictions you mean --

Q. Yes. For instance, is there anything in your proposal that would assure that that money was prudently spent? And I'll be quite -- let me be right up front with you, Mr. Hamrock, and I'm not trying to infer anything. We're seeing today --

MR. BELL: I request of the Bench a

20 little indulgence.

21 EXAMINER BOJKO: A little.

22 Q. We're seeing today certain industries

23 going before Congress and asking for taxpayer

24 funding. We needn't get into the specifics, but the

25 issue there is whether or not to provide that funding

on the basis of whether it would do any good, that is, whether it be successful.

And I guess the essence of the inquiry that I'd like to pursue with you very briefly is whether or not there are any guidelines which the company proposes to advance over its own expenditure of these millions of dollars as to whether or not they would do any good, i.e., investing in a company that's going to go bankrupt.

MR. NOURSE: Your Honor, are we talking about the $75 million partnership fund?

MR. BELL: Yes. Precisely.

MR. NOURSE: Whether it would do any good?

MR. BELL: Yes.

A. I think I heard two questions. One is, is it a commitment, and it's a part of our overall plan so it's not an independent commitment. It certainly reflects our intention under our proposed

20 ESP to support the state's objectives for economic

21 development and low-income assistance but very

22 clearly to work with the appropriate state and local

23 agencies to ensure those funds are put to good use

24 and put to their highest and best use.

25 Q. So it's not a self-imposed obligation;

it's a stated intention.

A. Yes.

Q. Thank you. That helped answer the first of my two-part question. Now could you answer the second?

A. Could you restate the second?

EXAMINER BOJKO: Before you move on to the second, I don't see in your testimony that there's a commitment to do 25 per year. Is that the intention, or is it just 75 million? I mean, I read page 8 of your testimony. It was just 75 million. I didn't see the 25 that Mr. Bell referenced.

THE WITNESS: We think of it as 25 million per year over the three-year period.

EXAMINER BOJKO: Thank you.

MR. BELL: Thank you to the Bench because perhaps that will clarify something else.

Q. (By Mr. Bell) Just so that we're clear, the intention is the 25 per year for three years.

20 There's no commitment that you will spend the

21 75 million over the three-year period or any given

22 amount in any given year, correct?

23 A. I'm reacting to the commitment?

24 Q. Yes. You said earlier in response to my

25 question on the 25 million that it was not a

commitment; it was a stated intention.

A. It's a part of our overall plan, and it is our intention to do that.

Q. It's an intention. You are not obligating yourself to do so.

A. Well, I'm not sure what you mean by "obligating." Put the money in an account somewhere, is that what you're asking?

Q. Would you agree that there are no guidelines with respect to the magnitude of the dollars to be expended in the three-year term or the magnitude of the dollars to be spent in any given period within that three-year term, or any guidelines over the appropriateness or prudence of those expenditures?

A. It's our very sincere desire to work with the appropriate agencies to make sure those funds are put to their highest and best use.

Q. I'm not questioning your integrity and

20 your desire. Could you answer my question yes or no?

21 A. I think I did. It's not a commitment in

22 the sense that --

23 Q. And there are no guidelines.

24 A. No, no preset guidelines.

25 Q. And would the same be true with respect

to utilizing special contracts for purposes of accomplishing societal objectives?

A. In terms of preset guidelines?

Q. Yes.

A. I think that's an issue that the Commission decides on.

Q. But as far as your proposal, there are no set -- no preset guidelines. I'm not talking about rules. I'm talking about simply guidelines with respect to the appropriateness of the societal objectives to be satisfied by those special contracts.

A. Not that the company is setting forth.

EXAMINER BOJKO: Mr. Hamrock, is there -- I think you mentioned three components of this plan or something.

THE WITNESS: The Partnership with Ohio?

EXAMINER BOJKO: Yes. Is there a designation of how you will divide the 25 million per

20 year amongst those three components of the

21 Partnership moneys?

22 THE WITNESS: Initially we've thought of

23 it as targeting low income with about half of the

24 funding, although, again, we're very open to shaping

25 that and guidance from state agencies and local

agencies, so that's just our initial thinking on that, to focus about half of it on low-income assistance and energy efficiency programs for targeted customer segments who aren't typically eligible for other forms of assistance, and then the remaining fractions for economic development, assistance with economic development projects across the territory.

EXAMINER BOJKO: I'm sorry, were the low income and energy efficiencies splitting the half, or are they together going to have half the moneys and then economic development having the other half?

THE WITNESS: It's splitting the half.

EXAMINER BOJKO: Okay. Thank you.

Q. (By Mr. Bell) In response to questions from the Bench you had indicated it was split in half. Does not your testimony, your filing, indicate that the actual split, if you will, of those funds between economic development and assistance of

20 low-income customers has not been exactly defined;

21 you intend that it be divided approximately even?

22 A. I'm responding to the question about what

23 do we think it should do, and again, we are open to

24 those funds being allocated in a way that meets the

25 best objectives of the state, but our initial

thinking is about half goes into low-income assistance in the form of energy efficiency programs.

Q. Who makes the ultimate decision with respect to the split, irrespective of collaborative input? Would you agree that under the company's proposal AEP makes the ultimate determination as to whether 2 percent goes to Mr. Rinebolt's clients and 98 percent goes to economic development projects?

A. I think that's fair, yes.

Q. Thank you.

While we've already established that your Exhibit JH-1 is somewhat dated, I'd like to direct your attention to page 34 of 68.

MR. NOURSE: Your Honor, I object to his characterization about the testimony being dated.

MR. BELL: No, the exhibit is dated.

MR. NOURSE: Okay, either way.

EXAMINER BOJKO: Dated as in out of date or dated as in April, the filing date?

MR. BELL: April, the filing date,
reflecting 2007.
EXAMINER BOJKO: With that clarification.
MR. BELL: It's no more dated than this
attorney is, and I'm not very dated.
MR. MARGARD: Let me object to that

characterization.

EXAMINER BOJKO: We won't go there.

Was there a question pending?

MR. BELL: I directed the witness's attention to page 34 of 68 of JH-1.

Q. (By Mr. Bell) Do you see that, sir?

A. I do.

Q. The bottom half of that.

A. The bottom?

Q. Now, that shows the prices of all retail customers, and that's 2006, isn't it, not 2007 or 2008?

A. It is noted that it's 2006 in cents per kilowatt-hour, yes.

Q. That shows, does it not, that relative to the footprint shown, that Ohio has the second highest cost of electricity in the AEP Eastern footprint, second only to Michigan; does it not?

A. The Ohio 7.71 cents?

20 Q. Yes, is second only to Michigan's 8.14 on

21 all the adjacent states, the eastern footprint,

22 correct?

23 A. Yes. That's AEP retail customer rates,

24 yes.

25 Q. And do you know -- strike that.

1 You had indicated what other states have
2 had in the way of increases, suggesting Ohio could
3 likely bear the same increases. Do you know if your
4 increase is authorized, the 50 percent plus --
5 including recognition of the deferred revenues,
6 because that's an increase, it's just a deferred
7 collection, correct?
8 A. Correct.
9 Q. Do you know how Ohio would stand within
10 the eastern footprint of American Electric Power?
11 A. I don't. I haven't looked at that,
12 although, as I stated earlier, just recently in
13 Virginia we've seen 42 percent increases just
14 associated with fuel and generation rates.
15 Q. Would you acknowledge that Virginia is
16 perhaps not in the same economic condition as the
17 state of Ohio or the state of Michigan?
18 A. I don't know that to be true in our part
19 of Virginia. It might be comparable.

20 Q. In any event, you haven't looked at that.

21 A. The first question about after our

22 increases, how will we fare --

23 Q. You haven't looked at the resultant

24 relative cost of electricity in the states, nor have

25 you looked at the relative impact of those rates

given the existing and anticipated economies of those states during the period in which those rates will be in effect.

A. Right.

Q. Correct?

A. I have not looked at that.

Q. Thank you.

EXAMINER BOJKO: Mr. Hamrock, I'm a bit confused, because when Mr. Randazzo asked you questions about this map, I thought that these were average prices in the state, and then underneath those were the AEP company prices and that the numbers reflected that Mr. Bell referenced were not AEP average prices but state prices; is that right?

THE WITNESS: I think you're correct, yeah. It's what -- the Ohio 7.71, my understanding of this is what is the Ohio average, and then the Ohio companies are portrayed below that at 7 cents for CSP and 6 cents for Ohio Power.

MR. BELL: If I may, your Honor.

EXAMINER BOJKO: Please.

MR. BELL: I think that's what AEP's retail customers pay.

EXAMINER BOJKO: Versus the average cost of the AEP states? I think it's a total state.

MR. BELL: I think the analysis still holds true if one looks at the -- well, I can go through it with respect to --

EXAMINER BOJKO: Please do, just so we're clear, because I was confused by that line of questioning because I thought the map said something different from what you thought it said.

MR. BELL: Okay.

Q. (By Mr. Bell) We could go look, in order to correct that, we could look at Columbus & Southern under the Ohio figure there, could we not, at 7 cents?

A. CSP is 7.

Q. Yes. And compare it to Kentucky Power, what's that, 5?

A. Kentucky, 5, Ohio Power, 6.

Q. Indiana and Michigan?

A. 5.

Q. West Virginia?

20 A. Two companies, APCO 5 and Wheeling Power

21 4.

22 Q. And Michigan?

23 A. Indiana-Michigan 6.

24 Q. So effectively if we were to compare Ohio

25 AEP's rate compared to the AEP rates in all the

adjacent states, Ohio would be the highest, would it not, not the second highest? I apologize, I --

MR. NOURSE: In 2006?

MR. BELL: Yes.

A. CSP specifically.

Q. Yes.

A. Ohio Power would not be the highest.

Q. No. In Ohio Power's case they'd be tied for second highest with Michigan, correct?

A. With I&M, yes.

Q. Your response is yes, then?

A. Yes. 2006 average AEP retail would --

Q. And if I were to ask you the question that I previously asked you relative to the relative positioning of AEP customers' rates in Ohio versus the rates of AEP customers in the adjacent states, your response would be the same as to my prior inquiry, would it not?

A. That I haven't looked at that going

20 forward.

21 Q. That you haven't looked at it going

22 forward, nor have you looked at it going forward in

23 relationship to the state of the economies of those

24 respective states.

25 A. Correct.

Q. Thank you.

Now, with respect to your exhibit which contains, in part, position statements and letters signed by AEP's chairman and chief executive officer, as the chief operating officer of the Ohio AEP companies you do, do you not, keep abreast of the pronouncements of your chairman and chief executive officer, Michael Morris; do you not?

A. I try to.

Q. And I trust you do keep aware of the financial reports of AEP, specifically the third quarter earnings release presentation dated October 31, 2008, referenced earlier by Mr. Randazzo in his examination of a prior witness.

A. Yes.

Q. And are you aware of your chairman and chief executive officer's presentation to the American Electric Power -- excuse me, the American Electric Power's presentation at the EEI Financial

Conference conducted last week Tuesday, November 11th, 2008?

A. I am.

Q. And did you watch that webcast, as perhaps I did?

A. No, I did not.

Q. Oh, you didn't. Are you aware of it, though?

A. I'm aware of it, yes.

Q. Okay. Would you agree, Mr. Hamrock, that the observations of AEP's chairman and chief executive officer on November 11, 2008, might be more relevant for this Commission's consideration than the chairman and chief executive officer's observations as reflected in your Exhibit JH on April of 2008?

MR. NOURSE: Your Honor, could I have the question reread, please?

MR. BELL: Strike it, I'll restate it in an abbreviated sense.

Q. Would you agree that your chairman and chief executive officer's presentations in November are more relevant for the Commission's consideration, or at least more recent, than those previously rendered?

A. I would agree they're more recent.

20 Q. Now --

21 A. It depends on which observations you're

22 talking about, whether they're more relevant.

23 Q. Without getting into details -- and I can

24 get into details. I'm attempting to abbreviate this

25 to satisfy Mr. Resnik's objective -- but would you

1 agree that in Mr. Morris's presentation on November
2 11 he stressed, if you will, the company successfully
3 acquiring over $4 billion in liquidity and --
4 A. 4 billion?
5 Q. -- and the company's actions to reduce
6 its capital expenditures in 2009 by $750 million?
7 A. Across all of AEP, yes.
8 Q. Would you agree, and I'm trying to
9 abbreviate that --
10 EXAMINER BOJKO: Mr. Bell, we already
11 talked about this --
12 MR. BELL: Yes, your Honor.
13 Q. With respect to that presentation by your
14 chairman and chief executive officer, would you
15 agree, subject to check, that it reflected a
16 reduction in 2008 of approximately $500 million in
17 capital expenditures from those estimated for 2008, a
18 anticipated $750 million reduction in the company's
19 prior 2009 capital expenditures budget, and a further

20 anticipated revision of approximately $800 million

21 in --

22 EXAMINER BOJKO: Do you have a copy of

23 this?

24 MR. NOURSE: For AEP as a whole?

25 MR. BELL: AEP as a whole.

A. Yeah. As I stated earlier, with the credit crisis that has impacted the economy in a capital-intensive business like ours where we routinely spend cash in excess of the funds available from operations, we depend heavily on those credit markets. So seeing this coming, seeing what's happening and understanding --

EXAMINER BOJKO: Please continue. I didn't want him to be on top of you.

MR. BELL: I apologize. I didn't request permission to approach the witness but I did want to show him the document so that he could --

THE WITNESS: Thank you.

MR. BELL: -- verify my representations.

EXAMINER BOJKO: Were you finished with your statement?

THE WITNESS: No, I wasn't.

Understanding that this credit crisis may play out for some period of time, the liquidity you

20 referenced was I think a very prudent action on our

21 part to reach out and make sure we could ride through

22 this.

23 We had two great uncertainties. One is

24 the market themselves; two, outcomes of significant

25 regulatory proceedings, so the measures we've taken

are indeed contingent measures to ride through those significant uncertainties.

And we've announced internal to AEP these kinds of cuts. All AEP employees have been notified there won't be salary increases in the coming year. We've cut back on filling open positions unless they're safety sensitive or responsive to customer service areas. We've stopped buying vehicles. We've done a lot of things to conserve cash, and what you're talking about is simply a reflection of those contingent measures.

Q. Thank you. I appreciate it.

MR. BELL: May I retrieve my --

EXAMINER BOJKO: Please.

Q. Thank you, Mr. Hamrock. And I didn't mean to suggest otherwise with this line of examination that your actions were imprudent. In fact, I think they were precisely what you should be doing. That wasn't the purpose of the line of

20 inquiry.

21 The question that I now pose to you, sir,

22 is have you made any independent determination as the

23 policy witness in this proceeding as to whether or

24 not AEP, via the measures that you just described and

25 those reflected in Chairman Morris's presentation on

November 11th. I presume that you conclude that the company's well positioned to weather the storm, the economic storm that it anticipates.

A. I think we're well positioned depending on the length of the storm.

Q. All right. And that could be a lengthy storm, could it not?

A. Could be.

Q. As a matter of fact, the company has not ruled out further capital expenditure reductions in the year 2010, has it? If you know.

A. No, we don't know. We don't know what 2010 will look like.

Q. Have you made any attempt to review or determine whether or not the company is any better positioned to weather the economic storm that we're facing and witnessing today in 2009 than your customers?

A. That's a very broad comparison --

Q. It's a difficult question, yes. I recognize that.

MR. NOURSE: Your Honor, could he finish the answer before getting cut off?

MR. BELL: I apologize.

EXAMINER BOJKO: Mr. Hamrock, please

finish.

A. That's a very broad comparison. We have many different segments of our customer base. Some are struggling. Others are not struggling and so in general no, we haven't done that, although we understand our relative position.

And again, I think the amplitude of the issues is greater for all of us than it was the day we filed this case. We have significant concerns about cash flow relative to the credit markets and relative to increasing cost of fuel in the Ohio jurisdictions.

Q. With respect to cash -- have you finished? I'm sorry.

A. Yes.

Q. With respect to cash flow, would you agree, Mr. Hamrock, with respect to AEP for the remainder of 2008 the company has been refunding debt obligations of only $180 million?

20 A. I haven't looked at it that closely.

21 Q. Do you know whether or not in 2009 your

22 total debt redemption obligations are only

23 $300 million? Have you looked at that?

24 A. For all of AEP?

25 Q. For all of AEP.

A. I haven't looked at it that closely.

Q. You did accept, did you not, that AEP currently has cash liquidity, cash on hand of $1.2 billion? Did you not accept that earlier?

A. Subject to check.

MR. BELL: Thank you. No further questions.

EXAMINER BOJKO: Mr. Hamrock, do you need a brief recess?

THE WITNESS: I'm okay.

EXAMINER BOJKO: Let's keep pushing on then.

Mr. Yurick.

MR. YURICK: Somewhat incredibly, I do have a couple of questions.

- - -

CROSS-EXAMINATION

By Mr. Yurick:

Q. Mr. Hamrock, I don't know if you can see

me.

A. I can, yes.

Q. I don't know if you care to see me.

Hopefully you can hear me. Turning to page 6 of your

testimony at lines 1 through 11. Are you there?

A. Yes.

Q. You've been asked some questions about the percentage increases that you've identified there. I just want to ask you two questions. Number one, you've not made an attempt for purposes of your testimony to update any of these percentage cost increases; is that correct?

A. That is correct.

Q. And two, the percentage increases for coal, natural gas, copper and aluminum, in your testimony those percentage increases are not meant to represent specifically AEP's costs or the costs of those -- the cost of those elements to either AEP or any AEP affiliated entity; is that correct?

A. That's correct. They're not a direct representation of cost. They are leading indicators of the markets where we procure these commodities and these fuel sources.

Q. But I guess my question is, they don't represent specifically AEP's costs or the cost of any

20 AEP affiliated entity, correct?

21 A. Yeah. If you're asking did our cost of

22 coal at the plant go up by the percentages in this

23 section of the testimony, no, that's -- I agree with

24 you, that's not what this represents.

25 Q. That was my question. So thank God you

1 understood my question. I appreciate that.

2 Turning to page 12, this is at lines 3 to

3 6 on page 12, and earlier Mr. Boehm said that you

4 were discussing these things at kind of the

5 50,000-foot level so if my altitude is off, let me

6 know. But you testified there that the POLR charge

7 is based on an option valuation methodology described

8 by Mr. Boehm; is that correct?

9 A. That's correct.

10 Q. And that option methodology would be the

11 Black-Scholes option-pricing model; is that correct?

12 A. That's correct.

13 Q. Are you familiar with that model?

14 A. Somewhat.

15 Q. Do you know what that model is usually

16 used for?

17 A. For valuing options in the commodity

18 markets and other markets.

19 Q. It is not generally used for -- that test

20 is not generally used to calculate POLR risk to a

21 utility, correct?

22 A. We've applied that methodology because of

23 how it represents the customer's option to shop, and

24 in this case if the market price goes below the SSO

25 price.

Q. But I guess -- I saw you went to MIT, very impressive, but if you were to talk to one of your MIT professors about the Black-Scholes option-pricing model, that professor would not automatically assume you were talking about POLR risk, correct?

A. I don't know.

Q. This is page 14, I think this is a typo. It's page 14, line 14, and you say: "While AEP has contributed too many successes." You don't mean that they've contributed to too many successes; it's just one "O," right?

A. I actually have that second "O" scratched out on my testimony, so no.

Q. Okay. On page 15 -- this is the last line of questions I'll ask you so hopefully if this has been painful, at least it's been brief. You say: "The EDR is intended to benefit all stakeholders by attracting new or expanding businesses within AEP's

20 Ohio service territory thereby creating job

21 opportunities." Do you see that?

22 A. Yes.

23 Q. Then you go on to say: "AEP Ohio, its

24 customers, the communities it serves and the State of

25 Ohio benefit from job creation." Right?

A. Correct.

Q. Now, would you agree with me that if I were a steel manufacturer, say in the AEP's service territory, and one of those economic -- that an economic development grant went to one of my competitors, I might debate the value of that economic development grant to me as a competing steelmaker, correct?

A. I can see that happening, yes.

Q. You don't mean to address that in your testimony.

A. No. Not specifically.

MR. YURICK: I have no further questions. Thank you.

EXAMINER BOJKO: Thank you.

OCC?

MS. ROBERTS: Thank you.

MR. SMALZ: Your Honor, I'm sorry to interrupt, but both I and co-counsel for APAC have to

20 attend 1 o'clock meetings relating to the Governor's

21 Antipoverty Task Force, and since we just have three

22 or four questions, I wonder if we might go next?

23 EXAMINER BOJKO: That's fine with me.

24 Please proceed.

25 MR. SMALZ: Thank you, your Honor.

- - -

CROSS-EXAMINATION

By Mr. Smalz:

Q. Turning to the subject of the Partnership with Ohio fund, Mr. Hamrock --

EXAMINER BOJKO: You're going to need to turn the microphone on, please. It's on the back.

Thank you.

Q. Mr. Hamrock, on pages 8 and 16 of your testimony you discuss the Partnership with Ohio fund, and mainly I just want to follow up on a question or two that Mr. Bell asked you. It's possible I missed something or incorrectly understood your earlier testimony, but is it the case that if -- even if the company's requested ESP is approved, that the company could, if it so chose -- if it so chose -- decide not to spend a penny of the $75 million?

A. I don't see that happening, but I suppose if you're asking is there some way of guaranteeing

20 performance of those intended investments, that's not

21 a specific part of the plan.

22 Q. I see. And then under another scenario,

23 if the Commission rejects AEP's proposed ESP and AEP

24 finds that -- or rejects it and modifies the

25 company's proposed ESP and the company finds that

modification unacceptable, would it still be the company's intention to proceed with the $75 million Partnership with Ohio fund, or is that contingent on there being an acceptable ESP?

A. Without understanding the modifications in that example, I can't really answer how we would move forward with not only this component of the plan, but all components of the plan. Whether in fact we'd file an ESP or an MRO, there are a lot of questions that are opened up with a modification of the ESP plan, so I'd have to have a much more specific understanding.

Q. I see.

EXAMINER BOJKO: I'm sorry, could you talk into the microphone.

THE WITNESS: I think it's on, yeah.

Q. Thank you, Mr. Hamrock.

With respect to the load component of the company's Partnership with Ohio fund, is it the

20 company's intention that part of those funds be

21 allocated towards bill payment assistance for

22 customers?

23 A. They could be. We're certainly open to

24 that, though we'd want to make sure those are

25 targeted to customers who aren't eligible for other

forms of assistance to make sure it's a layer of support for customers who didn't have adequate support networks right now.

Q. And the company's collaborative will have some input into how much, if any, of those funds are allocated towards bill payment assistance; is that correct?

A. It could. The collaborative is in place to support the energy efficiency and demand response programs that we're launching. These could dovetail into that. They may or may not relate to the work of the collaborative.

Q. Finally, I just have two questions pertaining to the vision statement, the attached Exhibit JH-1. First, to your knowledge, Mr. Hamrock, is there any discussion in this statement of the challenges that are being faced or will be faced by low-income residential customers of AEP?

A. You're in JH-1, page.

20 Q. Anywhere in the document.

21 A. Anywhere in there? I don't recall

22 specific examples of low-income assistance in the

23 sustainability report, although we do view energy

24 efficiency programs targeted to low-income customers

25 as one form of assistance.

Q. And then finally I just want to follow up on a question or a line of questioning that Mr. Randazzo asked you earlier. Turning to page 33 of 68 of Exhibit JH-1, and specifically the reference in the box, the second bullet point in the box where it says: "Cost-effective energy efficiency and DSM are important components of our Integrated Resource Plan," is this Integrated Resource Plan document a publicly available document, or is it purely an internal company document?

A. It's an internal document.

Q. And since it is an internal document, does that mean it's unavailable to anyone outside the company?

A. Not necessarily. I'd have to review that with the team that puts that document together to see if there are specific excerpts of that plan we can share.

Q. I see.

MR. SMALZ: That's all I have, your Honor.

EXAMINER BOJKO: Thank you.

OCC?

MS. ROBERTS: Thank you.

- - -

CROSS-EXAMINATION

By Ms. Roberts:

Q. Good afternoon, Mr. Hamrock.

A. Good afternoon.

Q. A couple places in your testimony you address the company's sensitivity to the conditions of the ratepayer. On page 6, line 22, is it fair to say you indicate that the company's price sensitivity is heightened?

A. Page 6, line 22? I'm reading a statement that says -- oh, okay, it's line 21. I'm sorry.

Q. I'm sorry.

A. Price sensitivity is heightened, yes.

Q. And on page 10, line 19, is it fair to say that an objective of the company is to provide reasonable and predictable rates?

A. Yes.

Q. And on page 7, line 20, did you indicate in your testimony that you considered the cost to

20 customers of implementing this plan?

21 A. We are certainly sensitive to the cost to

22 customers, yes.

23 Q. What was the process that you used to

24 consider the cost to customers of this plan?

25 A. The process? We certainly looked at the

1 impact that the plan would have on customers' bills,
2 recognizing that the fuel component or the FAC
3 component has a significant impact in and of itself.
4 We proposed the phase-in plan that would moderate
5 that impact, give customers very predictable step
6 increases over the term of the ESP and give them time
7 to adapt using energy efficiency measures and other
8 programs that we're also proposing to help offset
9 some of those increases through consumption
10 management.
11 Q. The phase-in that you're proposing of
12 deferring costs over 15 percent, how was it
13 determined that costs over 15 percent of total bill
14 would be deferred?
15 A. How was the 15 percent chosen?
16 Judgmental. We saw -- we see increases happening
17 around us in other areas of larger magnitude,
18 understand those kinds of impacts, tried to find the
19 right balance of the phase-in steps and a moderate

20 deferred balance in the subsequent period, although

21 we're certainly open to other interpretations, and

22 the steps themselves could be shaped differently, and

23 the deferral could be shaped differently.

24 Q. Who made that determination?

25 A. A team of us working together.

Q. And who is that team?

A. Myself, Mr. Baker, Witness Baker, others on the team who did some of the analysis.

Q. You did what?

A. Did some of the analysis to understand the deferral impact of a 15 percent step.

Q. Was one of your concerns in filing this application to attempt to minimize the cost requested of customers?

A. To minimize the cost requested?

Q. When possible.

A. Sure. Yeah.

Q. All right. You had said that in Virginia the company received a 43 percent increase in rates. Is that a -- did I understand your testimony?

A. My understanding is in the last year our customers have seen a 42 percent total increase, much of that from a fuel adjustment.

Q. And did the company have an order in your

20 fuel adjustment clause case in October of this year?

21 A. In which jurisdiction?

22 Q. Virginia.

23 A. I don't know.

24 Q. You don't know whether the fuel was

25 adjusted in Virginia this year?

A. Yeah, it was. I don't have specific knowledge of that filing, though.

Q. Do you know whether it was adjusted up or down?

A. The fuel in Virginia? I don't know.

MS. ROBERTS: May I approach the witness?

EXAMINER BOJKO: We have electronic exhibits now, but we can't get a computer to work up here.

MS. ROBERTS: It's hibernating. It's beyond me.

MR. NOURSE: Your Honor, I don't think holding a computer up to somebody, or a Blackberry is a fair way to do cross-examination. Parties can't look at information at the same time and review it. I think there were objections earlier to company questions about using orders in other jurisdictions. If, you know, if the witness --

EXAMINER BOJKO: You're raising different

20 objections.

21 MR. NOURSE: She's already asked him if

22 he heard of that proceeding, what happened in that

23 proceeding, and he didn't have any knowledge of it.

24 EXAMINER BOJKO: You have multiple

25 objections. If your objection is the media type,

often people print out internet pages and bring them in so I don't see it --

MR. NOURSE: When they do that, though, they provide copies, your Honor.

EXAMINER BOJKO: Not necessarily, Mr. Bell used a document that he didn't have copies of. If your objection is relevance, I think the witness is the one who raised the issue so I'm going to give Ms. Roberts a little leeway, but I'll keep that in mind as we go through this.

MS. ROBERTS: Your Honor, if counsel would stipulate that the company in Virginia on October 15th, 2008, had an 11.7 decrease in its fuel cost, then I can go on to another line of questioning.

MR. NOURSE: Do you know what that is on a total bill basis? That's the comparative he can give you.

MS. ROBERTS: I'm just asking if this

20 piece of information --

21 EXAMINER BOJKO: Let's ask the witness if

22 he knows about it and see if the witness knows

23 anything. You don't need to have a debate between

24 counsel. Ask a question, Ms. Roberts.

25 Q. (By Ms. Roberts) Are you aware -- you

1 testified that you didn't know what the rate change
2 was for fuel in Virginia.
3 A. In the October proceeding you asked
4 about?
5 Q. Did you ever know that?
6 A. No. I don't recall knowing that
7 information at any point. I'm referring to the
8 cumulative impact of proceedings in the last year in
9 our Virginia jurisdiction.
10 Q. Would it surprise you, Mr. Hamrock, given
11 how fuel prices have changed over the last several
12 months that the company received a decrease in its
13 fuel rates in Virginia?
14 A. Subject to the trueup mechanisms that
15 might be in place in any jurisdiction that wouldn't
16 surprise me the way it -- as volatile as the market
17 has been this year.
18 Q. Okay. Thank you.
19 In the company's effort to minimize costs

in this application where possible -- is that a fair characterization of your testimony? I want to make sure I understand.

A. I would have to ask that to be read back.

Q. Well, would you accept that as -- does the company try to minimize costs in the application

where possible?

A. We try to balance cost and performance objectives such as reliability, customers' needs, provide for that at minimal cost, yes.

Q. You propose an increase to the POLR charge in this application, is that right, Mr. Hamrock?

A. That is correct.

Q. And are you expecting customers to start shopping in CSP when this -- if this ESP is implemented?

A. The methodology we have proposed builds in the probability of customer shopping based on volatility of market prices and the chance that they might be, in fact, below the standard service offerings that we're proposing in our plan.

Q. But doesn't the application state that the ESP is more favorable in the aggregate than the MRO?

20 A. Yes, it does.

21 Q. So why would customers shop if the ESP is

22 more favorable than the MRO?

23 A. It sounds like we're mixing market and

24 MRO. The customers have access to the market. AEP

25 would only have access to an MRO that's in part based

on market prices, and our MRO calculation reflects the projection in the market as we know it today, but that can change over time. The customers would have access to shop --

Q. It can. But based on what you filed in the application, your filing shows that the MRO is higher and less favorable than the ESP; is that correct?

MR. NOURSE: Objection, your Honor. She's saying that's -- that's mischaracterizing the filing. She is saying that's different from what he just said. The filing basically too does show the expected -- in statutory terms is expected to result in the MRO. That's the projection, and that's exactly what he said.

Q. I'll be willing to rephrase my question, I apologize. Your expected MRO for the period that this plan would be in effect is higher, is it not, than the ESP?

20 A. That's correct.

21 Q. So customers would not have an incentive

22 to shop if the company's correct and the MRO is

23 higher as expected.

24 A. They wouldn't shop to an MRO. That's why

25 I'm a bit confused by the question. They would shop

1 based on the market price, not an MRO price.

2 Q. Isn't the company's expected MRO a proxy

3 for market price?

4 A. Could you rephrase that question or

5 restate that question? Could I have that read back?

6 (Record read.)

7 A. No. No. The MRO reflects 10 percent of

8 the market price blended into the SSO rate.

9 Q. I understand there's a 10 percent

10 blending of the market price in the MRO. But on the

11 whole your testimony is, if I understand, that the

12 expected MRO is not reflective of an expected market

13 price during the period of this plan.

14 A. The expected MRO -- could you ask that

15 one more time? I'm not sure I'm following the line.

16 MS. ROBERTS: Will you reread the

17 question, please?

18 (Record read.)

19 A. No, I disagree. The expected MRO does

20 reflect our expectations of market price.

21 Q. So if you're correct in your filing and

22 the market prices are the MRO, as compared to the ESP

23 filing, wouldn't customers have a disincentive to

24 shop? The MRO would be higher than the ESP.

25 A. If those expectations in the market hold

1 true, yes, but the market has proven to be volatile
2 and can change abruptly, so --
3 Q. Of course it can, but that's your best
4 judgment as of the filing and as of today.
5 A. Correct.
6 Q. That the MRO, the expected MRO, will be
7 higher than the ESP.
8 A. Looking forward over the three-year
9 period, that is correct.
10 Q. Okay. And even though that's the case,
11 you're proposing to increase the POLR charge to CSP
12 over 600 percent.
13 A. We're proposing a POLR rate that's based
14 on the volatility of market prices, and using the
15 Black-Scholes option valuation methodology reflects
16 the volatility of that market price, not a point in
17 time in view of the market but the volatility itself
18 compared to our SSO rates. And the customer clearly
19 has the option to shop if those market prices -- they

20 have the option to shop at any point, but this

21 approach reflects the probability that they would

22 shop under a scenario where market prices are lower

23 than the SSO.

24 Q. I'm sorry, I didn't hear the end of what

25 you said after "it reflects the possibility or

probability."

A. It reflects the probability that customers would shop or would switch under a scenario where the market price is lower than the SSO rate.

Q. And the POLR charge, I understand from the testimony filed in this case, is to compensate the company for risks of customers leaving AEP and coming back to AEP. Is that a fair characterization?

A. That's correct. As Mr. Baker's testimony supports, it reflects the risk the company faces that customers would shop in a time -- choose market at a time when market prices are lower than SSO and can, in fact, come back when that condition changes.

Q. So I understand, your testimony is that the market can change and that AEP may experience this risk of customers shopping. That's your testimony, isn't it?

A. AEP does experience this risk.

Q. But AEP is not in its filing expecting to

20 experience this risk at the implementation of the

21 ESP.

22 A. Based on the --

23 Q. Filing.

24 A. -- expectation of market prices at the

25 time we calculated the MRO comparison. And what you

propose as those prices are higher than the ESP, that's correct, although the valuation methodology is based on the changing nature of the market price, not the point in time estimate.

Q. Well, if you're trying to minimize costs as much as possible in this filing, why would you propose to increase CSP's POLR charges 600 percent when your filing does not expect there to be any shopping based upon the evidence presented?

A. That POLR charge reflects the value CSP customers have relative to the market price volatility that we see going forward.

Q. Well, are there other approaches you could take to this?

A. I don't know. I'm sure there are other approaches, though we've chosen to propose the Black-Scholes option valuation methodology because we think it fairly represents the customers' rights to shop and the company's phase.

20 Q. For example, should the market change,

21 couldn't you ask the Commission to implement your

22 600 percent increase in POLR charge to CSP instead of

23 implement it now?

24 A. Should the market change?

25 Q. Should the market change to encourage

shopping, couldn't you ask the Commission to implement it then instead of implementing it now when the company's best judgment is that it won't change, the customers won't shop?

A. Again, I think it represents the risk based on the future volatility or the experienced volatility of the markets, and to introduce it only after customers have shopped or after the market's have changed seems like it misses the point.

Q. So for AEP it's a risk, but it's an uncertain risk of when the risk could occur.

A. It's like an insurance policy, right? I mean, you don't know when you might have a flood or you might have a fire. So in terms of valuing that risk, it's based on the probability on observed market volatility versus our SSO price.

Q. But for customers it's a certain risk, isn't it? They're going to -- CSP is going to have to pay, if your proposal is approved, over a

20 600 percent increase in POLR charge.

21 A. For customers it's a price of the option.

22 Q. I'm sorry?

23 A. For customers it's a price, not a risk.

24 Q. Well, they'll have to pay it, though.

25 They don't have any uncertain risk of whether they'll

pay it, your proposal is that they will pay it?

A. Yeah. I'm reacting to the -- that it's a risk to customers. I didn't see it as a risk. I see it as . . .

Q. Okay. Now, when you went through the process of considering the effect of the application on customers, did you get any input from customers?

A. In the form of -- we certainly understand our customers through interaction with our customers, multiple different surveys that we participate in to understand customers' expectations. For example, we know that 85 percent of our customers are satisfied or very satisfied with service reliability, though what we see changing over time is more of them represent that they expect higher reliability in the future, often attributed to the digital economy, the digital age that we live in.

So those kinds of inputs from customers were certainly reflected.

20 Q. Let me ask the question a little more

21 specifically. Regarding the increase in operations

22 and the effect that it would have on customers, did

23 you solicitate any information from customers

24 themselves on that issue?

25 A. Did we ask customers their sensitivity to

price increases?

Q. Well, did you do anything to solicit information from customers relative to this filing? Price sensitivity would be a good place to start.

A. Not specifically relative to what should the filing look like. There weren't customer focus groups or any such actions. We have a broad sense of our customers' needs, customers' expectations from daily interactions with them, and we know the customers we serve from the focus groups and market research techniques that I've mentioned already, so we do monitor that over time. We understand the changing trends with our customers.

Q. Now, in setting the 15 percent target, did you and Mr. Baker have any -- do you have day-to-day contact with customers about how prices affect them?

A. I don't day to day, but I certainly have been traveling the state, meeting with many customer

20 groups. I understand what customers are facing.

21 I've spent a lot of time with customers in

22 communities all across Ohio, and I understand their

23 sensitivity to costs. I also understand that they

24 know -- that they recognize costs are increasing.

25 They see what's happening with fuel and other

1 commodities, and they certainly understand that.

2 And so to say that it was, you know, very

3 specific input to our plan based on empirical

4 research, I wouldn't agree with that, but we were

5 certainly generally aware of our customers' needs.

6 Q. Did you attend any of the public hearings

7 in this case?

8 A. I did not personally attend.

9 Q. Why is that?

10 A. I wasn't available to attend them.

11 Q. Do you think it might be important for

12 you to attend to hear what the customers' comments

13 are on your application?

14 A. I've heard what the customers' comments

15 were, and a number of members of my staff were there.

16 Q. Have you read the plethora of letters

17 filed with this Commission opposing the increase

18 proposed in this application?

19 A. I don't know how many are in a plethora.

20 I've read some of the letters, but not all of them.

21 Q. Plethora just means a lot. I didn't want

22 to say a number because I don't know what the number

23 is.

24 When you traveled the state talking to

25 customers, are you referring to conversations and

1 meetings of chambers of commerce and civic groups?

2 A. Civic groups, specific customer sites,

3 meeting with customers themselves, meeting with some

4 of the community action agencies, meeting with

5 elected officials, thought leaders in the

6 communities, so a broad diverse group of stakeholders

7 I've met with over the last couple of months.

8 Q. Were these meetings to discuss AEP

9 partnerships or special contracts, or were they

10 concerned with increases to residential customers of

11 this application?

12 A. They were very broad in nature, what's

13 happening with the economy in those regions, what are

14 their customers' needs, what are the local

15 community's needs, describing what we see as the

16 future relative to our electric security plan and

17 other changes going on, such as anticipation of

18 climate legislation in the future, so very

19 broad-based discussions around energy and the economy

20 and environment.

21 Q. You said you weren't available to attend

22 the public hearings. Have you read the transcripts?

23 A. I haven't read all the transcripts, no.

24 Q. Have you read any of the transcripts?

25 A. No. I've sampled them, but I haven't

read them all.

Q. And you do know they're available for you to read.

A. I'm aware of that.

Q. Will you read them before this case is concluded?

A. I can't commit to reading all of those.

Q. On JH-1, page 8 of 68.

A. Page 8?

Q. 8 of 68, not page of the report but the page under where it says Exhibit JH-1.

A. Yes.

EXAMINER BOJKO: I'm sorry, which page?

MS. ROBERTS: 8 of 68.

Q. The report discusses -- on the lower right-hand corner the report discusses stakeholder engagement; is that correct?

A. That's correct, yes.

Q. In fact, it appears in the carryover

20 sentence from page 8 to page 9 that AEP had eight

21 stakeholder meetings. Do you see that?

22 A. I do.

23 Q. I'm sorry?

24 A. I do see that.

25 Q. Okay.

A. "American Electric Power conducted eight stakeholder meetings in the process of preparing this report." That statement? Yes.

Q. What Ohio stakeholders did you meet with?

A. I don't know the entire list although I do -- for this report? I attended one or two of those sessions, and there were environmental groups in attendance, some of our universities, some major customers, and I think this round I think we broke it down into customer, employee, and other stakeholders, three different segments.

Q. Consumer advocates, did they participate in this?

A. They did, yeah.

Q. What consumer advocates?

A. I don't know the entire list of consumer advocates.

Q. In fact, if you turn to page 61 of 68 of your report, of JH-1, I'm sorry, isn't there a

20 section entitled "Working with Advocates"?

21 A. Working with -- yes, top left.

22 Q. And do you see any consumer advocates

23 identified in this section?

24 A. No. That's specifically talking about

25 stakeholder groups working on climate change strategy

and plans for carbon capture and storage. That statement, is that what you're referring to?

Q. Yes, the Working with Advocates section.

EXAMINER BOJKO: So that's not necessarily the eight stakeholder meetings that were referenced previously?

THE WITNESS: Yeah. This statement appears to me to be looking backwards after working with a series to develop a 2006 report. We pledged to hold quarterly stakeholder briefings, and then although not quite quarterly, we did hold meetings with and then list as number of other groups there, specifically around climate change strategy.

Q. Do residential customers represent the majority of AEP's customers?

A. By account, yes.

Q. And I would assume you would want input from residential customers and representatives of residential customers as you develop -- what is it?

20 -- vision for the future?

21 A. Uh-huh.

22 Q. Is that what it's called?

23 A. Yes, I would agree with that. Absolutely

24 agree with that.

25 Q. In looking at what costs can be

minimized, if possible, in this filing, did the company change the way it allocated off-system sales?

A. Not to my knowledge, no.

Q. Are any off-system sales allocated to customers?

A. In AEP-Ohio's rates, in current rates?

Q. Yes.

A. I don't specifically know.

Q. In this plan were any off-system sales credited to AEP-Ohio customers?

A. I would defer to Witness Nelson and Baker for that question.

Q. Do you have any idea what the magnitude of the company's off-system sales are?

A. AEP-Ohio's? I do.

Q. What are they -- what is that?

A. There was in discovery, I think, shared with all the intervenors, something like 600 million in sales. I don't have that with me.

20 Q. Just for AEP-Ohio.

21 A. Yes.

22 Q. All right.

23 A. All the companies.

24 Q. Do you think that it would help reduce

25 the costs customer have to pay if those sales were

shared with Ohio customers?

A. It could certainly impact rate design, yes.

Q. I'm sorry?

A. It could certainly impact rate design, yes?

Q. And actually reduce the cost to customers of this plan, couldn't it?

A. I suppose, yes.

Q. Okay. Can you look at the nonfuel base generation and the fuel adjustment clause? Those increases are just expected costs the company may have in the future; are they not?

MR. NOURSE: Could I have the question read back?

(Record read.)

MR. NOURSE: "And" the fuel adjustment clause?

MS. ROBERTS: In.

THE REPORTER: I heard "and."

MR. NOURSE: I object. I don't think that's a correct statement of the FAC.

EXAMINER BOJKO: Can you read that again?

(Record read.)

MR. NOURSE: Perhaps she could just

rephrase. It might be helpful.

MS. ROBERTS: All right. I'll be happy to do that, your Honor.

Q. (By Ms. Roberts) The nonfuel base generation annual adjustments in this filing are what, Mr. Hamrock?

A. The nonfuel base not in the FAC, that's what confused me the first time, you said in the.

EXAMINER BOJKO: Finish this line of questioning, and then whenever it gets to a good time to break, we need to break.

MS. ROBERTS: All right. Let me try again, Mr. Hamrock. I apologize.

Q. In the nonfuel base generation annual rate adjustment proposed in this plan, is it fair to say that those increases are not based on costs?

A. No.

Q. And they're based on, did you say, an expectation of spending?

20 A. They are based on expected inflation,

21 expected environmental spending going forward in the

22 three-year plan, and they are based on the automatic

23 increase provision of Senate Bill 221. So if the

24 spending associated with inflation exceeds that 3 or

25 7, I think you're referring to the 3 percent and

1 7 percent provisions in the plan, the company takes
2 that risk.
3 Q. The company doesn't take that risk,
4 though, if you get the nonfuel base generation annual
5 rate increase. This compensates the company for
6 those risks, doesn't it?
7 A. No. I'm referring to it's a set increase
8 versus a traditional cost-of-service revenue
9 requirements based increase. It's the . . .
10 Q. If you're trying to make sure customers'
11 costs are minimized where possible, why wouldn't you
12 just include the costs reflected in these nonfuel
13 base generation annual rate adjustments in the fuel
14 adjustment clause?
15 A. They're not fuel-related costs. They're
16 not provided for under a fuel mechanism.
17 Q. Well, but if you don't want to put them
18 in the fuel adjustment clause, you could have a
19 tracker for these costs, couldn't you, so that

20 customers only pay the costs the company actually

21 incurs instead of being required to pay for an

22 expectation of the company's spending in these areas?

23 A. I don't know about alternative designs

24 for this. This is a very straightforward automatic

25 increase associated with the nonfuel component of

generation and . . .

Q. What happens if the company's expectation of spending is less than the proposed annual rate adjustments?

A. Which proposed rate adjustments?

Q. The nonfuel base generation annual rate adjustments. What happens if the company's expectation of spending is lower than the annual adjustments proposed in the filing?

A. They are not subject to any trueup provision, per se.

Q. So you keep -- the company would keep those funds; is that correct?

A. Yes.

MS. ROBERTS: I think this is a good breaking time.

EXAMINER BOJKO: Okay, that would be great. Can we go off the record.

(Discussion off the record.)

(At 1:19 p.m. a lunch recess was taken until 2:30 p.m.)

- - -

Wednesday Afternoon Session,

November 19, 2008.

- - -

EXAMINER BOJKO: Let's go back on the record. Mr. Hamrock, are you ready to proceed?

THE WITNESS: Yes, I am.

EXAMINER BOJKO: You realize that you are still under oath.

THE WITNESS: I do.

EXAMINER BOJKO: I believe we were still with Ms. Roberts. Would you please proceed?

MS. ROBERTS: Thank you.

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CROSS-EXAMINATION (continued)

By Ms. Roberts:

Q. Mr. Hamrock, if you would please turn to page 11, line 12 of your testimony.

A. Okay.

Q. I'm just trying to catch up with you. In

20 the 15 percent per year targets in the filing are

21 government mandates included in the 15 percent or

22 would they be in addition to the 15 percent?

23 A. Current government mandates are included

24 and any new government mandates that we can't

25 anticipate are not included.

Q. And so they would be deferred as well?

A. We --

Q. Any mandates above the levels in the application.

A. I don't know. I think we'd have to explore that at the time such mandate would occur.

Q. Would you require additional Commission authorization to defer government mandates above what's the current level in the filing?

MR. NOURSE: Objection. Calls for a legal conclusion regarding authorization, future need for authorization.

EXAMINER BOJKO: I think the witness can testify as to what his understanding is of the company's application, if it's embedded in the application or if it will require another step, if he knows.

Please answer.

A. It's subject to the nature of the new

20 mandate. This is meant to reflect unanticipated new

21 mandates and, depending on the nature of those

22 mandates, we may have to come back before the

23 Commission.

24 Q. And I guess what I'm just trying to

25 understand is whether you could defer the costs for

1 government mandates or whether you expect to as a
2 company incur additional costs you might have --
3 defer additional costs you might be incurring for
4 government mandates as part of this application.
5 EXAMINER BOJKO: I'm not sure I
6 understand the question.
7 MS. ROBERTS: I'll ask the question
8 again.
9 Q. I'm just trying to you understand,
10 Mr. Hamrock, if the company incurs additional
11 government mandates requiring them to spend money, if
12 pursuant to this application you intend to defer them
13 or whether you think you need to ask for authority to
14 recover them. I don't understand.
15 A. We haven't stated any intent regarding
16 recovery of future government mandates.
17 Q. So should I take that as you're not
18 requesting recovery of any additional future
19 mandates --

20 A. This is --

21 Q. -- after this application?

22 A. No, this is -- we have not included

23 recovery of future government mandates in this

24 application.

25 Q. Are you asking in this application to be

1 able to recover any future mandates that aren't
2 included in the application?
3 A. Again, I think it depends on the nature
4 of future government mandates. I can't answer that
5 question without knowing what those mandates might
6 be.
7 Q. Do you know whether your understanding is
8 consistent with Witness Nelson's understanding of how
9 government mandates will be handled?
10 A. Is there a specific portion of Witness
11 Nelson's --
12 EXAMINER BOJKO: I'm sorry, existing or
13 new?
14 MS. ROBERTS: New.
15 Q. Give me a moment, I'm sorry. So much
16 testimony, so little time.
17 We'll ask the other witnesses about this
18 question.
19 A. Okay.
20 Q. I'll withdraw that question.

21 For the fuel adjustment clause that you

22 identify on page 11, line 7 of your testimony, are

23 you proposing a dollar-for-dollar recovery for fuel

24 costs?

25 A. Dollar-for-dollar recovery of fuel costs.

Q. In other words, as a typical rider might operate under formula rates. You expend money for fuel. You apply to the Commission for recovery of the fuel and carrying charges, or you, if you overrecover, you credit back to customers. Would it be an actual dollar-for-dollar reconciliation?

A. Trued up as we go forward?

Q. Yes.

A. Yes.

Q. But is it trued up -- do you use a base that's different than, for example, the 2008 actual fuel costs?

A. As Witness Nelson lays out in his testimony, the base is derived from the formerly frozen EFC rate in the 1999 base year adjusted forward for the 3 percent and 7 percent increases, applying those increases, 3 percent per year for '5, '6, and '7 -- or, '6, '7, and '8, to the CSP base rate, and 7 percent per year for the Ohio Power base

rate to reflect what is currently in rates.

Q. So the incremental rates over that base rate are trued up; is that what you're saying?

A. Going forward?

Q. Going forward.

A. Yes. It would be trued up based on

actual fuel expenditures in subsequent proceedings.

Q. Why wouldn't you true up the entire fuel adjustment clause to actual expenditures once you have 12 months of actual expenditures in a fuel adjustment clause?

A. I'm not sure I understand the difference there, the entire versus the over or under.

Q. Versus the incremental trueup. You're never truing up the base from the prior period; is that correct?

A. The base is a one-time determination of what was previously in rates prior to implementation of the FAC mechanician so there's no trueup to that. There's trueup of the actual expenses going forward relative to that base.

Q. But it's relative to the base.

A. Yes.

Q. So it would be a shortfall of recovery of fuel costs or an overcollection of fuel costs as

20 related to the base. Am I understanding?

21 A. No. As related -- going forward as

22 related to actual expenses compared to what was set

23 in rates in this proceeding.

24 Q. So for the first year we're comparing to

25 a base, and then going forward it's an actual trueup

to the company's actual expenses as delineated in the fuel adjustment clause?

A. Right. That's correct.

Q. Does the trueup in the fuel adjustment clause track the period of the fuel deferrals through 2012, or does the trueup only occur through the period of the ESP plan?

A. Witnesses Roush and Assante both talk about the deferral mechanisms and the trueup mechanisms in their testimony, and so I think -- are you asking me the in period, during the three-year period?

Q. Yes.

A. How does that true up? Under our proposed plan there would be a deferred fuel expense created starting in the first billing period of 2009, and as that deferral balance builds in subsequent proceedings, it would be up to the discretion of the Commission.

20 We're certainly open to alternative ways

21 of doing this, but if there was a -- let me think

22 about this -- an over -- if we spent less on fuel

23 than we had reflected in rates, we would bill down

24 some of that deferral going forward. So the deferral

25 mechanism can be a cushion, if you will, throughout

the period.

Q. Would there be a final trueup in 2012?

A. A final trueup to set the ongoing --

Q. Yes.

A. I imagine there would have to be, yes.

Q. You testified that -- your testimony prefiled is that you're addressing the policy as it relates to the various parts of this filing. Can you tell me what the policy considerations are in implementing an energy efficiency and demand response in this filing? And maybe to make that a simpler question, are your goals just to meet the terms of SB 221, or do you have other energy efficiency and demand response?

A. Our goals are certainly to meet the requirements of the legislation and to do so through programs that serve all classes of customers and make those opportunities available to all segments of our customer base because we believe there are benefits

20 to all customers for participation in energy

21 efficiency programs.

22 Q. If you have customers who -- for

23 instance, industrial customers that have an

24 interruptible load with AEP, could you bid their load

25 into the PJM demand response program?

A. I believe we could.

Q. And could you be paid for that?

A. Through the PJM program? I'm sure we could. I don't have --

Q. And have you done that?

A. I don't have specific familiarity with that mechanism and how that would apply.

Q. Does AEP bid some of its load into the PJM demand response program now?

A. I don't know for sure. I believe we do, but I can't cite a specific example.

Q. Okay. But yet the company doesn't want the customer to be able to bid that load into the PJM demand response program and get paid. Is that the company's position?

A. The company doesn't believe it's appropriate for the customers to participate directly in those programs when purchasing the SSO tariff rates.

20 Q. What difference does it make whether

21 they're on SSO rates, cost-based tariff rates, or

22 market rates? Why should that even matter?

23 A. There are -- philosophically there's the

24 opportunity to buy from a regulated tariff rate and

25 essentially participate in a wholesale market on the

other side without purchasing in that market at the same time.

Q. But isn't it the company's position that there aren't cost-based rates in Ohio?

A. I don't know that I agree that there aren't cost-based rates in Ohio. There are certain aspects of the rates that are regulated on a cost basis; other aspects that are regulated in very different forms.

Q. Do you review the company's filings made with the Securities and Exchange Commission?

A. I do.

Q. And did you specifically as president of AEP-Ohio review the regulatory section of the company's latest 10-Q filing with the Securities and Exchange Commission?

A. I did.

Q. And wasn't there a statement in that filing that Ohio doesn't have cost-based regulation?

20 A. Traditional cost-of-service revenue

21 requirements determination of rates, yes, that's

22 true.

23 Q. Have you thought about what effect the

24 prohibition you've proposed to the Commission

25 regarding retail customers bidding into the PJM

demand response program would have on demand response and energy efficiency programs in Ohio?

A. We are proposing demand response and energy efficiency programs, and as we've thought about the PJM programs, they can -- and the programs that we've proposed are responsive to Senate Bill 221 and the peak demand reduction goals of the state, and it's my understanding that those PJM programs would not -- that the load under those programs would not be eligible for credit under the state mandates and so they could, therefore, drive additional costs to the other customers for participation in that. We think the Commission needs to weigh in on that issue.

Q. Does the Commission need to weigh in on whether you should have monopoly service for demand response programs in Ohio for retail customers?

A. I don't think of it as monopoly service. I think of it as our customers who are our retail customers. Certainly customers who shop might have

20 other options.

21 Q. Do you think that's a distinction that

22 might be made by a curtailment service provider,

23 whether the customers they're soliciting are retail

24 or shopping customers?

25 A. Could you restate the question?

(Record read.)

A. I don't think they have made that distinction.

Q. And have you -- certainly you must have discussed your position with PJM about your retail customers participating in its demand response programs.

A. I haven't directly discussed that with PJM. Witness Baker deals with this issue and Witness Roush deals with it in his testimony as well.

Q. And what's your understanding of, as president of the company, PJM's position about whether your customers should be able to participate in the programs?

A. I don't have a full understanding of that, though I do believe they have indicated that it's an issue for the states to decide.

Q. Are they -- do you know whether they're happy about Ohio customers not being able to

participate in their programs?

MR. NOURSE: Objection.

EXAMINER BOJKO: Sustained.

Q. Do you know whether they've objected to Ohio retail customers being prevented from participating in their programs?

A. I don't. No, I don't know.

Q. Based on -- I assume as president of the company Witness Baker's discussed with you the status of this issue with PJM. Has he?

A. To some degree, yes.

Q. And to the degree he has, what has he told you?

A. What I already stated, that PJM has indicated that the states have a right to decide.

Q. And out of the 11 states that AEP serves, is it accurate to say that 10 of them permit participation in PJM's demand response programs?

MR. NOURSE: Objection. No foundation for that question.

MS. ROBERTS: Witness Baker testified about this. It's in the record.

MR. NOURSE: I don't believe so. He indicated Kentucky --

EXAMINER BOJKO: I don't believe that

20 specific fact's in the record. How about you ask the

21 witness if he knows.

22 MS. ROBERTS: I will.

23 Q. (By Ms. Roberts) How many states does AEP

24 serve?

25 A. Based on what I heard in Witness Baker's

1 testimony in the V.E case, I'll call it, he did say
2 that Kentucky.
3 Q. That Kentucky doesn't permit?
4 A. That's correct.
5 EXAMINER BOJKO: I'm sorry. I don't
6 think that's the question she asked.
7 Could you reread the question?
8 MS. ROBERTS: I will reask it, your
9 Honor.
10 Q. How many states does AEP serve, AEP?
11 A. Eleven.
12 Q. And you're aware that Kentucky prohibits
13 its retail customers from participating in demand
14 response programs.
15 A. That's correct.
16 Q. And Kentucky is a traditional regulated
17 cost-of-service state.
18 A. That's correct.
19 Q. All right. And you're not aware of any

20 other states that have adopted your position.

21 A. No, I'm not.

22 Q. Out of the $75 million that you're

23 proposing to spend in your partnership funds, part of

24 that's for energy efficiency.

25 A. That's correct, low-income energy

efficiency programs.

Q. Is the part of that for energy efficiency in addition to or included in the rider?

A. In addition to. It's separate and distinct from the energy efficiency programs for which the costs are recoverable in the riders.

Q. On page 17, line 4 of your testimony you discuss energy price risk management contracts. Can you tell me what those are?

A. Those would be the kinds of structured deals that a participant in the wholesale market might take part in managing -- options to manage their future risk of price movement in the market.

Q. So it would -- AEP-Ohio would enter into a contract with these customers to manage their wholesale market participation?

A. No. We are simply indicating here that we'd be willing to put on seminars for any of our municipals or other customers who want to participate

20 in that and learn the basics of hedging, not in the

21 context of any kind of deal with them, but simply as

22 an educational opportunity because we have a very

23 talented organization that does this kind of work and

24 could provide that kind of value for customers who

25 might want to participate in the markets.

Q. Will you be teaching them the Black-Scholes model?

A. That's certainly a part of it, yes.

Q. You will be?

A. I can't say what we will or won't do, but Black-Scholes option valuation techniques are certainly a part of those activities.

Q. But are they a part of what you're going to recommend and teach municipals about, for example?

A. We haven't developed a curriculum here. I'm simply saying that the Black-Scholes model is a foundation for those instruments in those markets.

Q. And if it's a foundation, can you tell me what other companies use it as a foundation for measuring the kind of risk you've used it for in this case?

A. For POLR specifically? Is that what you're asking?

Q. For POLR.

20 A. I don't know. I'm not aware of other

21 companies having used it for POLAR valuation, but

22 other companies use it routinely in these markets.

23 Q. "In these markets" being?

24 A. The wholesale markets.

25 Q. Equity markets or --

A. Well, energy markets.

Q. Energy markets.

A. Commodity markets, equity at the markets.

Q. What other purposes do you employ Black-Scholes for within AEP?

A. Than AEP?

Q. What other purposes do you employ Black-Scholes for in AEP?

A. Oh, I don't know.

Q. Do you know if any other part of AEP uses Black-Scholes for any purpose other than what it's been offered for in this case?

A. Other than the POLR?

Q. Uh-huh.

A. It's used as, again, as a modeling foundation for the kinds of instruments that are traded in the wholesale markets so we certainly use that model there as well.

Q. By AEP?

20 A. Sure.

21 Q. And what departments is it used in?

22 A. The commercial operations department.

23 Q. And the commercial operations department

24 uses it to measure what?

25 A. Risk and value associated with options in

1 the wholesale market.

2 Q. Energy options or --

3 A. Sure.

4 Q. -- equity option?

5 A. Energy for sure.

6 Q. Energy options.

7 A. Yes.

8 Q. And what is the commercial operation

9 responsible for?

10 A. Responsible for our generation dispatch

11 in the wholesale markets, responsible for day-ahead

12 market operations, future market operations, buying

13 and selling energy with multiple counterparties in

14 the territories that we serve.

15 Q. So it sounds like it's a regular part of

16 your commercial operations.

17 A. "It" meaning?

18 Q. Black-Scholes.

19 A. Yeah. It's a model. It's, you know, a

20 generally accepted model that's used widely in lots

21 of different markets.

22 Q. And are you telling me that it is

23 specifically used in the commercial operations by AE

24 employees to rely upon in conducting the functions

25 you've just described that they conduct?

A. I'm sure that it's embedded in the techniques they use in these markets.

Q. Do they use other models embedded in these techniques?

A. I wouldn't know. I'm sure there are multiple different models that they use.

Q. Do you mean to say it's one of the models they use, or it's the primary model they use?

A. I'm not deeply familiar with all of the different techniques they use, so I'm --

Q. But you know about Black-Scholes.

A. Sure. Yeah.

Q. But you don't know about what any of the other techniques are they might use or methodologies?

A. Well, there are many different aspects of that business, so I mean to -- such a broad question about the models they use, I'm not sure how to answer that other than to say there are many different models they would use for the functions that they

20 perform for the company.

21 Q. You discussed earlier that -- or maybe

22 you discussed with other attorneys on cross -- that

23 fuel prices have changed since your filing.

24 A. That's correct.

25 Q. Is there any reason you wouldn't update

fuel prices to what they currently are for the purposes of the Commission making a decision in this case?

A. Well, part of the discussion earlier was also that we don't buy all of our fuel in the spot market so many of the fuel contracts that we have run out multiple months, and so we will certainly true up in future proceedings the cost of fuel associated with this plan and adjust for over- or undercost factors related to the rates that are set with this plan.

Q. And those trueups would include transportation?

A. They would include all -- yeah, I'm sure it would be a fuel prudence review of the fuel costs.

Q. So then your testimony, if I understand it, page 6, lines 1 through 11 where you identify the increases in fuel costs, those increases may or may not be relevant to what's included in this filing.

20 A. They are examples of what's happening in

21 the markets that are leading indicators of what we'd

22 expect as a fuel contract. As a long-term contract

23 rolls off, we often see what the future market prices

24 look like as an indicator of which direction those

25 contract prices are likely to go because the

1 providers certainly have the opportunity to sell at
2 these prices in the market.
3 Q. But you've not included any futures
4 contracts in your filing, have you, at these prices
5 that you identify in your testimony on page 6?
6 A. Futures contracts as in spot market at
7 these prices, is that what you mean?
8 Q. Any contracts at these prices.
9 A. I don't have all the detail, but these
10 are, again, are market prices. Mr. Nelson lays out
11 in his testimony the buildup of the costs in our
12 proposed FAC.
13 Q. As president of AEP-Ohio are you
14 responsible for oversight of the company's budgeting?
15 A. Of AEP-Ohio's budgeting?
16 Q. Yes.
17 A. Yes.
18 Q. And is your budget on a calendar year or
19 fiscal year?

20 A. Calendar, yes.

21 Q. Calendar year.

22 A. Yes.

23 Q. So that your budget is already prepared

24 for 1/1/09.

25 A. Our budget is prepared, and as we see

conditions change, we revise the budget, but we go through multiple iterations of budgeting based on changes.

Q. Sure. So if you make -- if you have a budget and there's a material change, then you reflect that in your budget.

A. Sure.

Q. And if there's a change and it's not material, you may not reflect that in your budget.

A. Right.

Q. So you've already made a projection, haven't you, what of a rate recovery is going to be starting 1/1/09?

A. There are multiple scenarios because we don't know the outcome of this proceeding.

Q. But there is one budget; isn't there?

A. There's one expense budget, yes.

Q. And --

A. There's one capital budget.

20 Q. Isn't there one revenue budget

21 representing your best judgment of what the likely

22 outcome of this case may be?

23 A. There are scenarios for revenue budgets.

24 So it's not a single revenue budget, no. We often

25 talk about a range of outcomes in our communications

as well.

Q. But yet you're comfortable enough with what the outcomes may be that you've projected through 2012 earnings growth of 5 to 9 percent per year; isn't that correct?

A. For AEP corporate?

Q. Yes.

A. Yes. Although we've recently talked about the downturn in the economy and next year looking flat relative to this year in terms of changes in service territory.

Q. And were you here when Mr. Baron testified -- was that yesterday? It seems like years ago.

A. Through part of it, yeah. I don't think I heard all of it.

Q. And you don't disagree with his statement, do you, that the company's earnings for 12 months ended September 2008 were 11.26 for OPC and

20 20.11 percent for CSP?

21 A. Twelve months ending 2008, you said?

22 Q. September 2008.

23 A. September 2008. That's a publicly

24 reported document, and I would agree with that.

25 Q. But in the company's filing in this case

dated October 16th, 2008, your earnings projections under the ESP plan are different, dramatically lower, are they not?

A. Which document are you referring to?

Q. The company's filing of October 16th, 2008.

EXAMINER BOJKO: What kind of filing? In this proceeding?

MS. ROBERTS: Yeah. May I approach the witness?

EXAMINER BOJKO: You may.

MR. NOURSE: Your Honor, could I just state for the record that the AEP companies continue to question the relevance of this information. We were required to file it so we did.

EXAMINER BOJKO: I'm sorry, I just got it so I don't even know what this information is.

MS. ROBERTS: Sorry. Could we mark this --

20 MR. NOURSE: Have you got extras?

21 MS. ROBERTS: -- OCC-4 for

22 identification?

23 MS. GRADY: Your Honor, if I could make a

24 quick statement. This is the information that AEP

25 initially asked for a waiver to file, and OCC filed

and said -- opposed the waiver. Your Honors granted or required the company to file the information, so this is the supplemental pro forma of future information that was required per the ruling.

MR. NOURSE: I recognize that, your Honor, and I made a statement for the record. And I thought Ms. Roberts was handling this witness, and we're now getting double-teamed here.

MS. ROBERTS: I'm sorry, Mr. Nourse. I think she was just trying to be efficient while I was trying to pass these things out.

MR. NOURSE: My only statement was I hadn't seen the document yet. I know exactly what it is after I actually got a copy so I don't think any explanation needs to be made beyond what we've already stated.

EXAMINER BOJKO: Hold on. The document will be so marked as OCC Exhibit 4 for identification purposes.

20 (EXHIBIT MARKED FOR IDENTIFICATION.)

21 MS. ROBERTS: Thank you.

22 Q. (By Ms. Roberts) Mr. Hamrock, I'm trying

23 to understand the --

24 EXAMINER BOJKO: I'm sorry, one more.

25 Was there an objection for relevance, or were you

1 just making a comment on the record?

2 MR. NOURSE: I wanted to make that

3 comment on the record, your Honor. Thank you.

4 EXAMINER BOJKO: Please proceed.

5 MS. ROBERTS: Thank you.

6 Q. I'm trying to understand the variance in

7 the company's earnings from the September 2008 SEC

8 filing that we've discussed without the ESP rate

9 relief and the ESP rate relief with these projected

10 financial statements that show significantly reduced

11 returns on equity.

12 EXAMINER BOJKO: I'm sorry, reduced from

13 what?

14 MS. ROBERTS: What?

15 EXAMINER BOJKO: Reduced from what?

16 MS. ROBERTS: Reduced from the company's

17 September 2008 reported returns.

18 Q. In September 2008, as Mr. Hamrock said,

19 the -- agreed, the reported returns were 11.26 for

20 OPC and 20.11 percent for CSP. If you look at what's

21 marked as Exhibit 4 for identification, page 2 of 10,

22 this purports to be projected financial statements.

23 Is that correct?

24 A. That's correct.

25 Q. Including the revenues requested in the

ESP filing.

A. For AEP-Ohio.

Q. For AEP-Ohio. And the returns on -- is this on a consolidated basis for CSP and Ohio?

A. A combined basis for CSP and OP, and I think you're comparing it to AEP.

Q. I'm sorry?

A. I think you're comparing it to AEP backwards, looking at financial statements.

Q. Yes.

A. Okay. All right.

Q. Yes, I am. That's correct. The September 2008 I believe would be historical, would be historical earnings.

A. Right.

Q. Would you agree? And these are projected earnings.

A. Right.

Q. And the historical earnings without the

20 revenues the company's requesting in this filing are

21 double-digit earnings on equity. The projected

22 financial statements with the revenues requested in

23 this filing are single-digit earnings except for

24 2011. I'm trying to understand how that's possible.

25 MR. NOURSE: Your Honor, I object to the

comparison here. There's a clear indication that the adjustments that were made in addition to the forward-looking nature of this projection of saying they have to be compared directly.

EXAMINER BOJKO: I understand the objection. I'm a little confused of the comparison myself. But if the witness can answer or clarify, that would be helpful.

A. It strikes me as apples and oranges, comparing AEP, the total company historic earnings, to projected estimated earnings for only the Ohio companies based on a point-in-time estimate reflected in this filing. I don't see the two as even comparable numbers.

Q. So are you telling me the September 2008 earnings that we discussed for OPC and for CSP of 11.26 and 20.11 respectively are not for OPC and CSP but for AEP, Inc.?

A. I'm sorry, I thought you were talking

20 about the 5 to 9 percent earnings growth.

21 Q. No.

22 A. I thought that was the foundation of your

23 question.

24 Q. No.

25 A. I misunderstood.

Q. I'm sorry. I apologize. I have moved on from that, or I am trying to move on from that.

A. Okay.

Q. I'm trying to understand the difference between OPC's and CSP's reported earnings for September 2008, which are double-digit earnings without any of the revenues the company has increased in this filing compared to your projected financials which show return on equity much lower.

A. This filing that we're talking about reflects the projected financial statements as our case is filed. That reflects the combined basis of the companies, reflects earnings net of off-system sales. The footnote makes that very clear, excludes the off-system sales marginal effect of return on equity of 4.3 percent in 2009, 3.1 percent in 2010, and 3.4 in 2011. So that's the substantial difference between the two bases of comparison.

Q. I have just a couple other questions for

20 you, Mr. Hamrock. Did you see the announcement last

21 week that Ormet thought it would be getting a

22 discounted rate from AEP of 15 percent that was

23 reported in the trade press?

24 A. I did not see that, no.

25 Q. Do you have any idea why they might think

that they would get a 15 percent rate decrease?

MR. NOURSE: Objection.

EXAMINER BOJKO: Sustained. He just said he wasn't familiar with that statement.

Q. Has the company been engaged in any discussions with Ormet to change their service or conditions as of 1/1/09, their services or terms and conditions of services as of 1/1/09?

MR. NOURSE: Objection.

EXAMINER BOJKO: I'm sorry, can you reread that question.

(Record read.)

EXAMINER BOJKO: "Their" being Ormet?

MS. ROBERTS: Ormet's.

EXAMINER BOJKO: Your objection, grounds?

MR. NOURSE: Your Honor, she's asking about any future agreements that might be under discussion with private parties that haven't been submitted to the Commission and may or may not exist,

20 and I think that's confidential settlement material.

21 It's not relevant.

22 MR. BOEHM: Excuse me, your Honor, I

23 would like to join in the request for that

24 information. If counsel for AEP is telling us there

25 are settlement negotiations with Ormet, as I

1 understand --

2 MR. NOURSE: I said they may or may not

3 exist, your Honor.

4 MR. BOEHM: Well, if they don't exist, he

5 should answer, shouldn't he?

6 MR. NOURSE: No.

7 EXAMINER BOJKO: Arguments to the Bench,

8 please.

9 MR. BOEHM: Excuse me. It was my belief

10 that under Senate Bill 221 there weren't going to be

11 any secret agreements.

12 EXAMINER BOJKO: I don't think that's

13 what he said, Mr. Boehm.

14 MR. BOEHM: Your Honor, I think it's a

15 completely legitimate question as to whether or not

16 there are negotiations between Ormet and the company

17 now for discounted rates.

18 EXAMINER BOJKO: Okay. Thank you.

19 MR. NOURSE: May I respond, your Honor?

20 EXAMINER BOJKO: I don't think that was

21 his statement.

22 Wait, Ms. Roberts, you get a chance to

23 respond to the objection.

24 MS. ROBERTS: Well, you know, what Ormet

25 pays or doesn't pay has been a big issue, not only in

the interim plan --

EXAMINER BOJKO: No, I want you to respond to the objection.

MS. ROBERTS: To the objection that it's confidential?

EXAMINER BOJKO: Yes.

MS. ROBERTS: I don't know why it would be confidential. I mean, it may be protected and those with protective agreements may be able to partake in this discussion. Those without them may not be able to, but it's not secret so that it can't be discussed. It's just like discovery that's protected.

EXAMINER BOJKO: Mr. Bell, do you have something to add to this discussion?

MR. BELL: Yes, very briefly. I think the precise question to which the objection was made just was, was there discussions. There was nothing about the substance of the discussions and thus the

20 confidentiality objection is totally afield.

21 EXAMINER BOJKO: Thank you, Mr. Bell, for

22 doing my job and saying exactly what I was going to

23 say.

24 MR. NOURSE: May I respond, your Honor?

25 EXAMINER BOJKO: The objection is

overruled. The question was, are there any -- were there discussions. If the witness knows, the witness may answer.

A. Ormet, their contract runs to the end of the year so there have been discussions with the open question of what happens at the end of the year under the nature of their current contract. But no definitive --

Q. I'm sorry. I think his battery must have died.

MR. RESNIK: Hopefully the microphone's battery.

MR. RINEBOLT: Here we go with the batteries again.

MR. RESNIK: Are you okay, Joe?

THE WITNESS: My battery's fine, but the mic's dead.

EXAMINER BOJKO: That was subtle, Mr. Resnik.

20 A. Should I restate the answer, or did you

21 get it?

22 (Record read.)

23 A. -- resolution of that question.

24 Q. And have any of those discussions been

25 consistent with the information Ormet's reported to

the trade press about its relationship with AEP its potential rates?

A. Again, I don't know the nature of those communications to the trade press, so I'd be speculating to try to connect what they're saying to the open question we're exploring.

Q. But as president of AEP-Ohio you would be certainly involved in the discussions with Ormet or at least in being aware of what they were.

A. Correct.

MS. ROBERTS: I have no other questions. Thank you. Only ask until the batteries run out.

EXAMINER BOJKO: Mr. O'Brien?

MR. O'BRIEN: Thank you, your Honor. Yes, I have a few questions.

- - -

CROSS-EXAMINATION

By Mr. O'Brien:

Q. Good afternoon, Mr. Hamrock. My name is

20 Tom O'Brien. I need my microphone on.

21 (Discussion off the record.)

22 Q. Mr. Hamrock, again, my name's Tom

23 O'Brien. I represent the Ohio Hospital Association

24 and the interests of its member hospitals within the

25 AEP-Ohio service territory.

A. Good afternoon.

Q. I just have a few questions. I turn your attention to page 6 of your testimony and specifically the list beginning at the top of the page of inputs to electricity production, the costs of which have been increasing. Now, you don't intend this list to be exhaustive, do you?

A. No, certainly not.

Q. Other costs have been increasing.

A. Yes.

Q. Can you tell me whether or not AEP-Ohio provides health-care benefits to its employees?

A. We do.

Q. Can you tell me whether or not those costs are part of the costs that have been increasing?

A. Yeah, health care costs certainly have been increasing.

Q. Okay. Thank you.

If the Commission were to adopt your ESP as has been proposed by the company, would you agree with me that the electric expenses for the AEP-Ohio hospitals would also increase?

A. Yes.

Q. Would you agree with me that increases in

electrical expenses would increase to the overall cost of health care where those facilities operate?

A. I suppose that would be the case, yes.

Q. Have you factored the increase to AEP's -- AEP-Ohio's health care costs into the general increases that you're contemplating in this list or this comment you're making on page 6? Have those been factored into the --

A. In other words, did we trace the cost of electricity through the health care equation back to our cost of doing business?

Q. Have --

A. Not that precisely.

Q. Thank you. New line of questions. Can you tell me whether anything in your ESP would specifically assist the hospitals in reducing their electricity costs going forward?

A. Specific programs for hospitals? Our energy efficiency programs that Witness Sloneker has

20 testified to would certainly be available to the

21 hospitals, and so those programs could certainly help

22 offset the impact of increasing prices.

23 Q. Okay. Thank you.

24 MR. O'BRIEN: No further questions, your

25 Honors.

THE EXAMINER: Staff?

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

EXAMINER BOJKO: Company, do you have any redirect?

MR. NOURSE: Couple questions, yes.

- - -

REDIRECT EXAMINATION

By Mr. Nourse:

Q. Mr. Hamrock, do you recall the questions in connection with LVA-1, Exhibit 1 to Mr. Assante's testimony?

A. I do.

Q. You were asked about essentially the questions around the increase without a deferral scenario. Do you recall that?

A. (Witness nods head.)

Q. And the dollar --

EXAMINER BOJKO: Was that a yes?

THE WITNESS: Yes.

EXAMINER BOJKO: A nonverbal response will not help the court reporter.

Q. Okay. And the dollar amounts that you gave in your testimony relaying from LVA-1, is it your understanding that those were based on projected

fuel costs?

A. Those were. Those were a point-in-time estimate of projections for the future that would change as the actual costs of fuel changes in subsequent periods.

Q. So those deferrals would be trued up based on the actual fuel-related costs --

A. Correct.

Q. -- that are incurred --

A. If fuel costs were lower than the original projections, the deferrals would certainly be smaller.

Q. As a related matter, you mentioned that a 15 percent approximate cap in connection with that discussion. Do you recall that?

A. Correct.

Q. And is it your understanding of the proposal that the 15 percent, approximate 15 percent, is being implemented or proposed as a cap and not as

20 a guarantee? In other words, if costs are lower,

21 fuel costs go down substantially --

22 A. Right.

23 Q. -- that could cause the rates to come in

24 below 15 percent.

25 A. It's intended to be a limiter, and if

rates are lower -- if costs are lower and if the deferral balance is recovered, then those rates could be lowered.

Q. And so if these fuel costs go down, continue to go down, affect AEP's overall cost of fuel, that would be trued up and reconciled through our --

A. That's correct.

Q. -- proposed mechanism. Thank you.

Second question. You were asked some questions by Ms. Roberts about a fuel reduction by the Virginia commission relative to APCO.

A. I had offered that APCO's Virginia rates -- customers' rates had increased by 42 percent or so in the last year. I was not aware of the 11 percent decrease that I was asked about. I had an opportunity over the lunch hour to check with our Virginia team and find out what that was, and the 11 percent was an adjustment to the interim fuel

20 rates that had been put in place. Even with that

21 adjustment, the net impact on customers' rates in

22 Virginia is 42 percent reflective of that 11 percent

23 increase.

24 Q. So the 42 percent figure you used already

25 reflected that adjustment to the fuel increase in

Virginia?

A. That is correct.

Q. Okay. Thank you.

MR. NOURSE: That's all I have, your Honor.

EXAMINER BOJKO: Is there recross?

Mr. Randazzo I think was the first, recross.

MR. RANDAZZO: No.

EXAMINER BOJKO: Mr. Rinebolt?

MR. RINEBOLT: No, your Honor.

EXAMINER BOJKO: Mr. Boehm?

MR. BOEHM: Just a few questions, your Honor.

EXAMINER BOJKO: Sure.

- - -

RECROSS-EXAMINATION

By Mr. Boehm:

Q. Mr. Hamrock, counsel touched on the

20 matter of the fuel costs again. Can you tell me to

21 what degree, if any, the fuel proposals made in this

22 case, particularly the fuel purchases that are

23 proposed, have anything to do with the expected

24 outcome of the negotiations between Ormet and AEP for

25 their new rates?

MR. NOURSE: Object. Scope of redirect.

EXAMINER BOJKO: It's a bit beyond the scope -- good try, Mr. Boehm, but we're going to sustain the objection.

MR. BOEHM: It's a darn good question, isn't it?

EXAMINER BOJKO: Too late.

Any other questions limited to the redirect of counsel, Mr. Boehm?

MR. BOEHM: No other questions, your Honor.

EXAMINER BOJKO: Mr. Bell.

MR. BELL: Absolutely.

- - -

RECROSS-EXAMINATION

By Mr. Bell:

Q. The first question on redirect was directed toward your response to my inquiry, was it not, on cross?

20 A. Yes. My reference to LVA-1, Exhibit

21 LVA-1, that's correct.

22 Q. Yes. And would you agree that in

23 addition to the 50 percent increase and 52 percent

24 increase that you and I discussed -- do you remember

25 that discussion?

A. I do.

Q. -- that the magnitude of the deferrals not being recognized in those figures is $539 million constituting the company's best projections presented to this Commission as to what fuel costs will be and will be reflected and customer responsibility?

A. The 539 is the sum of the two numbers --

Q. 539 million, yes.

A. -- I offered earlier. It's outside of the 50 and 52 percent that you referenced. Yes, I would agree with that. Although I would, again, refer to those as limits or caps, and if we see actual fuel costs come in, then those deferrals would certainly come in and reduce the overall impact.

MR. BELL: Thank you, that's all.

EXAMINER BOJKO: Mr. Yurick?

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

EXAMINER BOJKO: Mr. Smalz isn't here.

OCC?

MS. ROBERTS: No questions.

EXAMINER BOJKO: Staff?

Or Mr. O'Brien?

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

MR. MARGARD: No, your Honor.

EXAMINER BOJKO: Thank you for your patience and time today.

THE WITNESS: My pleasure.

MS. ROBERTS: Your Honor, I would move OCC-4 for identification into evidence.

MR. NOURSE: I would just note my continuing objection, your Honor.

EXAMINER BOJKO: It will be so noted, but the OCC Exhibit 4, which is the October 16th, 2008, data provided by AEP, will be so admitted.

MS. ROBERTS: Thank you, your Honor.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER BOJKO: Company?

MR. NOURSE: Your Honor, I believe I moved earlier for Mr. Hamrock's. It might be outstanding.

EXAMINER BOJKO: Such a long time ago I had forgotten if you did move it.

Any objection to the admission of

Mr. Hamrock's direct testimony?

Hearing none, it will be admitted.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER SEE: Company's next witness?

MR. RESNIK: Mr. Nourse will.

MR. NOURSE: AEP calls Karen Sloneker.

EXAMINER SEE: Ms. Sloneker, if you could raise your right hand.

(Witness sworn.)

EXAMINER SEE: Thank you.

- - -

KAREN L. SLONEKER

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

DIRECT EXAMINATION

By Mr. Nourse:

Q. Ms. Sloneker, could you state your full name for the record?

A. My name is Karen L. Sloneker.

Q. By whom are you employed and in what capacity?

A. I'm employed by American Electric Power Service Corporation, and I am the customer services and marketing director for AEP-Ohio.

Q. Do you have in front of you the exhibit

that was just marked the AEP Companies' Exhibit No. 4?

MR. NOURSE: If I didn't mention that, I wanted to mark it No. 4.

A. I do.

EXAMINER SEE: The exhibit will be marked

No. 4.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Is that your prefiled direct testimony in this case?

A. Yes, it is.

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

A. Yes, it was.

Q. Do you have any changes, additions, or corrections you'd like to make to your testimony this afternoon?

A. No, I do not.

Q. If I were to ask you all the questions in your testimony today under oath, would your answers be the same?

A. Yes, they would.

MR. NOURSE: Thank your Honor.

I move for admission of Companies' Exhibit 4 subject to cross-examination.

EXAMINER SEE: Okay. I believe Mr. Idzkowski has agreed to go first.

MR. IDZKOWSKI: Yes, thank you, your Honor.

- - -

CROSS-EXAMINATION

By Mr. Idzkowski:

Q. Hello, Ms. Sloneker.

A. Hello.

Q. I think we met at your deposition.

A. Yes, we did.

Q. Okay. Did you read your deposition transcript before you came here today?

A. Yes, I did.

Q. You're an engineer, correct?

A. That's correct. I'm an electrical engineer.

Q. Not a professional engineer.

A. That's correct.

Q. You've never taken the PE exam.

A. No, I have not.

Q. And your job with AEP is director of customer services and marketing.

A. That's correct.

20 Q. And that's been your job since about

21 '90 or '93, sometime in there.

22 A. No. I have had this job since about

23 2004. Prior to that I was the information technology

24 applications services director for the utilities

25 group, and then prior to that I was in the customer

services and marketing capacity for the combined companies of AEP-Ohio and Columbus Southern Power.

Q. Thank you. In your current position you oversee customer account matters and manage meter reading operations and meter reading -- or meter revenue operations.

A. That's correct.

Q. The purpose of your testimony you state was to support the phased-in implementation of AEP-Ohio's gridSMART initiatives in the CSP service territory, correct?

A. That's true.

Q. You also say that the purpose of your testimony is to explain the technology associated with this gridSMART program.

A. Yes.

Q. And to explain the expected benefits of the program.

A. Yes.

20 Q. Okay. Now, according to your testimony

21 the three main components of gridSMART are AMI, which

22 is advanced metering infrastructure; DA, which is

23 distribution automation; and HAN or HAN, which is

24 home area network. Did I identify those correctly?

25 A. Yes, you did.

Q. Let's talk about the benefits of gridSMART. You testified that AEP believes there are substantial customer and societal benefits associated with smart metering and smart grid deployment, right?

A. Yes, I did.

Q. And you talk about there being a direct benefit to customers on page 16 of your testimony. Do you have a copy of that in front of you?

A. I do.

Q. On 16, line 21, you talk about the direct benefits to customers in the form of bill savings, correct?

A. Yes.

Q. Now, AEP hasn't attempted to estimate this bill savings in any way, has it?

A. No, we have not. That's one of the things that we hope to learn in phase 1 of gridSMART implementation, is how responsive customers are to the opportunity to control or manage their electric

20 bill with the additional information that's made

21 available to them through gridSMART.

22 Q. Okay. In your testimony, I think right

23 around page 20 or 21, there's seven bullet

24 paragraphs -- I'm sorry, starts on page 4 -- that say

25 why AEP is proposing gridSMART now. Can you find

1 those?

2 A. Yes, I did.

3 Q. In the first paragraph it talks about

4 "help enable customers to become more energy

5 efficient."

6 Paragraph 2 talks about a new generation

7 of customers becoming comfortable with new technology

8 and providing customers with greater control with

9 pricing information. It talks about empowering

10 customers to provide them information and options to

11 manage their power requirements.

12 Paragraph 3 talks about consumers

13 becoming increasingly aware of greenhouse gas

14 emissions and their concern about sustainable actions

15 to address global climate change, correct?

16 A. Uh-huh. Yes.

17 Q. And then you talk in paragraph 5 about

18 customer expectations concerning reliability, that

19 those expectations are changing.

20 And also in 6 you talk about customers

21 having control over their energy usage.

22 Now, no one from AEP has completed or

23 provided any studies to show how much customers are

24 going to reduce their energy use based on gridSMART,

25 correct?

A. That's true.

Q. And you don't know -- you know -- you do not know how many AEP customers have requested the gridSMART program, correct?

A. That's true.

Q. AEP hasn't collected that data on how many customers that have requested the program, correct?

A. That's true.

Q. And AEP hasn't provided the PUCO with any studies demonstrating increases in customer expectations about reliability, correct?

A. I believe that the Commission has awareness of the increase in customers' expectations for reliability through information that they've received at some of the hearings, through ongoing conversations with consumers about their expectations related to reliability.

Q. Okay. Has AEP provided any of those

20 studies in connection with this proceeding?

21 A. I believe that we've included our

22 customer satisfaction surveys talking about

23 reliability and customer satisfaction with Witness

24 Boyd's testimony.

25 Q. You cite as one of the reasons for this

gridSMART initiative now the aging electricity delivery system, correct?

A. Yes. And what I'm referencing there is the fact that this is an ideal time for us to upgrade the electric distribution system so that it is more advanced and takes advantage of the new technologies that exist today that will improve reliability to our customers.

Q. Okay. If you could just please try to limit your answers to responses to my questions, that would help move this along, but I appreciate you wishing to explain your answer there.

This aging of AEP's electricity delivery system, it is not a new problem, is it?

A. No. I mean --

Q. And to follow up on that subject, isn't AEP's regular maintenance program, isn't that designed to address this ever-aging electricity delivery system?

20 A. To a certain extent. I think what we're

21 proposing today would be to include automated meter

22 infrastructure with a two-way communications system

23 and a distribution automation system that would go in

24 in advance of or exceed normal upgrades to the

25 system.

Q. Okay. Regarding these gridSMART benefits to society that you talk about, you talk about reducing our impact on the environment and creating jobs. AEP can't say what the potential benefits of this gridSMART program to the environment will be because they haven't attempted to estimate that, have they?

A. No. But we do believe that consumers will reduce their electricity consumption thereby avoiding the cost for additional generation and having a positive impact on the environment.

Q. Okay. Again, if you can just try to limit your answers to be responsive to my questions.

MR. NOURSE: Your Honor, I believe Ms. Sloneker is being responsive. If counsel has an objection or motion, he can make it instead of instructing the witness. Thank you.

EXAMINER SEE: You got the answer.

MR. IDZKOWSKI: Thank you.

20 Q. Let's see, AEP hasn't determined how many

21 jobs are going to be created from gridSMART, have

22 they?

23 A. No. But again, we believe there will be

24 a market for new technologies, new appliances, new

25 equipment that will result in increased jobs. There

will be work associated with installing the facilities, just all sorts of changes in the way that we do business, and that would naturally result in job growth.

Q. And AEP hasn't calculated how much the full implementation of gridSMART's going to save the companies, has it?

A. No, we have not.

Q. Or how much it's going to save its customers, correct?

A. No, we have not.

Q. Or if ever it will break even in terms of cost and savings, correct?

A. No. That's one of the outcomes that we hope to gain by going forward with gridSMART phase 1, is that that will have -- allow us an opportunity to capture those savings both to the customer and to the company along with the operational benefits that will present themselves with gridSMART phase 1.

20 Q. Okay. Well, in fact, your testimony and

21 in your deposition you admit that AEP hasn't

22 attempted to quantify any customer or societal

23 benefits, correct?

24 A. We have not quantified those, that's

25 true.

Q. All right. And instead on page 17 of your testimony you state that: We do not believe it's necessary for the Commission to make specific findings about the quantification of customer and societal benefits as part of approving gridSMART phase 1 in this case. Is that what you testified?

A. It is. We don't believe that this is a purely financial decision, that there will be benefits to society as a whole, our customers as well, and we've only attempted to quantify the operational savings for AEP-Ohio.

Q. In your testimony you contend that AEP instead of having -- instead of quantifying any societal or customer benefits, all it has to do is look at Senate Bill 221 for the impetus for this program, correct?

MR. NOURSE: Object to the characterization of her testimony. If he wants to direct her to a particular statement or ask her if

20 that's accurate. I don't think it is.

21 Q. Well, in your testimony you cite -- I'll

22 make a reference to acquisition. Quote, "acquisition

23 and deployment of advanced metering, including the

24 costs of any meters prematurely retired as a result

25 of the advance metering implementation," you say that

1 suggests the General Assembly's already recognized
2 the potential customer and societal benefits,
3 correct?
4 A. Yes, I do say that.
5 Q. Is your quote from Senate Bill 221, is
6 that -- do you know where that's from in 221?
7 A. I don't. I believe we found it during
8 the deposition, but I don't have that with me now.
9 Q. Do you know if it's specific to financial
10 devices and reasonable arrangements between utilities
11 and other parties?
12 A. I don't recall.
13 Q. You don't know, then, if this is a policy
14 section of Senate Bill 221?
15 MR. NOURSE: Your Honor, I think it's
16 asked and answered.
17 MR. IDZKOWSKI: That's a different
18 question.
19 MR. NOURSE: You're asking her what

20 section after she already stated she didn't know,

21 your Honor.

22 EXAMINER SEE: I think it's a slightly

23 different question.

24 Please answer the question to the extent

25 you can.

A. I do not know.

Q. Do you know if Senate Bill 221 refers just to smart metering, or do you know if it discusses other components of AEP's gridSMART program, for instance, the distribution automation or home area network components?

A. I don't believe those are specifically mentioned, but I do believe that they're encouraging utilities to take advantage of advanced technologies in order to provide reliable service. Other aspects of the bill encourage energy conservation.

Q. Have you read the over 100 letters that have been filed in the PUCO that are opposing AEP's proposed rate increases?

A. I don't believe I've read all of them, but I have read many of them.

Q. Do you know how many letters AEP's received that -- or rather that the PUCO's received in connection with, you know, expressing a desire for

20 gridSMART or a type of program like that?

21 A. No, I do not.

22 Q. Let's talk about the cost of gridSMART.

23 According to your Exhibit KLS-1 -- do you have that

24 in front of you?

25 A. I do.

Q. Okay. You say there that it's going to cost $109 million if approved, correct?

A. Approximately, yes.

Q. Okay. And it's going to -- phase 1, you say in this testimony, is going to apply to 110,000 customers.

A. Yes.

Q. Do you recall in our deposition that we talked about how much that is per customer?

A. I do.

Q. And at the time of the deposition you said you hadn't done the math but you assumed that the $990 per customer was correct. Do you recall that?

A. I believe that's right.

Q. And during the deposition do you remember me asking you if when fully implemented for all of AEP's customers, would it cost $1.4 billion roughly?

A. I do remember you saying that, and I

20 remember telling you that I didn't think that was an

21 accurate way of calculating the total cost of

22 gridSMART for AEP-Ohio.

23 Q. I think you said: Your math's correct

24 but that would not be how you'd calculate the cost

25 for total implementation. Is that correct?

A. I don't have my deposition in front of me, but that sounds like what I said.

Q. Okay. Well, how has AEP calculated the cost for the total implementation of gridSMART?

A. We have not calculated the cost of the total implementation of gridSMART.

Q. And as to phase 1, you said that the cost estimate AEP did was specifically for northeast central Ohio, correct?

A. Yes.

Q. And you testified that this region was an optimal area for phase 1 implementation, correct?

A. I did.

Q. AEP estimates that the cost is going to be -- for phase 1 alone will be $109 million, but to your knowledge the company has not selected vendors yet for the gridSMART phase 1 program, correct?

A. That's correct.

20 Q. And, in fact, to your knowledge AEP

21 hasn't even solicited any price quotes for phase 1.

22 A. That's also correct.

23 Q. Therefore, AEP hasn't developed details

24 or conducted any analysis regarding the features and

25 requirements for the AMI, DA, and HAN components of

gridSMART for phase 1.

A. Yeah, not specifically for AEP - Ohio. But we have a similar but smaller implementation in Indiana, and that was the basis for the high level energy estimates that we've provided.

Q. All the planning, I think we talked at your deposition, you said was at a high level, a high level plan. Do you remember saying that?

A. Yes, I do.

Q. And what is a high level plan?

A. It's not down to the specific level that you've been asking me about. We have not gone out for bids for the actual equipment. We haven't done some of the detailed engineering studies. It's an engineering estimate.

Q. As to your Exhibits KLS-1 and 2, AEP hasn't provided any supporting data or documents related to studies or analysis to support your exhibits attached to your testimony, correct?

20 A. For KLS-1 and 2?

21 Q. Yes.

22 A. I believe that's true. We've responded

23 to a number of discovery requests, but I don't

24 believe we have provided additional information.

25 Q. Have you provided this to PUCO?

A. Pardon me?

Q. Have you given this information to PUCO?

MR. NOURSE: What information are you asking about?

MR. IDZKOWSKI: Any supporting data or documents related to her exhibits.

Q. Have you filed --

MR. NOURSE: Could I get a clarification? Are you asking -- in her prior answer she said she provided information in discovery. Are you asking whether the PUCO staff received the discovery?

MR. IDZKOWSKI: Yes.

A. Yes.

Q. Okay. Now, near as I can tell these figures in your exhibits were based on engineering estimates arrived at somehow; is that correct?

A. That's correct.

Q. Now, the Wi-Max total in your exhibit, you say there's an estimate of $5.9 million. For

20 example, this is just an engineering estimate,

21 correct?

22 A. Yes.

23 Q. And you said I think in your deposition:

24 "I believe they looked at Wi-Max in Indiana. That's

25 where they got that information."

A. I do believe that's true.

Q. Has AEP done any studies or analysis of the anticipated life cycles of these components of gridSMART?

A. The estimated life cycle varies, but we're expecting that most of the electronics equipment will last between five and seven years.

Q. Yeah.

A. Some of it will continue to work, but as with all new and evolving technology, it may have a shorter lifespan as new improvements are made available.

Q. I understand that it's -- well, let me ask you this again, though. Have you done any studies or analysis on that anticipated life cycle of those components?

A. I don't think so. I mean, we're doing some testing at Dolan over the capabilities of the equipment, but I don't believe that anything has been

20 studied related to the life cycle.

21 Q. On the last page of KLS-1 -- I'm sorry,

22 page 5, you have advertising costs estimated at

23 $6 million for these 100,000 customers for phase 1,

24 correct?

25 A. That's correct.

Q. If customers are asking for a program like this, why do they need $6 million to convince them?

A. I don't think I've said that customers are asking for a program like this. I think that I've said that customers are looking for ways to conserve electricity, to manage their electric bills, and to receive improved reliability. And the reason we're asking for this substantial amount of money is because this is so very new, and we believe in order for it to be effective and in order for consumers to take full advantage of the equipment and the programs that will be made available, that they need to be informed of all of the capabilities of the equipment, the advantages of the service so that they can take full advantage of the program.

Q. Let's talk about the time period that AEP is saying they're going to implement their program. Now, you testified that phase 1 of gridSMART's going

20 to take three years and full implementation of

21 gridSMART's going to take an additional seven to ten

22 years, correct?

23 A. Yes.

24 Q. That's on page 7.

25 A. Yes.

Q. So AEP says it's going to take three years to implement a gridSMART program for 110,000 customers, which is about 8 percent of its customers, but then it's going to implement, well, however many phases it takes for the rest of AEP's customers --

A. Yes.

Q. -- in just four to seven more years. 92 percent of the customers are going to get this in four to seven years and it took three years to give it to 110,000.

A. Yes. And the reason is, is that for the first implementation there's going to be a lot to learn, and we'll apply that knowledge in subsequent implementations. What we're talking about with gridSMART phase 1 is we'd like to see that through so that we can take advantage of the knowledge that we gain with that before we proceed with subsequent installations but in future rollouts you could start with the metering in, say, year 4, complete that, and

20 while you're starting with the metering in another

21 part of the state, you could continue with the

22 distribution automation in that second location. So

23 some of that could go concurrently. We'll apply the

24 engineering knowledge that we gain in phase 1 and the

25 operational experience in phase 1 in subsequent

1 years.

2 Q. If you take seven additional years to --

3 well, four additional years to fully implement, is

4 that going to cost less than ten total years? Do you

5 follow my question? It was a little bit gobbled.

6 But if it takes a total of seven years to fully

7 implement versus ten years, is seven years going to

8 be less expensive?

9 A. I think we talked about this in my

10 deposition. I think that will depend on whether the

11 price of the equipment continues at the current rate

12 that we're projecting or whether, as with many

13 emerging technologies, the price drops.

14 If you look at flat screen TVs today,

15 they're much less expensive than they were when they

16 were first available. So you could assume that the

17 price of the meters, for example, might drop over

18 time and so the price could be less for that aspect.

19 But again, if there are material

20 increases, if we see metals or something like that

21 increase, the cost could go up so I really don't

22 know.

23 Q. You really don't know, and we really

24 don't know, AEP doesn't really know how many phases

25 it's going to take to implement this, correct?

A. No. As I've said, we have not put together a full implementation plan so I can't state exactly how many phases there would be.

Q. Right. I think you testified a couple, well, three times in your deposition that you don't know what the costs are so we don't really know whether seven years is going to be less expensive than ten or what, do we? We're hoping that technology prices come down, correct?

A. I think what I'm saying is that I can't tell you whether it's going to cost the same for 110,000 meters repetitively or not. I think that there will be aspects of the cost that could go up, aspects that go down. It would probably stay fairly close to the same, but we have not done those studies so I can't answer that today.

Q. Do you remember me asking you in your deposition, I asked -- well, let's ask you today. To the best of your knowledge there aren't any

20 technological developments that need to be developed

21 for AEP to fully implement gridSMART, is there? Are

22 there?

23 THE WITNESS: Could you read the

24 question?

25 Q. I'll restate that if I may. To the best

of your knowledge, there are no technological developments needed to fully implement gridSMART, correct?

A. GridSMART phase 1?

Q. Phase 1.

A. I think that there will be improvements and changes potentially in the programmable thermostats or the in-home display. That technology is evolving. But other than that, no, I don't anticipate changes.

Q. I asked you do we have the technology, and you said yes. Do you remember saying that?

A. Okay.

Q. Do you agree now?

A. Yes.

Q. Today. All right.

MR. IDZKOWSKI: May I approach, please?

EXAMINER SEE: Yes.

Q. Karen, I'm going to hand you a document

that I believe is a PowerPoint from a PUCO staff workshop that we discussed at your deposition.

A. Yes.

Q. Are you familiar with this document?

A. Yes.

MR. IDZKOWSKI: I have a couple extra

copies if anybody --

Q. Would you take a moment and become a little more familiar with it or refresh yourself with that?

Did you look at this before your testimony today, Karen?

A. I did.

MR. NOURSE: Your Honor, I'd appreciate it if Mr. Idzkowski could refer to the witness as Ms. Sloneker, perhaps.

Q. I'm sorry, Ms. Sloneker. Sorry.

Did AEP produce this?

A. Yes, we did.

Q. Is it from a PowerPoint presentation?

A. Yes, it is.

Q. And it's entitled what, can you read the title please?

A. AEP's gridSMART project, Ohio Roll Out Strategy, PUCO Staff Workshops, December 13th,

20 2007.

21 Q. Okay. So this is just, well, this is

22 just from last December. How did AEP use this

23 document?

24 A. We made --

25 Q. This presentation.

A. We made a presentation to the PUCO and other utility groups and interested parties about a potential rollout strategy for AMI.

Q. Can you look at page 9, please? Are you there?

A. Yes, I am.

Q. Okay. Does it say that there's a district that will have -- the overall plan there will be a district-by-district rollout over a seven-year period?

A. Yes.

Q. Can we say "district by district" means phase by phase? Is it the same consideration, the same sense of the word?

A. We divide our service territory up by districts, so we were referring to those districts which I believe are shown graphically in the material. That was in the earlier workshop that we had that broken out, but there's a Columbus district,

20 for example, and a Canton district.

21 Q. Right. Can you look at page 11? Is that

22 what you're talking about?

23 A. Yes.

24 Q. So on page 11 it says in the first three

25 years 583,160 customers in the Columbus district will

be -- will see deployment, correct?

A. That is what this says. But I think it's important to note that this was provided at the Commission's request to provide a rollout strategy for the entire state, and that was for automated metering infrastructure only -- or advanced metering infrastructure. Excuse me.

Q. And initially, at least, we thought or AEP thought they would do 583,000 customers instead of 110,000, correct?

MR. NOURSE: Objection, your Honor. She just stated that it was done at the request of the staff with the stated parameters. It's not what AEP thought.

Q. Well, is this AEP's document, Karen -- or, Ms. Sloneker? I'll just -- I'll go on.

Look at page 12 if you could.

A. I'm there.

Q. Okay. This says capital costs will be

20 $472 million and O&M costs $4 million. Did I read

21 that correctly?

22 A. Yes.

23 Q. So this document from December 2007 says

24 gridSMART statewide will cost 476 million.

25 MR. NOURSE: Objection, your Honor. He's

1 stating gridSMART again when she just indicated this
2 was an AMI scenario requested by staff.
3 EXAMINER SEE: I believe Mr. Nourse's
4 summarization of the witness's testimony is correct.
5 MR. IDZKOWSKI: Well, the title of this
6 document, your Honor, is "gridSMART Project." So
7 maybe Ms. Sloneker can clarify it.
8 Q. Is this talking about gridSMART, or is
9 this talking about just AMI?
10 A. We provided an overview of gridSMART's
11 capabilities. This document relates -- this page
12 refers to the rollout of AMI only. So in the
13 beginning of the presentation we were talking about
14 AMI distribution automation, how that would relate to
15 using plug-in hybrid electric vehicles, the
16 communications system. So we were giving the
17 audience an overview of our gridSMART concept and
18 then responded specifically to the Commission's
19 request for automated metering or advanced metering

20 for the state.

21 Q. Okay. But on page 10 there is the

22 discussion about home area network equipment and

23 customer information system. Is this talking about

24 gridSMART or just AMI?

25 A. I think if you see the heading for that

1 home area network, that's the postdeployment areas of
2 focus so that would be subsequent to having the
3 advanced metering in place, the two-way
4 communications, again, going back to the broader
5 perspective of gridSMART in total.
6 Q. At the bottom of pages 12 and 17, if you
7 look at either one of those pages -- are you there?
8 A. Yes.
9 Q. It says: "Note: Costs are indicative
10 based on vendor estimates."
11 A. And again, I think this was what they had
12 done in anticipation of the Indiana pilot.
13 Q. So AEP has talked with vendors and gotten
14 cost information, correct?
15 A. Yes. But your previous questions related
16 to whether we had done so for AEP-Ohio, and the
17 answer is no.
18 Q. Look at page 14, please.
19 EXAMINER SEE: I'm sorry, what page was

20 that?

21 MR. IDZKOWSKI: Page 14.

22 A. I'm sorry. I'm there.

23 Q. Okay. What does page 14 list?

24 A. These were our projected savings

25 associated with the statewide deployment of advanced

metering infrastructure.

Q. So these are -- so the title is AEP-Ohio AMI Benefits, so these are benefits to AEP-Ohio, correct?

A. Yes.

Q. They're quantified in the column on the right as Annual Benefits in millions of dollars or fractions of millions of dollars, correct?

A. That's correct.

Q. Look at page 18, please.

A. Okay.

Q. This page, does it also list several benefits to AEP-Ohio such as benefits under operating cost benefits and reliability improvements and T&D system efficiency? It does, correct?

A. I'm reading it.

I think that on this page there is a combination of benefits to both AEP and to the customer.

20 Q. Right. But there are several benefits to

21 AEP listed on this page, correct?

22 A. That's correct.

23 Q. And also at the bottom of the page, can

24 you read what it says starting with the words

25 "Distribution Technology" please?

A. It says: "Distribution technology system designs, costs and benefits are still being refined; we don't know what we don't know."

Q. So this would indicate we don't have the technology yet; would it not?

A. No. I think this is relating to the distribution automation, and, again, we had talked about needing to have gridSMART phase 1 in place so that we could observe what kind of operational savings we'll see for distribution automation as well as for the AMI piece.

When you're looking at a project of this magnitude, you need to have the systems in place so that you can observe the behaviors of the customers over time as they learn that AEP does, in fact, know in advance of them calling that they have a system outage, so that we can learn from having that knowledge in place, from being able to experience the outage conditions related to the weather, vehicle

20 accidents, those sorts of things that we can't

21 predict.

22 But by having a large-scale

23 implementation, we'll be able to gather that data and

24 extrapolate operational savings going forward.

25 Q. But in particular it refers to technology

of the system that is still being refined, correct?

A. Well, it's not the design of the technology itself. It's the technological system as to how you would put that in place and how you would leverage that information.

Q. Let's talk about gridSMART versus ongoing regular maintenance to the electric distribution system. Your Exhibit KLS says that the cost of phase 1 is going to be $109 million roughly, correct?

A. Are you talking about KLS-1?

Q. KLS-1, I'm sorry.

A. And are you on a specific page?

Q. I can find it. Well, your testimony says, we've agreed, you said it's about a $109 million cost for phase 1, correct?

A. Yes.

Q. Wouldn't AEP be replacing obsolete meters anyway as part of their normal operational maintenance of their transmission and distribution

20 network facilities?

21 A. Yes.

22 Q. If AEP-Ohio followed standard utility

23 practices in maintaining its network facilities and

24 doing things like updating equipment with new

25 technologies, AEP wouldn't need to upgrade antiquated

1 facilities and equipment, would it?

2 THE WITNESS: Could you repeat the

3 question?

4 (Record read.)

5 MR. NOURSE: Your Honor, I don't

6 understand -- I don't understand the question. I

7 think it's ambiguous. Could I request a rephrasing?

8 EXAMINER SEE: Read it to me again,

9 Maria.

10 (Record read.)

11 MR. IDZKOWSKI: I believe the question is

12 AEP would not need to upgrade antiquated facilities,

13 correct, if it did those things.

14 MR. NOURSE: But if the question

15 presumes -- I'm sorry, your Honor, if the question

16 presumes that -- the question apparently presumes

17 that AEP would be doing certain things, and then says

18 it would not need to do it if it already did it. Is

19 that the question?

EXAMINER SEE: Rephrase the question, Mr. Idzkowski.

MR. IDZKOWSKI: I'll strike the question. It's not that important.

Q. (By Mr. Idzkowski) Let's talk about evaluation of this gridSMART system phase 1. What

specific performance measures will be used to verify performance for each of the components of gridSMART?

A. Well, for the advanced meter infrastructure we'll be looking at the operational savings associated with not having to have meter readers in the field, with the improved customer service related to decreased bill estimates, with customers being -- potentially we'll see a decrease in call volume as customers are able to have realtime access to customer data. I mean, there's a number of thing that we'll be measuring. I'm not sure whether you want me to list them all.

We'll be looking primarily at the methodology for performing customer service functions and distribution functions today and compare that to the improvement in outage restoration times in the future and customer satisfaction levels, our ability to predict where systems are having problems and restore service more quickly, those kinds of things.

20 Q. Karen, in fact --

21 EXAMINER SEE: I'm sorry. Ms. Sloneker.

22 Q. I'm sorry, excuse me. Ms. Sloneker. I'm

23 sorry again.

24 In fact, AEP doesn't have -- you talked

25 about a methodology. It doesn't yet have a definite

1 methodology by which it plans to evaluate phase 1,
2 correct?
3 A. I don't think we have a definite
4 methodology, but it's certainly something that we're
5 giving thought to and have plans in place for
6 Indiana, and we would leverage that knowledge in
7 Ohio. We certainly wouldn't be undertaking this
8 endeavor without attempting to learn from it. That
9 is a big part of going with the phased
10 implementation.
11 Q. The point is AEP can't give the
12 Commission at this time any specific details on how
13 AEP's going to evaluate phase 1 performance, correct?
14 A. I think that we would manage this program
15 in a very transparent way. We have a demonstration
16 site that's available at Dolan labs for people to see
17 the technology as it exists today, and certainly we
18 would share our plans with the Commission and talk to
19 them about what we're going to be monitoring and

20 measuring, seeking input from them as well as the

21 collaborative.

22 Q. These are things that AEP could do,

23 possibly, in the future, but hasn't done yet or it

24 does not -- at this time does not have the ability to

25 do, correct?

A. Those are our plans.

Q. Those are your plans. You testified that evaluation of phase 1 is going to begin in year 3, correct? That's your testimony on page 14.

A. The line you're referring to starts on page -- oh, I'm sorry, line No. 9, which talks about the beginning of deployment of distribution automation --

Q. Yes.

A. -- which is one of the three components. In addition, we'll have deployment of HAN during that time period as well. I think that the HAN deployment could actually begin the end of year 1 and continue on through years 2 and 3.

The distribution automation deployment, which is what I'm referencing on lines 10 and 11, will be completed in the third year, so on line 11 when I say that "measurement and evaluation of gridSMART Phase 1 will begin," I mean, that in total

20 will begin measurement and evaluation of AMI from the

21 moment that it's installed, so that evaluation and

22 measurement could occur and would occur in year 1, as

23 would HAN implementation.

24 Q. That's correct. And you state, to

25 reiterate, gridSMART, evaluation of gridSMART, will

begin in year 3, correct?

A. I'm sorry?

Q. Well, your testimony will speak for itself. The evaluation of the distribution automation you said will be completed two to three years out, correct?

A. Yes.

Q. So the evaluation of phase 1, if DA deployment is in year 3, the evaluation of DA -- of the DA component of gridSMART of phase 1 of gridSMART won't be completed until years 5 or 6; is that right?

A. I think the evaluation will be ongoing, but the evaluation for distribution automation will begin at the end of year 3 and would --

Q. Yes.

A. -- continue on in subsequent years because we need that time period to observe the operation of the distribution system.

Q. Right. So it will go, as you said, two

20 or three years out and complete in years 5 or 6,

21 then, if I can add those numbers. Correct?

22 A. I think what I said is that we would have

23 a significant amount of learning in year 5 and 6. I

24 think that the knowledge will go on. This is a

25 progressive way of managing the distribution grid,

and as new technologies are developed and deployed, we'll add to that, so I don't think that measurement and monitoring will ever be done.

I think that as an engineering company we would continue to make observations on the knowledge that we gain from the operation and begin to apply that, for example, in the way of doing predictive maintenance going forward, to begin to look at the circuit loadings, and to modify the system in advance. There's just all sorts of potential that's out there, that to imply that we would learn everything that we need to know in years 3, 4, and 5, would probably be shortsighted on my part.

Q. Right.

A. That's not to say that there's not the significant -- I think what I was talking about in the deposition is that the majority of that learning will occur in the near term, but there will be continuing benefits in subsequent years.

20 Q. Well, you would agree we'd certainly have

21 a lot more details about the evaluation of this

22 system today than we did at your deposition, correct?

23 MR. NOURSE: Could I have the question

24 reread, please?

25 (Record read.)

MR. NOURSE: I object. I'm not sure what the insinuation is here.

Q. It's just a question.

A. I think to the extent that -- oh, I'm sorry. To the extent that you're asking me different questions today, you have additional information.

Q. Well, let's get to this. If we're going to be -- we'll agree that we're doing evaluation of this gridSMART program from year 1, but with DA not being implemented until year 3, AEP won't be able to fully evaluate, fully, completely evaluate gridSMART phase 1 until after year 3, correct?

A. That's correct.

Q. Will AEP be seeking approval of the cost of additional phases then in year 3 before it can fully evaluate phase 1?

A. I can't predict that far out. I would imagine not, but I don't know. I mean we've put forward a three-year projection. I don't know

20 whether we would ask for additional consideration

21 before those three years.

22 Q. Okay. Let me ask you about risk sharing

23 here regarding this introduction of this system. Is

24 it your position or it is, is it not, that AEP

25 expects the business and technological risks

1 associated with gridSMART to be borne completely by
2 ratepayers and not by AEP shareholders? Is that your
3 position? Is that AEP's position?
4 A. I believe it is. But again, I think when
5 you and I talked before, I talked about the fact that
6 these technologies exist and that the risk is
7 relatively low. I don't see this as a risky project.
8 Q. So AEP expects the ratepayers to bear all
9 the risk, even though we've gone through documents
10 and examples where you have to admit there were many
11 benefits of this system to AEP operationally,
12 correct?
13 A. I think there's many benefits to the
14 customers as well. We haven't tied those to
15 financial benefits, but we have identified the fact
16 that they'll see improved reliability, reduced outage
17 duration. They'll have realtime information about
18 their electric bills and can make decisions about
19 their consumption in order to control their electric

20 bills, to manage those and to keep those costs down.

21 I think that there are a number of benefits to the

22 customer as well.

23 Q. Right. But there are certainly benefits

24 like in KLS-1, page 6. Can you look at that?

25 A. Okay.

Q. These are AMI operational benefits to AEP-Ohio, correct?

A. Yes, they are.

Q. Still, AEP isn't willing to consider a risk-sharing arrangement, such as including only 50 percent of the phase 1 costs in its current ESP filing, correct?

MR. NOURSE: I object to the characterization of page 6 KLS-1 as not including a reflection of the cost savings. He's suggesting that or asking for the cost without netting the savings, which is evident in KLS-1, page 1. It's a net cost calculation.

MR. IDZKOWSKI: Your Honor, I believe, if I may --

EXAMINER SEE: Go ahead.

MR. IDZKOWSKI: I believe the witness answered the question already and answered it clearly.

EXAMINER SEE: Yes. Ms. Sloneker did answer the question. Let's move on.

MR. IDZKOWSKI: Can the court reporter please read back my last question?

(Record read.)

EXAMINER SEE: Answer the question.

THE WITNESS: Oh, I thought you said I did. I should answer.

I guess I don't know how to answer that. I don't know the answer to that question.

Q. Why should ratepayers incur any risks associated with implementing such an unproven system?

A. Ratepayers will be the beneficiary of the savings as well as the avoided costs of new generation. All of society will benefit from the environmental improvements that will result.

Q. What if there are potential costs -- what about potential cost overruns over the $109 million for phase 1? Who's going to absorb those potential cost overruns?

A. First of all, we're confident that the estimates are accurate; however, if there would be cost overruns, AEP would absorb those.

Q. That's AEP's position today, that they would absorb any cost overruns.

20 A. Yes, it is.

21 Q. Thank you.

22 If phase 1 cost recovery is not granted,

23 will AEP abandon gridSMART phase 1?

24 A. Could you repeat the question?

25 Q. Yes.

MR. IDZKOWSKI: Could you read the question back, please.

(Record read.)

A. I think we'd have to reevaluate whether we would go forward or not.

Q. What share, if any, of AEP-Ohio's gridSMART development costs have been incurred by AEP-Texas?

A. None, to the best of my knowledge.

Q. If the Commission approves phase 1 but then withholds approval for the remainder of gridSMART, the rest of the phases, will phase 1 installation be considered stranded costs?

A. No, they will not. We'll intend to fully utilize those, and the customers would receive the benefits from those installations.

Q. In an answer to interrogatory -- OCC interrogatory 254, AEP indicated that no other utility in the U.S. is using Wi-Max technology for

20 its communications system in the gridSMART type of

21 program. Wouldn't that mean that it's an unproven or

22 a risky technology?

23 A. I can see where you would draw that

24 conclusion, but we believe that Wi-Max would work.

25 Q. That's just AEP's belief at this time,

not based on data or studies or analysis, correct?

A. That's right. But when we went out for the RFPs, we would ask the vendors to demonstrate their capability before we proceeded and make sure that they were able to meet the criteria.

Q. Now, Mr. Assante for AEP, he testifies regarding gridSMART program accounting and he talks about AEP's plan to replace initially installed smart meters plus some of the communication equipment in the next five to seven years with upgraded technology that has greater functionality and benefit to both the customer and to AEP.

So AEP plans to replace working phase 1 equipment that was put in during the first three years of this program, years 1 through 3, AEP's going to replace this working equipment with even newer equipment in two to three more years.

A. If it has updated capabilities that go beyond that, that would make sense for us to

20 implement those for customers.

21 Q. And Mr. Assante testifies that smart

22 meters will be depreciated in five to seven years,

23 and communications equipment will be fully

24 depreciated in seven years. Is AEP certain that this

25 depreciation period of five to seven years for smart

meters complies with current federal law?

MR. NOURSE: Objection, your Honor. It asks for a legal conclusion and it relates to testimony Mr. Assante gives in his testimony.

Q. If you know, Ms. Sloneker.

EXAMINER SEE: To the extent you know the answer, Ms. Sloneker, you can answer the question.

A. I don't know the answer.

Q. Let me ask you this. Are you aware of recent legislation that establishes a ten-year lifespan for smart meters?

A. No, I am not.

Q. I'm going to ask you about DSM and energy efficiency. Will AEP achieve the energy savings that are necessary by 2025 as mandated by Senate Bill 221?

A. I believe so, yes.

Q. Will the smart grid program play a key role in their efforts to -- AEP's efforts to achieve this mandatory energy savings?

20 A. We believe that the demand response

21 capabilities that would be associated with gridSMART

22 will be critical to achieving the demand response

23 targets or benchmarks.

24 Q. So this will be a key role, this

25 gridSMART.

A. We believe so. We haven't completed our market potential studies yet, but our guess is that in the outlying years achieving the benchmarks will become more difficult and that we'll need to use technology such as this.

Q. But at this time AEP doesn't know what energy savings it can expect from this gridSMART program, correct?

A. No. But I believe as we complete the market potential studies, that that information will become known.

Q. You testify regarding using energy efficiency data from AEP-Texas. How is this Texas data relevant to an energy efficiency program in Ohio?

A. We used that as a basis for selecting programs that are potentially beneficial to customers here in AEP. We looked at it for what components are included in the various programs, estimated total

20 program costs off of that as well as some of the

21 basis for the potential impacts.

22 Q. Can we assume that a fair amount of that

23 Texas data, though, isn't useful in designing an

24 energy efficiency program for Ohio?

25 A. I think that it is useful to a certain

extent, but that's why we're going forward with the market potential study so that we have data that is relevant to AEP-Ohio specifically.

Q. Certainly Texas weather data is different from -- or weather is different from what Ohio weather is, correct?

A. Absolutely.

Q. And our customer demographics in Texas different from Ohio, correct?

A. Yes.

Q. And customer heating and air conditioning use, that's different from Texas.

A. It is.

Q. If you could look at your testimony on page 20 to 22, you mention several programs with which AEP-Ohio intends to achieve energy efficiency and peak demand reduction requirements, correct?

A. Yes.

Q. AEP hasn't started any of these programs

20 in Ohio, has it?

21 A. No, they have not.

22 Q. You testify on page 22 about a market

23 potential study for energy efficiency and peak demand

24 reduction, correct?

25 A. Yes.

Q. AEP hasn't started that, correct?

A. Actually, we had the request for proposal, and we've selected Summit Blue and MEEA to conduct the market potential study. That study is underway.

Q. I think you testified that AEP isn't going to complete this study until next year, right?

A. January or February of 2009.

Q. Of 2009. So when will the results of the market potential studies be available?

A. January or February of 2009.

Q. Okay. So the Commission isn't going to know what the energy efficiency and demand response programs of AEP will cost until 2009 sometime?

A. They have our estimates, but we won't know until we actually go out for the RFPs.

Q. And AEP hasn't yet determined what third parties will implement the programs, correct?

A. No, we have not.

20 Q. Or what third party will monitor or

21 evaluate the program.

22 A. No, we have not.

23 Q. On page 23 you testify about a

24 collaborative process AEP proposes involving. On

25 line 16, you say: "Consisting of vesting partners

and facilitated by Battelle." And also managed by a third-party contractor. Where in your testimony do you identify the costs of administering this DSM program?

A. Could I ask you where you're seeing the part about managed by a third party?

Q. Lines 22 to 23. The companies propose to use a third-party contractor or contractors to manage and implement the program.

A. Okay, I had seen the part about Battelle but I had not skipped down that far.

Q. Yeah.

A. I'm sorry, I've lost the question.

Q. Where in any of your testimony or exhibits do you identify the costs of administering this DSM program?

A. Our administrative cost estimates are included in my Exhibit KLS-2.

Q. What page or pages?

20 A. It begins on page 23 of 27 and continues

21 through 27.

22 Q. Does this page -- do these pages identify

23 the costs of the third-party contractor specifically?

24 A. No. They're lumped into the total

25 administration costs.

Q. And it doesn't identify the specific costs of Battelle.

A. There is no cost to Battelle.

Q. Are there any supporting documents related to these figures in your exhibits, in your Exhibit KLS-2?

A. Not to my knowledge.

Q. So where do these cost figures originate?

A. We had a team of people from various parts of our company who looked at energy efficiency and demand response programs. They evaluated programs that are underway in AEP's sister companies, as well as other parts of the United States, combined that with our data for the customers who fit these load profiles, and put together projected program costs and administration costs.

Q. Do you include a total on the administration costs for all these residential energy efficiency programs?

20 A. Yes, we do.

21 Q. What's that total?

22 A. For residential, the total administration

23 cost for residential for Ohio Power is 14,354,625,

24 but included in that is also $6 million for general

25 energy education.

Q. And CSP?

A. CSP residential, $14,445,875 with $6 million in general education.

Q. What about amount or percentage of these administrative costs that you list in this total will AEP spend on program evaluation?

A. I think just for estimating purposes we've looked at something in the order of magnitude, if I'm recalling correctly, probably about 20 percent of the total measured costs.

Q. Based on what?

A. Just what we would expect that we would need to pay to have somebody look at that and make sure that we're achieving the results that we expected and to evaluate the implementation.

Q. What amount of these administrative costs, what amount or percentage, constitutes costs to develop systems to capture and report program impacts?

20 A. I don't know the answer to that.

21 Q. What percent, if any, or amount, if any,

22 of the administrative costs have already been

23 incurred by AEP's DSM and energy efficiency programs

24 in Texas or Oklahoma or some other state?

25 A. None of these costs would have been

incurred by any other state.

Q. What's the administrative cost premium of starting new programs versus administering existing programs?

A. If you're asking me for a number, I don't have a number, but I believe the administrative costs associated with starting new programs and ramping them up quickly, as we've been asked to in Ohio, is higher than it would be for existing long-term programs.

Q. In response to OCC Interrogatory 197, AEP stated that generation efficiency improvements will be included in meeting the energy efficiency mandates established by Senate Bill 221. Do you mean -- and you prepared the answer for AEP, and I have a copy of that interrogatory, if I may approach.

EXAMINER SEE: Yes.

MR. NOURSE: Which set is that interrogatory in?

MR. IDZKOWSKI: I think it was seven.

THE WITNESS: Thank you.

MR. IDZKOWSKI: You're welcome.

Q. (By Mr. Idzkowski) So in response, AEP or AEP states that the generation efficiency improvements will be included in meeting the energy

efficiency mandates established by Senate Bill 221.
Do you mean that the advanced energy mandates, do you mean to say that those are the advanced energy mandates in Revised Code 4928.64 rather than the energy efficiency mandates established in Revised Code 4928.66?

MR. NOURSE: Well, your Honor, I object to the citation of all the code sections and trying to distinguish between them.

Perhaps you could ask in plain English.

Q. Do you know if AEP will be meeting the advanced energy mandates in Senate Bill 221 or the energy efficiency mandates?

A. I believe that -- I mean, the advanced energy -- what did you say again?

Could you repeat the two choices.

(Record read.)

A. I believe the advanced energy mandates.

Q. You believe that the energy efficiency

20 savings obtained from the company's ESP programs will

21 also meet the advanced energy requirements?

22 THE WITNESS: Would you repeat the

23 question.

24 MR. NOURSE: Your Honor, again I would

25 object. I think there are open arguments on those

1 questions in the Commission's pending rulemaking.
2 They've put out some proposed rules and there were
3 arguments made on that. Again, I think it's a legal
4 question. It's actually an open question.
5 EXAMINER SEE: Mr. Idzkowski, do you want
6 to respond?
7 MR. IDZKOWSKI: Yes. I'd just like to
8 follow up on her testimony I believe in this area.
9 EXAMINER SEE: I'm sorry. You trailed
10 off at the end. What did you say?
11 MR. IDZKOWSKI: Her testimony covers some
12 of this. I just wanted to follow up.
13 MR. NOURSE: But again, your Honor, he's
14 asking whether it's going to be counted. That's a
15 matter that's open. He could give her a hypothetical
16 or maybe ask it another way, perhaps.
17 MR. IDZKOWSKI: I'm asking her, your
18 Honor, what her belief is.
19 EXAMINER SEE: And I think Ms. Sloneker

has answered that question. Move on.

MR. IDZKOWSKI: Thank you.

Q. (By Mr. Idzkowski) Why has AEP suggested a 125 percent of federal poverty guideline threshold for its proposed low-income weatherization program?

A. Because we have programs in place to help

1 customers who meet that threshold, and we were just
2 trying to make sure that when we designed our
3 programs, that we also looked at programs at that
4 125 percent level, and then we've also proposed
5 programs for those who are 125 percent to 200 percent
6 of the federal poverty guidelines and all others.
7 Q. One of your programs you mentioned is a
8 general energy education program.
9 A. Yes.
10 Q. What percentage of the proposed budget
11 for that is going to be general television, radio, or
12 newspaper advertising?
13 A. I don't have those numbers or percentages
14 but I will believe that most of it will be targeted
15 towards radio or print media rather than television.
16 But I think those decisions would have to be made
17 once we have the programs more completely defined and
18 we've identified the target audience to make sure
19 that the message is delivered most effectively.

Q. Do you know what percentage or amount of that budget is going to go to actually training and certifying HVAC contractors?

A. No, I do not.

MR. IDZKOWSKI: If I may have a moment, your Honor.

EXAMINER SEE: Okay.

MR. IDZKOWSKI: We have no further questions.

MR. BOEHM: Your Honor, I wonder if we could go off the record for a moment.

EXAMINER SEE: Yes.

(Discussion off the record.)

(Recess taken.)

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

Miss Sloneker, you're still under oath.

And where were we? I think we were starting on this side with Mr. Yurick.

MR. YURICK: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Yurick:

Q. Ms. Sloneker, can you hear me?

A. Yes, I can.

20 Q. Directing your attention to page 7 of

21 your testimony, at lines I'll say 9 through 16 you

22 talk about the benefits of gridSMART phase 1, I

23 think; is that correct?

24 A. Yes.

25 Q. Would those benefits apply to other

phases of gridSMART also?

A. Yes, they would.

Q. And one of the benefits that you talk about at lines 11 through 12 is "Better information concerning their" -- meaning customers -- "electricity usage, both on a realtime and historical basis." Do you see that?

A. Yes, I do.

Q. And is AEP going to provide information collected through gridSMART to its customers free of charge?

A. Yes, it would.

Q. Turning your attention to --

(Discussion off the record.)

Q. Bear with me just a minute. You answered the question in a way I wasn't expecting so I need to fast forward here a little bit. Page 19 of your testimony, lines 13 through 23.

A. Yes.

20 Q. In that section you talk about the energy

21 efficiency program mandates of Senate Bill 221,

22 correct?

23 A. Yes.

24 Q. Are you familiar with those mandates,

25 then?

A. Yes.

Q. Are you familiar with the part of Substitute Senate Bill 221 that talks about mercantile customers and you could either call it opt out or integration provision?

A. Yes, I am.

Q. And is the company proposing to allow mercantile customers to take advantage of those opt-outs?

A. We are. We've begun exploratory conversations with our customers on that issue.

Q. And you're aware, are you not, that some of your customers on their own already participate in energy efficiency programs and invest in that to a great degree?

A. Yes, we are. And we believe that there exists a win-win opportunity for AEP and consumers to take advantage of the mercantile provisions of the bill.

20 Q. So you believe, in other words, that your

21 customers should be able to receive credit for their

22 already-existing energy efficiency programs to the

23 extent that they help the company meet their

24 benchmarks?

25 A. We share that view with our customers,

and we believe that we would want to work with the Commission to make sure that that is a reasonably prudent thing to do.

Q. I wasn't attempting to engage in friendly cross. Your answers are somewhat surprising to me so at this point I have no further questions.

Thanks very much.

EXAMINER SEE: Mr. Rinebolt.

MR. RINEBOLT: Yes. Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Rinebolt:

Q. Good evening.

A. Good evening.

Q. Miss Sloneker, let's see how we do here. Start on page 4, lines 9 through 11. You note there, in particular at line 10, that gridSMART will help enable customers to become more energy efficient,

20 reduce demand, and manage costs. Is there any

21 evidence within your testimony that indicates that

22 customers will become more energy efficient, or are

23 they just enabled now?

24 A. I think if customers choose to take

25 advantage of time-differentiated rates which would be

1 a part of our proposal, then they will become more
2 energy efficient.
3 Q. And just for the purposes of the record,
4 what are time-differentiated rates?
5 A. I believe that question would be best
6 answered by Mr. Roush; however, it does offer
7 different pricing options for customers so that they
8 could choose when to use their energy, ideally shift
9 their demand to an off-peak period.
10 Q. Okay. Let me see. This whole smart
11 meter stuff, does it require customers to be vigilant
12 and pay a lot of attention to their meters?
13 A. No, it doesn't. What we intend to do is
14 offer a home area network which would allow customers
15 to make some predetermined choices as to how they
16 would use energy, and that home area network would
17 provide that vigilance, as you refer to it.
18 Q. Does a home area network require special
19 appliances or consumer or electronic devices that the

20 customer has to purchase in order to utilize that

21 system?

22 A. I think it could. But it could be

23 something just as simple as a load control switch

24 that's installed ahead of the appliance, for example,

25 ahead of the air conditioner to cycle that load on or

off.

Q. Well, in fact, do you need a smart meter to do those type of switches?

A. No. You don't, but I don't believe that we're proposing that AMI's sole benefit would be associated with demand response. That's one of the main -- many benefits that the customer would receive.

Q. Well, but sticking to that issue right now, would it be cheaper to do radio controlled switches than it would be to do a smart meter?

A. I haven't done that study so I can't answer that question.

Q. Okay. Are the advanced metering systems that you're talking about more or less expensive than conventional meters?

A. Advanced meters are more expensive than conventional meters.

Q. Do you have any idea how much more?

20 A. Probably about 270 to 300 dollars more

21 for a typical residential.

22 Q. Okay. Now, are they less expensive than

23 a conventional meter in the cost of meter readers?

24 A. No. But again, we're not proposing

25 gridSMART based solely on the savings associated with

the reduction in meter reading staff.

Q. If you had a hundred percent penetration of smart meters, can you tell me, based on anything, frankly, what percentage of customers you expect would use them? Can you project what percentage of your customers will use a smart meter?

A. Could you repeat the question, please?

(Record read.)

A. If we provided smart meters to a hundred percent of the customers at a minimum, they would be able to take advantage of the meter-reading ability that we could provide the signals back to the company so that we would have the remote meter reading capabilities as well as the outage information to know whether a customer is on or off.

So in answer to your question, a hundred percent.

Q. A hundred percent would use those features. Do you know what percentage would use them

20 to engage in demand reduction activities?

21 A. No. That's one of the things that we

22 need to learn through gridSMART phase 1 is how can we

23 influence consumer behavior so that they do choose to

24 reduce their energy consumption.

25 Q. Are you aware of any other utilities that

that have implemented smart meters?

A. Not specifically, but there are a number of utilities that have used smart meters.

Q. Well, then, why haven't you analyzed the usage patterns of customers in those other jurisdictions rather than engage in a $109 million demonstration project?

A. I'm not aware of another utility that's proposing an implementation similar to AEP-Ohio I believe that the other utilities that I am aware of have used AMI for smart metering purposes only. I'm not aware of any other utilities that have used it in conjunction with distribution automation or the home area network, so I don't have anything to compare this to.

Q. Okay. Ms. Sloneker, later in your testimony you talk about energy efficiency and demand-side management programs, and you indicate within that discussion that those programs that you

20 brought forward and any programs AEP would roll out

21 would be cost-effective, is that a reasonable

22 assessment of your testimony?

23 A. I'm not sure that that would apply to

24 low-income programs.

25 Q. All right. For the other programs

cost-effectiveness is a key criteria; is that correct?

A. I believe that it is. I mean, we've undergone the market potential study to make sure that we can design and implement effective programs. We've engaged a collaborative to make sure that we choose programs that are well received by our customers and that are delivered in a cost-effective manner.

Q. Have you conducted a similar cost-effectiveness evaluation of gridSMART?

A. No, we have not. That's one of the outcomes that we hope to gain from gridSMART phase 1. We've given an estimate of operational savings that we expect to see in the first three years from gridSMART, and then part of the measurement and evaluation process that will occur throughout those three years and in subsequent years would lead us to be able to perform the study that Mr. Rinebolt

20 references.

21 Q. Why should gridSMART be treated

22 differently than energy efficiency and demand

23 reduction programs?

24 A. Because it's a very different concept.

25 It changes the way that we deliver electricity to our

1 customers. It has benefits that go beyond the simple
2 benefits of company savings and customer savings. It
3 includes societal benefits and provisions for
4 providing reliable service that don't exist today.
5 Q. Okay. Well, we will get to those
6 benefits. Later on page 4, down at line 21 you will
7 be able to more -- you indicate your utility can more
8 efficiently manage generation and distribution of
9 power. Will that efficiency translate into the
10 bottom line of the utility or do you plan on sharing
11 that savings with your customers?
12 A. I think that that would translate to the
13 bottom line of the utility and that we would be able
14 to share those costs or those savings with our
15 customers, particularly as it relates to the
16 distribution.
17 Q. So it is -- am I to understand that the
18 company's application indicates that savings
19 resulting from smart grid, including generation

20 revenues resulting from freed-up generation that's

21 sold off-system will all flow back to the customer?

22 A. I think what we're indicating with the

23 generation component is that this would avoid the

24 cost of building new generation and those costs would

25 not be passed on to customers.

Q. Well, I would observe with our economy nobody's going to need new power plants for the time being. Strike that.

EXAMINER SEE: Thank you, Mr. Rinebolt.

MR. RINEBOLT: I'm trying to weed these out, your Honor.

Q. On page 5 at line 12 you talk about gridSMART and the related technologies allowing the company to better respond to energy needs. What do you mean by the term "energy needs" in that statement?

A. I think our customers have a desire to conserve on their electric consumption. I think our customers have a desire to have more realtime information associated with their energy usage. I think that our customers would like for us to know when they're out of service. I believe a lot of them believe that we have that capability today when, in fact, in many cases they have to call us before we

20 know that they're out of service, so I think that

21 would better provide their energy needs.

22 Improving their service reliability

23 expectations or meeting their service reliability

24 expectations relates to our ability to restore

25 service more quickly. By being able to isolate a

1 faulted section of a circuit and transfer load over
2 to another circuit, we could restore service more
3 quickly to our customers.
4 EXAMINER BOJKO: I'm sorry, Mr. Rinebolt.
5 What customers is there -- is there a
6 particular class of customers that your answer was
7 related to?
8 THE WITNESS: No. I believe that's true
9 for residential, commercial, and industrial
10 customers.
11 EXAMINER BOJKO: Thank you.
12 Q. So let's kind of look at what you just
13 said on the reliability, out of service. You said
14 that the company knows where there's a service
15 interruption because their customers call them.
16 Aren't the customers the first one to know that their
17 power goes out?
18 A. Yes. But what I was stating --
19 Q. Don't -- oh, I'm sorry, go ahead.

20 A. With AMI and the communication system

21 back to the customer, the utility could know whether

22 or not -- or we would know that their service is out

23 before they called. We would know if their power was

24 off even if they were not home to recognize that the

25 service was off.

Q. That's right, but --

A. We'll be able to know whether their service is restored after an outage. There are sometimes some occasions where an individual customer's service may not have been restored when we put back an entire circuit, and with gridSMART technology we'll be able to know about those individual customers and go back and restore service to them.

Q. And will that improve your response time?

A. Yes. We'll be able to --

Q. And you have data to indicate that?

A. Yes.

Q. Okay. Are you going to hire more linemen?

A. I think we'll need to hire more people to do the installation work.

Q. Okay. Do you have any studies that indicate that customers want more realtime

20 information on their electricity consumption? Any

21 studies?

22 A. No studies. We get requests from people

23 for that information, but we do not have a study.

24 Q. What percentage of your customers request

25 that information?

A. I don't have that data.

Q. Okay. Do you anticipate this system being a proprietary system or an open architecture system that can accommodate multiple software applications or upgrades?

A. Could you repeat the question?

MR. RINEBOLT: Could you reread it, please?

(Record read.)

A. I think we're looking for the most flexible system available so I believe we'd be looking for an open architecture.

Q. But you haven't chosen the hardware yet.

A. No, we have not.

Q. Do you intend this system to -- are you going to trademark this system? Do you intend to market this system to other utilities or to other AEP subsidiaries?

A. We intend for gridSMART to be available

20 to other AEP Ohio operating companies, but I'm not

21 sure that we would need to market it, trademark it,

22 or sell it to others. I'm not aware of plans to do

23 that.

24 EXAMINER BOJKO: I'm sorry, did you say

25 other AEP operating companies?

THE WITNESS: Yes.

EXAMINER BOJKO: Ohio operating companies?

THE WITNESS: No.

Q. To other AEP companies. Well, then would you think that appropriate for customers in your other distribution utilities to reimburse Ohio ratepayers for the cost of developing this system?

A. I think, as I've indicated earlier, we already have a pilot in Indiana. Ohio customers are not reimbursing Indiana customers. That's one of the benefits of being part of a large utility like AEP, we learn from each other as well as from other utilities across the United States.

Q. To your knowledge, did any consumer advocates in Indiana ask that those customers be reimbursed should you roll out the technologies in other states?

A. I don't have any knowledge of that.

20 Q. Mr. Hamrock said earlier that -- he

21 acknowledged that there are some circuits in the AEP

22 system that do not meet current reliability standards

23 established by state rules. Do you view the smart

24 grid as necessary to meet the minimum standards that

25 already exist?

A. No, I do not. I view it as an effective way to improve reliability.

Q. Do you think it will enable the company to meet minimum standards?

A. Yes. To the extent it helps us to improve the monitoring, planning, and evaluation for our circuits, I think that that will enable innumerable distribution improvements.

Q. Do you think that recovery of funding associated with gridSMART should be conditioned on the company meeting minimum reliability standards?

A. I don't have a view on that.

Q. I think I've asked this before, but you haven't done any surveys of AEP-Ohio customers to see what they think about gridSMART, have you?

A. Not to my knowledge, no.

Q. Okay. On page 6 you indicate that one of the benefits of this is that you will "minimize employees' exposure to injuries from work-related

20 accidents and occasional confrontational customer

21 interactions." Could you tell me how many

22 work-related accidents we are no longer going to

23 have?

24 A. No, I can't. But I can tell you that

25 meter reading is a very hazardous profession, and by

not having them exposed to the injury causing things in the field, I think that we will see a reduction. We'll be eliminating or minimizing the exposure.

Q. Why is meter reading so hazardous? Is walking down -- is it more hazardous than walking down the street?

A. Typically it is because meter readers don't walk down the sidewalks. For the most part they're walking behind people's homes where the terrain is not always level. Some people don't take care of their properties in the same way that I'm sure most of us do. They're at great risk to dog bites. We had some very significant injuries as a result of that. They walk probably about ten miles a day, which I think is more than most of us.

Q. And I imagine they're very healthy because of that. Strike that. I'm sorry. It's getting late.

MR. RANDAZZO: It's later than you think.

20 Q. Are you aware of any studies that

21 indicate that smart grid will result in fewer outages

22 or shorter durations? Any studies?

23 A. I am not.

24 Q. Is AEP going to fire its meter readers if

25 they implement this?

A. AEP is looking at cross-training opportunities and managing that job loss through natural attrition in our workforce as well as trying to identify other opportunities for those people to provide services to AEP.

Q. How many meter readers do you employee in Ohio?

A. Approximately 200.

Q. Are you aware of any -- are there any projections of savings that the average customer would receive as a result of having smart meters?

A. No. What we are asking is that Summit Blue and MEEA look at the potential savings for HAN, and that would be related to -- I'm sorry -- home area network, and that would be related to cycling on and off air conditioning as a first start. Ultimately customers would be able to turn off appliances like washers and dryers or run them after normal peaking hours.

20 Q. But you can already program washers and

21 dryers to run at certain times, can't you?

22 A. Yes, you can. I don't think that a lot

23 of people have a reason to do that today.

24 Q. Have you talked to the Ohio Rural

25 Electric Cooperative who have had a program to cycle

air conditioning off for 20 years to see what types of results they've gotten?

A. No, I haven't. And I'm sure that they have obtained some significant results. But, again, I think we're looking at going beyond that ultimately. One of the benefits to customers is energy conservation. I've already talked about the other benefits that they'll receive. I believe that by providing this that we'll be able to allow the customers to have more choice in doing that.

Q. Let me see. Speaking of those benefits, down on the bottom of page 16 you talk about other benefits which accrue to society as a whole, such as environmental benefits. When Mr. Hamrock was on the stand earlier, I asked him if as a result of energy efficiency and smart grid customers reduced consumption, would the company back down their generators in order to match that usage level thereby reducing emissions. And he indicated they would not.

20 So could you explain to me where the environmental

21 benefits come from?

22 MR. NOURSE: Objection. I think that

23 mischaracterizes what Mr. Hamrock said. I believe he

24 said that there's no direct correlation to what the

25 AEP dispatch would be based on that example.

MR. RINEBOLT: I'll withdraw the question and rephrase.

Q. What is the direct relationship between smart grid and environmental benefits?

A. Well, if you could imagine just a single residential customer, if a single residential customer cycles their air conditioning off to an off-peak period or delays their dishwasher running, then that generation is not needed during the on-peak times.

Q. Well --

A. Multiply that times the potential 110,000 customers in this pilot.

Q. But what you want people to do is to cycle appliances off at peak; is that correct?

A. That's one alternative. As you know, Senate Bill 221 has set targets for us for energy efficiency as well as demand response.

Q. That's correct. And -- okay.

20 But, to the extent that you are cycling

21 air conditioners off on peak or you are shifting

22 usage from peak when the generation of the margin is

23 natural gas, which is relatively clean compared to

24 coal, and you're shifting usage to the evening when

25 they're using coal-fired power plants, how is that an

environmental benefit?

A. Well, I think if you limit yourself to the demand-response capabilities, then that would be potentially a valid argument. Still, we're required to shift load to an off-peak period.

Q. I understand that. I'm just trying to understand --

EXAMINER SEE: Mr. Rinebolt.

Q. -- where the benefits are.

EXAMINER SEE: Mr. Rinebolt, I'm not sure the witness had finished her answer.

Q. Oh, I'm sorry, I misunderstood. Go ahead.

A. I think also having realtime knowledge of their consumption will encourage customers to reduce that consumption entirely. It is not simply limited to a demand-response capability. By having a screen in their home where they can see how much they're consuming, they could choose to turn lights off.

They could choose to change the temperature thereby reducing the consumption, the energy that is consumed which would have a direct impact on the environment.

Q. Do I need a smart meter to know that I've left a light on in a room?

A. No. But I think that people are not

1 paying attention to it as much, and by having some
2 alarm capabilities or by having some automated
3 controls in their home, that people would be more
4 likely to make those choices.
5 Q. To your knowledge, is it fairly common
6 for parents to tell their kids to turn off the
7 lights?
8 A. Yes. I know that for a fact.
9 Q. All righty. And to your knowledge, do
10 people attempt or at least want to conserve energy
11 now even without seeing the realtime cost of the
12 energy they're consuming?
13 A. I think some people do. I think some
14 people aren't motivated by doing that at all. Again,
15 having the gridSMART technology in place would allow
16 for controls and programmable thermostats and those
17 sorts of things to manage that consumption on behalf
18 of the consumer, to turn those lights off even when
19 the child doesn't.

20 Q. And there are motion sensors that will do

21 that as well, correct?

22 A. That's true.

23 Q. And there are programmable thermostats

24 that are available right now that you can go buy,

25 correct?

A. That's true.

Q. And they don't require two-way communications, do they?

A. No.

Q. Okay.

A. And again, energy efficiency and demand response is one of the benefits of gridSMART.

Q. On page 17 you quote Senate Bill 221 and then interpret it, interpret to intuit the meaning of the General Assembly in passing the language that you quote. Are you an attorney, Miss Sloneker?

A. No, I'm not.

Q. But you are intuiting that the General Assembly has recognized customer benefits from that phrase "acquisition and deployment of advanced metering, including the costs of any meters prematurely retired."

A. I think that what I'm saying is that language suggests that they recognize that there are

20 benefits to the customer and society by using

21 advanced metering.

22 Q. And that is your personal opinion --

23 A. Yes.

24 Q. -- that that's what the General Assembly

25 felt.

A. Yes.

MR. RINEBOLT: I move to strike, your Honor. This whole quotation from line 10 down to line 17, 18, 19, 20, 21, 22, and actually onto the next page is Miss Sloneker attempting to develop a legislative history, and we do not have legislative history in Ohio. And I, for one, cannot intuit what the General Assembly means, I can only read their words on the page, and the words that she quotes do not add up to the paragraph that she -- that is included in her testimony.

EXAMINER SEE: And you're moving to strike lines 10, page 17, from line 10 through --

MR. RINEBOLT: Through line 2 on page 18.

MR. NOURSE: Your Honor.

EXAMINER SEE: Hold on just a minute, Mr. Nourse.

Mr. Nourse, go ahead.

MR. NOURSE: Your Honor, regardless of

20 whether the quotation marks are included on line 10

21 and line 12, just about every witness, if not every

22 witness in this case, has referred to Senate Bill 221

23 and provisions within the legislation, given their

24 understanding. If there are ultimate legal issues to

25 be had on this point, the Commission will determine

them and, you know, witnesses can advise their lay understanding.

Furthermore, I don't think the following sentences are tied in with that particular language or reference to 221 and should not be stricken. They don't relate to that particular provision in any event.

EXAMINER SEE: Ms. Sloneker's already admitted that this was her opinion. The rest of it doesn't reflect the statute. The motion to strike is denied.

MR. RINEBOLT: All right.

Q. (By Mr. Rinebolt) Let's move on to energy efficiency and demand response. To your knowledge, can energy efficiency investments offset the need to invest in infrastructure improvements such as circuit upgrades?

A. They might impact capacity requirements on the circuit.

20 Q. Have you looked at any or has anyone

21 working for you done any analysis of the potential

22 for energy efficiency to improve reliability in the

23 distribution system?

24 A. No, I don't believe so.

25 Q. All right. On page 20 at line 7 you

indicate that AEP's proposing to implement several familiar DR and EE programs. Can you tell me what you mean by "familiar"?

A. What I meant was that they're programs that have been heard of before.

Q. And which programs would those be?

A. Well, I believe that it relates to weatherization programs are widely implemented, compact fluorescent light programs are implemented, motor efficiency programs are implemented.

Q. So you're referring to generic energy efficiency programs then.

A. Yes.

Q. All right. Thank you for clarifying.

On page 23 you talk about your proposed programs. When you developed this proposed slate of programs, did you review the Targeted Energy Efficiency Program which AEP funded between 1993 and 2001?

20 A. Could you be more specific about what

21 you're referring to on page 23?

22 Q. You talk about -- essentially page 23 you

23 list a whole bunch of programs that you want to

24 implement.

25 A. I'm not seeing that on my page 23.

Q. Oh, I apologize. Let me make sure I have the correct page number. 20. 20. I apologize. My typing isn't that good sometimes.

A. Could you repeat the question? I was busy trying to find your reference on 23.

Q. I'd be happy to, yes. Did you or your staff or anyone at the company review or consider implementing the Targeted Energy Efficiency Program, which is a program that American Electric Power Ohio funded from 1993 to 2001 to serve low-income customers?

A. We've considered the programs that we implemented in the past as well as programs that are currently being implemented in Texas and in other locations throughout the country.

Q. What states do you have low-income programs operating in?

A. I'm not positive, but I believe primarily in Kentucky, I would guess in Texas, but I'm not

20 positive.

21 Q. Do you recall looking at the Targeted

22 Energy Efficiency Program model?

23 A. Not in detail, no.

24 Q. Okay. Did you review the Electric

25 Partnership Program, a program managed by the state

that is currently being delivered to American Electric Power Ohio customers?

A. I'm aware of that program. I haven't evaluated it as a potential for our programs for 2009.

Q. So you're not aware that that's a national award winning program?

A. I've read some material from ACEEE, and we've engaged Summit Blue and MEEA to make recommendations to us for DR and EE programs, as well as we've engaged the collaborative to provide us input on which would be the best programs for all classes of customers.

Q. Does Summit Blue operate energy efficiency programs?

A. I'm not sure. They may.

Q. Does MEEA operate energy efficiency programs and demand reduction programs? Do they actually sell people light bulbs or hand out light

20 bulbs or anything like that?

21 A. I don't know. They may.

22 Q. Mr. Idzkowski had asked you about your

23 low income weatherization program and its eligibility

24 level. You have a program that goes up to

25 125 percent of the poverty line and then you have

another program that goes from 126 percent of the poverty line to 200 percent of the poverty line. Could you tell me what the differences are between those two programs?

A. No, I can't, because we haven't designed the specific programs yet. We'll do that after we complete the market potential study and after we've received the response to our RFPs. They may be one and the same, or they may be different. I don't know the answer to that today.

Q. So let me make sure I understand. You are not necessarily going to implement the programs that are in your application; you're going to allow the collaborative to make the final decision over the programs that you implement?

A. We've asked the collaborative to provide us input. AEP-Ohio has benchmarks to achieve and thus has the ultimate responsibility for making the decisions as to which programs we implement.

20 Q. If you know, is the 125 percent

21 eligibility level used because the weatherization

22 assistance program in Texas only goes up -- goes to

23 clients with incomes up to 125 percent of the poverty

24 line?

25 A. No, I think this is more tied to the

availability of data that AEP-Ohio has on its customers that currently are at the 125 percent of the poverty line. We work with several agencies and have that information.

Q. Ms. Sloneker, are you aware that the eligibility level for the Home Energy Assistance Program in Ohio is 175 percent of the poverty line?

A. I think there are certain programs that are available up to 175, and there are others that are earmarked at 125.

Q. Could you tell me what program is earmarked at 125 percent of the poverty line?

A. Not right now, no, I can't.

Q. Are you aware that the Percentage of Income Payment Plan eligibility is 150 percent of the poverty line?

A. Yes.

Q. Okay. Are any of the programs that you have proposed designed to coordinate with demand-side

20 management programs funded by gas companies?

21 A. We haven't done that to date, but we are

22 interested in pursuing that with gas companies that

23 have similar or share our service territory. We've

24 had those conversations with Columbia as well as the

25 Commission. The subject was even raised in the

collaborative, and we indicated a willingness to do that. AEP Ohio believes that there are certain synergies that can be achieved to the benefit of all parties by working together.

Q. I very much agree with you and look forward to helping you do that.

MR. RINEBOLT: Thank you very much. That's all my questions.

EXAMINER SEE: Mr. Randazzo.

MR. RANDAZZO: Thank you, your Honor.

- - -

CROSS-EXAMINATION

By Mr. Randazzo:

Q. Good evening.

A. Good evening.

Q. First of all, with regard to the benchmarks that are in Senate Bill 221, is it your understanding that those benchmarks apply irrespective of whether the AEP-Ohio companies would

be operating under an ESP or an MRO?

A. That's my understanding, but I haven't looked at that to know for sure.

Q. Okay. So whether or not you have an ESP or an MRO, it would be your understanding that you'd still have to hit the benchmarks, right?

A. That would be my understanding.

Q. So the fact that you've got this gridSMART proposal embedded in your ESP plan wouldn't be something that would be an advantage relative to the MRO because you've got to do it in both, right?

A. I guess so.

Q. Now, if you turn to page 3 of your testimony and line 4 --

EXAMINER SEE: I'm sorry, what page was that, Mr. Randazzo?

MR. RANDAZZO: Page 3, line 4.

Q. Do you see the -- I'm going to focus on the word "gridSMART", "grid" in small letters, "SMART" in big letters, and then there's a little "sm." Do you see that after the word there? Does that mean that you have a servicemark for gridSMART?

A. We do. But that's about the extent of my knowledge of that subject as to why we do or not.

Q. Do you know what a servicemark is?

20 A. I don't know the difference between a

21 servicemark and a trademark. I know there are

22 differences, but I'm not sure what they are.

23 Q. Well, is it your understanding that the

24 servicemark indicates that the use of the word

25 gridSMART has a commercial application?

A. I don't know.

Q. How long have you seen the word gridSMART followed by those little letters SM?

A. I think that goes back to sometime early in 2007, but I'm not sure.

Q. Okay. If you know, who holds the servicemark? Is it the AEP-Ohio companies or is it AEP corporate or --

A. I believe it's AEP Service Corporation, but I don't know for sure.

Q. Within the target area that you've identified for deployment of the gridSMART initiative, do you know how many residential customers within that area might currently be on budget billing?

A. I do not. I believe that we've looked at that, but I don't know that number.

Q. And would it be correct that customers would have to go off of budget billing in order to

20 take advantage of the full array of initiatives that

21 are embedded in your gridSMART proposal?

22 A. I'm not aware that they would have to. I

23 don't see why they would.

24 Q. Well, how does budget billing work?

25 A. It's trued up. There's like a rolling

12-month average, I believe.

Q. And so I'd use my electricity throughout the course of the year, and I would get sort of a levelized bill during the course of the year for my electricity, and then at some point during the year you would true up the difference between my levelized and actual consumption.

A. Yeah. The payments just adjust.

Q. And how do you think that that would work relative to sending a price signal to the customers? Do you think I'd have any clue as to when I should use electricity if I was on a budget bill?

A. I think so. I think that you could set the relative parameters as to what the cost per kilowatt-hour is and make your decisions based on that. I think it also goes to a part of the education component that we see as being so critical to gaining customer acceptance and participation in this because there are a lot of things to take into

20 consideration, such as what you just mentioned.

21 Q. Okay. Have you looked at letting

22 customers read their meter and sending you the

23 information to achieve cost reductions associated

24 with meter reading? You are aware that some rural

25 cooperatives allow customers to read their meters.

A. And I think we have a limited number of customers who take advantage of doing that today, primarily because of access issues. We have not looked at that as a cost-cutting way.

Q. Have you looked at joint meter reading with other utilities, gas utilities, for example?

A. Not in the recent past. We looked at that a long time ago and there were a number of things that were prohibitive to that, primarily the cost associated with maintaining the IT infrastructure and the systems in place to share that information.

Q. Do your meter readers actually read the meter, or do they pull information from the meter?

A. The majority of our meters are actually read. There are some that we can read remotely, and there are some that we interrogate over phone lines.

Q. Right. And if you were concerned about safety or other issues related to the meter reader,

one of your options would be to install a device on the meter that would allow you to interrogate the meter remotely, right?

A. Yes.

Q. And that technology has existed for years, right?

A. Yes. But the problem with that given the density of the accounts that we have in AEP-Ohio is that our current cost of meter reading is such that it doesn't have a good payback for the singular benefit of reducing meter reading costs.

Q. Okay. But if you were concerned about the safety of your meter readers, you have tools that are available to you presently --

A. Well, in fact we do that. We budget a certain amount every year for safety and hard-to-access issues, so in locations where we know that there are hazardous conditions which the meter reader has to enter in order to get the read or where there's a vicious dog, for example, we'll install an AMR.

Q. Right. And the reason I asked was because some of the responses that you gave previously to some questions in this area may have suggested that taking care of the safety of your

20 meter readers depended on deployment of gridSMART.

21 In fact, you're doing that right now, correct?

22 A. Yes. Safety is, again, one of the many

23 benefits that we would see.

24 Q. Now, there's been a couple of questions

25 related to what you're doing in Indiana. In fact,

you've rolled out 10,000 meters in South Bend, Indiana, right?

A. That's correct.

Q. And what you do very -- have you gathered any information from South Bend?

A. No, we have not. They're still in the implementation phase, the early implementation phases.

Q. So if we wanted to try to look for some economies of scale, might one of the things we'd like for is to wait until some information from your Indiana deployment is available in order to evaluate how and when we might leverage that information in Ohio?

A. I think that the scale of the implementation in Indiana is such that we would benefit from having a larger scale implementation here in Ohio. Obviously, we're learning from the experience of our Indiana coworkers even now as we

20 plan for gridSMART phase 1, but I would not want to

21 wait until that smaller pilot had been put in place

22 before we proceed with a larger scale implementation.

23 Q. Well, why did you choose 10,000 in

24 Indiana?

25 A. That was driven by the Indiana Commission

and a part of their decisions over there.

Q. Are you saying that the Indiana Commission limited the scope of the deployment in Indiana to 10,000 meters?

A. No. I believe the limiting factor is they were willing to fund $7 million, if I'm remembering the number correctly.

Q. And your judgment would be that that's producing an inadequate sample size for purposes of evaluating the program.

A. No. I'm not saying that. I said that a larger scale implementation would be more effective for us here in Ohio to be able to gauge the benefits of the distribution automation.

Q. And I thought I heard you say you had not, in response to an earlier question, you've not executed any agreements with vendors related to the gridSMART deployment. Did I -- is that --

A. For AEP-Ohio that's correct.

20 Q. Who then has executed the agreements with

21 General Electric?

22 A. I'm not sure which agreements you're

23 talking about.

24 Q. If you know, isn't it true that there's a

25 signed agreement with General Electric Company to

jointly develop and deploy equipment and technology programs to support the gridSMART initiative?

A. I believe that you may be referring to ENMAC, and that's an agreement at the service corporation, if I'm not mistaken.

Q. You're not aware of any agreement with General Electric to deploy?

A. Not in AEP-Ohio, no.

Q. Well, would AEP-Ohio enter into the agreements or would it be the service corporation?

A. AEP-Ohio.

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

EXAMINER SEE: Thank you.

Ms. Wung.

MS. WUNG: No questions, your Honor, thank you.

EXAMINER SEE: Mr. Jones?

MR. JONES: Thank you, your Honor.

20 - - -

21 CROSS-EXAMINATION

22 By Mr. Jones:

23 Q. Good evening, Ms. Sloneker.

24 A. Good evening.

25 Q. My name is John Jones. I'm counsel for

the staff, and I have a few questions for you.

A. Okay.

Q. Ms. Sloneker, you testified on the stand, also in your prefiled testimony, that AEP is expected to expend 109 million for the gridSMART phase 1 investment; is that correct?

A. That's correct.

Q. And I believe in your prefiled testimony you estimated that the operational savings for the first three years is expected to be only 2.7 million; is that correct?

A. That's correct.

Q. Would you agree with me, Ms. Sloneker, that the net savings is quite small compared to the expenditures for the initiatives?

A. I think it is if you look at the limit -- only to the first three years, and I believe in subsequent years we'll be able to measure and account for additional savings associated with the

20 distribution automation aspects of gridSMART, as well

21 as I think that the benefits for gridSMART exceed

22 those that are seen at the company.

23 The customers will receive those benefits

24 as it relates to the energy conservation initiatives

25 that we've talked about earlier, the improved

1 customer service and the improved reliability as well
2 as other societal benefits.
3 Q. And so there has been an analysis after
4 three years as to what those benefits are?
5 A. No, there has not. I'm just saying that
6 it would be reasonable to expect that there would be
7 many more benefits.
8 Q. Now, I also wanted to get some
9 clarification on the advertising costs associated
10 with gridSMART, and specifically the $6 million in
11 your Exhibit KLS-1. I wanted to ask you now for what
12 would be the purpose of those advertising costs, you
13 know, if the Commission were to approve the gridSMART
14 and it was rolled out? I mean, what would be the
15 purpose of the advertising cost?
16 A. It's primarily associated with educating
17 consumers as to the availability of gridSMART and the
18 benefits that are associated with that so that they
19 can understand how the system works and why they

20 would want to participate.

21 Q. Okay. Switching then to the home area

22 network initiative, HAN, and referring to your

23 testimony on pages -- page 12, now, for a customer to

24 be able to be participating in that and receiving a

25 programmable communicating thermostat, would that

1 customer have to have central air conditioning for
2 that initiative to be applicable?
3 A. That's what we're proposing with this
4 gridSMART phase 1. We feel that we need to start
5 somewhere, and the central air conditioner is the
6 largest piece of electrical equipment in somebody's
7 home and we could see the most significant benefit
8 from cycling that on and off.
9 I think in subsequent years and as
10 appliances become available, it would be natural that
11 you would extend it to potentially washers and dryers
12 and dishwashers and lighting and those sorts of
13 things.
14 Q. But for the first three years it would
15 just be limited to customers who have central air
16 conditioning.
17 A. That's as we've proposed it right now.
18 Q. Ms. Sloneker, how would the customers
19 benefit from gridSMART if there's no rate design

20 that's been determined by the company to be rolled

21 out with the plan? I mean, you know, for the

22 customers who are paying for that, they wouldn't be

23 able to benefit from, you know, dynamic pricing and

24 time-differentiated rates; isn't that true?

25 A. That is true. And what we're suggesting

is that as we begin the installation of the meters and the communications system up front, that concurrent with beginning to educate customers about the upcoming availability of time-differentiated rates, that we would file those rates with the Commission so that those would be available to the customers at the same time or very close to the same time as the home area network was made available to them.

Q. And that would have to be done before you can evaluate the system; is that correct?

A. I think you would have to make some assumptions to start the evaluation. In our market potential study, we'd have to look at the benefits to the customer as well as the cost of providing the equipment to the customer.

Q. Now, referring to the initiative, the DA initiative, the distribution automation initiative, that initiative involves the installation of switches

20 that would activate automatically or remotely during

21 certain outages; is that correct?

22 A. Yes.

23 Q. And that would, in effect, switch

24 customers then to another power source, another

25 circuit --

A. Yes.

Q. -- during that outage.

A. Yes.

Q. And, Ms. Sloneker, then for a customer to be protected against outages by automated switching would depend on where the customer is located in relationship to where the fault would occur and where the switch is involved, would that be accurate, along that circuit?

A. Yes. We would still have to isolate the faulted section of the line, and if they're on that section, then they would not be able to be restored. But as it's currently designed, many more customers upstream from the fault could actually be impacted, and by installing this kind of device you could automatically isolate the fault, and then after the system has checked for the capacity and done those sorts of things, it could connect the load over to a viable circuit.

20 Q. And also the automatic switching would

21 not protect customers if the alternate power source

22 would be out due to a transmission or substation

23 outage. Is that also something that could occur?

24 A. I think that would be true if the

25 circuit, which is again part of the reason why we

wanted to look at this large scale pilot, is that if you're limited to only a couple of circuits that you can transfer between and if those are both from the same substation or served by the same transmission line, then the scenario that you outlined would be true. In a larger-scale pilot you could potentially transfer the load to another -- a circuit served from another substation.

Q. Okay. And in Ohio the distribution automation, you just have -- you have two projects in Ohio. You have nothing in operation in Ohio currently, is that correct, just two projects being proposed?

A. I believe that's true. I know we've answered a discovery question about that, but I can't remember whether the projects in Ohio are completed or underway.

Q. Okay. And would it also be true, then, that the one project would be in the northeast area

20 of central Ohio and then the other one would be

21 outside of the -- of that area?

22 A. I believe that's correct. Witness Boyd

23 would be able to answer that definitively.

24 Q. How about as to how many circuits are

25 involved as to what's involved in the northeast area

of central Ohio and how many circuits are outside that area?

A. I can only state that there are 70 distribution circuits in the northeast central Ohio scenario, and Witness Boyd would be able to tell you how many outside.

Q. Would you agree with me that that would be 20 circuits outside of that area, subject to check?

A. Subject to check.

Q. And would you know the estimated cost of the DA, cost of the outside area for those 20 circuits?

A. I believe Witness Boyd would be the best person to answer that question for you.

Q. Thank you.

In your proposal for recovery of a smart grid, for the cost of a smart grid initiative, where would that be coming from as to where those costs

20 would show? Would that be general distribution

21 rates?

22 A. I think that -- I believe so, but I think

23 that Witness Roush would be the best person to ask.

24 Q. I'll save those questions for him. Thank

25 you.

A. Okay.

MR. JONES: Your Honor, if I could just have a second.

EXAMINER SEE: Okay.

MR. JONES: I just have one question in follow-up.

EXAMINER SEE: Okay.

Q. Ms. Sloneker, what will the market potential study tell the company and the collaborative about the gridSMART initiative investment?

A. I think that the market potential study would focus primarily on the benefits associated with HAN as it relates to gridSMART. Customers within that territory would be able to take advantage of all of the programs that are available outside of gridSMART, but in addition they would have the advantage of being able to take advantage of the time-differentiated rates that would be open to them

if they decided to take the home area network.

MR. JONES: That's all I have.

Thank you.

EXAMINER SEE: Mr. O'Brien?

MR. O'BRIEN: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. O'Brien:

Q. Good evening, Ms. Sloneker.

A. Good evening.

Q. I'm Tom O'Brien. I'm representing the Ohio Hospital Association and the AEP area hospitals. I'm going to ask you some questions pertaining to your demand response and energy efficiency programs, I'll ignore all this gridSMART nonsense people were talking about.

EXAMINER SEE: I'm sorry, what was the end of that, Mr. O'Brien? You trailed off.

MR. O'BRIEN: I will withdraw the end of that, your Honor. It was a snide remark.

EXAMINER SEE: Okay.

Q. The purpose of my questions is just to try and figure out how your proposals might impact hospitals. To paraphrase, I want to find out like what's in it for us. And for the purpose of these

20 questions I'd like you to accept that the hospitals

21 have very small like doctor's office facilities,

22 medium size facilities, and then some very large

23 facilities.

24 Now, what I'd like to do is, turning to

25 page 20 and 21 of your testimony, go through each of

these programs, and I'm going to ask you whether or not they would -- the hospitals would be able to participate in those programs.

A. Okay.

Q. So let's start with that first bullet point on page 20, standard offer programs. Now, it appears that there is a small commercial and industrial standard offer program and then a commercial and industrial standard offer program. Would I be correct to assume that the hospitals would be able to participate in the size-appropriate program?

A. Yes, they would. The small commercial and industrial standard offer program is applicable to nonresidential customers whose demand doesn't exceed 100 kW so that would meet your small office description.

Q. Now, am I safe to assume that the targeted energy efficiency weatherization program

20 would not apply?

21 A. I can't imagine where it would, so yes, I

22 think you're safe to assume that.

23 Q. And same for the low income

24 weatherization program.

25 A. Yes.

Q. Now, turning to the residential and small commercial compact fluorescent lighting program, how about that?

A. That would be applicable.

Q. Again, for the size appropriate facilities.

A. Yes.

Q. And the commercial and industrial lighting program, same answer, for the size appropriate facility?

A. Yes.

Q. And then I'm assuming the state, municipal light emitting diode program is applicable to more public entities.

A. That's correct.

Q. And then Energy Star new homes program, that seems like it's residential.

A. Correct.

Q. Same for the home appliance program.

20 A. That's correct.

21 Q. That wouldn't apply to like kitchenettes

22 inside a hospital facility.

23 A. No. I think there would be other

24 programs that would hit that.

25 Q. How about the renewable energy technology

program?

A. I think that they could. Let me check. I believe that was open to the -- yeah, the incentives would be limited to residences with 5 kW or to commercial 10 kW per commercial building so that would be applicable as well.

Q. Okay. Now, the industrial process partners program.

A. Probably not. I think that they would be best served under the large commercial and industrial standard offer program.

Q. What is the industrial process partners program designed to -- who is that program targeted to?

A. It's really targeted to large industrials and government users looking more at process audits than just energy consumption devices.

Q. Assembly lines?

A. Yes. That sort of thing, manufacturing,

20 metal melting, those kinds of things.

21 Q. Okay. I'll turn your attention now to

22 lines 9 through 12 on page 22 of your testimony. You

23 there reference committed capabilities of mercantile

24 customers to be integrated into the electric

25 distribution utility's DR and EE programs and that

the companies intend to work with those customers and other stakeholders to explore these options. What's that referring to?

A. There are provisions in the bill that give those customers certain opportunities to take credit for energy efficiency initiatives that they've undertaken or will undertake, and we are interested in working with those customers in conjunction with the PUCO.

Q. Those would be programs that have been undertaken outside the auspices of the programs we just went through?

A. Yes.

Q. And sort of be shoehorned into the whole energy efficiency demand reduction program --

A. Right. Yeah, there were a number of customers or are a number of customers who have already undertaken energy efficiency initiatives and this part of the bill was intended to work with those

20 customers.

21 Q. Now, if I were to ask you -- I will ask

22 you if there is a reachback limitation on this. And

23 you understand what I'm asking you?

24 A. Uh-huh.

25 Q. Can you answer the question?

A. I believe that there potentially could be a reachback provision, and I'm not sure how far back that would go. I think that's something that's still yet to be defined.

Q. Okay. All right. Thank you.

Now I'd like to turn to your Exhibit KLS-2 and I'd like to ask you some questions about the specific programs themselves. In particular, for each of these you have a delivery method outlined on the sheet. Can you explain to me what the delivery method paragraph is telling us about each of these programs? When you say "delivery method," what do you mean?

A. We're talking about how you would deliver the incentives or the program to the customers, whether it would be in the form of incentives or rebate programs, those sorts of things.

Q. I would turn your attention to page 14 of 27 of Exhibit KLS-2, the Small Commercial and

Industrial Standard Offer Program.

A. Okay.

Q. Let's go down to the delivery method paragraph there. It says it's an incentive-based program managed by AEP or marketed to the ESPs. AEP-Ohio may manage the process or contract with an

EESP using standard service offer contracts. What is that telling us about how a hospital could avail itself of this program?

A. All of that will be further defined as we go through the RFP process. We haven't designed the programs down to the level of how I can tell you exactly how this would be. There's a possibility that an AEP-Ohio employee could come and meet with your facilities engineers and talk to you about the provisions of the program, what efficiencies the hospital might be able to implement, and what incentives AEP-Ohio would offer for that.

Or it could be that we contract with a third party to reach out to the customers in that category and talk to them about the program, what the incentive mechanism would be, and what the customers will need to do in order to qualify.

Q. All right. Let's say that the program gets fully fleshed out. I as a customer, a

20 commercial customer of AEP, what do I need to do in

21 order to get the process going?

22 A. I think that's going to vary by program,

23 but that's a part of the education components and the

24 administrative costs associated with the programs

25 that we'll need to promote them for large customers,

like the hospital we have -- hospitals we have folks that are assigned to those accounts, and they'll be actively sharing that information with the hospitals.

Q. So go to our account reps.

A. Yes.

Q. I call your attention to page 18 of 27 of specifically KLS-2, and I'm looking at the program overview, the first paragraph, and about the middle of that paragraph it says that: "Eligible measures could include motors, processes, water heating," et cetera. By that sentence are you saying that the list of possibility eligible measures is kind of work in progress to try and determine?

A. This would be a typical list of initiatives or measures that would be included for large commercial and industrial customers. I think that that list could be adjusted based on the results of the market potential study. If they identified measures that we haven't thought of including or

20 measures that are more cost-effective, then they can

21 be included, as well as we're working with the

22 collaborative to seek their input, so the list could

23 be adjusted that way.

24 Q. I guess what I'm really getting after is

25 if a hospital had a load that's kind of unique to the

1 health care industry and somebody could figure out a
2 way that it could be made more efficient, could that
3 be included in this program?
4 A. I would say so, yes. We're very
5 interested in promoting energy efficiency and
6 reaching benchmarks.
7 Q. On page 16 of 27 of Exhibit KLS-2, and
8 again in that first paragraph, the program overview
9 first paragraph, down at the bottom the last sentence
10 there says: AEP-Ohio reserves the right to divide
11 incentive dollars between public, commercial, and
12 industrial market segments, as deemed appropriate.
13 Has any thought been given to how that
14 division of incentive dollars is going to be made?
15 What is the process going to be for making that
16 division?
17 A. I think a lot of that's going to depend
18 on the market potential study, as well as input from
19 the collaborative. I hate to keep going back to the

20 benchmarks, but it's going to be very important that

21 we achieve those in the most cost-effective manner,

22 and we would look at those inputs as well as the

23 desire to serve all customers. We don't want one

24 category of customer to take all of the available

25 funding. We'd like to make sure that the program is

beneficial to as many customers as possible.

Q. So the consideration will be bang for the buck plus other, you know, kind of spreading the benefits considerations.

A. I think that's fair.

Q. One last question. Are you aware of the U.S. Department of Energy's Energy Smart Hospitals program? Have you ever heard of that?

A. I have not.

MR. O'BRIEN: Thank you. I have no further questions, your Honor.

EXAMINER SEE: Mr. Maskovyak?

MR. MASKOVYAK: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Maskovyak:

Q. Good evening, Ms. Sloneker.

A. Good evening.

Q. I'm Joe Maskovyak. I represent the

20 Appalachian People's Action Coalition, APAC because

21 that's much shorter to say.

22 Much like Mr. O'Brien, we have an eye to

23 what's in it for us for low-income customers because

24 we're primarily low-income customers from southeast

25 Ohio. I'd like you to indulge me for a moment. I

was not here at the beginning of your testimony, and if I've covered something you've already said, I apologize in advance,

First I'd like to take you to page 2 of your testimony at the bottom of the page, lines 20 to 22. If I understand your responsibilities correctly, you are the person who is going to be -- make sure that the demand response and the energy efficiency programs get rolled out and that they work.

A. Yes.

Q. Okay. If you could flip over to page 3 and look at lines 8 through 10, it's my understanding that you are here to talk about the parts of the ESP that have to do with energy efficiency and demand response programs.

A. That's correct.

Q. Thank you. I would now like to turn to the application. Do you have a copy of the application?

20 A. No.

21 MR. MASKOVYAK: Can I ask counsel to --

22 Q. Has the application been marked as an

23 exhibit?

24 MR. RESNIK: No.

25 MR. MASKOVYAK: Oh. I don't know if it

is appropriate at this time to do it or not.

Q. I would like you to turn to page 8, please, where it says part III.D, the Economic Development and Job Retention Rider.

A. I'm sorry, where are you again?

Q. I'm on page 8. This is page 8 of mine.

A. Okay.

Q. Part III.D.

A. Okay.

Q. Economic Development and Job Retention Rider.

A. Okay.

Q. It starts with the first sentence that says: "As part of their ESPs, the Companies are proposing to implement a nonbypassable Economic Development Rider." Okay?

A. Yes.

Q. And then the second paragraph starts with: "The Companies economic development efforts,

however, go far beyond the use of rate discounts."

Without examining what those economic development efforts are, can you tell me whether those company efforts are intended to be part of the ESP?

A. I'm not -- I'm not sure why you're asking

me this question.

Q. Well, because it's part of the ESP application. I'm trying to find out -- if you'll bear with me, you will see where I'm going with this, but I'm trying to find out to make sure what is actually included in the ESP application and what may not be.

A. Can you repeat the question?

EXAMINER SEE: I'm sorry, Mr. Maskovyak. Can you answer the question, or would it help if it were rephrased or broken down?

THE WITNESS: I guess I could try to answer the question, but I'm not the witness for the economic development rider.

MR. MASKOVYAK: Thank you.

Q. Can I take you down to paragraph 3 of that same section?

A. Okay.

Q. It says: "As part of the Companies'

20 efforts in this regard, they are committing

21 $75 million to create a 'Partnership with Ohio'

22 fund."

23 A. Yes.

24 Q. I believe, please correct me if I'm

25 wrong, that you were in the room when Mr. Hamrock was

1 testifying.

2 A. I was.

3 Q. Do you remember the line of questioning

4 begun by Mr. Bell and taken up by my co-counsel,

5 Mr. Smalz, when he was asked about whether the

6 $75 million partnership was a commitment?

7 A. Yes.

8 Q. And he said no, did he not?

9 MR. NOURSE: Your Honor, two problems

10 here. I don't know where this is leading back to her

11 testimony. She's already indicated she's not a

12 witness on economic development, and as counsel

13 knows, Mr. Hamrock had already testified on that

14 subject earlier today.

15 Mr. Roush also will offer to -- testifies

16 on the EDR rider you're asking about. But I don't

17 think that accurately characterizes Mr. Hamrock's

18 whole explanation of his testimony about the,

19 quote/unquote, commitment and everything else he said

20 about that.

21 MR. MASKOVYAK: Your Honor, if I may. I

22 wrote down that Mr. Hamrock said that it was not a

23 commitment or an obligation but he had every

24 intention of fulfilling that promise. Not that I

25 disbelieve the company's intent, but I remember quite

clearly that Mr. Hamrock said it was not a commitment, not an obligation.

Mr. Smalz followed up and said: So this is not a guarantee? And he responded by saying: Yes, it is not guaranteed, but we fully intend to spend it.

MR. NOURSE: Your Honor, there were various lines of questions including whether the ESP would be accepted or not or if there were any changes. Mr. Hamrock testified to this subject. This witness has already indicated she's not up here to talk about it. It's not part of her testimony. I'm not sure why we're going down this path.

MR. MASKOVYAK: Well, it's my understanding the Partnership with Ohio is in part to support the energy efficiency and demand response programs which I just understood her to say she's in charge of implementing.

EXAMINER SEE: Then --

20 MR. NOURSE: That was under the

21 benchmarks, I believe is what you're asking about.

22 EXAMINER SEE: I'm sorry, if you want to

23 ask that question of Miss Sloneker.

24 MR. MASKOVYAK: Could you read the

25 question back, please?

EXAMINER SEE: I'm sorry, I'm looking for the last phrase that Mr. Maskovyak represented he was going with the question to Ms. Sloneker. Was your last statement a question to Ms. Sloneker? Not in response to the exchange here.

MR. MASKOVYAK: I'm not sure, your Honor.

EXAMINER SEE: Read what Mr. Maskovyak said last.

(Record read.)

MR. MASKOVYAK: I was not intending that as a question, your Honor. I was merely intending that as an explanation as to why I thought this witness was appropriate to answer my original question.

EXAMINER SEE: Go ahead and ask your question to Ms. Sloneker.

MR. MASKOVYAK: Could you please read the question back for us?

(Record read.)

20 A. I think you read back what you had

21 thought he said, and he said, no, it was not a

22 commitment, it was an intention.

23 Q. Correct. Is that your understanding of

24 his testimony?

25 A. Yes.

Q. Can you reconcile for me the statement in the ESP that says there's a committing of $75 million to create a Partnership with Ohio versus Mr. Hamrock's testimony earlier today?

MR. NOURSE: I object to the characterization that there's an inconsistency or it needs reconciliation.

MR. MASKOVYAK: Your Honor, I --

MR. NOURSE: She is not testifying on the Partnership commitment, you know. Mr. Hamrock was just here today talking about that and available for cross.

MR. MASKOVYAK: Again, your Honor, it's my understanding that the Partnership is intended to fund the programs that she's designed to implement. I am merely seeking clarification, if that is intended to be a part of the ESP or not.

EXAMINER SEE: Then pose that question to Ms. Sloneker.

20 Q. (By Mr. Maskovyak) Again, can you tell me

21 whether, in fact, well, first of all can you

22 reconcile the statements --

23 EXAMINER SEE: The question that you just

24 clarified to the Bench.

25 Q. Can you tell me whether the $75 million

to create the Partnership with Ohio is intended to be a part of the ESP?

A. I don't think that's the same question. If you're asking me if the $75 million is intended to fund the EE and DR programs that I described in my testimony, the answer is no.

Q. Can you tell me whether, if the ESP is approved, whether the $75 million will be committed?

A. No, I cannot.

MR. NOURSE: Your Honor, that's the subject Mr. Hamrock testified to, and it was in his testimony. He was the witness that addressed that topic. He was available for cross earlier today.

EXAMINER SEE: Yes, I would agree with the company's representation, and you need to move on, Mr. Maskovyak.

Q. Okay. I would like to turn to page 20 of your testimony, Ms. Sloneker, beginning at line 13 and going through page 22, line 12, essentially the

20 laundry list of programs that Mr. O'Brien covered.

21 A. Yes.

22 Q. In that list of programs I was looking

23 for a reference to any bill assistance programs for

24 low-income customers. I could not find a reference

25 to such or any description of such. In those

1 programs or in your Exhibit KLS-2, is there such a
2 program?
3 A. No. Bill assistance programs would not
4 be part of energy efficiency or demand response.
5 Q. Do you know if the company has taken any
6 steps to implement low-income bill assistance
7 programs?
8 A. The company currently has low-income bill
9 assistance programs.
10 Q. Can you describe them for me?
11 A. Not in detail, no.
12 Q. How about with whatever --
13 A. We have a Percentage of Income Payment
14 Plan that's available to low-income customers.
15 Q. Excuse me. Are you talking about the
16 statewide PIPP program?
17 A. Yes.
18 Q. There's not any special AEP PIPP-like
19 program, is there?

20 A. Not to my knowledge. I know we don't --

21 we give funds or funds are made available to the Ohio

22 Department of Development. I'm not closely familiar

23 with how those funds are used.

24 Q. Are there any bill assistance programs

25 provided for currently by AEP?

A. I think I've already answered that. There's the PIPP program, and then we have funding for ODOD, and beyond that I can't answer your question.

Q. And perhaps you are the wrong witness for this, I apologize, but since it's my understanding you'll be implementing programs of this nature, Mr. Hamrock identified the fact that there will be bill assistance programs targeting those who are not typically eligible for such assistance. Can you offer me an explanation of what he may have meant by that?

MR. NOURSE: Your Honor, by clarification I think he's referring to the portion of the $75 million partnership fund, and it's the same subject we just went over when Mr. Hamrock was available. This witness, Ms. Sloneker, is not testifying concerning that.

MR. MASKOVYAK: Actually, if that's

20 correct, I don't know that. I don't know that the

21 bill assistance programs are intended to be derived

22 from the $75 million partnership fund and I --

23 MR. NOURSE: Furthermore, your Honor,

24 he's asking what Mr. Hamrock intended by his

25 statement, which she's not qualified to address

anyway.

EXAMINER SEE: Read Mr. Maskovyak's question back to me, please.

(Record read.)

EXAMINER SEE: The objection is sustained.

Q. Miss Sloneker, would you be responsible for implementing any bill assistance programs for low-income customers?

A. Once they're designed I would have operational responsibility for them.

Q. Would you be responsible in any way for helping create them?

A. I might provide input to them.

Q. Have you given any thought as to what shape those bill assistance programs will take?

A. No.

Q. Do you know if anyone in the company has any thoughts about what kind of bill assistance

20 programs would be designed for low-income customer?

21 A. I don't know beyond the fact that we're

22 very concerned about the customers who are not

23 eligible for assistance today. We view them as a

24 class of customers that need to have assistance.

25 Q. And can you explain to me what class of

1 customers that is?

2 A. It's the customers that are currently

3 unavailable or ineligible for the funding.

4 Q. Ineligible in what way?

5 A. Their incomes are too high.

6 Q. So we're talking about people that would

7 fall just above the eligibility for current programs

8 such as PIPP?

9 A. Yes.

10 Q. And do you have any idea of how high an

11 income level one may reach for such bill assistance

12 programs?

13 A. No, I don't.

14 Q. Do you know if there's anyone else in the

15 company who would have the answer to that question?

16 A. I don't believe that's been decided. I

17 believe we've expressed a willingness to work with

18 agencies to come up with a recommended level. It's

19 our intention to help those customers out, but I'm

not aware of the specific percentage or somebody who knows a specific percentage.

MR. MASKOVYAK: Thank you. No more questions, your Honor.

EXAMINER SEE: Mr. Nourse.

MR. NOURSE: Yes, your Honor, a couple

questions for clarification.

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REDIRECT EXAMINATION

By Mr. Nourse:

Q. Ms. Sloneker, you had questions earlier from Mr. Randazzo, and there was a question about energy efficiency and demand-side management benchmarks applying to both MRO and ESP contacts. Do you remember that?

A. Yes.

Q. And then I think he asked you a question of whether the GridSMART is not an advantage over the MRO right after that.

A. Yes.

Q. Is it your understanding that -- first of all, are there other benefits for gridSMART other than energy efficiency and demand response?

A. Absolutely.

Q. And is it your understanding that the

20 gridSMART proposal would be something that the

21 companies would be required to offer under either an

22 MRO or an ESP?

23 A. Yes.

24 Q. That the companies would be required to

25 offer?

A. Oh, I don't know. I guess it would just be the ESP.

Q. And under the ESP the companies are voluntarily offering to undertake the gridSMART, correct?

A. Yes.

Q. Okay. And another question for just clarification again. Mr. Randazzo asked you about the budget billing scenario and concerning whether budget billing customers would have any incentive based on their bill to participate in demand response. Do you recall that?

A. Yes.

Q. Is it your understanding that under budget billing the current charges for a customer are --

MR. IDZKOWSKI: Objection, your Honor.

EXAMINER SEE: I'm sorry?

MR. IDZKOWSKI: Objection. I understand

20 we're in redirect here, but all of his questions are

21 leading, and I'm just objecting to the form of his

22 question.

23 EXAMINER SEE: Your objection is

24 overruled.

25 Q. Ms. Sloneker, I don't know if I finished

my question, but is your understanding that a budget billing customer has current charges and usage information shown on each monthly bill?

A. Yes.

Q. Okay. And then finally, Ms. Sloneker, regarding questions you had from Mr. Idzkowski concerning the December 13th, 2007, PUCO staff workshop presentation, do you recall those questions?

A. I do.

Q. And regarding that presentation, was that presentation reflective of a proposal by AEP-Ohio?

A. No. We provided that in response to the PUCO's request.

Q. And were there constraints or limits or guidelines that the PUCO staff had put on that requested presentation?

A. Yes. They asked us to project what a full rollout would be and outline and which cost/benefit model we would use, specifically the

20 McKenzie model.

21 Q. And it was to be limited to AMI in terms

22 of their request; is that correct?

23 A. Yes.

24 Q. And with respect to the figures that were

25 in there discussed in cross-examination, some of the

estimates, for example, on cost savings, were those figures the company's best estimates at the time?

A. They were.

Q. But were they represented as a definitive quantification or the company's position as it would present in a regulatory proceeding where it would have its own proposal coming forth?

A. No. During the presentations we acknowledged that those were our best estimates at the time and that they would have to be fine-tuned before we went into a rate case proceeding. We were just responding to the Commission's request.

MR. NOURSE: Thank you, Ms. Sloneker.

THE WITNESS: Thank you.

MR. NOURSE: I believe I moved for the admission of her testimony earlier, your Honor, subject to cross-examination.

EXAMINER SEE: Yes, you did. Thank you, Mr. Nourse.

Recross?

MR. YURICK: No questions, your Honor.

Thank you.

MR. RINEBOLT: No questions, your Honor.

MS. WUNG: No questions, your Honor.

EXAMINER SEE: Mr. Randazzo.

MR. RANDAZZO: I'm sorry, I have two.

- - -

RECROSS-EXAMINATION

By Mr. Randazzo:

Q. Ms. Sloneker, your counsel asked you a question about what information is on a bill for a customer that's on a budget billing program. And I believe you indicated that the current charges would be on the bill in addition to the budget payment amount; is that correct?

A. Yes.

Q. When you answered current charges, how were those charges deployed on the bill?

A. I'm sorry, I couldn't hear you.

Q. Are the charges on the bill time-differentiated charges?

A. No.

Q. And how long after -- between the time the consumption occurs and the customer gets a bill,

how long is that?

A. It's from the time the meter is read until the bill is mailed, about ten days to two weeks.

Q. Do you do any estimated meter reading?

A. On occasion we do, yes.

Q. So the information on the bill might actually be done on an estimated meter reading?

A. Yes.

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

EXAMINER SEE: Mr. Idzkowski?

MR. IDZKOWSKI: No questions, your Honor.

EXAMINER SEE: Mr. Margard?

MR. MARGARD: No thank you, your Honor.

EXAMINER SEE: Mr. O'Brien?

MR. O'BRIEN: No questions.

EXAMINER SEE: Mr. Maskovyak?

MR. MASKOVYAK: No questions, your Honor.

- - -

EXAMINATION

By Examiner See:

Q. Ms. Sloneker, you said you had 200 Ohio meter readers.

A. Approximately.

20 Q. And you also indicated that you

21 planned -- the gridSMART was implemented throughout

22 the state to transition the meter readers to other

23 positions within AEP-Ohio.

24 A. To the extent that that's possible.

25 We've already started talking to them about the fact

that technology is changing and that their jobs will probably not be around, so we're currently providing training opportunities for them in the form of educational assistance and on-line learning when they finish with their routes in the day.

We plan on working with the union to come up with job descriptions for future positions that would be available that they might be interested in so they could pursue those positions.

Q. Of those 200, approximately 200 meter readers, how many positions do you expect to be decreased by normal attrition?

A. That varies across the state. In Columbus, if you can believe this, we have approximately a hundred percent turnover every year, so that's about 60 of the 200. Those people are seeking employment with AEP in general, and that's an entry level position, and so they come in there and then transfer into other jobs as they become

20 available.

21 There's also a number of other employment

22 opportunities that are available in central Ohio that

23 may not be available other locations so we have a

24 higher rate of turnover here.

25 Q. How often does AEP trueup its budget bill

calculation for customers?

A. I believe that that's on an annual basis.

Q. Once a year. You also used what I believe is an acronym. If you can, tell me what ENMAC is.

A. My guess is, and I think Mr. Boyd would be able to tell you for sure, but I believe that it's an Energy Management Automated Control system, but I'm not positive.

Q. Okay. What is the acronym, EN --

A. E-N-M-A-C.

EXAMINER BOJKO: I know your counsel tried to clear up something about the -- what's required under an ESP versus an MRO, but I became more confused by the discussion. It's not your testimony that gridSMART is required by Senate Bill 221, is it?

THE WITNESS: No.

EXAMINER SEE: Thank you, Ms. Sloneker.

THE WITNESS: Thank you.

EXAMINER SEE: Are there any objections to the admission of Companies' Exhibit No. 4?

Hearing none, Companies' Exhibit No. 4 is admitted into the record.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER SEE: Let's go off the record for a minute.

(Discussion off the record.)

EXAMINER SEE: With that, the hearing will be adjourned until tomorrow morning at 9 o'clock.

(The hearing adjourned at 6:55 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, November 19, 2008, and carefully compared with my original stenographic notes.

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Maria DiPaolo Jones, Registered Diplomate Reporter, CRR and Notary Public in and for the State of Ohio.

(3300-MDJ)

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