

BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

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In the Matter of the :
Application of Columbus :
Southern Power Company and:
Ohio Power Company for :
Administration of the :
Significantly Excessive : Case No. 10-1261-EL-UNC
Earnings Test Under :
Section 4928.143(F), :
Revised Code, and Rule :
4901:1-35-10, Ohio :
Administrative Code. :

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PROCEEDINGS

before Ms. Greta See and Jeffrey Jones, Attorney
Examiners, at the Public Utilities Commission of
Ohio, commencing at 9 a.m., on Tuesday, October 26,
2010, in Hearing Room 11-A, 180 East Broad Street,
Columbus, Ohio.

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VOLUME II

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Tuesday Morning Session,

October 26, 2010.

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

Ms. Yost.

MS. YOST: Good morning, your Honor.

EXAMINER SEE: I'm sorry, let me call
Mr. Hamrock back to the stand. I'll remind you that
you continue to be under oath.

THE WITNESS: Yes, your Honor.

EXAMINER SEE: Let's begin. Ms. Yost.

MS. YOST: Good morning, your Honor.

EXAMINER SEE: Good morning.

MS. YOST: At this time OCC would like to
have marked as OCC Exhibit 8 a document that was
distributed yesterday, the bottom left-hand corner IT
indicates that it's OCC Interrogatory 4, Attachment
1.

EXAMINER SEE: OCC Exhibit 8?

MS. YOST: Yes, your Honor.

(EXHIBIT MARKED FOR IDENTIFICATION.)

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JOSEPH HAMROCK

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

CROSS-EXAMINATION (Continued)

By Ms. Yost:

Q. Good morning, Mr. Hamrock.

A. Good morning.

Q. Do you have OCC Exhibits 7 and 8 in front
of you today?

A. I have what -- before we start I notice
this mic is not on. I don't want people to have
trouble hearing me.

I have Exhibit 8. What was Exhibit 7?

Q. 7 was Interrogatory 4.

A. Yes, I have that as well.

Q. Thank you. And if you could take a look
at OCC Exhibit No. 7, just trying to expedite this
process this morning, letter f. Is it your
understanding that what is marked as OCC Exhibit 8
was submitted in response to question f which was
requesting the specific projects that make up your
Exhibit JH-1?

A. That's correct. Exhibit 8 is the
committed budget for CSP and OP for the years 2010
and 2011 that shows the underlying project detail

1 that was requested.

2 Q. And the language I'd like for you to
3 focus on and what my questions are going to be in
4 regards to is, again, OCC Exhibit No. 7, paragraph e,
5 in the middle of the paragraph it begins with "The
6 majority of the dollars in the 2010 forecast, as well
7 as a substantial portion of the 2011 forecast have
8 already been approved by management and the company's
9 board of directors." Do you see that response?

10 A. I do.

11 Q. And then the response continues, could
12 you read the next sentence, please?

13 A. "There are projects contained in both the
14 2010 budget and 2011 forecast that have not yet been
15 approved, because the projects have not commenced and
16 Capital Improvement Requisitions have not yet been
17 prepared for them."

18 Q. Mr. Hamrock, I want to focus on that
19 language in regards to my line of questions.

20 A. Sure.

21 Q. Specific to OCC Exhibit 8 which you have
22 in front of you, Mr. Hamrock, my OCC exhibit which
23 the company provided does not have page numbers, so
24 in order to identify what specific page we're on, I'm
25 going to use the project title of the first line.

1 Are you with me?

2 A. Yes.

3 Q. Mr. Hamrock, if I could have you refer
4 to, again, OCC Exhibit 8, the front page, could you
5 tell me what this illustrates, please? The first
6 page.

7 A. This is a detail that supports JH-1,
8 Exhibit JH-1, which is the capital commitments for
9 2007 through '11. This detail breaks down the
10 committed budgets for CSP and OP in the years 2011 by
11 some of the underlying project areas.

12 Q. And again, I'd ask that you just focus on
13 those line items and budget numbers for CSP only,
14 okay?

15 A. Sure.

16 Q. All right. So let's take a look and see
17 if we can do this the most efficient way and if not,
18 we'll go through the additional pages of OCC Exhibit
19 8, but looking at, again, OCC 8, the first page,
20 first category is "Environmental." Do you see that?

21 A. You're on the first detail page, not the
22 cover page?

23 Q. Yes, cover page.

24 A. Yes.

25 Q. And you see where it says

1 "Environmental." And then under "Environmental," it
2 says "Scrubbers (FGD) & Associated Projects." Do you
3 see that?

4 A. Which line is that?

5 Q. Line 2.

6 A. I'm sorry, you're on the cover page,
7 okay.

8 Q. Cover page.

9 A. I was looking at the wrong page.

10 Yes, I do see that.

11 Q. Okay. And if you go under where it says
12 CSP for 2010 budget, what number do you see there?

13 A. 39 million 260.

14 Q. Can you identify for me out of that
15 number that you just read into the record how much of
16 those dollars have been approved by management and
17 the company's board of directors?

18 A. There are multiple levels of approval, so
19 the first step in AEP's capital allocation process is
20 to do the forward years and allocate capital to the
21 operating companies, in this case CSP, so that the
22 first step in the commitment process is allocating
23 capital to the operating companies based on projected
24 needs.

25 We're now focusing on the next level of

1 commitment which is specific projects, and you're
2 asking how many of those dollars are committed to
3 specific projects versus committed to CSP; is that
4 correct?

5 Q. No, I'm asking you how many of those
6 dollars, and again in the CSP line item that you just
7 read, have been approved by management and the
8 company's board of directors, and I use that language
9 as the language you used in OCC Exhibit 7.

10 A. And this detail doesn't tell me which of
11 these have approved CIs. In general I would say for
12 2010 probably 90 percent of these line items have
13 been approved by management for 2000 --

14 Q. Fair enough. I was just trying to
15 expedite it, and I understand that's a lot of
16 information to have so we'll go to Plan B which is if
17 you could turn the page and under --

18 MR. NOURSE: Your Honor, excuse me, could
19 you ask Ms. Yost to let the witness finish his
20 answers, please.

21 EXAMINER SEE: Okay.

22 MR. NOURSE: Thank you.

23 Q. I'm sorry, Mr. Hamrock, if I cut you off
24 there. Did you have anything else to add?

25 A. Yeah. I was highlighting that for 2010

1 these projects, the list of projects, the extensive
2 list of projects is probably 90 percent approved by
3 management, to focus on the language in the
4 interrogatory. For 2011 it would be in the 70 to
5 80 percent range. All of the dollars that are
6 committed to CSP approved for specific projects would
7 be in the 80 to 90 percent range.

8 Q. When you use the word "committed," you're
9 using the definition you gave to me yesterday,
10 correct?

11 A. I'm talking about multiple steps in the
12 commitment process.

13 Q. I understand, but when you use the word
14 "committed," I asked you to define it yesterday, and
15 you provided a definition. That's the definition
16 you're referring to in your answers today; is that
17 correct?

18 A. My recollection of that definition or
19 that response is there are different forms of
20 commitment including ordering long lead time items
21 for some of these projects, committing the capital in
22 the budget phase, as well as approving specific
23 projects.

24 Q. Mr. Hamrock, hopefully you can appreciate
25 that when we're using a word that -- I want to have

1 on the record when you're using a word what that
2 means to you, so again I'll ask you, you've used the
3 word "committed" several times today. What does that
4 mean to you?

5 A. Again, there are various levels of
6 commitment in the process, various steps in the
7 commitment process for the capital forecasts at AEP.
8 The first step being allocation of capital to the
9 operating companies. Second being the level of
10 detail that we're reviewing here. And then the
11 third, commitment to specific projects that underlie
12 that detail.

13 Q. So you're saying there's a three-step
14 process. Could you expand a little on what you
15 indicated was step 2? What do you mean by that?

16 A. Inside the operating company view there
17 are the multiple project categories that are shown on
18 the first page here, "Environmental, Transmission,
19 Distribution, Corporate/Other," those represent
20 business units at AEP. So the process is facilitated
21 by a matrix review that involves business unit
22 leaders as well as operating company leaders and that
23 would be the process involved in the second step of
24 the commitment.

25 Q. Mr. Hamrock, do you have your transcript

1 in front of you from your deposition?

2 A. I do not.

3 MS. YOST: Your Honor, if I may approach
4 the Bench.

5 EXAMINER SEE: Yes.

6 MS. YOST: Actually we can mark it as an
7 exhibit just in talking about it so that would be OCC
8 Exhibit 9. That would be the deposition of Joseph
9 Hamrock taken Thursday, October 21st, 2010.

10 MR. NOURSE: Your Honor, I just object to
11 making the transcript an exhibit. She can ask him
12 questions about it. I don't think we need to make
13 the entire transcript an exhibit at the hearing.

14 MS. YOST: Your Honor, I just asked to
15 mark it as an exhibit just for clarification.

16 EXAMINER SEE: We'll mark it.

17 MS. YOST: I'm not going to move it into
18 evidence, your Honor.

19 MR. NOURSE: Thank you.

20 (EXHIBIT MARKED FOR IDENTIFICATION.)

21 Q. (By Ms. Yost) Mr. Hamrock, if I could
22 have you turn specifically -- again, this is the
23 deposition transcript that you read, correct?

24 A. It appears that's what it is.

25 Q. If I could have you turn to page 88, line

1 14. Can you read starting with line 14 through 18,
2 please.

3 A. "Question: And in terms of the, you said
4 the phrase capital commitment, quote/unquote, what
5 does the commitment mean to you?

6 "Answer: An indication by the company of
7 its intent to invest."

8 Q. Thank you, Mr. Hamrock.

9 Mr. Hamrock, if I could have you turn to
10 the second page of OCC Exhibit 8, and again I was
11 indicating earlier that this document doesn't have
12 page numbers so to make sure we're talking about the
13 same page, I'll refer to -- I'll identify the project
14 identification in the first line, and the first page
15 I have in front of me is "CV4 FGD," and it indicates
16 "Landfill"; do you see that?

17 A. I do.

18 Q. Okay. Specific again to CSP only, which
19 this page indicates that these items are specific to
20 CSP, correct? If you look in the --

21 A. That's correct, the first column would
22 indicate that this is a CSP project in the budget
23 system.

24 Q. And can you indicate by project name
25 which of these projects that the dollar amounts have

1 been approved by management and the company's board
2 of directors?

3 A. In that particular line?

4 Q. Throughout this page.

5 A. Again, this detail doesn't tell me which
6 of the projects -- this is the budget system view and
7 it doesn't tell me which have been approved in the
8 form of a CI, capital improvement requisition. This
9 is the prior step in the commitment when it's
10 committed to the budget for CSP.

11 Q. But this is what you relied on in
12 generating Exhibit JH-1, correct?

13 A. This data is the underlying data for
14 years 2010 and 2011. 2007, '8, and '9 were actual.

15 Q. Yeah, very fair. I understand. So if
16 we're talking specific to 2010 and 2011, OCC Exhibit
17 8 was the information that you relied on in
18 generating specific to years 2010 and 2011 JH-1; is
19 that correct?

20 A. That's correct.

21 Q. And is it correct to say also that OCC
22 Exhibit 8 does not indicate which projects have
23 actually been approved by management and the
24 company's board of directors? Is that correct?

25 A. No, that's not correct. It indicates the

1 commitments in the first two steps in the process, it
2 matches the budget that's committed to CSP, and it
3 also matches the underlying project areas that have
4 been delineated in that budget.

5 Q. Okay.

6 A. The only step that's not reflected is the
7 final approval of individual projects.

8 Q. And isn't the final step in the approval
9 process the actual approval by management and the
10 company's board of directors?

11 A. No; it's one step in a comprehensive
12 process.

13 Q. And what step would you identify that as?

14 A. It's the final step in the process.

15 Q. The final step in the process is the
16 approval by management and the company's board of
17 directors, is that what you're saying?

18 A. No. There are multiple levels of
19 approval by management and the board of directors.
20 The board of directors approves the budget and
21 this -- what you're asking for is specific projects
22 and whether they've been approved. That's the final
23 step.

24 Q. So the final step, in order to get
25 approval to commence with a project, who has to

1 approve that? The final step.

2 A. Depends on the nature of the project. If
3 it's an environmental project such as the first one
4 here, it would be the management in that business
5 unit area as well as operating company management.
6 I'm always involved in that approval above a certain
7 threshold, and then finally the subsidiary company
8 board of directors approves the requisitions that are
9 submitted.

10 Q. And do you have that information broken
11 down of the projects that have went through all steps
12 of approval? Where would I find that?

13 A. I don't have that level of detail
14 available. That's a lot more detail than we're even
15 looking at here.

16 Q. So you don't have in your testimony or
17 any of the exhibits or any of the other testimony
18 filed in this case an exhibit showing the 2010 and
19 2011 capital expenditures that have went through the
20 entire approval process; is that fair to say?

21 A. I have what was available given the time
22 of the request that the commitments that have been
23 made to the budget for CSP, this is an ongoing
24 dynamic process. Every month we're approving
25 projects. Every month we review projects that are

1 already in flight for needed revisions to those, so
2 that's not a static process that at any point in time
3 we would have all of that data available for 2011.

4 Q. I understand your answer there and
5 regarding that step two which you just described,
6 correct?

7 A. Yes.

8 Q. If you just please answer my question.

9 MS. YOST: If you could read that back to
10 him.

11 (Record read.)

12 MR. NOURSE: Your Honor, I object. I
13 think it's argumentative. I think it's been asked
14 and answered. You know, this document we've been
15 discussing was from OCC's first set of discovery.
16 They sent us four sets of discovery, there was never
17 a follow-up asking to check off certain projects.
18 So, you know, I think it's unfair to go further with
19 this line of questioning. I think he's fully
20 explained.

21 MS. YOST: Your Honor, may I respond?

22 EXAMINER SEE: Yes.

23 MS. YOST: Clearly the question has been
24 asked but it has not been answered and I'm just
25 seeking an answer to a question. Yes, this was

1 pursuant to discovery this document was turned over,
2 but not until the deposition of Mr. Hamrock which
3 occurred Thursday did I find out other information
4 that really told the story about what was really
5 included in Exhibit JH-1. So with that being said,
6 your Honor, it's information that's pertinent to what
7 is actually a committed investment under the statute
8 and under the Commission's own rules that they have
9 to consider regarding a determination of SEET in this
10 case.

11 EXAMINER SEE: Read the question back
12 again, Maria.

13 (Record read.)

14 EXAMINER SEE: The objection is
15 overruled. Answer the question, Mr. Hamrock.

16 A. The data that's presented reflects the
17 commitment to the budget as well as the detail that's
18 in the budget. It does not reflect the final step
19 management approval because that's a dynamic process
20 that's changing constantly.

21 MS. YOST: Your Honor, could you please
22 instruct the witness to answer the question. I'm
23 just saying is there an exhibit. Is there testimony
24 that he can point me to. That's the question asked.

25 MR. NOURSE: Your Honor, I --

1 MS. YOST: It's a "yes" or "no," your
2 Honor.

3 MR. NOURSE: It's argumentative. He's
4 already given his best answer. He's explained the
5 whole thing multiple times.

6 MS. YOST: Your Honor, you already
7 overruled his objection so I just ask that you
8 instruct the witness to answer the question asked.
9 It's a "yes" or a "no."

10 EXAMINER SEE: I think you've gotten your
11 answer, Ms. Yost.

12 MS. YOST: Thank you, your Honor.

13 Q. (By Ms. Yost) Mr. Hamrock, we're going to
14 move on from that line of questioning. I do have a
15 question or several other questions continuing about
16 Exhibit JH-1. You have your testimony in front of
17 you, you can refer to that?

18 A. I do.

19 MS. YOST: Your Honor, just a moment, I'm
20 trying to locate the copy of JH-1 that was provided
21 by counsel where the numbers are more clear to
22 understand.

23 MR. NOURSE: I've got another one if you
24 need it.

25 MS. YOST: That would probably expedite

1 the process.

2 MR. NOURSE: There you go.

3 MS. YOST: Thank you, appreciate that.

4 Q. (By Ms. Yost) Again focusing on CSP and
5 again the years 2010 and '11.

6 A. Okay.

7 Q. Referring to your exhibit, line item
8 under corporate and other costs, could you indicate
9 what JH-1 indicates those amounts for the forecast
10 2010-2011, please, those amounts?

11 A. Sure. For CSP the forecasted capital for
12 corporate and other is \$6,284,000 in 2010 and
13 \$5,974,000 in 2011.

14 Q. Thank you, Mr. Hamrock.

15 And approximately 4.8 of the
16 6.284 million that you read regarding the line item
17 "Corporate/Other" for 2010, those costs are for
18 systemwide software applications, correct?

19 A. 4.8? Where do you see that detail?

20 Q. I can refer you and refresh your
21 recollection, looking at OCC No. 4 which is marked as
22 Exhibit No. 7.

23 A. Okay. Thank you.

24 Q. Specifically if you could look at the
25 response to paragraph a as in apple.

1 A. A?

2 Q. Yes, correct.

3 A. Yes, okay. Thank you.

4 Yes, 4.8 million in 2010 and 2.8 million
5 in 2011.

6 Q. And those, both numbers, are attributed
7 to costs for systemwide software applications,
8 correct?

9 A. That's correct.

10 Q. So those amounts would be attributed to
11 the shared services that AEP provides to all the
12 operating companies, correct?

13 A. That's correct.

14 Q. Your Exhibit JH-1 was compiled without
15 regard to whether recovery on or of those capital
16 expenditures has been or will be authorized, correct?

17 A. That's correct.

18 Q. In fact, for some of the indicated future
19 capital commitments CSP has riders approved by this
20 Commission and began collecting expenditures in 2009,
21 correct? I said some of them, just to clarify.

22 A. The riders that are approved don't
23 include recovery for future commitments, if I
24 understood the question correctly.

25 Q. The question was under future

1 commitments -- excuse me, future capital commitments,
2 some of the indicated future capital commitments CSP
3 already has riders in place and approved by the
4 Commission and began collecting on those expenditures
5 in 2009 and will continue to collect on those items
6 for 2010 and 2011; is that correct?

7 A. Those collections in 2010 and 2011 would
8 reflect recovery of prior-period investments, not the
9 future period. It sounds like you're asking me is
10 there a recovery set in place for the future
11 investments, and that's not my understanding.

12 Q. Okay. Well, I'll try to break this down.
13 There is a rider that the Commission has authorized
14 to collect the forecasted capital expenditures for
15 gridSMART, correct?

16 A. That's correct.

17 Q. And regarding the forecasted distribution
18 earnings, there is a portion of the capital
19 investment in the incremental vegetation plan that is
20 recovered through a rider, correct?

21 A. Yes, a very small portion of that
22 investment is in the capital side.

23 Q. In addition to that, rider cases were
24 filed by Columbus Southern Power in 2010 regarding
25 some of the construction expenses identified in

1 Exhibit JH-1, correct?

2 A. For the environmental investments, that's
3 correct.

4 Q. And wouldn't you agree that you expect
5 CSP to file in the future cases seeking approval of
6 riders for some of the construction expenses
7 identified in Exhibit JH-1? Correct?

8 A. We would expect to file for recovery.

9 Q. And of your expectation although you do
10 not -- CSP does not have a current rider in place for
11 the forecasted environmental expenditures for 2010
12 and 2011, you would expect that CSP would file such a
13 rider, correct?

14 A. Correct.

15 Q. And the bottom line is that the total
16 2010 and 2011 estimates for environmental, gridSMART,
17 and transmission will be trued up to actual costs and
18 recovered through riders, correct?

19 A. That's not necessarily correct.

20 MS. YOST: Your Honor, at this time OCC
21 requests that OCC Exhibit 10 be marked as Columbus
22 Southern Power Company's and Ohio Power Company's
23 response to OCC's discovery request 10-1261-EL-UNC
24 first set, interrogatory No. 5.

25 EXAMINER SEE: Okay.

1 (EXHIBIT MARKED FOR IDENTIFICATION.)

2 Q. Mr. Hamrock, could you take a moment to
3 read over this interrogatory and response.

4 Just let me know when you're ready to
5 proceed. Take your time.

6 A. Okay.

7 Q. Are you ready?

8 A. Yes. I'm sorry.

9 Q. If I could turn your, well, first of all,
10 have you seen OCC Interrogatory No. 5?

11 A. I have.

12 Q. And in fact you're identified as the
13 witness responsible for this interrogatory, correct?

14 A. That's correct.

15 Q. If you could turn to page 2 of OCC
16 Exhibit 10, the fifth line down, it reads "In
17 summary." Could you read that into the record,
18 please, that sentence?

19 A. "In summary, the total 2010 and 2011
20 estimates for environmental, gridSMART and
21 transmission will be trued to actual costs and
22 recovered through these riders."

23 Q. Thank you.

24 A. "For distribution only 2.3 million in
25 2010 and 2.7 million in 2011 represents capital costs

1 related to forestry that would be recovered through
2 the enhanced service reliability rider."

3 Q. Thank you, Mr. Hamrock. Mr. Hamrock, I
4 have no further questions regarding your Exhibit
5 JH-1, but if I could have you turn to page 7 of your
6 testimony, specifically the question starting on line
7 16. Excuse me. Hold on, Mr. Hamrock, I have the
8 wrong page. That would be page 17.

9 A. Page 17?

10 Q. Yes.

11 A. Okay.

12 Q. Starting with line 16. And then
13 continuing through page 18, line 5. You don't have
14 to read it into the record, just familiarize yourself
15 with the question and answer, please.

16 A. Okay.

17 Q. And in reference to the question and
18 answer on the -- question starting on page 17, line
19 16, this long-term infrastructure plan is not
20 included anywhere on your Exhibit JH-1, correct?

21 A. Right. This is in reference to our plan
22 to propose long-term infrastructure investment in
23 distribution business in coming proceedings.

24 Q. Right. It goes beyond the ESP period,
25 correct?

1 A. That's correct.

2 Q. And it's not a committed construction
3 expenditure, correct?

4 A. It is not committed. It's anticipated
5 construction --

6 Q. Thank you, Mr. --

7 A. -- pending -- I'm sorry.

8 Q. No, please finish.

9 A. Pending review by the Commission.

10 MS. YOST: Your Honor, at this time I
11 move to strike page 17, lines 16 through 24, and page
12 18, lines 1 through 5. This is not information, as
13 illustrated by Mr. Hamrock's cross-examination, this
14 is not information required by the Commission's rules
15 regarding capital budget requirements for future
16 committed investments in Ohio for the annual period
17 remaining in the ESP. It goes -- Mr. Hamrock's
18 testimony goes beyond -- establishes that this
19 project is not committed, goes beyond the ESP period,
20 and is not relevant to SEET, therefore, should be
21 stricken.

22 MR. NOURSE: Your Honor, briefly
23 responding, first of all, there's nothing in the
24 Commission's orders or rules or certainly in the
25 statute that limits capital commitment, future

1 capital commitments to the ESP period. So I think
2 that's not a reason to strike this.

3 I think the statement that's made on page
4 18 at the end of the answer is the purpose and the
5 appropriate purpose in this docket of saying that
6 this further demonstrates AEP Ohio's -- continues to
7 escalate its capital commitment investment in Ohio,
8 that they've done a lot, they're asking to do more,
9 so it was submitted for that reason and the
10 Commission can certainly evaluate that in weighing
11 the probative value of the answer.

12 MS. YOST: Your Honor, if I may have just
13 a moment.

14 MR. NOURSE: And just because the --

15 EXAMINER SEE: Just a minute.

16 Go ahead, Ms. Yost.

17 MS. YOST: May I respond, your Honor?

18 Thank you.

19 I would like to direct your attention
20 to -- and also correct what counsel said. If you
21 look specifically at Ohio Administrative Code
22 4901:1-35-03, which is the filing and contents of the
23 applications regarding SEET, specifically paragraph
24 (10) (A) (iii) indicates that capital budget
25 requirements for future committed investments in Ohio

1 for each annual period remaining in the ESP is
2 specific to the filing must include information
3 regarding capital budget requirements for future
4 committed periods in Ohio -- for future committed
5 investments in Ohio specific to the period remaining
6 in the ESP, and I'm sure the parties will stipulate
7 that the ESP goes throughout 2011.

8 MR. NOURSE: May I respond?

9 EXAMINER SEE: Sure.

10 MR. NOURSE: The Commission's filing
11 requirement does not limit what evidence or
12 information the companies can present, nor does the
13 statute limit anything to the ESP period. So that
14 was what I said before. Thank you, your Honor.

15 MS. YOST: Your Honor, may I respond?

16 EXAMINER SEE: Briefly.

17 MS. YOST: The statute nor the rule
18 specifically indicates everything that you cannot
19 file in this proceeding, nonetheless it is indicative
20 of what is relevant in this proceeding, and
21 information that goes beyond the ESP period is not
22 relevant, therefore, it should be stricken. Thank
23 you, your Honor.

24 EXAMINER SEE: I'm going to deny your
25 motion to strike and the Commission can take this

1 information for what we find it to be worth.

2 MS. YOST: Thank you, your Honor.

3 Q. (By Ms. Yost) Mr. Hamrock, could I have
4 you please turn to page 9 of your testimony. Your
5 testimony includes the additional factors that the
6 Commission indicated it would consider in a SEET
7 proceeding, correct?

8 A. Yes.

9 Q. And in identifying these factors which
10 begin on page 9 responsive to the question starting
11 on line 21, what did you rely on to compile those
12 factors? The factors, again, indicated on page 9
13 starting with the question indicated on line 21 and
14 continuing to page 10.

15 A. There are six factors listed, I relied on
16 different information for each factor.

17 Q. But in identifying those specific factors
18 what did you rely on?

19 A. Knowledge and information available
20 relevant to each of the factors.

21 Q. I guess if you could look at the top of
22 page 9. I understand there's a lot of things you
23 considered in your analysis of the factors, but I'm
24 just trying to have your testimony specific to what
25 you relied on, and I will just ask you did you rely

1 on the June 30th finding and order by the Commission
2 identifying factors; is that what you relied on?

3 A. That's where the factors came from, yes.

4 Q. Thank you very much. That's all I was
5 trying --

6 A. I'm sorry, I didn't understand the
7 question.

8 Q. I apologize, I'll try to be more clear.
9 And the first factor you have indicated
10 is "the electric utility's most recently authorized
11 return on equity"; is that correct?

12 A. That's correct.

13 Q. And you cannot indicate in your testimony
14 CSP's most recently authorized return on equity,
15 correct?

16 A. I don't believe there is a relevant
17 authorized return on equity with CSP or OP.

18 Q. I understand that is your opinion. Fair
19 to say, then, that you do not indicate in your
20 testimony any -- you do not indicate or allege any
21 return on equity to be the most recently authorized
22 ROE; is that correct?

23 A. That's a fair statement.

24 Q. And that information, specifically I'm
25 looking for the most recently authorized return on

1 equity, is not contained in any of the documents
2 filed by CSP in this proceeding; is that correct?

3 A. Again I don't believe there is a relevant
4 recent authorized return on equity.

5 Q. And understanding your opinion, again, is
6 it fair to say that if I look through all the
7 documents filed in this proceeding, I will not find
8 an indication by CSP of its most recently authorized
9 return on equity; correct?

10 A. Yes, that's correct.

11 Q. And on page 18 of your testimony, on line
12 9, you indicate that it's been 19 years since CSP's
13 last rate case was filed, correct?

14 A. That's correct. Last general rate case.

15 Q. Thank you, Mr. Hamrock.

16 MS. YOST: Your Honor, if we can go off
17 the record?

18 EXAMINER SEE: Let's go off the record
19 for a minute.

20 (Discussion off the record.)

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

23 MR. NOURSE: Your Honor, I think we've
24 stipulated or agreed for the purposes of this record
25 that in an opinion and order dated May 12th, 1992, in

1 Case No. 91-418-EL-AIR, Columbus Southern Power was
2 granted a return on equity at pages 92 and 93 of that
3 order of 12.46 percent. Thank you.

4 MS. YOST: Thank you.

5 EXAMINER SEE: Ms. Yost.

6 Q. (By Ms. Yost) And, Mr. Hamrock, when you
7 were referring on page 18 starting again with line 14
8 that it had been 19 years since the time that CSP
9 filed its last general rate case, was that the case
10 you were referring to when you drafted this testimony
11 regarding Case No. 91-418-EL-AIR? Is that the case
12 you were referring to?

13 A. I don't know it by that case number.

14 MS. YOST: Okay. May I approach the
15 witness?

16 EXAMINER SEE: Yes.

17 Q. Mr. Hamrock, if you can look at this
18 document I'm providing to you and let me know if that
19 refreshes your recollection --

20 A. Yes, it does.

21 Q. If you could answer my question.

22 A. Yes.

23 MS. YOST: Would you please read the
24 question back then.

25 (Record read.)

1 A. Yes.

2 Q. Thank you.

3 Mr. Hamrock, do you know whether CSP's
4 application to establish environmental investment
5 carrying cost riders is the most recent rider case
6 that the Commission has decided?

7 A. I believe that and the gridSMART rider
8 case are the most recent.

9 Q. Do you know when those cases were
10 authorized by the Commission?

11 A. Very recently.

12 Q. Would it have been in this month?

13 A. My recollection is it's this year. I
14 don't recall if it was this month.

15 Q. Thank you.

16 Mr. Hamrock, I want to move on to a
17 different area regarding your testimony and your
18 Exhibit JH-2. Are you there, Mr. Hamrock?

19 A. Yes.

20 Q. Great. Your Exhibit which is JH-2, you
21 submitted this as a list of the business and
22 financial risks that you believe that CSP faced in
23 Ohio in 2009; is that correct?

24 A. A partial list of the business and
25 financial risks, yes, that's correct.

1 Q. Thank you. Would you agree that the
2 business and financial risks for publically-held
3 companies including utilities are subject to change?

4 A. Yes.

5 Q. In fact, because the market changes
6 daily, to the extent that Senate Bill 221 is based on
7 the market, these risks are changing constantly,
8 correct?

9 A. The market changes and many other
10 conditions change as well, that's correct.

11 Q. Yesterday you had some questions
12 regarding Exhibit JH-2, and it came out on testimony
13 that you did not specifically prepare JH-2 for this
14 proceeding, correct?

15 A. The origin of this exhibit goes back to
16 our ESP case.

17 Q. And was offered as part of the testimony
18 of Mr. Baker?

19 A. That's my recollection, yes.

20 MS. YOST: Your Honor, at this time OCC
21 requests that OCC Exhibit No. 11 be marked as the
22 direct testimony of J. Craig Baker that was filed in
23 Case No. 08-917-EL-UNC, and just to clarify, it would
24 be the cover page of his testimony, page 36, page 37,
25 and what is marked as Exhibit JCB-1.

1 MR. NOURSE: Is this Exhibit 10?

2 MS. YOST: 10, yes.

3 EXAMINER SEE: 11, OCC 11.

4 MS. YOST: Sorry, your Honor.

5 (EXHIBIT MARKED FOR IDENTIFICATION.)

6 MR. NOURSE: What was No. 10?

7 MR. MASKOVYAK: 10 was the last
8 interrogatory response, I believe.

9 EXAMINER SEE: OCC's first, Interrogatory
10 No. 5 was OCC's Exhibit 10.

11 MR. NOURSE: Okay. Oh, the deposition,
12 okay. All right. Thank you.

13 Q. (By Ms. Yost) Mr. Hamrock, please take a
14 moment to look over these pages of Mr. Baker's
15 testimony and Exhibit JCB-1. Are you ready to
16 proceed?

17 A. Yes.

18 Q. Thank you. On page 36 starting with line
19 20, well, first and foremost -- excuse me, strike
20 that.

21 The cover indicates that this testimony
22 was filed July 31st, 2008, correct? At the bottom.

23 A. That is correct.

24 Q. And you testified in this, what is known
25 as the ESP case, correct?

1 A. Yes. Yes, I did.

2 Q. And did you supervise Mr. Baker at the
3 time of the filing of this testimony?

4 A. Not directly.

5 Q. And if you could turn to page 36 of
6 Mr. Baker's testimony and read the question beginning
7 on line 20.

8 A. "Question: In your own analysis of the
9 significantly excessive earnings test requirement,
10 what conclusions have you reached concerning the
11 business risk facing the companies?"

12 Q. And if you could read the answer
13 beginning on page 37, lines 1 through 5.

14 A. "As I think about the business risk
15 facing the companies under Senate Bill 221, I
16 categorize those risks in five categories, these are
17 migration risk, asset risk, financial risk,
18 transition to market risk, and litigation risk.
19 Attached to my testimony as Exhibit JCB-1 is a list
20 of risks that I see as falling within each of these
21 categories."

22 Q. Thank you, Mr. Hamrock.

23 And have you had the opportunity to
24 compare Exhibit JCB-1 to your Exhibit JH-2?

25 A. Not recently.

1 Q. If you could take a moment just to look
2 at the two exhibits.

3 A. Okay.

4 Q. Thank you, Mr. Hamrock. Do they appear
5 to be almost the exact same exhibit?

6 A. At a glance, yes.

7 Q. And I appreciate that.

8 MR. RANDAZZO: So the record is clear,
9 we're talking about the two documents being the same
10 are the JCB-1 and the exhibit attached to
11 Mr. Hamrock's testimony as I understand it, counsel;
12 is that correct?

13 MS. YOST: Yes, thank you.

14 Q. And when comparing the two exhibits, your
15 exhibit -- let's start with Mr. Baker's Exhibit
16 JCB-1, if you go to the category under "Financial
17 Risk," the third column, it says "Penalties for
18 undercompliance with advanced energy DSM/EE" and then
19 there's some language that's in parentheses there,
20 could you read that into the record there?

21 A. Yes. "Potentially in excess of
22 200 million dollars per year." And that is different
23 from JH-2.

24 Q. Yes. Your exhibit does not include the
25 language "Potentially in excess of 200 million per

1 year," correct?

2 A. That's correct.

3 Q. And, in fact, CSP has not incurred any
4 penalties in 2009 for failure to comply with any
5 advanced energy DSM/EE targets?

6 A. That's correct.

7 Q. And focusing on your exhibit, JH-2, you
8 list as a migration risk the fact that customers have
9 come-and-go rights, correct?

10 A. That's correct.

11 Q. And under the first category, the first
12 line item there, you also indicate and mention the
13 CSP POLR status, correct?

14 A. CSP?

15 Q. I'm sorry. Well, you used the word
16 "Company retains provider of last resort status as
17 tariff rates," correct?

18 A. Correct. That's part of the same
19 statement about come-and-go rights.

20 Q. And would you agree that, and I use the
21 term "POLR" to mean provider of last resort, would
22 you agree that CSP received POLR revenues in an ESP
23 case to compensate it for the migration risk and the
24 fact that customers have come-and-go rights?

25 A. Yes. CSP did receive POLR revenues.

1 Q. And those revenues were, in part, to
2 compensate it for the risk of migration and the fact
3 that customers have come-and-go rights; would you
4 agree with that?

5 A. That's correct.

6 Q. And those POLR revenues were authorized
7 for collection after Mr. Baker created Exhibit JH-2,
8 correct?

9 MR. NOURSE: I object.

10 Q. Excuse me, Mr. Baker created JCB-1,
11 correct?

12 A. That's correct, based on the filing date
13 of JCB-1.

14 Q. As of December 31st, 2009, CSP had only
15 728 commercial class customers that elected to switch
16 to CRES providers; is that correct?

17 A. Subject to check I'll agree with that.

18 Q. And those commercial class customers that
19 switched were out of approximately 70,000 customers
20 in that class, correct?

21 A. I don't recall the total customer count
22 for the commercial customers.

23 Q. Subject to check.

24 A. But again, subject to check I'll agree
25 with that.

1 Q. Thank you.

2 And under migration risk you indicate
3 that there is a risk that governmental aggregation
4 has promoted including the bypassability of charges.

5 A. That's correct, that's my understanding
6 of the legislation.

7 Q. And you would agree that CSP did not
8 experience switching based on government aggregation
9 in 2009, correct?

10 A. I would agree. That doesn't mean the
11 risk wasn't there.

12 Q. And on your Exhibit JH-2 under, again,
13 migration risk, you also indicate that is a risk of
14 migration associated with competition from other
15 EDUs, correct?

16 A. That's correct.

17 Q. But CSP did not experience competition
18 from other EDUs in 2009, correct?

19 A. No, CSP did not experience competition
20 from EDUs but did experience increasing competition
21 from CRES providers.

22 Q. Mr. Hamrock, would you agree that
23 customers have long had choice in Ohio since Senate
24 Bill 3 passed nearly a decade ago?

25 A. I would.

1 Q. Would you also agree that up until about
2 midpoint of this year CSP saw very little switching?

3 A. I would agree that the actual switching
4 during that period was low. The risk is high and
5 increasing.

6 Q. So my question being specific to
7 switching, would you agree that up until about
8 midpoint of this year, 2010, CSP saw very little
9 switching?

10 A. Again, I would agree that the actual
11 switching was low during that period, but the risk
12 was high and increasing.

13 Q. And this was driven by the fact that CSP
14 has historically low rates and the market prices were
15 well above the CSP tariff rates; would you agree with
16 that?

17 A. I believe that's part of the explanation,
18 yes.

19 Q. AEP has started retail operations,
20 correct?

21 A. Do you mean unregulated competitive
22 retail operations?

23 Q. Yes.

24 A. Yes, that's correct. That's my
25 understanding.

1 Q. And it's been in operation for several
2 months?

3 A. No; that's another part of the business
4 that I'm not directly involved with, so I don't have
5 specific knowledge of those operations.

6 Q. Is it fair to say that AEP is pursuing
7 customers in all jurisdictions in Ohio?

8 A. I don't know that. I would be
9 speculating if I answered that.

10 Q. Do you know whether AEP is certified to
11 do business in FirstEnergy's territory?

12 A. I don't know.

13 Q. Do you know whether AEP is certified to
14 do business in Dayton Power & Light and Duke's
15 territory?

16 A. I don't know, but I suspect that's the
17 case in each of those instances.

18 Q. Do you know whether AEP will be marketing
19 in other EDU areas?

20 A. I don't. Again, that's a part of the
21 business that I'm not directly involved in being on
22 the regulated side, I don't have specific knowledge
23 of the plans for that business. I'm aware that
24 business exists, but I'm not directly involved nor do
25 I have specific knowledge.

1 Q. Are you generally aware of that -- of the
2 marketing strategy of AEP to market in other EDU
3 areas?

4 MR. NOURSE: Your Honor, she's asking the
5 same question in different ways. He's already
6 indicated that he's not familiar with the specifics
7 of that business, he's not involved in that business,
8 and can't answer questions about marketing
9 strategies.

10 EXAMINER SEE: You can respond if you
11 want, Ms. Yost.

12 MS. YOST: Your Honor, it goes to the
13 relevance of the case and information that has been
14 provided -- your Honor, just a second. Could I have
15 his objection read back to me?

16 EXAMINER SEE: Let's go all the way back
17 to the question.

18 (Record read.)

19 MS. YOST: Your Honor, the question was
20 directed at general knowledge. The answer was that
21 he had no specific knowledge and it's a different
22 question.

23 EXAMINER SEE: The objection is
24 sustained.

25 Q. (By Ms. Yost) Would you agree that when

1 customers migrate, generation is released?

2 A. Generation is released from?

3 Q. Is freed up to sell in the market.

4 A. The generation that's obligated to that
5 customer?

6 Q. Yes.

7 A. Yes.

8 Q. And if it's sold on the market, that
9 would be considered revenues and profits from
10 off-system sales; is that correct?

11 A. That's one way to redispatch that --

12 Q. What's another way?

13 A. -- that generation. Could also simply be
14 into a wholesale transaction that's not off-system
15 sales related --

16 Q. Thank you. I appreciate that.

17 (Karen, dash the answer, butting in, and
18 use a period forays.**

19 MS. YOST: Your Honor, if I could have
20 just a minute.

21 EXAMINER SEE: Sure.

22 Q. Mr. Hamrock, if you want to refer to your
23 testimony on page 10, line 1, that's a continuation
24 of your category 2 if you want to verify that.

25 A. You want me to verify that?

1 Q. Yes.

2 A. Yes, this is the second factor the
3 Commission indicated it could also consider.

4 Q. Thank you. And the second factor states
5 that as a factor "whether the ESP includes a fuel and
6 purchased power adjustment or similar mechanism." Do
7 you see that?

8 A. Yes. It's incorporated into whether the
9 electric utility owns generation, whether the ESP
10 includes a fuel and purchased power adjustment or
11 similar mechanism.

12 Q. And CSP has, under the ESP, a fuel clause
13 mechanism, correct?

14 A. That is correct.

15 Q. For purchased power; is that correct? Is
16 it for fuel and purchased power?

17 A. Yes, the FAC mechanism includes fuel and
18 purchased power.

19 Q. And prior to the ESP there was no fuel
20 and purchased power clause in place, correct, for
21 CSP?

22 A. Immediately prior to the ESP, that's
23 correct.

24 Q. And the last time CSP had such a
25 mechanism, would it be fair to say, was in 1999?

1 A. Back in the '90s, yes.

2 Q. And is it your understanding that under
3 the ESP approved fuel clause mechanism there is even
4 broader recovery of expenses that were previously in
5 existence under the prior fuel clause of CSP?

6 A. I'm not -- such as environmental
7 consumables, is that an example?

8 Q. Yes.

9 A. Yes. Some of those expenses didn't even
10 exist in a prior period. Some of those retrofits in
11 the plants weren't in place as consumables.

12 Q. And what about purchased power?

13 A. I don't know if purchased power was in
14 the old fuel mechanisms.

15 Q. You would agree that having this clause
16 of the fuel and -- the FAC approved in the ESP case
17 helps reduce risk, correct?

18 A. Relative to a rate design that did not
19 have --

20 Q. That's correct.

21 A. -- fuel recovery, I would agree with
22 that.

23 Q. Well, relative to CSP's status before the
24 ESP case. So the ten years preceding.

25 A. Not the ten years preceding. Say the

1 eight years preceding when there was not an FAC
2 mechanism.

3 Q. So with this in place that helped reduce
4 the risk for CSP versus the eight years preceding; is
5 that fair to say?

6 A. All other things held equal that is fair
7 to say.

8 Q. And subject to check if necessary, but do
9 you know how much of the company's ESP revenues are
10 collected through the fuel clause?

11 A. Collected?

12 Q. Yes.

13 A. Not deferred? I want to make sure I
14 understand the question if it's about collections.
15 I'm sorry.

16 Q. Do you know how much of the company's ESP
17 revenues, I guess -- what percent of the ESP revenues
18 are collected through the fuel clause, if you know?

19 A. I don't know that specific fraction.

20 Q. 84 percent, does that sound in the
21 ballpark?

22 A. I don't know.

23 Q. Is there anything that would indicate
24 that that's been filed in this proceeding?

25 A. There may be. I don't recall that

1 breakdown.

2 Q. Would you agree that CSP fully recovered
3 its renewable energy costs through the FAC mechanism
4 in 2009?

5 A. Yes. For that period, yes.

6 MR. NOURSE: I'm sorry, could I have the
7 question and answer read back, please, your Honor?

8 EXAMINER SEE: Sure.

9 (Record read.)

10 MR. NOURSE: Thank you.

11 Q. Mr. Hamrock, Dr. Makjija's methodology
12 relies on the market's evaluation of risk and,
13 therefore, it would incorporate all the risks that
14 you list on your Exhibit JH-2 regarding all the risks
15 that CSP faced in Ohio in 2009, correct?

16 A. I believe Dr. Makjija's methodology,
17 because it relies on the market's perception of risk,
18 would incorporate these and other risks.

19 Q. Thank you.

20 If I could have you turn to page 22 of
21 your testimony, specifically if you could read lines
22 16 through 19.

23 A. 16 through 19?

24 Q. Yes, please.

25 A. Yes.

1 Q. It starts with "AEP Ohio."

2 A. "AEP Ohio brings leadership in industry
3 and technical innovation to this project," this
4 project being the gridSMART project. Find my place.

5 Q. If you can continue with "AEP's
6 Columbus-based."

7 A. "AEP's Columbus-based Dolan Technology
8 Center has an established smart grid test bed
9 providing a platform to gain experience with smart
10 grid components that will facilitate electric
11 distribution system performance and customer
12 service."

13 Q. So the Dolan Technology Center, that's
14 owned by the parent company, AEP; is that correct?

15 A. It's operated by AEP, that's correct.

16 Q. Then if I could have you refer to your
17 testimony on the next page, 23, regarding lines 1
18 through 5, this is in regard, again, to AEP Ohio's
19 parent company, AEP, regarding a collaboration; is
20 that correct?

21 A. That's correct.

22 MS. YOST: Your Honor, at this time OCC
23 moves to strike Mr. Hamrock's testimony, page 22,
24 lines 16 through 19, page 23, lines 1 through 5.
25 This testimony is regarding AEP Ohio which is the

1 parent company to CSP. Pursuant to the statute in
2 Ohio --

3 EXAMINER SEE: Before you go on,
4 Ms. Yost, you said page 23, which lines?

5 MS. YOST: Lines 1 through 5.

6 EXAMINER SEE: Okay.

7 MS. YOST: It was page 22, lines 16
8 through 19.

9 EXAMINER SEE: Okay.

10 MS. YOST: The statute specifically
11 states in making this determination of significantly
12 excessive earnings under this division the Commission
13 shall not consider directly or indirectly the
14 revenues, expenses, or earnings of any affiliate or
15 parent company.

16 Again, what is included in Mr. Hamrock's
17 testimony is specific to the operations of the parent
18 company and should be stricken from consideration.

19 MR. RANDAZZO: IEU joins.

20 MR. NOURSE: May I respond, your Honor?

21 EXAMINER SEE: Just a second, Mr. Nourse.
22 Go ahead.

23 MR. NOURSE: I'm sorry, I didn't hear
24 you. Yes, your Honor, this information I believe is
25 relevant and probative. AEP is an integrated holding

1 company, as Mr. Hamrock's explained, many of the
2 operations are coordinated with the parent company so
3 these kinds of R&D and advanced technology
4 initiatives are frequently promoted at the corporate
5 level and on behalf of the operating companies.

6 Again, it was very clear in the testimony
7 it represented AEP's efforts and the parent company
8 explicitly referenced so I think the Commission can
9 certainly take that and weigh whatever value or lack
10 of value based on arguments of the parties on brief
11 that it shouldn't be considered.

12 MS. YOST: Your Honor, can I respond just
13 briefly?

14 EXAMINER SEE: Go ahead, Miss Yost.

15 MS. YOST: Just briefly, yes, the
16 testimony clearly indicates that it's AEP, the parent
17 corporation, and the statute specifically says that
18 they shall -- that the Commission shall not consider
19 that, and I also advise that there is no exception in
20 the rule to integrating holding companies.

21 EXAMINER SEE: What was the last part of
22 that, Ms. Yost?

23 MS. YOST: There's no exception in the
24 law for integrated holding companies.

25 EXAMINER SEE: Okay. Thank you.

1 Mr. Randazzo.

2 MR. RANDAZZO: Your Honor, just for the
3 benefit of the, hopefully, for the Bench, the statute
4 actually says the Commission shall not consider it
5 directly or indirectly, so the statute is pretty
6 clear.

7 MR. NOURSE: I'm sorry, could you finish,
8 directly or indirectly what?

9 MR. RANDAZZO: The Commission shall not
10 consider any affiliate or the parent company for
11 purposes of determining the significantly excess
12 earnings, and the statute says the Commission shall
13 not do so directly or indirectly. So the statute's
14 pretty clear.

15 MR. NOURSE: And again, your Honor --

16 EXAMINER SEE: Just a minute, Mr. Nourse.

17 MR. NOURSE: Okay.

18 Your Honor, could I add a couple points
19 quickly?

20 EXAMINER SEE: Go ahead, Mr. Nourse.

21 MR. NOURSE: I would just point out that,
22 again, these categories are relating back to page 29
23 of the June 30th finding and order and these are
24 additional items that the Commission itself said that
25 they would consider and could consider, give

1 reconsideration to these factors. They're not --
2 none of them are specifically referenced in the
3 statute.

4 But, again, these types of R&D and
5 technology advancement issues that are done by the
6 parent company on behalf of the operating companies
7 do point to AEP's innovation and industry leadership,
8 that's what we understood the Commission to be asking
9 for on page 29.

10 EXAMINER SEE: And the motion to strike
11 that portion of Mr. Hamrock's testimony is denied.

12 MS. YOST: Thank you, your Honor.

13 Q. (By Ms. Yost) Mr. Hamrock, page 23
14 starting with the question line 6, specifically if
15 you could refer to line 10, you speak of an amount
16 being 630 million in reduced bills. That's a
17 combined total of both OP and CSP; is that correct?

18 A. Yes. This is in response to the question
19 regarding whether or not AEP Ohio has advanced state
20 policy, the 630 million is the projected savings
21 related to the total AEP Ohio portfolio of energy
22 efficiency programs. About half of that would be CSP
23 and the other half OP.

24 MS. YOST: This might be a good time to
25 take a break, and I can wrap up my questions and get

1 this done shortly thereafter.

2 EXAMINER SEE: How much more do you
3 believe you have, Ms. Yost?

4 MS. YOST: Not much, your Honor.

5 EXAMINER SEE: So you just want a few
6 minutes to confer, is that --

7 MS. YOST: Yes, exactly.

8 EXAMINER SEE: Let's take five minutes.

9 (Recess taken.)

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

12 Ms. Yost.

13 MS. YOST: Thank you, your Honor.

14 Q. (By Ms. Yost) Mr. Hamrock, if I can have
15 you turn to pages 14 and 15 of your testimony.
16 Starting on page 14 of your testimony you testify and
17 make recommendations to the PUCO of how they should
18 treat deferrals, correct?

19 A. That's correct.

20 Q. And in your testimony you make three
21 points in that regard, correct?

22 A. That's correct.

23 Q. I want to focus on your second point, so
24 that would be specifically on 15, starting on line 1,
25 and regarding that position you indicate that "an EDU

1 should not be required to return to customers amounts
2 which it has not yet collected from them"; is that
3 correct?

4 A. That's correct.

5 Q. And then you indicate that "it would be
6 inappropriate to consider any refund under SEET until
7 the deferrals are amortized and recovered through
8 cash collections from customers"; is that correct?

9 A. That's correct.

10 Q. And you were speaking of the FAC
11 deferrals and the economic development deferral
12 there, correct?

13 A. Yes. To clarify, it would be
14 inappropriate to consider any refund until the period
15 in which the deferrals were amortized and recovered
16 through cash collections, the SEET determination for
17 that period.

18 Q. And specific to this proceeding that
19 would be the FAC deferral and the economic
20 development deferral, correct?

21 A. That's correct.

22 Q. I have a hypothetical for you.
23 Hypothetically speaking, assume that the PUCO issues
24 a decision in March of 2011 and orders a return to
25 customers associated with significantly excessive

1 earnings of CSP.

2 Further assume that the PUCO, in reaching
3 its conclusion, finds that deferrals related to FAC
4 and the economic development rider should be included
5 in calculating the earned return CSP. That is, the
6 Commission includes 47.2 million of deferrals in its
7 earnings.

8 Now, in this hypothetical that I've posed
9 to you your concern about returning to customers
10 amounts not yet collected from them would not come
11 into play if at the time of the return to customers
12 was ordered the deferrals had already been amortized
13 and recovered through cash collection from customers,
14 correct?

15 A. I need to think through about four
16 questions in there, so.

17 Q. Sure.

18 A. The hypothetical was March '11 there's a
19 determination?

20 Q. March 2011 the Commission makes a
21 decision, orders a return to customers.

22 A. Right.

23 Q. Because of SEET. And in reaching its
24 finding concludes that the deferrals related to the
25 FAC and economic development should be included in

1 calculating the earned return and then we just threw
2 out the number that the Commission orders a
3 42.2 million part of deferrals in the earnings.

4 So those facts assumed, your concern that
5 we talked about regarding point No. 2 above would not
6 be an issue if at the time the return to customers
7 was ordered in 2011 the deferrals had already been
8 amortized and recovered through cash collected from
9 customers, correct?

10 A. No, because we're mixing periods. We're
11 still treating as earnings revenues that weren't
12 collected in the period and then looking at the
13 amortization in a different period to consider
14 whether that was, in fact, collected by the time
15 there was an order. And I think the third point is
16 really the most critical; any such determination that
17 undermined the ability to do deferrals on an ongoing
18 basis.

19 MS. YOST: Your Honor, I move to strike
20 his answer regarding the third point. That was not
21 responsive to the question asked.

22 MR. NOURSE: Your Honor, I think it's
23 certainly part of his full answer to the question,
24 and she's asking if he would be okay or if his
25 concerns would be removed under the hypothetical, and

1 he fully explained his response and his remaining
2 concerns.

3 EXAMINER SEE: Motion to strike is
4 denied.

5 Q. So is it fair to say, then, you're not
6 concerned about returning money to customers which
7 the company has not yet collected?

8 MR. NOURSE: Object to the form of the
9 question.

10 MS. YOST: Could you reread my question,
11 please?

12 (Record read.)

13 A. No, that's not a fair characterization.

14 Q. Again with my hypothetical and taking
15 into consideration your answer, in the hypothetical
16 is it fair to say, then, that your concern on page 15
17 starting with line 1, your second point that you
18 indicate there, would not -- would not be of issue
19 anymore in my hypothetical, the second point
20 specifically; is that fair to say?

21 A. No, that's not.

22 Q. Is it fair to say that for CSP the
23 forecasted rates regarding the FAC are projected to
24 be lower than the current FAC rates?

25 A. In which period?

1 Q. It would be specific to the fourth
2 quarter.

3 MR. NOURSE: Of 2010?

4 MS. YOST: Of 2010.

5 I'll go ahead and move this as
6 identified, I think it's been distributed, it would
7 be OCC Exhibit No. 12, the September 2nd, 2010,
8 filing in the PUCO Docket No. 10-1286-EL-FAC and
9 10-1288-EL-FAC.

10 (EXHIBIT MARKED FOR IDENTIFICATION.)

11 Q. Mr. Hamrock, if you can turn to the
12 second page of that filing. This is the most
13 recently filed quarterly update, correct?

14 A. That's correct.

15 Q. And let's go to page 2 of that filing and
16 under Schedule 2, it would be the third sentence, if
17 you could read that third and fourth sentence in that
18 paragraph, please.

19 A. Starting with "For CSP"?

20 Q. Yes, sir, please.

21 A. "For, CSP these forecasted (FC) rates are
22 projected to be lower than the current FAC rates."

23 Q. Continue with the next sentence, please.

24 A. "This results in some recovery of CSP's
25 underrecovery balance during the 4th quarter of

1 2010."

2 Q. And the FAC quarterly filings made in
3 July for CSP essentially said the same thing
4 regarding third quarter, subject to check, right?

5 A. I'll agree subject to check, yes.

6 Q. Is it fair to say that you expect the
7 deferral balance of CSP at the end of December 31st,
8 2010, to be lower than the deferral balance of CSP,
9 and we'll be specific, to the fourth quarter which
10 ended June 30th, 2010?

11 A. The fourth quarter ended June 30th, 2010?

12 Q. Yes, as illustrated by OCC Exhibit No.
13 12. And we can turn to schedule, it's indicated
14 schedule 3, page 1 of 3. And what does this indicate
15 regarding the balance for the FAC?

16 A. I believe you're looking for the total
17 over/underrecovery balance --

18 Q. That's correct.

19 A. -- projected in this schedule shows the
20 October 2010 through December 2010 projections, so
21 that would be line 7, and it's a little blurry but it
22 looks like it's 9,626,191.

23 Q. Regarding schedule 3, under the heading
24 doesn't this schedule indicate that the actual period
25 is April 2010 through June 2010? Do you see that on

1 the schedule?

2 A. Yes, I do, right above the column titles.

3 Q. And this schedule indicates about

4 9.6 million; is that what you indicated?

5 A. Yes. That's correct.

6 Q. And we read previously that the

7 forecasted rates per this report are projected to be

8 lower than those current rates, correct?

9 A. That's correct.

10 Q. Is it fair to say that there may not be

11 any significant amount of the FAC deferral balance

12 remaining at the end of 2010?

13 A. Based on this schedule that we just

14 looked at, 9.6 million would be my expectation.

15 Q. But it's expected to go down, correct?

16 The balance to be lower, correct?

17 A. Yes.

18 Q. Nothing further regarding that exhibit,

19 Mr. Hamrock. A couple more questions and I'll

20 conclude my cross-examination.

21 AEP Ohio recently filed an application to

22 merge Columbus Southern Power and Ohio Power Company,

23 correct?

24 A. That is correct.

25 Q. And in the event that the two companies

1 are merged, what effect would that have on the SEET
2 determination in future proceedings?

3 A. I couldn't hear the last part of your
4 question, I'm sorry.

5 MS. YOST: Could you reread it, please?

6 (Record read.)

7 A. Post-merger.

8 Q. Yes.

9 A. There would be one company rather than
10 two companies, two AEP Ohio companies being
11 considered for SEET.

12 Q. And if those two companies are merged,
13 over time their rate structures would be blended; is
14 that fair to say?

15 A. While the merger itself has no direct
16 impact on rates we do anticipate in future rate
17 filings to transition toward a common rate over time.

18 Q. And with the blending of the two
19 companies' rate structures through time as you
20 indicated, the merger would mitigate shopping risk;
21 is that correct?

22 A. That's not clear to me that the merger
23 would mitigate shopping risk.

24 MS. YOST: I have no further questions
25 for this witness, your Honor. At this time I would

1 move OCC Exhibit Nos. 7, 8, 10, 11, and 12 into
2 evidence.

3 MR. NOURSE: Could you repeat those
4 numbers again, please?

5 MS. YOST: 7, 8 --

6 EXAMINER SEE: You said 7, 8, 10, 11, and
7 12?

8 MS. YOST: 7, 8, 10, 11, and 12. 1 and
9 2, there was a motion to move them into evidence and
10 we renew that.

11 EXAMINER SEE: OCC 1 and 2 from
12 yesterday?

13 MS. YOST: Yes, your Honor.

14 EXAMINER SEE: I still have to address
15 that matter. There was a motion to admit that
16 yesterday. I said I would consider it and address it
17 after lunch and did not, but I will.

18 MS. YOST: Thank you.

19 MR. NOURSE: I don't know if you're going
20 to rule on these now or wait until later.

21 EXAMINER SEE: I'm not. I'm going to
22 wait, as I did yesterday, until after Mr. Kurtz to
23 address them.

24 MR. NOURSE: I'd like to be heard later,
25 then. Thank you.

1 EXAMINER SEE: Okay.

2 Mr. Kurtz.

3 MR. KURTZ: Thank you, your Honor.

4 - - -

5 CROSS-EXAMINATION

6 By Mr. Kurtz:

7 Q. Good morning, Mr. Hamrock.

8 A. Good morning.

9 Q. Page 16 of your testimony, line 11, I'll
10 just read the sentence, you say "That language would
11 also allow the Commission to permit an EDU to retain
12 earnings that might otherwise be considered to be
13 significantly excessive, under the implied theory
14 that the EDU could use them to meet its capital
15 spending requirements for the future committed
16 investments." Did I read that right?

17 A. That's correct.

18 Q. Okay. Who developed this implied theory?
19 Did you?

20 A. I did as well as others on the AEP team.

21 Q. Are you familiar with the portion of the
22 statute that says that significantly excessive
23 earnings should be returned to customers by
24 prospective adjustments?

25 A. That sounds familiar.

1 Q. How do you reconcile prospective
2 adjustments to customers with the idea that the
3 utility keeps the significantly excessive earnings to
4 fund its capital projects?

5 MR. NOURSE: Your Honor, I just -- I
6 object, to the extent it's asking for a legal
7 conclusion. This whole paragraph is premised --
8 prefaced with the phrase "I have been advised by
9 counsel," and I think Mr. Kurtz is asking why the
10 General Assembly put that provision in and why does
11 it make sense.

12 MR. KURTZ: What I'm asking is I'm asking
13 him about his testimony as a nonlawyer. I don't want
14 a legal opinion.

15 Q. How did you reconcile that?

16 EXAMINER SEE: With that caveat, you can
17 answer.

18 MR. NOURSE: Thank you.

19 A. Okay. The term "return to customers" in
20 my opinion, again not a legal opinion, is broad
21 enough that investments in the state that are
22 beneficial to customers could certainly be a form of
23 return in value to customers.

24 Q. By prospective adjustment, that would
25 be -- your idea of a prospective adjustment to

1 customers is the utility keeps the money to fund
2 capital projects that the utility would otherwise
3 recover from customers.

4 A. That could be a prospective adjustment to
5 the investment plans in the state.

6 Q. Now, what capital commitments are you
7 thinking about here that might apply? What type of
8 capital projects?

9 A. As referenced in my testimony elsewhere,
10 commitments or anticipated commitments to invest in
11 distribution infrastructure would be one form of that
12 above and beyond what's reflected in JH-1.

13 Q. Distribution infrastructure, that's not
14 subject to a rider at this point, correct?

15 A. That's correct.

16 Q. Or is it?

17 A. No; that's correct, it's not.

18 Q. Okay. So distribution -- so what's the
19 typical life for distribution investment, depreciable
20 life, 40 years?

21 A. No; it's based on the investment, if it's
22 advanced metering, it's 7 years, 7 to 10 years, other
23 traditional poles and towers and fixtures would be in
24 the 30 to 40 year range.

25 Q. How are the customers who paid the

1 excessive rates in 2009, assuming that there was
2 excess profits, how are those -- you would agree that
3 those customers in 2009 may or may not be the same
4 customers 7 years or 30 years later down the road.

5 A. Of the wires business.

6 Q. Of the wires business.

7 A. Yeah, there's some potential for people
8 to leave the state, to leave the territory.

9 Q. People in 2009, they may close their
10 business, they may move, they may die, new people
11 move in. Do you see the point? Under your theory
12 the people getting the benefit may or may not be the
13 people who paid the excessive rates.

14 A. Right. I read the return to customers to
15 mean all customers in general.

16 Q. Now, postmerger, assuming the Commission
17 approves Ohio Power and CSP, this would go to the
18 Ohio Power customers too, wouldn't it?

19 A. We don't know enough about how that might
20 play out to answer that with any precision at this
21 point.

22 Q. And if it did, there would be no reason
23 for Ohio Power customers to get the benefit of a CSP
24 customer, I'll just use the word overcharge but you
25 know what I mean, excessive profits. What would be

1 the basis for giving Ohio Power customers that
2 benefit?

3 A. Again, I don't know that we could predict
4 at this point how those benefits would flow.

5 Q. Now, assuming that there were
6 overearnings in 2009, is it fair to say that all of
7 your customers contributed to that overearnings?
8 Nobody's gone down and tried to break down on a
9 cost-of-service basis which customer class
10 contributed more or less to the overearnings, we have
11 not seen that.

12 A. No, there certainly hasn't been that
13 level of analysis.

14 Q. How would transmission voltage industrial
15 customers benefit if the utility kept the
16 significantly excessive earnings to fund distribution
17 investment?

18 A. I don't have a level of precision in that
19 analysis, but I imagine any investment in the state
20 that brings new tax base, new jobs, increased support
21 for the broad range of customers is beneficial to all
22 the state residents.

23 Q. You agree that transmission voltage
24 customers don't pay distribution costs in their
25 distribution rates, don't you? Poles and wires,

1 advanced metering, that's not allocated to the
2 transmission voltage customers.

3 A. That's my understanding, that's correct.

4 Q. Page 23, Mr. Hamrock. I want to refer to
5 line 14 where you indicate that CSP's achieved
6 202 percent of its benchmark requirements for energy
7 efficiency; is that correct?

8 A. In 2009, that's correct.

9 Q. Okay. The customers compensate CSP for
10 energy efficiency through a rider; isn't that
11 correct?

12 A. That's correct.

13 Q. And that rider includes the cost of the
14 energy efficiency projects, or return of --

15 A. It includes the program costs.

16 Q. Does it include lost distribution
17 revenues as well?

18 A. It did in 2009.

19 Q. What about shareholder incentive?

20 A. A shared savings mechanism.

21 Q. Shared savings? Okay. Now, to the
22 extent that the utility, CSP, was 202 percent of the
23 2009 benchmark for energy efficiency, isn't it true
24 that that freed up a like amount of energy for resale
25 off system or other use if it's not serving native

1 load?

2 A. Yeah, potentially for retail off-system
3 or to not even be dispatched potentially.

4 Q. I would like to ask you about your
5 testimony, let me flip back to page 7. Pages 7 and
6 8, I know you're not testifying as a lawyer, but you
7 indicate on page 7, line 3, that it would be unlawful
8 to treat earnings from off-system sales in the SEET,
9 and then on page 8 you refer to the resulting
10 litigation delays if the Commission includes
11 off-system sales in the SEET calculation. Is that a
12 fair characterization?

13 A. Yeah, the statement on page 7 was also --
14 refers to transactions that are also not the result
15 of any adjustment included in the EDU's ESP.

16 Q. Let me ask you about that. I've never
17 understood what your point is. Your total earnings
18 for CSP in '09 were on the order of 2 billion, total
19 revenues were on the order of \$2 billion?

20 A. Subject to check I'll agree with that,
21 yes.

22 Q. And that included fuel adjustment
23 revenue, revenue from the base rate schedules GS-1,
24 2, 3, 4, residential, pole attachment, forfeited
25 customer deposits, whatever it included, off-system

1 sales, that went into the total revenue, you backed
2 out the total expenses net of taxes and got the 200,
3 I forget, \$237 million?

4 A. 271.

5 Q. 271.

6 A. Per book net income.

7 Q. Per book net income for 2009. That
8 \$2 billion wasn't the result of ESP adjustments, it
9 was your historic rates applied to native load plus
10 off-system sales plus everything else, but that's the
11 starting point, isn't it?

12 A. As a starting point for?

13 Q. The determination of net income.

14 A. It's one input to the determination of
15 net income.

16 Q. It's the starting point, isn't it? Your
17 gross revenues, total revenues.

18 A. Again, it's one input to the
19 determination of net income.

20 Q. I don't want to let you -- it's the
21 starting point minus your expenses gets the net
22 income which is earnings, which is profit, which is
23 what we're dealing with?

24 A. Sure.

25 Q. Okay. Why are you make this distinction

1 that because off-system sales were not an adjustment
2 to the ESP, that somehow we should exclude it? Under
3 that theory we'd exclude -- we exclude about
4 \$1.8 billion of revenue from the equation.

5 A. From the net earnings? We have been --
6 Witness Mitchell's testimony outlined the earnings
7 contribution of the ESP adjustments.

8 Q. Of 90 million pretax, 93 million pretax,
9 59 million posttax and he's using that as the ESP
10 refund cap so to speak, right?

11 A. Those are the earnings adjustments that
12 would limit the amount that's subject to return to
13 customers.

14 Q. Okay. Now but all of these other items
15 that went into your total revenues were not ESP
16 adjustments. Why are you singling out off-system
17 sales and saying because it was not an ESP adjustment
18 we should exclude it from the revenues the company
19 earned?

20 A. Again, as this says, advised by counsel
21 that it's nonjurisdictional because it's FERC
22 jurisdictional and it's not reflected in the ESP rate
23 mechanisms in any way.

24 Q. Were all of your hundreds of millions of
25 dollars of wholesale purchases, should we back those

1 out as well?

2 A. Those are underpinning the provision of
3 service to retail customers.

4 Q. But those are FERC transactions, they're
5 wholesale purchases and you want to back out
6 wholesale sales, why don't we back out wholesale
7 purchases?

8 A. There's another passage in my testimony
9 that to not having jurisdictionalized the earnings of
10 the company but reserving the right to do so if that
11 was necessary.

12 Q. Okay. Let's talk about that. You
13 sponsored the Form 1.

14 A. I did.

15 Q. Okay. Do you have it in front of you?

16 A. For CSP?

17 Q. Yes.

18 A. Yes, I do.

19 Q. Okay. Page 402 of the Form 1.

20 MR. RANDAZZO: I'm going to object.
21 There's no foundation that this witness has any
22 knowledge whatsoever with what goes into the Form 1.

23 MR. KURTZ: Well, he's sponsoring it.

24 MR. RANDAZZO: Yeah.

25 EXAMINER SEE: And we addressed -- and I

1 believe we addressed this issue yesterday.

2 MR. RANDAZZO: No, we didn't address the
3 issue. The exhibits were moved, they had not been
4 admitted.

5 EXAMINER SEE: Yes, they were moved.

6 MR. KURTZ: Maybe I'll do some
7 foundation.

8 Q. (By Mr. Kurtz) You're the president and
9 CEO of Columbus Southern & Power?

10 MR. RANDAZZO: Friendly cross, I object.

11 EXAMINER SEE: Hold on just a minute,
12 Mr. Kurtz.

13 Okay. There were a few questions
14 yesterday asked by Mr. Randazzo regarding
15 Mr. Hamrock's responsibility in the preparation of
16 Companies' Exhibits 1, 2, and 3, so if you want to
17 continue, Mr. Kurtz.

18 MR. KURTZ: Thank you.

19 MR. RANDAZZO: Your Honor, if I may, my
20 questions demonstrated that this witness was not
21 responsible for the preparation and does not have
22 knowledge about how the documents were prepared. It
23 is improper without the foundation demonstrated that
24 this witness knows how those documents were prepared
25 and can testify as an expert, which he said he

1 cannot, it's improper to ask this witness questions
2 about what's in the Form 1, it's improper for the
3 witness to be sponsoring Form 1s, it's improper for
4 the witness to be sponsoring the 10-K. I object.

5 MR. NOURSE: Your Honor, I would just
6 note that Mr. Hamrock did indicate that he had a role
7 in the Ohio Power and CSP components of the 10-K as
8 well as the individual FERC Form 1s, that he had a
9 role and he was authenticating these as the true and
10 accurate regulatory filings that were made as public
11 records.

12 And I also asked questions per your
13 direction to have him sponsor those exhibits to set
14 that foundation for, again, these are -- they could
15 be called Commission-ordered exhibits because they're
16 part of the filing requirement.

17 MR. RANDAZZO: That's absolutely
18 incorrect.

19 MR. NOURSE: Yes, they are part of the
20 filing requirement and so that's why they were
21 referenced in the filing and that's why we brought
22 them and have put these exhibits in the record.

23 MR. RANDAZZO: If I may, your Honor.

24 EXAMINER SEE: Go ahead.

25 MR. RANDAZZO: The record reflects on

1 pages 131, 132, and 133 of yesterday's transcript
2 where I asked Mr. Hamrock, after he testified on
3 direct, that he was generally familiar with the
4 Form 1s and the 10-Q. I asked him "Were you
5 responsible for preparing those documents?"

6 "Answer: I am involved in some of the
7 underlying data.

8 "Were you responsible for preparing
9 Exhibits 1, 2, and 3?

10 "Not the overall preparation.

11 "Who was responsible for preparing
12 Exhibits 1, 2, and 3?

13 "Answer: AEP is a complex matrix
14 organization with a number of different departments
15 involved in such preparation being accounting, tax,
16 regulatory, operational, so it's a diffuse
17 responsibility.

18 "Question: Based upon that diffuse
19 responsibility there's individual expertise at AEP
20 that would be responsible for the components of the
21 three exhibits you were talking about, correct?

22 "That's correct.

23 "And you are not. You do not hold
24 yourself out as an expert to deal with those diverse
25 areas that are assigned to other people within AEP.

1 "Correct. Not in all of the underlying
2 areas, no."

3 I believe the record demonstrates that
4 this witness is not competent, has not been qualified
5 to sponsor Exhibits 1, 2, and 3. I object.

6 MR. NOURSE: Your Honor, I would just
7 point out that the passages just read by Mr. Randazzo
8 in the record do clearly indicate Mr. Hamrock is
9 familiar with some of the information in these
10 reports and that I think he stated in my additional
11 direct that he was familiar with the Ohio Power and
12 Columbus Southern Power information in the reports,
13 so I think it depends on what the question's going to
14 be whether he has information and knowledge about the
15 particular item that's within the pages of the
16 voluminous reports that were ordered by the
17 Commission in this proceeding.

18 MR. KURTZ: Your Honor, for the record,
19 let me just assure you that even though I like
20 Mr. Hamrock, our positions are opposed and this is
21 not friendly cross, number one, and number two, if I
22 ask him something in this voluminous report he
23 doesn't know, then an "I don't know" would suffice.

24 EXAMINER SEE: Your objection is noted,
25 Mr. Randazzo.

1 Go ahead with your line of questioning,
2 Mr. Kurtz.

3 MR. KURTZ: Thank you, your Honor.

4 Q. (By Mr. Kurtz) Actually, Mr. Hamrock, I
5 want to turn you to page 117 first, this is the
6 income statement in the Form 1. Do you see the very
7 last line item, line 78, "Net Income" --

8 EXAMINER SEE: I'm sorry, we're in CSP's
9 Form 1?

10 MR. KURTZ: Yes.

11 EXAMINER SEE: Page?

12 MR. KURTZ: 117.

13 EXAMINER SEE: Okay. Thank you.

14 Q. (By Mr. Kurtz) This is page 2 of the
15 income statement reported to the FERC for Columbus &
16 Southern; is that correct?

17 MR. RANDAZZO: I object. There's no
18 foundation laid.

19 EXAMINER SEE: Thank you, your objection
20 is noted, Mr. Randazzo.

21 MR. RANDAZZO: Your Honor, if I may
22 suggest something that may make this less painful for
23 me and perhaps everybody else. I do not object to
24 the admission of the documents as documents that
25 reflect things that AEP has said. I do object to the

1 admission of the documents for purposes of indicating
2 that the numbers that are contained in there or the
3 language that's contained therein is true.

4 In order to have it stand as evidence to
5 support the truth of the matters asserted therein, it
6 must be sponsored.

7 Now, the Commission can take notice of
8 public documents, business records, but it cannot
9 take notice of evidence that must be supported by a
10 competent witness. So in that context it may be
11 possible for individuals to ask questions. Is this
12 what's said in a public filing? My problem is
13 that -- my problem, my objection is based on whether
14 or not the information contained in the reports can
15 stand for -- can be proof of the matters asserted
16 therein.

17 EXAMINER SEE: And your objection is part
18 of the record.

19 MR. RANDAZZO: Thank you.

20 EXAMINER SEE: Let's continue with
21 Mr. Kurtz's cross-examination.

22 MR. KURTZ: Thank you, your Honor.

23 Q. (By Mr. Kurtz) Page 117, line 78, the net
24 income figure for Columbus and for 2009, 271,661,103;
25 is that correct? Did I read that correctly?

1 A. That's what it says, yes, that's correct.

2 Q. And that is virtually the same number, I
3 guess there's some sort of rounding there, that
4 Mr. Mitchell used in his exhibits calculating net
5 income of 271,500,000 contained on his Exhibit 1.

6 A. That's correct.

7 Q. So this is a fair replication of the
8 income statement and the calculation of net income
9 for Columbus & Southern for 2009 to the best of your
10 knowledge?

11 A. Yes.

12 Q. Let me -- I guess I do want to go to page
13 402, this is the generating plant statistics for each
14 of the power plants owned by Columbus & Southern.
15 Are you familiar with the power plants that CSP owns?

16 A. Yes.

17 Q. Line 12, "Net Generation, Exclusive of
18 Plant Use," is that the amount of electricity
19 produced by these plants after parasitic load on the
20 plants, scrubbers and so forth?

21 MR. RANDAZZO: I object. This witness
22 indicated that the entities that are responsible for
23 operating AEP's generating assets are not even within
24 this individual's department. It is handled by a
25 separate entity within AEP. There's no foundation

1 that this witness has knowledge.

2 MR. KURTZ: Your Honor, this is a CEO of
3 AEP Ohio. He's familiar with this information, the
4 Commission ordered that this document be included in
5 the record. He is the sponsoring witness. If I ask
6 him a question that he doesn't know, then he doesn't
7 know. But I find these whole objections perplexing,
8 so I don't think there's --

9 EXAMINER SEE: The objection is noted.
10 Let's see if Mr. Hamrock knows the answer.

11 Q. Line 12, "Net Generation," did I
12 characterize that properly?

13 A. I'm not involved in the development of
14 the numbers that go into this schedule. Line 12
15 reads "Net Generation, Exclusive of Plant Use"
16 expressed in kilowatt-hours." I could surmise that
17 plant use is what you characterized it as parasitic
18 load but I don't know that.

19 MR. RANDAZZO: I object and move to
20 strike everything after "I can surmise." This
21 witness cannot say I don't know, I'm not involved,
22 and then surmise. That's not evidence. It's
23 improper. This witness is an expert witness. He
24 cannot surmise. He has to be able to identify under
25 the Rules of Evidence things that he is relying upon

1 so that they can be documented and tested by others.

2 It's improper.

3 EXAMINER SEE: I'm going to grant
4 Mr. Randazzo's motion to strike everything after the
5 first sentence of the response from Mr. Hamrock.

6 Q. Let me ask you about another section of
7 the FERC Form 1. Page 326, the purchased power
8 account 555. You're not an accountant, are you?

9 A. I'm not trained in accounting, no.
10 That's correct.

11 Q. Do you have page 326?

12 A. Not yet. Let me find it.

13 Okay.

14 Q. Do you know what is included in the
15 purchased power account 555 as a general matter?

16 A. No, I'm not involved in the underlying
17 accounting for purchased power.

18 Q. Okay. What about the sales for resale
19 account 447?

20 A. Same answer.

21 Q. The account 447, sales for resale, are
22 what constitute off-system sales; isn't that correct?

23 MR. RANDAZZO: I object, the witness said
24 he was not aware of what was in that account. He
25 cannot then ask the witness -- give the witness the

1 answer that he wanted the witness to provide and then
2 ask the witness a question. The witness doesn't
3 know. It's improper cross.

4 MR. KURTZ: Rephrase the question.

5 Q. Do you know if off-system sales allocated
6 or made on behalf of Columbus & Southern are included
7 in your FERC Form 1 data and, therefore, make it into
8 the income statement that we looked at earlier?

9 A. I believe they are.

10 Q. The off-system sales revenues net of
11 expenses, the margins are included in this income
12 statement?

13 A. I believe they are, yes.

14 Q. Okay. And it's your position that the
15 Commission ought to adjust the net income amounts
16 reported to the FERC by excluding a portion of the
17 revenues associated with off-system sales as reported
18 in this FERC Form 1?

19 A. That's correct, those -- I believe these
20 transactions have no relationship to the retail
21 jurisdiction for purposes of the SEET.

22 Q. So if the Commission accepts the
23 recommendation, then the net income figure for
24 Columbus & Southern will be different than that
25 reported to the FERC in its Form 1 and to the

1 Securities and Exchange Commission in the 10-K; isn't
2 that correct?

3 A. No. The net income is the net income.
4 The net income that we propose the Commission to
5 consider for purposes of the excess earnings test,
6 excessive earnings test, should exclude off-system
7 sales.

8 Q. So you want the Commission to use a net
9 income figure that's different than the net income
10 figure reported to the SEC and to FERC.

11 A. For the narrow purposes of the
12 significantly excessive earnings test, that's
13 correct, yes.

14 Q. Well, isn't the adjustment to reduce net
15 income by about 12 percent?

16 A. For CSP --

17 Q. Yes.

18 A. -- for 2009? That sounds about right,
19 yes.

20 Q. Would you characterize that as narrow?

21 A. No, I characterized the purpose of
22 excluding it as narrow for the SEET determination.

23 Q. Can you -- I know you're not having a
24 legal opinion, but you indicate -- imply that it
25 would be unlawful and it would result in litigation.

1 Can you point to a FERC order or any order of a court
2 or any entity that would prohibit the Commission from
3 using the net income as reported to the SEC and to
4 FERC other than the adjustment to off-system sales
5 you made? In other words, what federal order would
6 this Commission be in violation of?

7 MR. NOURSE: Objection. I think it calls
8 for a legal conclusion and the statements and
9 testimony are clearly identified as being on the
10 advice of counsel.

11 Q. Let me rephrase. Can you point to an
12 order that this Commission would be in violation of?

13 A. FERC order?

14 Q. Yes.

15 A. I'm not aware of a specific order, no.

16 Q. When you were advised by counsel, did
17 they indicate to you that a state commission has to
18 comply with FERC orders when setting retail rates?
19 Was that part of your understanding?

20 MR. NOURSE: Objection, privileged --

21 MR. KURTZ: I'll withdraw that one.

22 MR. NOURSE: -- communication.

23 Q. So just so I understand, you're not aware
24 of any FERC order that you're relying on for your
25 argument that off-system sales should be excluded.

1 A. I think you asked am I aware of a FERC
2 order that prohibits a state commission from
3 including off-system sales.

4 Q. Yes. Let's use it that way.

5 A. I'm not aware of such an order.

6 Q. Sort of reverse it, are you aware of a
7 FERC order that mandates the Commission exclude
8 off-system sales margins?

9 A. No. In my view this is a unique Ohio
10 regulatory provision, the earnings test itself.

11 Q. Okay. Let me move on to the final topic,
12 deferrals, page 15.

13 A. Of my testimony?

14 Q. Yes, sorry.

15 A. That's okay.

16 Q. I want to follow up I guess initially
17 with what Ms. Yost had done. As I understand it, the
18 CSP FAC deferrals for 2009 pretax as reported by
19 Mr. Mitchell on Exhibit 6 were \$36,982,000?

20 A. Yes, that's correct.

21 Q. Now, as I understand from OCC Exhibit
22 12 -- which is the fuel adjustment schedule you were
23 just looking at?

24 A. Okay.

25 Q. You're going to have \$9,626,191 of that

1 deferral remaining at the end of 2010.

2 MR. NOURSE: Objection. I think if you
3 look at the schedule there, Mr. Kurtz, that is based
4 on June 2010.

5 Q. I was unclear. Is this the -- is the
6 9.6 million the remaining balance in June or December
7 of 2010?

8 A. I need to go back to the exhibit.

9 MR. NOURSE: Schedule 3, page 1.

10 MR. KURTZ: Yes.

11 MR. NOURSE: Is that what you're
12 referring to?

13 MR. KURTZ: Yes.

14 A. All right. Got it. This was the ending
15 balance as of June, end of June 2010.

16 Q. That's even better. So there's a good
17 chance that this amount is fully, that this balance
18 as of today -- do you know what the balance is as of
19 today?

20 A. I don't have the most current balance
21 available to me.

22 Q. Let's do the math this way, if you
23 started with the 36,982,000 and had 9.628 million
24 remaining at the end of the June, it means during the
25 first six months of 2010 you had recovered

1 27.356 million of the deferral; is that correct?

2 A. Yeah, that sounds about right. Given the
3 subtraction.

4 MR. RANDAZZO: Just for the record,
5 Mr. Kurtz, when you're talking about deferrals,
6 you're talking about deferrals with interest?

7 MR. KURTZ: I'm talking about the
8 deferred FAC balance.

9 MR. RANDAZZO: Which would include the
10 interest or carrying charges?

11 Q. Do you know the answer to Mr. Randazzo's
12 question?

13 MS. YOST: I think it's indicated on the
14 schedule, carrying charges.

15 EXAMINER SEE: Mr. Kurtz, this is your
16 cross-examination.

17 Q. Okay, I guess carrying charges are
18 included. So as of June, you had 9.6 million of the
19 36.9 million deferred balance remaining.

20 A. That's correct.

21 Q. Okay.

22 A. And I think you're asking would we expect
23 the balance to be lower at the end of the year.

24 Q. Well, let's ask that question. Do you?

25 A. I thought that's where you were going,

1 I'm sorry.

2 Q. I would assume it would be fully
3 amortized by the end of the year if you knocked out
4 27 million in the first six months.

5 A. Yeah, I don't know that it's -- just
6 linear extrapolation like that makes sense given load
7 fluctuations and a lot of other dynamics here, but
8 the trajectory is for that balance to be lower.

9 Q. Now, my understanding of your testimony
10 on page 15 is that you want the Commission to reduce
11 the SEET earnings by the amount of the deferrals for
12 Columbus & Southern in 2009; is that correct?

13 A. That's correct.

14 Q. But for Ohio Power you want the
15 Commission to use, for SEET purposes, the earnings
16 including the deferrals.

17 A. Ohio Power being under the safe harbor
18 there's no reason to exclude the deferrals.

19 Q. So for let's just say the obvious you
20 want the Commission to change the reported earnings
21 for Columbus & Southern to exclude deferrals for
22 Columbus & Southern but for Ohio Power use the
23 reported earnings which include the deferrals for the
24 reason you stated.

25 A. For the ROE purposes of the SEET we would

1 suggest that if the deferrals contributed to an
2 earnings picture that would be above an earnings
3 threshold, then they should be excluded and not
4 subject to return to customers until the period in
5 which the cash had been collected.

6 Q. Now, would you agree that sort of
7 consistency in application of the SEET test would be
8 something the Commission would be concerned with?
9 And that if they're excluding deferrals or including
10 them, they should be consistent?

11 A. I can't speak for the Commission.

12 Q. Now, let's assume the Commission for
13 Columbus & Southern agrees with your position to
14 defer -- to exclude the deferrals and adjust the net
15 income you've reported to FERC and the SEC and lower
16 it. Now we know that in 2010 you recovered at least
17 27 million of that deferred balance and perhaps even
18 the whole amount by the end of the year. Do you
19 understand the point that I've stated so far?

20 A. Yes.

21 Q. Okay. Now, for 2010 SEET purposes would
22 you agree, if the Commission takes your position in
23 this case, that the actual per books earnings for
24 Columbus & Southern will be increased by the amount
25 of the recovery of the deferral?

1 A. To the extent there was a contribution to
2 earnings from that, yes.

3 Q. Well, let's just look at the net income
4 issue. Would you agree that the net income of CSP
5 would be higher than the per books amount in 2010 to
6 reflect the collection of the deferred amounts?

7 A. For the purposes of SEET, our position is
8 that the amortization should be reflected in
9 earnings, the amounts collected from customers should
10 be reflected in earnings in that period if they were
11 excluded in the prior period.

12 Q. So if we exclude the earnings in 2009,
13 the deferrals, and reduce the reported income, and
14 you recover those deferred amounts in 2010, we will
15 increase the reported income for 2010.

16 A. By the amount that was collected in 2010.
17 Yes, that is correct.

18 Q. So really what we're talking about, then,
19 is just a one-year timing difference on this
20 particular issue.

21 A. If it was entirely collected in 2010,
22 that might be true. If it's not, it would bleed over
23 into subsequent years.

24 Q. But we know at least 27 million was
25 collected for the fuel.

1 A. Through June.

2 Q. Through June.

3 A. Through June.

4 Q. Right. Okay.

5 MR. KURTZ: Thank you, your Honor.

6 Thank you, Mr. Hamrock.

7 THE WITNESS: Thank you, Mr. Kurtz.

8 EXAMINER SEE: Redirect?

9 MR. NOURSE: Yeah, I do have a few
10 questions, could I have a brief opportunity to
11 consult?

12 EXAMINER SEE: Sure.

13 MR. NOURSE: Five minutes?

14 EXAMINER SEE: Yeah, five.

15 MR. NOURSE: Thank you.

16 (Discussion off the record.)

17 EXAMINER SEE: Let's go back on the
18 record for a second. Mr. Maskovyak, did I not give
19 you an opportunity to cross-examine Mr. Hamrock
20 yesterday?

21 MR. MASKOVYAK: That would be correct,
22 your Honor.

23 EXAMINER SEE: Are you certain of that?

24 MR. MASKOVYAK: Pretty close to certain.

25 EXAMINER SEE: Okay. And staff has not

1 had an opportunity to cross-examine.

2 MR. McNAMEE: That's correct.

3 THE WITNESS: That was okay with me.

4 EXAMINER SEE: Get comfortable,

5 Mr. Hamrock.

6 Mr. Maskovyak.

7 MR. MASKOVYAK: Thank you, your Honor. I

8 will endeavor to be brief since I understand we're a

9 scant over our projected time line for Mr. Hamrock.

10 - - -

11 CROSS-EXAMINATION

12 By Mr. Maskovyak:

13 Q. Mr. Hamrock, good morning.

14 A. Good morning.

15 Q. Could I get you to turn to page 5 of your

16 testimony. I want to direct your attention to lines

17 5 through 7 about comparing the risks.

18 A. Yes, I see it.

19 Q. And I want to specifically direct your

20 attention to the risk of the SEET itself. We're

21 saying that the SEET test here has a business risk

22 all in and of itself; isn't that correct?

23 A. It is one part of the business risk,

24 that's correct.

25 Q. At the time that you prepared your

1 testimony would you say that the SEET risk was high,
2 low, moderate, some other term in between if you
3 didn't like those?

4 A. Unknown. I would say it's unknown.

5 Q. There was no estimation whatsoever.

6 A. In terms of valuation of the risk?

7 Q. Correct.

8 A. Yeah, that's correct.

9 Q. I would like to turn your attention to
10 what was previously identified as IEU Exhibit 1. Do
11 you still have a copy of that?

12 A. Is that the --

13 MR. RANDAZZO: It's the transcript.

14 Q. The transcript.

15 A. Oh, the transcript.

16 Q. I believe it was the only IEU exhibit.

17 A. I have a copy in the room, I don't have
18 it at the stand.

19 MR. NOURSE: We can provide it, your
20 Honor.

21 EXAMINER SEE: Okay. Yes, thank you.

22 Q. Do you have a copy now, Mr. Hamrock?

23 A. I do.

24 Q. May I ask you to turn to the last page,
25 page 41. As you may remember, Mr. Randazzo asked you

1 some questions about the highlighted statement there.

2 A. I do.

3 Q. In your opinion, do these statements here
4 reflect a change in how high the risk the SEET
5 proposes to either AEP or CSP?

6 A. The context of this statement is forward
7 looking. The question is related to future years and
8 have we baked in any SEET impact in either of those
9 two years.

10 Q. So you're reading this statement only
11 about future implications, not about present?

12 A. That's the context of the question, yes.

13 Q. So when it's stated that there are zero
14 earnings impact issues, that isn't talking about the
15 SEET today?

16 A. I can't speak for the respondent in this
17 question, but that's my interpretation of what's
18 represented in the transcript.

19 Q. Fair enough.

20 Can I get you to turn to page 2 of that
21 document. I would like to direct your attention to
22 the last paragraph on page 2, both the highlighted
23 and the nonhighlighted portion of that paragraph.

24 A. Okay.

25 Q. Do you see the part where it says "We

1 think that will come out without a great deal of
2 impact on us as we go"?

3 MR. NOURSE: Your Honor, I object to
4 putting hearsay statements in the record. The person
5 that made these statements is not here to explain
6 them or address questions about them, let alone
7 authenticate the recordation here in this homemade
8 transcript of what was said.

9 MR. MASKOVYAK: Your Honor, I thought we
10 addressed the hearsay arguments yesterday, and the
11 witness was allowed to proceed.

12 In addition, it seems that we've been
13 pretty liberal in granting of hearsay when it went to
14 addressing the FERC 1 form this morning.

15 MR. NOURSE: Your Honor, we didn't
16 address -- we addressed the hearsay as it relates to
17 the questions which were curtailed by Mr. Randazzo
18 and, again, I can repeat that, but that's my
19 objection.

20 EXAMINER SEE: Have a seat, Mr. Randazzo.
21 We addressed the hearsay issue in regards
22 to this document referring to page 40.

23 MR. MASKOVYAK: I don't know that the
24 hearsay issue is identifiably different on page 2
25 than it is on page 41, your Honor.

1 MS. YOST: Your Honor, may I respond?

2 EXAMINER SEE: What were you going to
3 say, Mr. Randazzo?

4 MR. RANDAZZO: I'm not sure what
5 Mr. Nourse means by "hearsay." But it's not an
6 appropriate objection in this circumstance.

7 MR. NOURSE: I can't hear you.

8 MR. RANDAZZO: It's not an appropriate
9 objection in this circumstance. These are statements
10 that have been made by the highest officer of AEP.
11 They were made, as I explained yesterday as we went
12 through yesterday, they were made in the course of an
13 earnings call which as a matter of law requires
14 representations to be accurate and not misleading and
15 based on the knowledge of the individual who's making
16 them.

17 MR. NOURSE: Your Honor, I'm not
18 objecting to -- I'm not saying that whatever
19 Mr. Morris said at the conference was inaccurate in
20 any way, and of course I agree there's an obligation
21 to be accurate, and I'm sure he was.

22 What I'm objecting to is the fact that
23 this is hearsay evidence, this homemade transcript
24 that Mr. Randazzo indicated he modified through
25 highlighting and, you know, whatever, it's a homemade

1 transcript that hasn't been authenticated by -- we
2 don't know who created it. You know, I can represent
3 that AEP did not review this for accuracy. And
4 there's nobody here that can say it's accurate
5 besides Mr. Randazzo. He's not a witness, and he
6 didn't present any witnesses in this case.

7 And it's classic hearsay. It's certainly
8 an appropriate objection to raise when it is being
9 offered for the truth of the matter asserted.

10 Mr. Morris is not here to explain his statements,
11 give any context or answer questions about it, and so
12 I think it's inappropriate.

13 Now, Mr. Hamrock can be asked about his
14 direct knowledge, whether Mr. Morris made a specific
15 statement, if you want to quote from this to ask him
16 that question, that's a different question. But this
17 document, IEU Exhibit 1, is not appropriate evidence
18 to be admitted in this record or relied upon based on
19 Mr. Randazzo's representations unless he's saying he
20 was there and has personal knowledge and verified
21 every word in this transcript. That's jumping over
22 the foundation and the authenticity and the accuracy
23 of such a homemade transcript.

24 EXAMINER SEE: Ms. Yost.

25 MS. YOST: Thank you, your Honor. Yes,

1 OCC would maintain that Evidence Rule 801(D), as in
2 dog, Subsection 2, it's admission by a
3 party-opponent, the rule specifically says that it
4 regards a statement, whether oral or written, it is a
5 party statement and it's offered against them. And
6 again, the hearsay -- it's not even about an
7 exception to hearsay rule. The rules specifically
8 say that those statements are not hearsay. Thank
9 you.

10 MR. RANDAZZO: Your Honor.

11 EXAMINER SEE: You trailed off at the
12 end, Ms. Yost.

13 MR. MASKOVYAK: She was simply stating
14 that it's defined as not hearsay as opposed to
15 exception.

16 EXAMINER SEE: Is that what you said,
17 Ms. Yost?

18 MS. YOST: I was going to ask the court
19 reporter.

20 (Record read.)

21 EXAMINER SEE: Did you want to respond to
22 that, Mr. Nourse?

23 MR. NOURSE: Yes, certainly. Your Honor,
24 that definitional statement assumes that there is a
25 statement that's been authenticated and validated and

1 is an accurate statement. That's not the case with
2 this document. This homemade transcript has not been
3 authenticated or validated as being accurate. Nobody
4 in this room has personal knowledge about that
5 document.

6 MR. RANDAZZO: Your Honor, if I may
7 please, Mr. Nourse's --

8 EXAMINER SEE: Just a minute,
9 Mr. Randazzo.

10 Mr. Randazzo, you wanted to respond?

11 MR. RANDAZZO: Yes, your Honor. A couple
12 of times now Mr. Nourse has suggested that I made
13 things up, called this document a homemade
14 transcript. I'm used to taking shots I guess, but
15 you can listen to this presentation on AEP's website.
16 There's a link to this earnings call on AEP's
17 website. And if people want to test my integrity,
18 they can go to AEP's website and compare this
19 transcript to the oral archived comments of
20 Mr. Morris.

21 Your Honors, I've practiced before this
22 Commission for almost 40 years and I will not stand
23 by and have counsel for utilities or anybody else
24 suggest that I am making things up.

25 MR. NOURSE: Your Honor, I didn't state

1 that and I didn't -- you know, Mr. Randazzo's not
2 under oath, he's not testifying, and what I said was
3 that the document has not been authenticated and it
4 can't be cured by an attorney saying "Trust me
5 everything's okay."

6 I have not impugned Mr. Randazzo's
7 integrity in any way and didn't intend that in any
8 way. I'm purely making an evidentiary objection, I
9 don't think it's proper evidence, okay. And there's
10 even a disclaimer on this thing that says that it's
11 not purporting to be a complete or error free
12 statement or summary of the available information and
13 it's not guaranteed.

14 So it is what it is, and I don't think
15 it's admissible evidence and that's all I'm saying,
16 your Honor.

17 EXAMINER SEE: That's enough, I've had
18 enough, sit down, please, Mr. Randazzo.

19 Mr. Maskovyak, there was an outstanding
20 objection, I'm going to allow Mr. Hamrock to respond
21 to the question.

22 THE WITNESS: Could I hear the question,
23 please.

24 EXAMINER SEE: Yes, you certainly can.

25 (Record read.)

1 A. Yes, I see that part.

2 Q. What does that statement mean to you?

3 A. I can't presume to know what he meant by
4 that statement.

5 Q. I'm asking what it means to you.

6 A. It means in his view he doesn't expect a
7 great deal of impact in the future to SEET.

8 Q. Does that mean that AEP or CSP has
9 reevaluated the level of risk the SEET poses?

10 A. Not necessarily.

11 Q. And just for me to clarify, would it be
12 AEP that's evaluating the risk or CSP?

13 A. In the context of this statement?

14 Q. Yes. And in the context of evaluating
15 the SEET.

16 A. I think it's relative to AEP Ohio which
17 would be inclusive of CSP and OP.

18 Q. I'm sorry, I couldn't hear you.

19 A. Inclusive of CSP and OP.

20 Q. So does that mean it's -- you speak on
21 behalf of both AEP and CSP?

22 A. I speak on behalf of -- I've lost who you
23 are asking, who do I speak for?

24 Q. I'm asking for purposes of evaluating
25 this statement and offering an opinion, are you

1 speaking on behalf of AEP, CSP, or both?

2 A. I'm speaking -- I am speaking on behalf
3 of AEP Ohio.

4 Q. Okay. In your opinion, do you believe
5 that the risk posed by the SEET has changed from the
6 date that you filed your testimony until today?

7 A. No.

8 Q. Thank you, Mr. Hamrock.

9 Can we assume that you're aware of the
10 current state of Ohio's economy, recessionary or at
11 least stagnant?

12 A. Yes.

13 Q. And does the present state of Ohio's
14 economy including the high unemployment rate play a
15 factor for AEP or CSP in determining appropriate ROE
16 or profit margin?

17 A. The state of the economy certainly
18 effects the business and effects the margins from the
19 business, and we've seen loss of load, we've seen
20 loss of some of our industrial and commercial base as
21 a result of the economy. So we're keenly aware of
22 that and have, in fact, provided a lot of support to
23 unemployed Ohioans in our service territory and
24 low-income Ohioans in these unique circumstances.

25 Q. Should it have an effect in setting

1 rates?

2 A. Should the economy have --

3 Q. Correct.

4 A. -- an effect in setting rates?

5 Q. Correct.

6 A. I don't believe so.

7 Q. Should the unemployment rate have an
8 effect in determining what effective rate AEP or CSP
9 and OP should have?

10 A. I don't believe so.

11 Q. Does it play a factor in doing a SEET
12 analysis?

13 A. I don't believe it should.

14 MR. MASKOVYAK: I have no further
15 questions, your Honor.

16 EXAMINER SEE: Mr. McNamee.

17 MR. McNAMEE: Thank you.

18 - - -

19 CROSS-EXAMINATION

20 By Mr. McNamee:

21 Q. Good afternoon, Mr. Hamrock.

22 A. Good afternoon.

23 Q. I won't keep you long. I'll draw your
24 attention to OCC Exhibit 8, it's a long list, it's
25 denominated "AEP Ohio 2010 Capital Budget and 2011

1 Capital Forecast." Do you have that?

2 A. I'll find it.

3 Q. A long list of projects.

4 A. Yes, I have it.

5 Q. Okay.

6 A. It's not labeled 8. Is it OCC INT 4,
7 Attachment 1 at the bottom?

8 MR. NOURSE: Yes.

9 A. Is that it? Okay.

10 Q. Yes, okay.

11 A. Yes, I have it.

12 Q. At the top it has the other.

13 In any event, now is it your suggestion,
14 Mr. Hamrock, that the information that's contained
15 within this AEP Ohio 2010 capital budget is somehow
16 greater than it would otherwise be, that you're
17 investing capital sooner than you otherwise would, or
18 that this is in some way different than business as
19 usual?

20 A. Relative to a non-SEET -- I'm not sure
21 what to compare it to.

22 Q. Ah-ha, that's exactly my problem. Do you
23 mean to suggest that AEP is doing something
24 exceptional with its capital budget here such that
25 the Commission, should it find excess earnings, it

1 should discount those significantly excess earnings
2 because of the additional capital investment or the
3 earlier capital investment or some such thing that
4 AEP is doing as reflected in OCC Exhibit 8 here?

5 A. If anything, I would characterize it as
6 even in view of and in light of the unique risks we
7 face in Ohio we continue to invest substantially.

8 Q. So there's really nothing unusual about
9 this budget, this is the same sort of budgeting that
10 you've done in the past and would continue to do in
11 the future.

12 A. That's correct.

13 Q. Okay. That's all I need.

14 MR. McNAMEE: Thank you very much.

15 EXAMINER SEE: Redirect, Mr. Nourse?

16 MR. NOURSE: Could I have my five-minute
17 break now?

18 EXAMINER SEE: You can have your
19 five-minute break now.

20 MR. NOURSE: Thank you, your Honor.

21 (Recess taken.)

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

24 Mr. Nourse.

25 MR. NOURSE: Thank you, your Honor.

REDIRECT EXAMINATION

By Mr. Nourse:

Q. Mr. Hamrock, you were asked some questions by OCC counsel about a document that they marked as OCC Exhibit 7. It's interrogatory 4. And in particular the Q and A was about, in this regard was about 4A referencing a \$4.8 million investment or expenditure by CSP. Do you recall that?

A. I do that.

Q. And I believe the question was about, to confirm that the 4.8 was for a systemwide software application meaning that other AEP affiliates or operating companies would be benefiting from those software applications; is that correct?

A. The meaning of the question, yeah, that was my understanding of the question, that's correct.

Q. And is the 4.8 million, was that CSP covering the whole cost or was it their fair share, in your opinion?

A. No; all the systemwide software applications are shared by the operating companies of AEP, so that would be CSP's share of a larger investment in systemwide software.

Q. Thank you. I'd also like to ask you a couple questions about OCC Exhibit 11 which was an

1 excerpt from Craig Baker's ESP testimony including
2 Exhibit JCB-1; do you have that?

3 A. I have it.

4 Q. And I believe it was your testimony that
5 you used JCB-1 and you offered this information at
6 the deposition and have, again, stated it here that
7 you used this as a starting point for your JH-1; is
8 that correct?

9 A. That's correct. I adopted --

10 Q. JH-2. Excuse me.

11 A. That's correct, JH-2. JH-2 was based on
12 JCB-1 which I worked with Mr. Baker on back during
13 the ESP and carried it forward as a representation of
14 some of the risks that AEP Ohio faces as a result of
15 Senate Bill 221.

16 Q. So, again, it's your independent
17 testimony and opinion in this case that JH-2, Exhibit
18 JH-2, reflects a partial list of the business and
19 financial risks faced by CSP in 2009?

20 A. Yes.

21 Q. Okay, thank you.

22 You were also asked questions by I
23 believe OCC counsel and OEG counsel about OCC Exhibit
24 12 which is the September 2nd, 2010, FAC quarter
25 update filing. Do you have that --

1 A. Yes, I that.

2 Q. You have that document, okay.

3 MS. YOST: Steve, could you hold on just
4 a second so we can identify it.

5 MR. NOURSE: Sure.

6 MS. YOST: Thank you. Please proceed.

7 Q. I'm referring to schedule 3 as the
8 questions did. Do you infer from this schedule that
9 the 2009 ending fuel deferral balance of
10 approximately 36 million and the beginning balance
11 for the second quarter of 10.8 million shown on line
12 1 here, that approximately 26 million -- or between
13 25 and 26 million was recovered or amortized during
14 the first quarter?

15 A. Yes, that would be correct.

16 Q. And I believe the questioning earlier
17 indicated that the second quarter amortization was
18 just slightly over 1 million; is that correct?

19 A. Yes, based on the ending balance
20 9.4 million, just slightly over a million less than
21 the beginning balance.

22 MS. YOST: Your Honor, I'm going to
23 object. I think that there's confusion. You said
24 second quarter. This is the fourth quarter, and the
25 preceding quarter would have been the third quarter.

1 MR. NOURSE: Yeah, but there's a skipping
2 period in the FAC. This is, at the top there, the
3 column heading says "Actual Period April through
4 June," that's the second quarter. That's the data
5 from the second quarter.

6 MS. YOST: Okay.

7 Q. And, Mr. Hamrock --

8 EXAMINER SEE: Thank you.

9 Q. Mr. Hamrock, then was it your testimony
10 that due to the various moving parts, primarily
11 including the variation in fuel cost, this
12 information cannot be used to extrapolate the
13 year-end deferral balance, if any, for CSP?

14 A. That's correct. It can't be used to
15 presume there's some linear extrapolation of those
16 two data points, but there's certainly a trajectory
17 implied.

18 Q. Thank you. And is it possible that due
19 to fuel costs and the operation -- the rate cap that
20 the balance could have actually gone up, you don't
21 know what it is as you sit here today?

22 A. That's correct.

23 Q. Okay. Thank you.

24 MR. NOURSE: And one more area, your
25 Honor.

1 Q. You were asked questions about shopping
2 levels for 2009 for CSP. Do you recall that?

3 A. I do.

4 Q. And, first of all, is it your opinion
5 that actual shopping levels experienced by any EDU or
6 company -- utility in general affects the shopping
7 risk that was faced during that same period?

8 A. I think that's certainly an indicator of
9 shopping risk.

10 Q. And I believe you were asked questions
11 about CSP's 2009 shopping levels and agreed that
12 there was very little shopping.

13 A. That's correct.

14 Q. Setting aside perhaps some of the other
15 business and financial risks that utilities or Ohio
16 utilities specifically might face, would you agree
17 that Ohio utilities, with respect to the shopping
18 risks under Senate Bill 221, faced the same shopping
19 risk?

20 MR. RANDAZZO: Objection.

21 MS. YOST: Objection.

22 MR. RANDAZZO: No foundation.

23 MS. YOST: Beyond the scope of cross,
24 there was no questions about Ohio utilities and
25 shopping.

1 MR. NOURSE: Your Honor, there was a lot
2 of questions about the shopping risk faced by CSP and
3 I'm asking about the other utilities as a corollary
4 to that because they're using actual -- they were
5 using the actual shopping levels for CSP as a measure
6 of the shopping risk.

7 MS. YOST: And, your Honor, as counsel
8 indicated, it was shopping risk about CSP, not about
9 other utilities. It's beyond the scope of the cross.
10 And it's irrelevant.

11 MR. MASKOVYAK: Your Honor, while we're
12 stating objections I'd also like to object to the
13 fact that counsel has been doing exceedingly leading
14 questions all through his redirect. If you could ask
15 counsel to reformulate his questions as if on direct.

16 EXAMINER SEE: You trailed off at the
17 end.

18 MR. MASKOVYAK: I'm sorry?

19 EXAMINER SEE: You trailed off at the
20 end.

21 MR. MASKOVYAK: I'm sorry, I was asking
22 if you could ask counsel to reformulate his questions
23 as direct questions rather than questions as if on
24 cross.

25 EXAMINER SEE: As I recall, all the

1 questions regarding shopping risks were related
2 specifically to AEP Ohio or should I say CSP, so --

3 MR. NOURSE: Thank you, your Honor. I'll
4 withdraw the question and I'm done with redirect.
5 Thank you.

6 EXAMINER SEE: Okay. Any recross?

7 MR. RANDAZZO: Just one, your Honor, if I
8 might.

9 - - -

10 RECROSS-EXAMINATION

11 By Mr. Randazzo:

12 Q. Mr. Hamrock, it's going to take two
13 questions, you are aware that the Commission is
14 presently engaged in a proceeding dealing with the
15 audit of Columbus & Southern's and Ohio Power's fuel
16 costs for 2009.

17 A. Yes.

18 Q. And if the Commission determines that the
19 positions that have been expressed by the Industrial
20 Energy Users, the Commission staff, and OCC are
21 correct, in other words that the Columbus Southern
22 fuel costs were overstated because Columbus Southern
23 failed to include benefits, certain benefits, would
24 you agree that the amortization of the fuel cost that
25 you spoke of in the redirect examination would be

1 accelerated?

2 A. I suppose there are a number of
3 accounting implications for such an outcome that may
4 or may not include a change in the amortization,
5 sounds like a restatement of the amortization the way
6 I understand the question.

7 Q. Well, if the actual fuel cost for 2009
8 was lower than what Columbus & Southern reflected for
9 purposes of the FAC, then the amortization of the
10 deferrals related to fuel would also be accelerated,
11 correct?

12 MR. NOURSE: Your Honor, I would just
13 object to the extent my redirect related to this
14 exhibit that was involving the 2010 amortization, I
15 believe Mr. Randazzo's asking about 2009.

16 EXAMINER SEE: I'm going to allow the
17 question.

18 THE WITNESS: I'm sorry, your Honor, I
19 couldn't hear you.

20 EXAMINER SEE: I am going to allow you to
21 answer the question.

22 THE WITNESS: Okay.

23 MR. RANDAZZO: I was surprised too.

24 A. I just couldn't hear it. It may affect
25 the deferral balance, I'm not sure it affects the

1 amortization schedule.

2 Q. Fair enough. Fair enough, thank you.

3 MR. RANDAZZO: That's all I have, your
4 Honor.

5 EXAMINER SEE: Ms. Mooney.

6 MS. MOONEY: No questions, your Honor.

7 EXAMINER SEE: Mr. Maskovyak.

8 MR. MASKOVYAK: No questions, your Honor.

9 EXAMINER SEE: Ms. Yost.

10 MS. YOST: Just a couple, your Honor.

11 - - -

12 RECROSS-EXAMINATION

13 By Ms. Yost:

14 Q. Mr. Hamrock, if you could get OCC Exhibit
15 12 which is the SEC quarterly report filing.

16 A. I presume we're going to schedule 3?

17 Q. We'll stop at page 2 for now.

18 A. Okay.

19 Q. And counsel on redirect asked you a
20 question about the anticipated rates and whether they
21 could be lower. Do you recall that question? The
22 cost of fuel.

23 A. No, I don't. I want to make sure I
24 understand what question you're asking me about.

25 Q. Counsel on redirect asked you whether the

1 deferral balance for the FAC could be higher. Do you
2 recall that?

3 A. Yes.

4 Q. And if I point you to page 2, what has
5 the company forecasted for the rates -- excuse me,
6 regarding the CSP's balance for the fourth quarter,
7 what's been forecasted? And if I turn you to page 2,
8 schedule 2, what does that indicate there?

9 A. Is there a specific statement there that
10 you're looking for?

11 Q. Sure. You read it earlier. It indicates
12 there that, under schedule 2 on page 2, that for CSP
13 these forecasted rates are projected to be lower than
14 the current FAC rates. This results in some recovery
15 of CSP's underrecovery balance during the fourth
16 quarter of 2010. Correct?

17 A. Right.

18 Q. It's expected that the balance will go
19 down again in the fourth quarter of 2010, correct?

20 A. Based on this forecast, that's correct.

21 Q. Right. Forecast of your company,
22 correct?

23 A. Correct.

24 MS. YOST: No further questions, your
25 Honor.

1 EXAMINER SEE: Mr. Kurtz?

2 MR. KURTZ: No questions, your Honor.

3 EXAMINER SEE: There are a few questions
4 from the Bench, Mr. Hamrock.

5 - - -

6 EXAMINATION

7 By Examiner See:

8 Q. Look at your testimony on page 23 where
9 you talk about carbon capture and sequestration
10 project. What portion of that project is
11 attributable to CSP, if any?

12 A. Attributable to CSP?

13 Q. Yes. Is there any portion of that
14 project that the costs are covered by CSP?

15 A. No. That's a reference to knowledge and
16 technology transfer.

17 Q. Okay. So it's just the benefit of what's
18 learned by AEP corporate that would be shared by
19 AEP -- by CSP and the other AEP Ohio subsidiaries?

20 A. That's correct. There's intellectual
21 property involved in that project that would be AEP
22 property.

23 Q. Okay. Let's go back to OCC Exhibit 8.
24 You do recall that there was significant cross on the
25 companies' committed future investments?

1 A. Yes.

2 Q. And you offered as JH-2 the forecast for
3 2010 budget amounts for various projects.

4 A. Yes.

5 Q. You also indicated that the company has a
6 multistep process for future investments, correct?

7 A. Correct.

8 Q. And that some of the projects detailed in
9 OCC Exhibit 8 have not gone through the last step of
10 that process.

11 A. That it's possible. This doesn't tell --
12 this data doesn't tell me line by line which projects
13 have gone through that last step and which ones
14 haven't, but it's quite possible, even likely, that
15 some of them have for 2010.

16 Q. And I'm only talking about 2010.

17 A. 2010, yes.

18 Q. Okay. And I am correct that there is no
19 way to extract from your testimony or OCC Exhibit 8
20 at what step any particular project is in the
21 approval process.

22 A. In terms of the three-step approval
23 process, my testimony represents the commitments made
24 in steps 1 and 2.

25 Q. What is the last step in the approval

1 process?

2 A. It's that an individual project level, as
3 you can see some of these are very small projects
4 where it's the last step in the approval of a
5 project, that would involve we can't order material,
6 we can't do the final step in construction until that
7 last step is made.

8 Q. But you said -- do you recall correctly
9 that you said 90 percent of what's listed in JH-2 for
10 2010, the company is committed to continue with those
11 budgeted amounts for those projects?

12 A. That would be my estimation, yes, based
13 on my knowledge of what we've actually spent in 2010
14 as well as the projects that are in flight. I would
15 estimate that to be 90 percent fully committed
16 through the third step of the process.

17 Q. Okay. So there is a 10 percent -- for
18 the other 10 percent they may or may not be completed
19 or the company may not fund to that last 10 percent.

20 A. Right. And may, in fact, commit those
21 funds to other projects that aren't represented on
22 this list. Or adjust the budget. Some of these
23 are -- if you go through this line by line you would
24 see projects that are anticipated replacement of
25 failed equipment, so we estimate that based on

1 historical conditions, historical experience, and if
2 we experience more in a given year, we would allocate
3 funds to that throughout the year if we needed to.
4 So it's a dynamic process when you get down to that
5 level of detail.

6 EXAMINER SEE: Okay. Thank you,
7 Mr. Hamrock.

8 THE WITNESS: Thank you.

9 EXAMINER SEE: Let's go off the record
10 for a second.

11 (Discussion off the record.)

12 EXAMINER SEE: Half hour for lunch.
13 1:05.

14 (At 12:30 p.m., a lunch recess was taken
15 until 1:05 p.m.)

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Tuesday Afternoon Session,
October 26, 2010.

- - -

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

Mr. Nourse.

MR. NOURSE: Are we doing exhibits now?

EXAMINER SEE: Yes, Mr. Hamrock's
exhibits and the other intervenors exhibits for
Mr. Hamrock's testimony.

MR. NOURSE: Thank you, your Honor. I
renew the motion to admit Companies' Exhibit 6.

EXAMINER SEE: Are there any objections
to the admission of Companies' Exhibit 6?
Mr. Hamrock's direct testimony.

MS. YOST: I would renew my objections
and incorporate those regarding the motions to
strike, but absent that no new objection, your Honor,
thank you.

EXAMINER SEE: Mr. Randazzo.

MR. RANDAZZO: Yes, your Honor, for
reasons previously stated with regard to the
admission of Mr. Mitchell's testimony I would object
to the admission of Mr. Hamrock's testimony contained
in the exhibits under examination presently. As I've

1 indicated earlier, the statute requires the
2 significantly excessive earnings test being applied
3 to the electric distribution utility, it's a
4 statutorily defined term, and that it involved
5 measuring earnings from the plan. Mr. Hamrock's
6 testimony does not do that or contribute to that and,
7 therefore, it is irrelevant and I object.

8 EXAMINER SEE: Okay. Did you wish to
9 respond, Mr. Nourse?

10 MR. NOURSE: Same response as earlier,
11 your Honor.

12 EXAMINER SEE: And with that Companies'
13 Exhibit 6, the direct testimony of Joseph Hamrock, is
14 admitted into the record.

15 (EXHIBIT ADMITTED INTO EVIDENCE.)

16 MR. NOURSE: Thank you. Your Honor, I'd
17 also like to offer for admission into the record
18 Companies' Exhibits 1, 2, and 3.

19 EXAMINER SEE: And are there any
20 objections to the admission of Companies' Exhibits 1,
21 2, and 3, FERC Form 1 and AEP 10-K?

22 MR. RANDAZZO: Your Honor, for reasons
23 previously stated I do not believe that those
24 documents can be offered into evidence for the
25 purpose of proving any of the issues in the case. I

1 have no objection, as I said earlier, to those
2 being -- of those documents being admitted for the
3 purpose of identifying things that AEP has said in
4 documents that have been filed. I do not believe
5 there's been an appropriate sponsoring or foundation
6 laid to rely upon any of those numbers for purposes
7 of resolving a contested issue in this proceeding. I
8 object.

9 EXAMINER SEE: Okay. And your objection
10 is noted.

11 Are there any other objections to the
12 admission of Exhibits 1, 2, or 3?

13 (No response.)

14 EXAMINER SEE: If there are none,
15 Companies' Exhibits 1, 2, and 3 are admitted into the
16 record.

17 (EXHIBITS ADMITTED INTO EVIDENCE.)

18 EXAMINER SEE: Also outstanding is OCC
19 Exhibits 1 and 2, OCC interrogatories 57 and 58 of
20 set 1. Are there any objections to the admission of
21 those exhibits?

22 MR. NOURSE: I'm sorry, I'm not sure I
23 heard your Honor. Are we talking about IEU No. 1?

24 EXAMINER SEE: No, I'm talking about OCC
25 Exhibit 1, they were moved in yesterday I believe by

1 Ms. Verrett.

2 MR. NOURSE: Okay.

3 MR. CONWAY: Your Honor, I made the
4 objection when those exhibits were moved into the
5 record, and I would just reiterate the same objection
6 that I made then.

7 EXAMINER SEE: And over the objection of
8 the company OCC Exhibits 1 and 2 are admitted into
9 the record. 1 and 2, I have not addressed the other
10 OCC exhibits.

11 MS. YOST: Thank you.

12 (EXHIBITS ADMITTED INTO EVIDENCE.)

13 EXAMINER SEE: Ms. Yost, did you move for
14 the admission of your exhibits?

15 MS. YOST: Yes, I did. I can do it
16 again.

17 EXAMINER SEE: No need. Mr. Nourse, I
18 believe you indicated you had some objections to OCC
19 7, 8, 10, 11, and 12, or 12?

20 MR. NOURSE: Are those the ones that are
21 being asked for admission?

22 EXAMINER SEE: Yes.

23 MR. NOURSE: No objection to No. 7. No
24 objection to No. 8. No objection to No. 10. Was 11
25 part of that group?

1 EXAMINER SEE: Yes.

2 MR. NOURSE: I do have an objection to
3 No. 11.

4 EXAMINER SEE: Do you also have an
5 objection to 12?

6 MR. NOURSE: To 12? Let me find that.
7 No, no objection to 12.

8 EXAMINER SEE: Okay. Then let's admit
9 OCC 7, 8, 10, and 12.

10 (EXHIBITS ADMITTED INTO EVIDENCE.)

11 EXAMINER SEE: Continue.

12 MR. NOURSE: On No. 11, your Honor, I
13 think Mr. Hamrock answered questions about this
14 exhibit and explained the relationship of his exhibit
15 to JCB-1. This exhibit also contains an excerpt of
16 Mr. Baker's testimony in the ESP case which I don't
17 think has any relevance to this proceeding. So I
18 think just having two similar exhibits doesn't add
19 any value and is confusing. Mr. Hamrock already
20 explained how he arrived at his exhibit.

21 EXAMINER SEE: Ms. Yost, did you want to
22 respond?

23 MS. YOST: Yes. Is the argument --
24 actually, could you read back the objection? I'm not
25 really sure what he said was his grounds.

1 (Record read.)

2 MS. YOST: Well, to the best of my
3 ability, I will say what the purpose of the -- and
4 the relevance of this exhibit is. It goes to show
5 the underlying information that was used in
6 Mr. Hamrock's Exhibit JH-2. In addition to this,
7 this exhibit also goes to show when the exhibit was
8 put together in terms of timing, it was almost -- it
9 was over two years ago, and the changes from that
10 exhibit to present time.

11 Mr. Hamrock indicated that his exhibit
12 was to show those risks that, in his opinion, faced
13 CSP in 2009. So this exhibit, again, goes to show
14 when the information was compiled and the changes
15 that have been made in addition to the underlying
16 information.

17 MR. NOURSE: If I could briefly respond,
18 your Honor.

19 EXAMINER SEE: No. OCC Exhibit 11 is
20 admitted into the record.

21 (EXHIBIT ADMITTED INTO EVIDENCE.)

22 EXAMINER SEE: Okay. Mr. Randazzo.

23 MR. RANDAZZO: Your Honor, I would move
24 IEU Exhibit No. 1.

25 MR. NOURSE: Object, your Honor.

1 EXAMINER SEE: Continue.

2 MR. NOURSE: And if I could just, I'm not
3 going to repeat all the arguments I made earlier,
4 hopefully you'll bear those in mind. I would just
5 add that I think the state of the record is already
6 clear as to the portions, the very minor portions of
7 this lengthy document that were discussed with
8 Mr. Hamrock and his knowledge about those statements
9 and the questions that were asked and properly
10 limited through objections already makes any portion
11 that could possibly be relevant already completely
12 explained in the record, so dumping the entire
13 document in the record I think is inappropriate for
14 admission into the evidence and any possible value it
15 could add.

16 EXAMINER SEE: IEU Exhibit 1 is admitted
17 into the record.

18 (EXHIBIT ADMITTED INTO EVIDENCE.)

19 EXAMINER SEE: Ms. Grady.

20 MS. GRADY: Yes, your Honor, we are going
21 to call Dr. Woolridge to the stand.

22 EXAMINER SEE: Mr. Woolridge, if you'd
23 raise your right hand.

24 (Witness sworn.)

25 EXAMINER SEE: Thank you.

1 Ms. Grady.

2 MS. GRADY: Thank you, your Honors.

3 - - -

4 J. RANDALL WOOLRIDGE

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

7 DIRECT EXAMINATION

8 By Ms. Grady:

9 Q. Good afternoon, Dr. Woolridge.

10 A. Good afternoon.

11 Q. Could you state your name and address for
12 the record, please.

13 A. My name is J. Randall Woolridge spelled,
14 W-o-o-l-r-i-d-g-e, and my business address is 302
15 Business Building, Penn State University, University
16 Park, Pennsylvania.

17 Q. Dr. Woolridge, by whom are you employed
18 and in what capacity?

19 A. I'm employed by Penn State as a professor
20 of finance.

21 MS. GRADY: Your Honor, at this time I
22 would ask to mark for identification purposes as
23 Joint Intervenors Exhibit No. 1 the prefilled
24 testimony of Dr. Woolridge filed at the Commission on
25 October 12th, 2010.

1 EXAMINER SEE: Joint Intervenor 1?

2 MS. GRADY: Yes.

3 EXAMINER SEE: Okay.

4 (EXHIBIT MARKED FOR IDENTIFICATION.)

5 Q. Do you have that document before you,
6 Dr. Woolridge? Can you identify that document for
7 me?

8 A. Yes.

9 Q. Could you.

10 A. Yes. It's a document which includes 26
11 pages of testimony in Q and A form along with an
12 Appendix A and seven different exhibits.

13 Q. Was that document prepared by you or
14 under your supervision?

15 A. Yes.

16 MS. GRADY: Your Honor, at this time I
17 would like marked for identification purposes as
18 Joint Intervenor Exhibit 1A a document consisting of
19 a cover letter with attached Schedules JRW-1 through
20 JRW-7 filed at the Commission on October 22nd, 2010,
21 reflecting the revised schedules of Dr. Woolridge.
22 I'm sorry, may I have that marked?

23 EXAMINER SEE: It's so marked.

24 MS. GRADY: Thank you.

25 (EXHIBIT MARKED FOR IDENTIFICATION.)

1 Q. Do you have that document before you,
2 Dr. Woolridge?

3 A. Yes, I do.

4 Q. Can you identify that document?

5 A. Yes, it is a document which has seven
6 exhibits labeled Exhibits JRW-1 through JRW-7.

7 Q. And was that document prepared by you or
8 under your supervision?

9 A. Yes.

10 Q. Can you explain to me, Dr. Woolridge,
11 what necessitated the filing of revised schedules?

12 A. Just prior to my deposition I had
13 reviewed some data items and in particular the data
14 items that are contained on JRW-4 also used in 5, 6,
15 and 7, they had -- there was a data item which was
16 incorrect -- a past data item on book value per
17 share. I corrected that and the net result of this
18 was we filed the exhibits, it changes our numbers by
19 10 basis points, in other words, our benchmark ROE
20 goes from 9.55 to 9.45, but we have maintained our
21 recommendation at 9.55. We're not making any
22 adjustments to reflect these slightly lower numbers.

23 Q. Dr. Woolridge, when you discovered the --
24 or when you discovered that there were errors in the
25 schedules, what did you do?

1 A. Well, I contacted counsel and we
2 prepared -- and we updated the exhibits and delivered
3 those.

4 Q. Dr. Woolridge, at what point did you
5 deliver the -- or, at what point did you correct the
6 schedules?

7 A. The day of the deposition.

8 Q. And when you say "the day of the
9 deposition," was it at the deposition?

10 A. Yes. We went through the exhibits with
11 companies' counsel and highlighted the numbers which
12 were incorrect.

13 Q. So the deposition would have been
14 October 21st, 2010, correct?

15 A. Yes.

16 Q. And at the deposition did you respond to
17 questions from counsel with respect to the revised
18 schedule -- the revised data?

19 A. Yes.

20 Q. And did you have occasion, Dr. Woolridge,
21 to forward electronically the spreadsheets associated
22 with your revision that you discussed at the
23 deposition?

24 A. Yes.

25 Q. And did you forward those to the company?

1 A. Yes, I forwarded them to counsel.

2 Q. Now, Dr. Woolridge, then the next day the
3 schedules were filed at the Commission?

4 A. Yes.

5 Q. And, Dr. Woolridge, did you respond to
6 written discovery requests from the companies on
7 these revised schedules?

8 A. Yes.

9 Q. And, Dr. Woolridge, do you know whether
10 or not counsel for OCC offered -- let me strike that.

11 Are you aware, Dr. Woolridge, of whether
12 counsel for OCC offered to have you speak consultant
13 to consultant with Dr. Makjija about your revisions?

14 A. Yes.

15 Q. Now, you indicated in your response that
16 the numbers changed from 9.55 to 9.45. Are you
17 speaking of the median number --

18 A. Yes.

19 Q. -- that you calculated?

20 Is it your understanding that the nature
21 of the change would have resulted in approximately a
22 \$2 million increase in the range recommended for the
23 customer refund?

24 A. That's what I've been told, yes.

25 Q. And you indicated you did not -- you as a

1 joint intervenor are not proposing that an adjustment
2 be made to the original recommended refund range of
3 145 million to 155 million?

4 A. That's correct.

5 Q. Now, with respect to Joint Intervenor
6 Exhibit 1 and 1A, do you have any further additions,
7 corrections, or deletions?

8 A. I do have one, it's on pages 6 and 7,
9 question 8 and answer 8. This was an issue that came
10 up during the deposition where there's a reference
11 to, in the Q and A about, at the bottom of page 6,
12 top of page 7 that some parties have -- in various
13 forms have argued the definition should entail a
14 variation of both approaches.

15 In that question and answer I'm talking
16 about the previous hearings as well, not just this
17 particular hearing.

18 Q. So your reference at question 19 should
19 be to, instead of "This" you would exclude the "this"
20 and make it have other parties to proceedings define
21 significant excessive earnings?

22 A. Yes.

23 MR. CONWAY: Excuse me. Could I have the
24 question read, please?

25 EXAMINER SEE: Sure.

Q. So the record reflects, that would be question 8 on lines 19 and 20 of page 6 of Joint Exhibit No. 1.

A. And the answer to that which is on page 6, line 21, to page 7, line 2.

Q. Now, are there any other further corrections beyond that which you have to --

A. Not that I know.

Q. If I were to ask you the questions posed in your direct prefiled testimony marked as Joint Intervenor Exhibit 1, would your answers be the same?

A. Yes.

MS. GRADY: I offer, your Honor, Dr. Woolridge for cross-examination and move for the admission of Joint Intervenor Exhibits 1 and 1A.

EXAMINER SEE: Okay. Mr. Randazzo.

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

- - -

CROSS-EXAMINATION

By Mr. Randazzo:

Q. Would you prefer to be called Dr. Woolridge or Professor?

A. Whatever you care to.

Q. Either one. Professor. Now, on page 1

1 of your testimony you note you have a certain
2 affiliation with a certain university.

3 A. Yes.

4 Q. Do you recognize you're in Columbus,
5 Ohio?

6 A. Yes, I do, but we're not a threat this
7 year.

8 Q. All right. On page 2 of your testimony
9 in --

10 EXAMINER SEE: Off the record.

11 (Discussion off the record.)

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

14 Q. Page 2, in the footnote, there you
15 indicate that you have not done anything with Ohio
16 Power based upon the safe harbor provisions, but you
17 haven't -- and that should be taken literally, you
18 haven't really looked at the Ohio Power situation.

19 A. No.

20 Q. Okay. Now, with regard to page 3 where
21 you cite the statute, in the answer that begins on
22 line 14 and in line 15 specifically you use the word
23 "electric distribution companies." Do you know if
24 electric distribution utility" is a defined term in
25 Ohio?

1 A. I'm not aware of what the specific
2 definition is, no.

3 Q. Okay. And then the -- and the same would
4 be true as you quote the statute there on line 20
5 carrying over to line 21, you're not aware of whether
6 or not there's a specific statutory definition for
7 "electric distribution utility"; is that correct?

8 A. I don't know what the specific definition
9 is, no.

10 Q. Okay. Now, on page 4, line 15, you have
11 the words "electric utility's" and there's an
12 apostrophe S there before the word "profits."

13 A. Yes.

14 Q. Now, are you aware of whether or not
15 there's a statutory definition for "electric utility"
16 in Ohio?

17 A. There may be. I'm not aware specifically
18 what it is.

19 Q. Okay. And so if there is a statutory
20 definition for the terms "electric distribution
21 utility" and "electric utility" you have not taken
22 those definitions specifically into account for
23 purposes of your testimony; is that correct?

24 A. No.

25 Q. You have not --

1 A. No.

2 Q. -- taken them into account.

3 A. No, not the specific definitions as --
4 other than generally recognized how they're defined
5 more in general terms.

6 Q. Okay.

7 MR. RANDAZZO: That's all I have. Thank
8 you very much, Professor.

9 EXAMINER SEE: Mr. Conway?

10 MR. CONWAY: Thank you, your Honor.

11 - - -

12 CROSS-EXAMINATION

13 By Mr. Conway:

14 Q. Good afternoon, Dr. Woolridge.

15 A. Good afternoon.

16 Q. I'm Dan Conway, I'm a lawyer for
17 AEP Ohio. If you can't hear my questions or don't
18 understand my questions, please let me know.

19 A. Okay.

20 Q. First touching on a couple of the points
21 that were addressed in your direct exam. Could you
22 turn to the revised exhibits.

23 A. Yes.

24 Q. And is the benchmark ROE for CSP before
25 adders, is it reflected on your panel C on Exhibit

1 JRW-7?

2 A. Yes.

3 Q. And I heard your counsel say, and I
4 thought you agreed, that you weren't changing what --
5 the request you were making regarding return of
6 significant excess earnings might be in this case,
7 but I was surprised to see that you revised your
8 after-tax ROE, the last item in panel C, from 9.58 to
9 9.48 percent. Are you still -- my question is are
10 you still sticking with 9.58 percent or are you
11 proposing that the Commission use the revised
12 baseline benchmark ROE for CSP of 9.48 percent?

13 A. We're staying with the 9.58 percent.

14 Q. But you did revise your schedule to
15 9.48 percent.

16 A. Yes.

17 Q. But you're just not going to rely upon
18 that value.

19 A. Correct.

20 Q. Okay. And then with regard to your
21 testimony, I think it's your answer to question No. 9
22 in your testimony, is it your position at this point,
23 based on the errata sheet that you filed, you signed,
24 and your counsel served on us, that you don't know if
25 the legislature meant for the significantly excessive

1 earnings test to have a statistical definition?

2 A. Yes, I mean, my question and the response
3 in that is just that in the deposition there was a
4 question, and just on my reading I don't believe that
5 it does. That's my opinion.

6 Q. You don't believe it does what?

7 A. Indicate a statistical interpretation of
8 significant.

9 Q. It doesn't specify that you must use a
10 statistical approach; is that fair?

11 A. No; I would expect that if it was -- did
12 use a statistical approach, it would specify a level
13 of confidence in that specification.

14 Q. And would you agree that it doesn't, that
15 the statutory language in your lay view of it,
16 layperson's view of it, it doesn't preclude the use
17 of a statistical approach?

18 A. No. I mean, that's not my interpretation
19 of it, and I would have expected something else in
20 terms of specification if it was a statistical
21 approach.

22 Q. So you think that the statute does
23 preclude the use of a statistical approach.

24 A. I don't -- I'm sorry. I don't think that
25 it does, that's my opinion. It may or may not.

1 Q. I need to have you explain to me when you
2 say, "No, I don't think that it does," and then you
3 stop, I'm not sure whether you're agreeing with me or
4 disagreeing with me.

5 A. In my opinion, no, in my opinion it
6 doesn't indicate a statistical significance.
7 Obviously like Dr. Makjija took a different
8 interpretation of that, so I just disagree with that
9 interpretation.

10 Q. Do you think that the statutory language,
11 from your layperson's view, precludes the use of a
12 statistical approach?

13 MS. GRADY: Objection, your Honor.

14 EXAMINER SEE: Overruled.

15 A. I don't know. It may or may not. That
16 would be my response.

17 Q. Does the statutory language, from your
18 layperson's view, specify that a numerical approach
19 such as an adder of a certain number of basis points
20 or a range of basis points should be used?

21 A. No, it does not.

22 Q. Dr. Woolridge, your approach is a
23 multistep approach that includes seven steps, I
24 believe; is that correct?

25 A. Yes.

1 Q. And in step 1 of your approach you
2 identify a proxy group of electric utilities; is that
3 right?

4 A. Yes.

5 Q. And they're a proxy for the subject, in
6 this case Columbus Southern Power, correct?

7 A. Yes.

8 Q. That means that they are in effect a
9 substitute for Columbus Southern in your methodology,
10 correct?

11 A. Yes.

12 Q. And you apply your four proxy group
13 criteria that you developed from the electric utility
14 proxy group -- strike that, please.

15 In order to determine who goes into --
16 who gets into the electric utility proxy group, you
17 have four screening criteria; is that right?

18 A. Yes.

19 Q. And to what database do you apply the
20 four screening criteria?

21 A. The AUS Utilities Report.

22 Q. How many electric utilities are included
23 in that database from which you draw your proxy
24 group?

25 A. There are approximately -- I believe

1 there's 20-some electric utilities, defined electric
2 utilities, another probably 30 or so electric and gas
3 companies.

4 Q. So if I heard you correctly, I think I
5 heard roughly a total of 45 companies?

6 A. 50 maybe. I forget the exact number.
7 But they define electric utilities and they have 20
8 to 24 in that group, and then they have at least that
9 many and a few more maybe electric and gas companies.

10 Q. And the total number in that database is,
11 tell me again, what was it?

12 A. I would say between electric and
13 electric/gas, I would say in the 50ish.

14 Q. So you've extracted 15 out of that total
15 50 --

16 A. Yes.

17 Q. -- in order to comprise your proxy group.

18 A. Yes.

19 Q. Is Columbus Southern Power in the larger
20 database from which you draw the members of the proxy
21 group?

22 A. No.

23 Q. Is AEP, Columbus Southern Power's parent,
24 in that database?

25 A. Yes.

1 Q. But AEP did not make it into the 15
2 electric utilities in your proxy group, correct?

3 A. That is correct.

4 Q. So neither CSP nor AEP is in the electric
5 utility proxy group that you use as ultimately a
6 substitute for CSP, correct?

7 A. Yes. I looked at the publicly-held
8 utilities. AEP, I have a screen in there that -- for
9 revenues being 10 billion or less and that was a
10 screen that precluded AEP. Now, AEP eventually was
11 part of the comparable public companies but they were
12 not part of the -- you know, you look at the really
13 big electric utilities, the Dukes, the Southern, the
14 that sort of thing, they're big holding companies,
15 and I was looking for more companies that are just
16 primarily but not exclusively smaller electric
17 utilities.

18 Q. CSP has revenues on an annual basis of
19 less than \$10 billion but it didn't make it into your
20 proxy group either.

21 A. CSP's not publicly traded so it wasn't
22 part of the group that I used.

23 Q. Could you turn to your Exhibit JRW-1,
24 please?

25 MS. GRADY: Is that to the revised JRW-1

1 or the original?

2 MR. CONWAY: It would be to the revised
3 although I think that they're the same, aren't they?

4 THE WITNESS: They're the same.

5 Q. When I ask you questions about your
6 exhibits, we might as well just assume that I'm
7 referring to the revised exhibits, fair enough?

8 A. Okay.

9 Q. And on JRW-1, that lists all your
10 residential electric proxy group members, correct?

11 A. Yes.

12 Q. At the bottom of the group is Columbus
13 Southern Power Company; do you see that?

14 A. Yes.

15 Q. You indicate that CSP's percent of
16 electric revenue is a hundred percent; do you see
17 that?

18 A. Yes.

19 Q. How much of Columbus Southern Power's
20 revenue is from retail generation services, if you
21 know?

22 A. I don't know.

23 Q. You don't know what fraction of Columbus
24 Southern Power's revenues are subject to migration
25 risk because customers may choose their generation

1 service provider?

2 A. No, I do not.

3 Q. Did you examine how much of each of the
4 proxy electric utilities' revenues, and by proxy
5 electric utility, I mean the members of the proxy
6 group, are subject to customer migration risk?

7 A. No, that was not one of the criteria I
8 used.

9 Q. And so the proxy selection wouldn't take
10 that factor into account, correct?

11 A. That's correct.

12 Q. Now, if you could turn to the bond rating
13 columns, I think the S&P bond rating is one of them
14 and the Moody's bond rating is the other one on
15 Exhibit JRW-1. Bond ratings, they provide a measure
16 of financial risk; is that right?

17 A. Yeah, they have a measure of credit risk.

18 Q. And just to clean up with regard to the
19 percent of electric revenue, is that a criterion that
20 attempts to provide some match on business risk?

21 A. Yes.

22 Q. Back to the bond ratings. CSP's bond
23 rating I see is BBB for S&P and Baa2 for Moody's. Do
24 you see that?

25 A. Yes.

1 Q. And the mean proxy group bond rating for
2 those two measures, one being S&P and the other
3 Moody's, is on the one hand A- and on the other hand
4 A3 for Moody's; do you see that?

5 A. Yes.

6 Q. How many steps lower is the S&P bond
7 rating for the median compared to -- excuse me. How
8 many steps lower is CSP's S&P bond rating below the
9 median bond rating? How many steps between A- and
10 BBB?

11 A. Two steps.

12 Q. And similarly for the Moody's bond
13 rating, how many steps are there between the median
14 rating of A3 and the Columbus Southern Power rating
15 of Baa2?

16 A. Two steps again.

17 Q. And then I used the mean instead of the
18 median for the proxy group, I see that the mean S&P
19 bond rating is A-/BBB+; do you see that?

20 A. Yes.

21 Q. How many steps above Columbus Southern
22 Power's BBB bond rating is that?

23 A. One, one to one and a half, however you
24 want to define that.

25 Q. A few more questions about your proxy

1 group that you selected using your four proxy group
2 screening criteria. How many of the companies in the
3 proxy group of electric utilities own their own
4 generation assets?

5 A. I'm not exactly sure I know -- well, I
6 know several that do not. UIL does not. NSTAR does
7 not. Northeast Utilities has a little generation in
8 New Hampshire.

9 Q. Say that again.

10 A. Northeast Utilities. So there are a
11 couple that I'm aware --

12 Q. What about Northeast Utilities? That's
13 what I didn't hear.

14 A. They have a little generation in New
15 Hampshire.

16 Q. Are they a multistate electric utility?

17 A. Yes.

18 Q. And in some jurisdictions, one
19 jurisdiction they have some generation and in others
20 they do not --

21 A. Yes.

22 Q. -- is that what you're saying?

23 A. Yes.

24 Q. And I'm sorry, I interrupted you. What
25 else?

1 A. I'm just aware of those couple that --

2 Q. Those three?

3 A. Yes. And again, I didn't use that as a
4 criteria.

5 Q. Is it possible that one or another, one
6 or more of the remainder also do not own generation?

7 A. Yes. Let me look here a minute. I'm not
8 sure which of the others do or do not.

9 Q. But there might be others that do not?

10 A. Yes.

11 Q. Can you tell me which of the electric
12 utilities in your proxy group have retail choice for
13 generation service?

14 A. I do not know. I know there are no
15 Pennsylvania utilities in there. I know that there
16 may be others, I don't know. I know in Northeast
17 Utilities in New Hampshire there is, but other than
18 that I really don't know.

19 Q. And in New Hampshire do they own
20 generation or --

21 A. Yes.

22 Q. How about UIL?

23 A. No, they don't have any generation.

24 Q. I suppose this is a stretch, but do you
25 have any idea of which of these companies in the

1 proxy group both own generation and have retail
2 customer choice?

3 A. No, I do not know. And again, I didn't
4 use those criteria. I used size, regulated revenues,
5 and things like that to select my proxy group.

6 Q. Is it your understanding that Columbus
7 Southern Power both owns generation assets and has
8 customers who have the right to choose their
9 generation service suppliers?

10 A. Yes.

11 Q. If you were going back to the step one
12 method that you propose using to select the proxy
13 group, if you were to apply your step one proxy group
14 selection methodology to each of the electric
15 utilities in Ohio, and by each of the electric
16 utilities I mean the investor-owned electric
17 utilities, would it produce the same group of proxy
18 electric utilities that you have in Exhibit JRW-1?

19 A. Yes. I mean, using the criteria I used
20 it would. And then obviously I used this to get a
21 range of risk indicators.

22 (Recess taken.)

23 EXAMINER SEE: Mr. Conway. Are you
24 ready?

25 MR. CONWAY: Yes, your Honor.

1 EXAMINER SEE: Okay.

2 THE WITNESS: Remind me where we were.

3 (Record read.)

4 EXAMINER SEE: Mr. Conway.

5 MR. CONWAY: Thank you, your Honor.

6 Q. (By Mr. Conway) And then, Dr. Woolridge,
7 your methodology would produce the same group of
8 public companies that you have listed in JRW Exhibit
9 4 for each of the Ohio electric utilities; is that
10 right?

11 A. Yes, based on, at the time you do it,
12 based on the range and the risk indicators that were
13 computed. It would have the same, pretty much the
14 same group. Again, that would probably change over
15 time depending on when you update the database and
16 that sort of thing and if any of the risk indicators
17 change.

18 Q. So if you were to apply your methodology
19 to all of the Ohio investor-owned electric utilities
20 today in the same fashion that you applied it with
21 Columbus Southern Power, it would produce the same
22 group of proxy companies, correct?

23 A. Yes. I have used the same criteria. Now
24 I'm just saying if I updated it till today, maybe
25 something were to change from when I did this study.

1 Q. All right. Well, let's go back to when
2 you did this study. If you applied the study, the
3 methodology, to all of the Ohio investor-owned
4 electric utilities, it would have produced the same
5 group of, in the first instance, proxy electric
6 utilities, correct?

7 A. Yes.

8 Q. And if you had applied your methodology
9 statement you applied for this case to all of the
10 Ohio investor-owned electric utilities, you would
11 have produced the same list of comparable public
12 companies that you have on JRW-4, correct?

13 A. Yes.

14 Q. And what is your understanding of the
15 extent to which the other Ohio investor-owned
16 electric utilities own their own generation?

17 A. I'm not familiar with all of the ones
18 that do. I know FirstEnergy has some generation, but
19 I don't think it's owned by the utility.

20 Q. And by "FirstEnergy" do you mean Toledo
21 Edison, Cleveland Electric Illuminating, and Ohio
22 Edison companies?

23 A. Yes.

24 Q. And is it your understanding that some
25 Ohio electric utilities face migration risk for their

1 generation service customers and others do not?

2 A. I don't know the particulars of that.

3 Q. Let me go back to your proxy group for a
4 moment. I think you may have already explained this
5 previously, your proxy group of 15 electric utilities
6 only contains firms whose common equity is publicly
7 traded; is that right?

8 A. Yes.

9 Q. And so I take from that that you believe
10 that it is appropriate to use data from
11 publicly-traded firms as a proxy for a firm -- for
12 another firm like CSP that is not publicly traded.

13 A. Yeah. I think beta is one indicator of
14 risk I use. I think beta is a very imperfect measure
15 of risk. It depends on how you compute it, what time
16 period you do it. I don't think -- and there's a lot
17 of issues that have been raised and, obviously,
18 academic articles about betas as a measure of risk.
19 I don't necessarily think it's a perfect measure of
20 risk but it is one measure of risk.

21 Q. Even though it's not perfect, you regard
22 it as a useful measure of risk.

23 A. Yes, it's one particular indicator of
24 risk, and it's useful, yes, I have used it.

25 Q. I mean, you use it, correct?

1 A. Yes.

2 Q. And just to follow up on that point, you
3 use the proxy group of electric utilities to develop
4 several business and financial risk criteria which
5 you then used to identify the comparable risk firms,
6 right?

7 A. Yes.

8 Q. And you just mentioned the beta as one
9 example of a criterion that you have developed using
10 your proxy group of electric utilities that you then
11 use as a substitute for a beta for CSP; is that
12 right?

13 A. Yes.

14 Q. And again, the reason that you have to do
15 that is that CSP doesn't have a beta itself, correct?

16 A. That's correct. And, you know, obviously
17 to some extent the riskiness obviously of CSP
18 reflected in AEP's beta.

19 Q. And you use a range of equity ratios that
20 you derive from your electric utility proxy group and
21 you use it as a screening criteria for the comparable
22 public companies also, correct?

23 A. Yes.

24 Q. And, again, that would be a proxy or
25 substitute for CSP's equity ratio, correct?

1 A. Yes, for the financial risk of electric
2 utilities.

3 Q. And that's the equity ratio as a measure
4 of financial risk, right?

5 A. Yes.

6 Q. But CSP does have an equity ratio.

7 A. Yes.

8 Q. And I believe you use asset turnover as
9 another criterion that you developed from the
10 electric utility proxy group to use to identify the
11 comparable public companies?

12 A. Yes, I do.

13 Q. And Dr. Makjija also uses beta, the
14 equity ratio, and asset turnover ratios in his
15 methodology, right?

16 A. No, I don't agree with -- no, he uses an
17 unlevered beta approach and he uses an equity ratio
18 to form his cells of companies and then he
19 identifies, you know, the cell which contains AEP
20 which would then have unlevered betas and equity
21 ratios that are similar to where AEP calls it.

22 And again, I think my issue with that,
23 I'm not such a 100 percent believer in beta as a
24 measure of risk. I mean, it's used, I use it, I
25 don't think it's perfect because it can change so

1 much depending on how you calculate it, the time
2 period, the adjustments you make to it and it
3 explains, you know, a relatively low percentage of a
4 stock's variation. I mean, for an average stock beta
5 explains maybe 20, 25 percent of its variation.

6 I agree, I think it's useful, I just
7 don't believe it's perfect.

8 Q. And to the extent that it is useful in
9 your view, beta measures the risks that investors at
10 a particular firm face, right?

11 A. It is a measure of undiversifiable risk.
12 It's a measure of the risk that, you know, the
13 relative volatility to the marketplace. It doesn't
14 explain the total variation in stock price, only
15 about 20, 30 percent for an average stock. But it is
16 one measure of risk.

17 Q. And you have testified in the past, have
18 you not, that according to modern capital market
19 theory, beta is the only relevant measure of
20 investment risk that needs to be of concern for
21 investors?

22 A. According to theory it is. I mean, the
23 empirical evidence indicates maybe there's some other
24 things in there.

25 Q. And you have relied upon that theory in

1 your use of beta in other proceedings; is that right?

2 A. Yes, I agree. I have used betas. It's
3 one measure of risk.

4 Q. So in those proceedings beta was also
5 useful enough for you to use as a measure of investor
6 risk.

7 A. Yes.

8 Q. And then did you say that your beta, the
9 beta that you used, the version of it that you used
10 is the levered beta as opposed to an unlevered beta?

11 A. It's an adjusted levered beta.

12 Q. It's not an unlevered beta.

13 A. No.

14 Q. And would you agree that the unlevered
15 beta of a public company can be a useful measure of
16 the firm's business risk?

17 A. I would say it's a measure. You don't
18 see it used that often as a measure of business risk,
19 but it is a measure of business risk.

20 Q. I think we've been discussing -- we've
21 discussed to some degree, and maybe we haven't, but
22 if we haven't, we will, of your use of financial and
23 business risk criteria that you developed from the
24 electric utility proxy group and then used to screen
25 through the publicly traded firms in the Value Line

1 database. Is that what you do?

2 A. Yes.

3 Q. And could you describe for me which
4 database it is that you screened through with the
5 criteria that you got from your proxy group in order
6 to derive your comparable public companies?

7 A. I used the expanded version of the Value
8 Line database.

9 Q. And how many firms, roughly, are in that
10 database?

11 A. Well, I think the total number -- they
12 don't all have data. The total number is like 6,800,
13 something like that, but they don't all have data.

14 Q. And from that universe of publicly-traded
15 firms you identified 45 that you believe face
16 comparable business and financial risks to what
17 Columbus Southern Power faces?

18 A. Yes.

19 Q. And those are the firms that are listed
20 in Exhibit JRW-4, right?

21 A. Yes.

22 Q. And the method you used in this step of
23 your methodology is the same as the method you used
24 in the AEP Ohio companies electric security plan
25 proceedings in 2008; is that right?

1 A. Yes.

2 Q. Except for one aspect that we talked
3 about in your deposition, the use of the median
4 instead of the mean.

5 A. Yes.

6 Q. Could you describe what that difference
7 is in approach?

8 A. Okay, yeah. I used the same procedure as
9 I used in the previous case. As I indicated in my
10 testimony, one thing -- there's been a nose fall
11 decline in beta in electric companies including AEP
12 since that case, so as a measure of risk that's
13 indicated, risk has gone down.

14 The asset turnover's gone down, so it
15 produces a smaller number of companies.

16 The only difference was that when it came
17 to using a return measure, I used the median as
18 opposed to the mean.

19 Q. When you say "return measure," do you
20 mean ROE, the return on equity measure?

21 A. Return on equity cost of debt, yes, I
22 used the median figure.

23 Q. So you used the median for both cost of
24 debt and the return on equity.

25 A. Yes.

1 Q. And tell me again, I didn't quite
2 understand, why did you change from use of the mean
3 to the median?

4 A. Actually, a lot of it came from the
5 previous hearings where we looked at these figures
6 and in Dr. Makjija's testimony where you have these
7 extreme outliers which can significantly impact what
8 the mean is because it's a very highly positive
9 skewed or negatively skewed distribution of returns.
10 So I used the median so that the outliers aren't
11 affected as much. I'm sorry, that the measure of
12 central tendency in this case the median is not
13 affected as much by outliers.

14 Q. Did you have outliers in your group of
15 45?

16 A. There were some that were lower than
17 others. I mean, one minus 14, one plus 23. I know
18 Dr. Makjija had some very positive outliers on the
19 positive side. So the mean would be greater than the
20 median.

21 Q. With regard to your group, you felt that
22 you needed to use the median statistic instead of the
23 mean statistic because of an outlier issue.

24 A. And the potential -- obviously this is
25 pretty much the same methodology I used before. My

1 understanding was to use some type of standardized
2 methodology. I made just a few adjustments to it in
3 terms of what I was using to come up with a return
4 figure. And the median is one of the very few
5 changes I made.

6 Q. And would it have been appropriate or
7 acceptable in this case for you to use the mean
8 instead of the median?

9 A. No. I think from what I learned from the
10 previous cases the median is probably -- because the
11 mean can be suspect to outliers, I think the median's
12 the appropriate measure of central tendency.

13 Q. And I'll ask the question again. Do you
14 think you had outliers in this application of your
15 methodology?

16 A. Yes. Minus 14, plus 23.

17 Q. And if you had increased -- if your
18 selection criteria had been such that you had been
19 able to capture a larger number of comparable public
20 companies, would you agree that that would have
21 tended to mitigate or mute the impact of the outliers
22 that you find in your group of 45?

23 A. Yes. But one of the issues has come --
24 clearly the risk of electric utilities relative to
25 other stocks has gone down and that's one reason why

1 fewer companies passed the screening criteria.

2 Q. In any event, the median is a statistic
3 just like the mean; is that correct?

4 A. Yes.

5 Q. And I think you just described the median
6 as a tool to describe the central tendency of a group
7 of values or observations.

8 A. Yes.

9 Q. Okay. And the mean is also an accepted
10 way of describing the central tendency of a group of
11 values or observations, right?

12 A. Yes.

13 Q. The median by itself doesn't provide a
14 description of how the observation or values of the
15 group are distributed around the median, does it?

16 A. No. But neither does the mean.

17 Q. My next question. Neither does the mean.
18 Right?

19 A. Correct.

20 Q. And the standard deviation statistic does
21 provide the information regarding how the group's
22 values or observations are distributed around the
23 central tendency, correct?

24 A. No. It measures the mean squared
25 deviation from the mean, but it doesn't really tell

1 you what the distribution looks like.

2 Q. If I told you what the mean for a group
3 of values is, and I also asked you to -- and I told
4 you what the standard deviation about the mean is,
5 would you be able to tell me, give me any kind of
6 description of how many values within the total
7 values of the group are within that variance?

8 A. No.

9 Q. What is the mean for your comparable risk
10 group of companies?

11 EXAMINER SEE: Before you continue with
12 that question, I've been advised that we are not
13 supposed to be here in the hearing room. The warning
14 should have continued until 3 o'clock. This time we
15 will go directly to the 12th floor legal conference
16 room, 1247, in an attempt to continue.

17 (Recess taken.)

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

20 Mr. Conway.

21 MR. CONWAY: Thank you, your Honor.

22 Q. (By Mr. Conway) Dr. Woolridge, when we
23 left off I was asking the question what is the mean
24 for your comparable public companies that you have
25 identified on JRW-4? And by the mean I mean what is

1 the mean ROE for that group?

2 A. For the updated or -- for the original
3 group it was 9.56, I think, and it was 9.3 in the
4 updated one.

5 Q. And which one are you sticking with for
6 this proceeding?

7 A. Well, we're using the 9.56. I mean the
8 9.55, which is the median. We haven't changed our
9 recommendation, I'm staying with the 9.55.

10 Q. If I asked you what are you staying with
11 for the mean statistic for ROE, which one of those
12 are you sticking with?

13 A. That would be 9.56.

14 Q. And what's the standard deviation for the
15 comparable public companies group?

16 MS. GRADY: Objection.

17 EXAMINER SEE: Let me hear the question
18 again.

19 MR. CONWAY: What is the standard
20 deviation for the comparable public companies group,
21 the companies listed on Exhibit JRW-4?

22 EXAMINER SEE: And you objected,
23 Ms. Grady.

24 MS. GRADY: Yes, relevance.

25 Dr. Woolridge has testified that the standard

1 deviation approach is not the approach that should be
2 taken in determining the comparable analysis.

3 MR. CONWAY: Your Honor, if I might, the
4 position that the OCC has taken and that
5 Dr. Woolridge has taken as to what's the appropriate
6 methodology is not dispositive either of what the
7 appropriate methodology is or what is relevant, and I
8 would say I'm entitled to ask him and find the answer
9 to the question what is the standard deviation for
10 the comparable group of public companies that he
11 developed.

12 EXAMINER SEE: Objection is overruled.

13 A. I think I indicated during my deposition,
14 I believe it's 5.6 or 5.7, it's not here, it's in
15 that neighborhood.

16 Q. 5.6 to 5.7?

17 A. Yes.

18 Q. And what percentage of a group's values
19 or observations falls within plus or minus one
20 standard deviation of the mean?

21 A. Well, the understanding being if they're
22 normally distributed and that's the only way you can
23 really make that inference. And almost 2/3, if they
24 are normally distributed.

25 Q. And the adder that you proposed in this

1 proceeding to use in connection with the median
2 statistic is less than the standard deviation for
3 your group of public companies, right?

4 A. Yes. As I recall what my standard
5 deviation was, it is less than the standard
6 deviation.

7 Q. Your recommendation is 200 to 400 basis
8 points as the adder, correct?

9 A. Yes.

10 Q. And the standard deviation is 560 to 570
11 basis points, correct?

12 A. I believe so.

13 Q. Do you know what the percent of the
14 values of the group -- of your group of your public
15 companies would be captured within plus or minus 400
16 basis points of the central tendency?

17 A. No.

18 Q. And do you know what the percentage of
19 your group's members would be captured by -- within
20 plus or minus 200 basis points of the central
21 tendency?

22 A. No.

23 Q. Could you turn to Exhibit JRW-6.

24 A. Yes.

25 Q. Just to be clear at the outset, the

1 ranges you ended up coming up with that you're
2 recommending that the Commission use to judge whether
3 or not earnings are significantly excessive as a
4 threshold matter is 200 to 400 basis points plus
5 9.58 percent?

6 A. Yes.

7 Q. So that would make it 11.58 to
8 13.58 percent as the range that you recommend?

9 A. Yes.

10 Q. How many firms in your comparable public
11 companies group had ROEs that were greater than
12 11.58 percent?

13 A. Ten.

14 Q. And how many firms had an ROE that is
15 greater than 13.58 percent?

16 A. Three.

17 Q. And how many firms in your comparable
18 group of public companies had ROEs that were less
19 than 400 basis points below the 11.58 benchmark --
20 baseline, I'm sorry?

21 A. I'm sorry, less than 400?

22 Q. Less than 400. So how many were less
23 than 7.58 percent?

24 A. I don't understand the question. In
25 other words, now you're taking 11.58 and subtracting

1 what?

2 Q. 400 basis points.

3 A. 400 basis points.

4 Q. So it would be 7.58.

5 A. Right. Nine.

6 Q. And I'm sorry, could you give me that
7 answer again?

8 A. I believe it's nine. I don't know, I'm
9 just trying to tally them up in my head here.

10 Q. And that's the number that fell below
11 the -- let me start over to make sure I got this
12 correctly. What I'm trying to do is figure out how
13 many firms are below the baseline in the central
14 tendency minus 200 and minus 400. And I'm not sure
15 whether I asked either of those two questions yet but
16 what I'd like you to start with, the minus 400 basis
17 points iteration and then, when you're done, tell me
18 what the number is that's below that level less than
19 the minus 200 basis points below the central
20 tendency.

21 A. So you want me to count these up.

22 Q. Right. Well, yes.

23 A. Because I don't report this anywhere.

24 So --

25 THE WITNESS: Do you have a pen?

1 A. So you want the number that's -- we start
2 with 9.58, correct?

3 Q. Right.

4 A. And then you want me to do what, subtract
5 200 basis points or 400 basis points?

6 Q. First 200 and then 400.

7 A. Okay. Now, I haven't used this statistic
8 for anything. I think I have 11.

9 Q. And that's the number that's below 9.58
10 minus 200 basis points?

11 A. Yes.

12 Q. And then how many are below the 9.58
13 minus 400 basis points which would be the 5.58?

14 A. Three.

15 Q. In the prior ESP proceedings for the
16 companies, Ohio Power and Columbus Southern Power,
17 Dr. Woolridge, I believe you recommended for the high
18 end of your SEET benchmark ROE the mean ROE of the
19 comparable public companies plus one standard
20 deviation; is that right?

21 A. I believe I had a range. I forget.

22 Q. And I asked you whether the high end was
23 what I just described of that range.

24 A. It might have been. I don't recall. It
25 wasn't -- I know I used one standard deviation and it

1 was -- there was a range.

2 Q. The range was something on the low end
3 and then on the high end it was the mean ROE plus a
4 standard deviation?

5 A. Yes.

6 Q. And if you had used that approach in this
7 case, it would have produced a result of 9.56 percent
8 plus 5.6 to 5.7 percent?

9 A. Yes, if I had.

10 Q. So that would have put it right around
11 15 percent in this case if you had followed that
12 approach.

13 A. Yes. And I indicated why I didn't,
14 because of how the mean -- the standard deviation
15 gets blown up with the outliers.

16 Q. And of course if you used a different
17 number of standard deviations than one, then your
18 adder would have changed and it would have been
19 higher or lower depending on whether you used more or
20 less than one standard deviation as your adder,
21 right?

22 A. Yes.

23 Q. Going back to your proposal in this case,
24 which is to use a 200 to 400 basis point adder to add
25 to the median, that 200 to 400 basis point range is

1 not based on anything specific about Columbus
2 Southern Power, is it?

3 A. No. In terms of -- nothing specific in
4 terms of any particular element to Columbus Southern
5 Power, no, it does not.

6 Q. You would have recommended the same adder
7 if you had substituted one of the other Ohio electric
8 utilities for Columbus Southern Power in this
9 proceeding.

10 A. Yes. I mean, this was based off the
11 hearings before in terms of the different approaches
12 were used. And for Columbus Southern it would be the
13 same as if it would be for another company as an
14 adder 200 to 400 basis points. I think Mr. Cahaan
15 initially had proposed that, I proposed something
16 slightly different, and based on those hearings and
17 the workshop that came out of it, I changed my
18 approach.

19 Q. And then Mr. Cahaan has revised his
20 proposal also, or his methodology or his
21 recommendation compared to the one that you presented
22 in the companies' ESP proceeding, correct?

23 A. Yes.

24 Q. Now he's proposing 50 percent of the mean
25 ROE as an adder, correct?

1 A. Yes.

2 Q. So if your approach is to try to get in
3 sync with Mr. Cahaan, does that indicate that you
4 would be willing to consider a benchmark which is
5 based on the mean plus 50 percent?

6 A. I don't know if I, I mean, I think after
7 the hearings before and especially the issues with
8 the standard deviation, the 50 percent is something
9 different. I don't -- it really is going to vary. I
10 know Mr. Cahaan pointed to issues related to
11 inflation. Right now there's not a lot of inflation,
12 there may be at some point in the future, but I don't
13 know if inflation is always good for corporate
14 earnings. Certainly in the short-term inflation is
15 usually bad for corporate earnings.

16 So I don't know if I agree with the
17 concept of the 50 percent adder tied to inflation.

18 Q. But it's possible that upon reflection
19 you might agree with Mr. Cahaan's approach?

20 A. Well, I think, yeah, I think his idea was
21 if inflation goes up, then the company's threshold
22 ROE should go up and his proposal is 50 percent.
23 Now, obviously we're talking about 2009 now where
24 there's virtually no inflation and corporate earnings
25 are down 37 percent from 2008 and it's why my numbers

1 are lower.

2 Q. If we go back to the electric utility
3 proxy group that you developed in step one of your
4 method, and I believe you agreed that the group that
5 you selected at that step presented risk
6 characteristics representative of CSP, would you also
7 agree that that proxy group would provide an ROE that
8 is representative for CSP?

9 A. Well, it would be part of what I've used
10 in terms of putting together a public company group.

11 Q. Do you know what --

12 A. So it would be representative and those
13 numbers are built into my comparable public
14 companies.

15 Q. What is the --

16 A. Now, the purpose of the group is to
17 establish these risk measure ranges and that's the
18 only reason I use the group. I don't use it for any
19 other calculations other than to get a range of risk
20 measures which are typical for primary publicly-held
21 electric utilities.

22 MR. CONWAY: Your Honor, I'd like to
23 strike the last two or three sentences of his answer.
24 It was well beyond what I had asked him.

25 EXAMINER SEE: May I have the question

1 again, please?

2 (Record read.)

3 MR. CONWAY: The motion to strike starts
4 at that point.

5 (Record read.)

6 EXAMINER SEE: And you ask that that
7 portion be stricken.

8 MR. CONWAY: Yes.

9 EXAMINER SEE: Ms. Grady.

10 MS. GRADY: Your Honor, I think that's
11 responsive to his question. He's asking about the
12 proxy group and whether the characteristics represent
13 CSP and what the representatives of the group is
14 that's directly responsive.

15 MR. CONWAY: My question was whether or
16 not he agreed that the mean ROE of the proxy group is
17 representative of Columbus Southern Power.

18 MS. GRADY: Your Honor, I would note that
19 we've had a lot of testimony throughout this whole
20 proceeding where witnesses have gone on and on and
21 this is the first time that, you know, we've got a
22 motion to strike. We've granted a lot of latitude
23 here with regard to the witnesses and I don't think
24 it would be appropriate all of a sudden to start
25 restricting witnesses.

1 MR. CONWAY: I'll tell you what, I'll
2 withdraw the motion to strike and continue just in
3 the interest of economy.

4 EXAMINER SEE: Okay.

5 Q. (By Mr. Conway) And what is the mean ROE
6 of the proxy group, if you know?

7 A. I don't know. They are included in the
8 group of 45 companies. I do not know what the mean
9 is for that proxy group.

10 Q. Would you accept, subject to check, that
11 it's roughly 10-1/2 percent?

12 A. I'll accept it subject to check.

13 Q. Could you turn to Exhibit JRW-7. In
14 panel A, do you see that?

15 A. Yes.

16 Q. You provide seven comparable company
17 index values, and these values, as I understand it,
18 are derived from the information you have regarding
19 the 45 comparable public companies that appear in
20 your JRW-4?

21 A. Yes.

22 Q. And in the first three cells of panel A,
23 long-term debt, preferred stock, and common stock,
24 you use mean values for those items, right?

25 A. Yes.

1 Q. And then you changed for the next three
2 cells, the long-term debt cost rate, preferred stock
3 cost rate, and the average common equity to the
4 median value as your measure; is that right?

5 A. Yes.

6 Q. And then you go back in the final two
7 cells that are the income tax rate and the tax
8 multiplier to using mean values; is that right?

9 A. Yes.

10 Q. And your use of mean and median switches
11 back and forth based on your judgment about which
12 statistic provides the better result; is that right?

13 A. No. I used -- when I'm using a cost
14 rate, I use the median, otherwise I've used the mean.
15 I mean, and it wouldn't have resulted in huge
16 changes, but I've -- just given the distribution of
17 some of these I thought the median was appropriate,
18 and if I used one versus another, the numbers
19 wouldn't change very much.

20 Q. And the last time you presented this
21 methodology in the ESP proceeding did you use mean
22 values for each of the items?

23 A. I did.

24 Q. And turning to the 200 and 400 basis
25 point range that you recommend as an adder, you

1 believe, do you not, that it would be reasonable for
2 the Commission to select, if in the Commission's
3 judgment it was appropriate, the 400 basis point
4 location on that range for CSP.

5 A. Well, I agree that I offered a range from
6 200 to 400. The safe harbor provision is 200. So
7 that is within the range, yes.

8 Q. And do you think it would be possible
9 that a point beyond your range could be reasonable
10 for CSP as an adder?

11 A. The Commission may elect to do that.
12 I've offered my opinion, they may find something
13 else.

14 Q. Dr. Woolridge, I want to go through a
15 hypothetical with you. I want you to assume that the
16 Ohio test is symmetric and by that I mean that in
17 addition to the significantly excessive earnings
18 mentioned in the test it also contained a
19 sufficiently deficient earnings dimension. Do you
20 follow that?

21 A. Yes.

22 Q. And I want you to further assume that in
23 this hypothetical symmetric test, that the EDU earned
24 ROE was below the significantly deficient level
25 during an annual period, customers would be subject

1 to paying additional amounts to the EDU to get its
2 earnings up to the significantly deficient threshold
3 for that annual period. Do you follow that?

4 A. Yes.

5 MS. GRADY: If I may ask, is this on a
6 prospective basis or a retrospective basis?

7 MR. CONWAY: It's symmetric with the SEET
8 which is you look at the prior annual period --

9 MS. GRADY: That's what I wanted the
10 clarification on.

11 MR. CONWAY: -- and look at the earnings
12 from the prior annual period and you consider making
13 an adjustment depending on how the earnings turned
14 out and the ROEs turned out in the prior period.

15 MS. GRADY: I think we're onboard.

16 Q. (By Mr. Conway) Okay. So that's the
17 hypothetical situation that we have before us; a
18 symmetric earnings test. Do you know what the earned
19 ROEs for 2009 were for the FirstEnergy EDUs?

20 MR. RANDAZZO: I object.

21 MS. GRADY: And I object as well.

22 EXAMINER SEE: Ms. Grady, you're first.

23 MS. GRADY: Relevancy.

24 EXAMINER SEE: Mr. Randazzo.

25 MR. RANDAZZO: Your Honor, in order to

1 have a hypothetical be probative in this circumstance
2 there has to be some opportunity for the facts
3 assumed in the hypothetical to be real. The law does
4 not contain the kind of significantly deficient
5 opportunity for utilities. So I think the
6 hypothetical is -- might be interesting academic
7 discussion, but it really doesn't help the Commission
8 much.

9 MR. CONWAY: Your Honor, we've had some
10 commentary about the nature of this test and how it
11 might be appropriate to test whether a particular
12 recommendation for the SEET is reasonable, and one of
13 the recommendations we have suggests looking to see
14 what would happen on the downside if there was a
15 symmetric metric test would be a useful tool for the
16 Commission to use in evaluating the recommendation.
17 So it's been made relevant.

18 I think I'm entitled to pursue with the
19 witnesses who are expert in this area, you know, the
20 tool that's been suggested. The hypothetical that
21 others have suggested might be helpful. I think it
22 would be totally unfair to prevent me from exploring
23 with this witness his views as to the appropriateness
24 of such a test and the outcomes it might produce.

25 EXAMINER SEE: I'll allow it. I'll allow

1 it, go ahead.

2 Q. (By Mr. Conway) Are you familiar with
3 what the earned ROEs were for the FirstEnergy
4 utilities during 2009 that they submitted to the PUCO
5 as part of their SEET filing for 2009 on September
6 1st?

7 A. I do not know. I think -- I have seen
8 some testimony on that, it's probably from
9 Mr. Kollen, but I'm not familiar, I couldn't give you
10 the number.

11 Q. Would you accept, subject to check, that
12 the reported ROEs for the FirstEnergy EDUs for 2009
13 were for Toledo Edison 3.8 percent, Cleveland
14 Electric Illuminating, 5.2 percent, and Ohio Edison,
15 6.2 percent?

16 EXAMINER SEE: Ms. Grady.

17 MS. GRADY: I want to object on relevance
18 and I'm also going to object because I'm not sure
19 that subject to check is the right thing -- is the
20 right methodology to produce those numbers. They are
21 filings, the filings aren't in dispute, they have not
22 been adjudicated, I don't know how we can then accept
23 that subject to check.

24 MR. CONWAY: Well, has your office
25 challenged those figures, Ms. Grady?

1 MS. GRADY: I mean, that's not relevant
2 and it's not, you know, it's another proceeding
3 entirely.

4 MR. CONWAY: I think they're at least as
5 reliable as the values Mr. Randazzo was trying to,
6 and the information he's trying to get in through
7 hearsay statements from other sources.

8 MR. RANDAZZO: From Mr. Morris, you mean?

9 MR. CONWAY: No, from the company that
10 did the transcription, that's what I'm referring to.

11 MR. RANDAZZO: I see.

12 MR. CONWAY: Okay. A little bit
13 different than a filing made at the Commission as far
14 as its reliability.

15 EXAMINER SEE: Are you finished
16 responding to Ms. Grady's objection?

17 MR. CONWAY: It is definitely relevant,
18 and it's appropriate to use to test the witness's
19 recommendation.

20 EXAMINER SEE: Mr. Randazzo.

21 MR. RANDAZZO: Your Honor, the reason for
22 my objection earlier about the hypothetical is that
23 Mr. Conway is leaving out important variables in the
24 analysis. For example, utilities under Ohio law have
25 the ability to come in for an emergency rate

1 increase. AEP in its ESP also has the ability to
2 come in for adjustments in the event of unexpected
3 closures of plants, as we've seen by the Sporn
4 filing. So if we're going to do a hypothetical and
5 it's going to be relevant to the reality that we
6 face, then we need to consider all the factors.

7 The other thing I'd say is that
8 Mr. Conway has not identified whether those returns
9 on common equity that he's reported are total
10 company, distribution utility, or anything else, so
11 while we're inspired by the opportunity to get
12 utilities down to those levels perhaps, I don't see
13 how they're relevant to the inquiry.

14 MR. CONWAY: Your Honor, with due respect
15 on the first point, that utilities have the
16 opportunity to come in for emergency rate relief,
17 there is no opportunity under Ohio law for utilities
18 on an emergency basis to restore earnings from a
19 prior period which is what the assumption of my
20 hypothetical is, that you can go back and claw back
21 from customers to be symmetric with the high side of
22 the test the earnings that were deficient in the
23 prior period. There's no analogous part of Ohio law,
24 so that's a nonstarter.

25 And as far as the earned returns being,

1 you know, were reported by FirstEnergy being a
2 reliable basis for the hypothetical, if you want
3 to -- if you would like, I'll change it to an
4 assumption that that's what the earned returns are
5 and we can include it in the hypothetical as an
6 assumption rather than a fact.

7 EXAMINER SEE: Then if you're going to
8 continue with the hypothetical, let's do that and
9 move on.

10 MR. CONWAY: Okay.

11 Q. (By Mr. Conway) Assume for me,
12 Dr. Woolridge, that three other utilities in Ohio had
13 earned returns on equity in 2009 of 3.8 percent,
14 5.2 percent, and 6.2 percent. Follow that?

15 A. Yes.

16 Q. Okay. And if we had a symmetric earnings
17 test in Ohio which allowed for clawing back from
18 customers earnings in cases where the EDU had a
19 significantly deficient ROE for the prior period,
20 would you agree that, based on the ROEs that I
21 specified for you, that those utilities would have
22 presented a case for the Commission to require,
23 potentially, customers to pay additional amounts for
24 the prior period in order to get their earnings up to
25 these significantly deficient thresholds?

1 A. Well, to answer your hypothetical, I'll
2 just turn to a state like California which has that
3 exact type of mechanism, and where it's symmetric and
4 it's 200 basis points above the authorized and 200
5 basis points behind it, and they find that that 200
6 basis points is appropriate on a symmetric basis. As
7 it turns out, that's kind of -- and that's true of
8 other states as well that have adopted that type of
9 ratemaking.

10 As part of the ESP there's obviously
11 elements built into that that are -- allow for rate
12 increases for different amounts, riders to cover
13 various costs, environmental costs, fuel costs, and
14 that sort of thing. So in a way when you look at
15 that as a prospective thing, you would expect that
16 the return would be better.

17 Now, 2009 was a tough year as we see for
18 all companies, not just Ohio electric utilities, so
19 if -- but according to the law as I read it, there's
20 not a two-way symmetric test.

21 Q. But if there were in Ohio a two-way
22 symmetric test, would you agree with me under the
23 assumptions that I asked you to make that the three
24 utilities that were part -- for which we assumed the
25 ROEs that I posited, that those utilities customers

1 face the potential of having to pay additional
2 amounts because of the significantly deficient
3 earnings that those utilities experienced during the
4 year under review?

5 A. I would agree to the extent that you've
6 now not only had a hypothetical but then you
7 hypothetically changed the law as well.

8 Q. Right.

9 A. And it's tough to make comparisons from
10 one state to another, that sort of thing, because all
11 the differences in terms of ratemaking.

12 MR. CONWAY: That's all I have, your
13 Honor.

14 EXAMINER SEE: Ms. Mooney, I'm not sure
15 it's in the record but did you indicate that you had
16 no questions for this witness?

17 MS. MOONEY: I have no questions.

18 EXAMINER SEE: Mr. McNamee, Ms. Parrot?

19 MR. McNAMEE: No questions, thank you.

20 EXAMINER SEE: Okay. Ms. Grady,
21 redirect?

22 MS. GRADY: May I have two minutes in the
23 hallway?

24 (Recess taken.)

25 EXAMINER SEE: Let's go back on.

1 MS. GRADY: Your Honor, very briefly.

2 - - -

3 REDIRECT EXAMINATION

4 By Ms. Grady:

5 Q. Dr. Woolridge, do you recall company
6 counsel's questions with respect to JRW-1,
7 specifically do you recall the line of questions
8 where company counsel pointed out the difference
9 between Columbus Southern Power's bond ratings and
10 the ratings in the median and the mean groups of your
11 electric proxy group?

12 A. Yes.

13 Q. Can you tell me what you attribute the
14 difference between the bond ratings between Columbus
15 Southern Power Company and the mean and median of
16 your bond ratings of your electric proxy group?

17 A. The difference is primarily at the parent
18 level, AEP. I mean, you look at S&P, they're very
19 explicit, they say they rate bonds based on the
20 overall, on the consolidated financial profile.
21 Historically AEP's had a fairly aggressive financial
22 profile in terms they have a common equity ratio of
23 like 40 percent. This was up till last year or the
24 year before when they issued equity.

25 But because of this -- I think their

1 bonds were rated BBB in like 2003, something like
2 that. And so it was because of the aggressive
3 profile of the parent it obviously affects what
4 the -- because the parent control -- as the owner of
5 the subsidiary controls effectively -- the bond
6 rating reflects the aggregate financial profile of
7 the company and not just the subsidiary.

8 Q. Thank you, Mr. Woolridge.

9 MS. GRADY: That's all I have, your
10 Honor. We'd move for the admission of Joint Exhibit
11 1A and 1.

12 EXAMINER SEE: Are there any objections
13 to the admission of Joint Intervenor Exhibit 1 and
14 1A?

15 MR. RANDAZZO: Your Honor, the objection
16 that I've previously made relative to the --

17 EXAMINER SEE: Definition of the --

18 MR. RANDAZZO: Electric utility, yes,
19 your Honor.

20 EXAMINER SEE: Your objection is noted
21 and overruled.

22 Are there any other objections to the
23 admission of Joint Intervenor Exhibits 1 and 1A?

24 (No response.)

25 EXAMINER SEE: Hearing none, Joint

1 Exhibit 1 and 1A is admitted into the record.

2 (EXHIBITS ADMITTED INTO EVIDENCE.)

3 EXAMINER SEE: Let's go off the record
4 for a minute.

5 (Discussion off the record.)

6 EXAMINER SEE: We're adjourned until
7 tomorrow morning 9 o'clock.

8 (Discussion off the record.)

9 EXAMINER SEE: Let's go back on the
10 record. Mr. Kurtz, will you be --

11 MR. KURTZ: I will, your Honor.

12 EXAMINER SEE: -- directing for customer
13 parties? Okay. Do you want to call your next
14 witness?

15 MR. KURTZ: The customer parties call
16 Mr. Lane Kollen.

17 EXAMINER SEE: Mr. Kollen, would you
18 raise your right hand?

19 (Witness sworn.)

20 EXAMINER SEE: Thank you.

21 - - -

22

23

24

25

1 LANE KOLLEN

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

4 DIRECT EXAMINATION

5 By Mr. Kurtz:

6 Q. Mr. Kollen, can you state your name and
7 business address for the record.

8 A. Yes, my name is Lane Kollen, J. Kennedy
9 Associates, Incorporated, 570 Colonial Park Drive,
10 Suite 305, Roswell, Georgia 30075.

11 Q. Do you have in front of you a document
12 entitled "Direct Testimony and Exhibits of Lane
13 Kollen" consisting of 31 pages of questions and
14 answers and six exhibits?

15 A. Yes.

16 Q. Was this document prepared by you or
17 under your direct supervision?

18 A. Yes.

19 Q. If I were to ask you the same questions
20 as those contained herein, would your answers be the
21 same?

22 A. Yes.

23 Q. Do you have any corrections or additions
24 you'd like to make to your testimony?

25 A. I don't.

1 MR. KURTZ: Your Honor, I would ask this
2 testimony be marked as Joint Exhibit No, 2 and
3 Mr. Kollen is tendered for cross-examination.

4 EXAMINER SEE: For consistency, Joint
5 Intervenor's Exhibit 2?

6 MR. KURTZ: Thank you.

7 (EXHIBIT MARKED FOR IDENTIFICATION.)

8 MR. NOURSE: Your Honor.

9 EXAMINER SEE: Yes.

10 MR. NOURSE: I have a motion to strike.

11 EXAMINER SEE: Okay.

12 MR. NOURSE: With your permission I'd
13 like to do a few voir dire questions to support the
14 motion.

15 EXAMINER SEE: Okay.

16 - - -

17 VOIR DIRE

18 By Mr. Nourse:

19 Q. Mr. Kollen, good afternoon.

20 A. Good afternoon.

21 Q. You're not a rate of return expert and
22 you're not offering testimony regarding the
23 appropriate return on equity for CSP, correct?

24 A. That's two questions. I have testified
25 on rate of return, but I am not offering testimony on

1 the appropriate rate of return for the comparable
2 group; that part is correct.

3 Q. And your scope of testimony does not
4 include addressing the comparable group, you are
5 relying on Dr. Woolridge for that, correct?

6 A. Yes, that is correct.

7 Q. Okay. And as part of that, the
8 comparable group involves selecting the companies
9 with which CSP's ROE will be compared under the SEET
10 test?

11 A. The work that Dr. Woolridge did, that's
12 correct.

13 Q. Okay. And it's also solely
14 Dr. Woolridge's responsibility in his testimony to
15 address the ROE threshold being advocated by the
16 customer parties; is that correct?

17 A. On the basis of his work, that's correct,
18 and then I used Dr. Woolridge's results including the
19 range of the 200 to 400 basis points to quantify the
20 amount of the refund that would be returnable to the
21 consumers.

22 Q. So in the terminology used in your
23 testimony on page 10, Dr. Woolridge was responsible
24 for what you call step one?

25 A. That's correct.

1 Q. And establishing the SEET threshold
2 includes selection of the comparables group, number
3 one; number two, calculation of the mean ROE for the
4 comparable group; and number three, establishing the
5 ROE level above the comparable group for
6 significantly excessive earnings?

7 A. I don't think I can personally agree to
8 the three steps that you've outlined. The only point
9 that I made in my testimony is that the first step is
10 to determine the significantly excessive earnings
11 threshold; that is something that Dr. Woolridge did.
12 The steps he went through to obtain a result I am
13 simply not familiar with and not testifying about in
14 this proceeding.

15 Q. Fair enough. Thank you, Mr. Kollen.

16 MR. NOURSE: So, your Honor, based on
17 that examination I've got a motion to strike that
18 covers six items --

19 EXAMINER SEE: Okay.

20 MR. NOURSE: -- in Mr. Kollen's
21 testimony. Item No. 1 is page 5, lines 11 through
22 14. The second item is page 18 starting on line 12
23 and the remainder of that page and, just for
24 clarification, it does not include the footnote 2
25 there at the bottom of the page, the remainder of the

1 text on that page.

2 EXAMINER SEE: Including the line at
3 question 20?

4 MR. NOURSE: Yes. And the entirety of
5 page 19 and page 20, and ending on line 15 of page
6 21. And then the other items are in the exhibits.
7 Item No. 3 is Exhibit LK-2 with the exception of the
8 two columns relating to Columbus Southern Power and
9 Ohio Power Company.

10 EXAMINER SEE: Okay, wait a minute. You
11 said LK-2?

12 MR. NOURSE: LK-2 with the exception of
13 the Columbus Southern Power and Ohio Power Company
14 data. The next item is LK-3, the 142 S&L companies
15 information. And the next item is LK-4. And the
16 last item is LK-5.

17 EXAMINER SEE: And you are striking --
18 requesting that LK-3, 4, and 5 in their entirety be
19 stricken?

20 MR. NOURSE: Yes, your Honor. And if I
21 could address the basis in support for that. In that
22 testimony and exhibits that I've referenced
23 Mr. Kollen is making comparisons between CSP's ROE
24 and companies that are not part of the comparable
25 group, and they consequently are not relevant as a

1 matter of law under the statute.

2 The SEET statute as well as the
3 Commission orders and rules, none of those legal
4 parameters defining this proceeding allow for
5 comparisons of the four sets of comparables that are
6 found in that testimony and those exhibits being No.
7 1, the Ohio electric utilities, 2, the AEP-East
8 operating companies, No. 3, the 142 investor-owned
9 utilities, and the fourth category of the 29 rate
10 case decision outcomes for ROE. None of those
11 comparisons relate to the statutory SEET criteria or
12 process established by the Commission.

13 Mr. Kollen has confirmed that the
14 customer parties are relying on Dr. Woolridge's
15 analysis for the ROE threshold and the establishment
16 of the comparable group, and then he relied
17 exclusively on Dr. Woolridge for that purpose, and
18 his testimony did not address any of those issues.

19 I would also note, your Honor, that in
20 terms of the rulings thus far in this case, yesterday
21 during the hearing when Dr. Makjija was asked about
22 the 2009 ROEs of other operating companies for
23 AEP-East, a relevance objection was sustained at page
24 107 of the transcript.

25 Today objections were sustained in

1 response first to my attempt to have Mr. Hamrock
2 address the shopping risk faced by other Ohio
3 utilities as it relates to the business and financial
4 risks faced by CSP under the SEET test.

5 And I believe there was an objection
6 during Dr. Woolridge's cross-examination to asking
7 questions about the other Ohio utilities as well, and
8 it became a hypothetical instead which, you know, got
9 around that issue I guess.

10 So, your Honor, in summation none of this
11 information, it's irrelevant as a matter of law and
12 it's submitted without any evidentiary or probative
13 value and simply for the prejudicial impact that it
14 seeks to convey.

15 MR. KURTZ: Your Honor, this motion has
16 no legal merit at all. This is a motion based upon I
17 don't like the information Mr. Kollen has presented
18 and, therefore, I move to strike it.

19 The first item that Mr. Nourse wants to
20 strike is Mr. Kollen's calculation and testimony that
21 in 2009 Columbus & Southern was the most profitable
22 electric utility out of 141 electric utilities in the
23 United States. What could be more probative and
24 relevant to the five Commissioners who are going to
25 make this decision as to whether or not customers

1 paid excessive rates in 2009 than the fact that CSP
2 was by far the most profitable utility in the United
3 States. The rest of it is a variation on that theme.

4 This is very relevant. Mr. Kollen has
5 done the calculations, done work, it's relevant to
6 the question of overearnings, excess profits, as to
7 what other utilities in America earned.

8 It's relevant what other state
9 commissions granted for return on equity in 2009.
10 The Commission thinks it's relevant to see what the
11 1991 rate of return granted to CSP was let alone when
12 what Mr. Kollen did was show what 32 or 34 state
13 commissions granted as returns in 2009.

14 This is an attempt to not deal with the
15 merits. This is a weak attempt to try to get rid of
16 evidence, the most relevant evidence, only on the
17 basis they don't like it.

18 MS. YOST: Your Honor, may I respond?

19 MR. NOURSE: I thought other parties were
20 going to weigh in, but I would like to respond if I
21 can.

22 EXAMINER SEE: I'm sorry? Hold on for
23 just a minute. It begins on line 18 and goes through
24 page 21, line 15?

25 MR. NOURSE: I'm sorry: The part that

1 begins on page 18, your Honor.

2 EXAMINER SEE: It's page 18, line 12,
3 goes to the end of that page.

4 MR. NOURSE: Yes.

5 EXAMINER SEE: And continues through to
6 page 21, line 15.

7 MR. NOURSE: Correct, your Honor. Thank
8 you.

9 MS. YOST: Your Honor, may I respond?

10 EXAMINER SEE: Say that again.

11 MS. YOST: May I respond, your Honor?

12 EXAMINER SEE: Yeah, go ahead.

13 MS. YOST: Did you say "go ahead"?

14 EXAMINER SEE: You are a member of
15 customer parties, correct?

16 MS. YOST: Yes, but I am separate
17 counsel, your Honor, we have separate counsel here.

18 MR. NOURSE: Your Honor, I thought one
19 attorney was going to defend and sponsor each
20 witness.

21 EXAMINER SEE: Yes.

22 MR. KURTZ: Your Honor, let me just add
23 this, this is the first SEET case this Commission has
24 ever done, it's an incredibly important public policy
25 case. I cannot imagine what would be more important

1 to the five Commissioners who are going to make this
2 multimillion dollar decision than what CSP's earnings
3 was in 2009 compared to all the other electric
4 utilities in America, it was the most profitable;
5 compared to the other members of the AEP power pool
6 who share generation costs, it was by far, sometimes
7 three times more profitable. I can't imagine that
8 the Commissioners would not be concerned with the
9 fact that the Ohio jurisdiction was the most
10 profitable segment of AEP's business in 2009,
11 off-system sales, AEP-West, anything.

12 This is -- in order to strike this, what
13 you would be doing is denying the Commission and the
14 customer parties what is probably as important as
15 anything for making this decision, and it would be a
16 tremendous miscarriage of justice.

17 MS. YOST: Your Honor, if I may add, if
18 this was a written motion, OCC would have the
19 opportunity to respond.

20 EXAMINER SEE: No.

21 MR. NOURSE: But I would like to respond
22 when you're ready, your Honor.

23 EXAMINER SEE: Go ahead and respond,
24 Mr. Nourse.

25 MR. NOURSE: Thank you, your Honor. I

1 think what Mr. Kurtz is advocating is changing the
2 law. He apparently doesn't like the fact that the
3 comparable group is what -- the returns that are
4 supposed to be compared to the utility. AEP Ohio is
5 not trying to avoid a proper comparison under the
6 statute. There's nothing in the Commission's orders
7 or the statute itself that would suggest going beyond
8 the comparable group. And Dr. Woolridge, if he had
9 tried to do this in his terms, it wouldn't have made
10 any sense, it wouldn't have been consistent with his
11 comparable group. They're trying to do it through a
12 separate witness, and it's improper information under
13 the statute and the test.

14 The Commission set forth the additional
15 factors beyond the straightforward application of the
16 statutory test in the June 30th finding and order at
17 page 29. There's nothing in those factors that
18 supports this kind of information and there's
19 absolutely no basis to conclude it's the most
20 important type of information when it has no
21 relationship to the statute.

22 MR. KURTZ: Your Honor, let me just
23 conclude by this, this is the Commission's June 30
24 order in docket 09-786. What the Commission said in
25 a very broad opening as to what it's going to

1 consider on page 29, it says this: "For this reason
2 the Commission will give due consideration to certain
3 factors including, but not limited to, the electric
4 utility's most recently authorized return on equity,
5 the electric utility's risk, including the following:
6 Whether the electric utility owns generation, whether
7 the ESP includes fuel and purchased power adjustment
8 or other similar mechanisms, the design, and the
9 extent to which the electric utility remains subject
10 to weather and economic risk, capital commitments and
11 future capital requirements, indicators of management
12 performance, and benchmark to other utilities, and
13 innovation and industry leadership with respect to
14 meeting industry challenges to maintain and improve
15 the competitiveness of Ohio's economy including
16 research and development, investment and advanced
17 technologies, innovative practices, and the extent to
18 which the electric utility has advanced state
19 policy."

20 So including benchmarks to other
21 utilities, including but not limited to, a panoply of
22 indicators of deciding the SEET test, the Commission
23 wanted relevant information to open the door to a
24 broad array of matters, clearly what Mr. Kollen
25 testified to as an expert is within that range.

1 And it's not -- let me just, I'll leave
2 it at that.

3 EXAMINER SEE: The companies' request to
4 strike the various portions of Mr. Kollen's testimony
5 at page 6 and then beginning again on page 18 through
6 page 21 is denied as well as their request to strike
7 exhibits attached to Mr. Kollen's testimony at LK-2,
8 LK-3, 4, and 5.

9 MR. NOURSE: Thank you, your Honor.

10 MR. KURTZ: Your Honor, we tender
11 Mr. Kollen for cross-examination.

12 EXAMINER SEE: I couldn't remember if you
13 had done that already. I thought so.

14 Mr. Randazzo, did you want to start
15 cross?

16 MR. RANDAZZO: Thank you, your Honor.

17 - - -

18 CROSS-EXAMINATION

19 By Mr. Randazzo:

20 Q. Mr. Kollen, I'm going to try to move
21 through my questions, if I get to moving too quickly,
22 let me know and I'll step it back a notch.

23 A. I don't think I'll object to that.

24 Q. And if you did, you're likely not to be
25 successful.

1 A. That's good.

2 Q. In my experience anyway.

3 A. Glad to hear that.

4 Q. Meant in jest.

5 Your testimony indicates that you have
6 relied on Professor Woolridge for purposes of
7 completing the journey that is described in the
8 testimony, combined testimony, of the Joint
9 Intervenors, correct?

10 A. Yes, that's correct. I take the range,
11 so to speak, from Dr. Woolridge and then quantify it.

12 Q. Right. Now, you do not know whether or
13 not Dr. Woolridge relied on the definition of
14 "electric distribution utility" or "electric utility"
15 that is included in the Ohio Revised Code for
16 purposes of completing his analysis; is that correct?

17 A. I do not know generally other than that
18 he simply developed a rate of return for Columbus
19 Southern Power Company under the assumption that it
20 was an electric distribution utility.

21 Q. Well, is that your assumption or -- I
22 mean, he testified he didn't know whether or not his
23 use of the term was consistent with the statutory
24 language. Are you suggesting otherwise?

25 A. I heard him testify that he did not know

1 what the statutory definition was, but nevertheless
2 he used Columbus Southern Power Company as an
3 electric distribution utility, that was the
4 distinction I was trying to make.

5 Q. All right. Now, on page 4 of your
6 testimony -- by the way, before we go there, you
7 testified in the electric security plan proceeding
8 for Columbus Southern and Ohio Power, the most recent
9 one, correct?

10 A. I did, yes.

11 Q. And in that proceeding, if I'm correct,
12 didn't you indicate that the plan as proposed by
13 AEP Ohio, Columbus Southern and Ohio Power would
14 generate in excess of a 20 percent return on common
15 equity?

16 A. I believe I did.

17 Q. Yes. And so it was -- in fairness to
18 everybody, it was no surprise to you at least that
19 you'd come here today looking at 2009 and find that
20 Columbus & Southern is generating in excess of
21 20 percent return on common equity.

22 A. It was no surprise to me.

23 Q. Very predictable, right?

24 A. Exactly.

25 Q. Now, at page 4, line 8, you used the word

1 "electric utility's," apostrophe S, do you see that?

2 A. Yes, that was a direct quote from the
3 Commission's SEET order dated June 30, 2009.

4 Q. Right. At the time you prepared your
5 testimony -- at the time you prepared your testimony,
6 did you know that there is a specific statutory
7 definition for "electric utility"?

8 A. I don't know if that's true or not. I
9 simply used the term as it was used by the Commission
10 and applied by the company in its application in this
11 proceeding.

12 Q. Okay. Now, if we go down to line 15, and
13 I believe these are your words at this point, line 15
14 you have the word "utility's" apostrophe S.

15 A. That's correct. That's a shorthand
16 version of the preceding citation to the Commission's
17 SEET order on lines 8 through 9, same page.

18 Q. So there it's using "utility's" as a
19 shorthand version for "electric utility's" that
20 appears in line 8.

21 A. That's correct, yes.

22 Q. And that would be true throughout your
23 testimony, where you're using the word "utility's,"
24 it would be a reference back to that same electric
25 utility -- those words that appeared in the

1 Commission's SEET order.

2 A. Yes, that's correct. And what I meant by
3 that in my testimony was simply Columbus Southern
4 Power Company.

5 Q. Okay. Now, I'd like to ask you some
6 questions on page 19 related to the testimony that
7 was the subject of the motion to strike. Page 19 you
8 have there cited returns on equity for operating
9 companies of AEP, and you say that you got the
10 returns on equity from the S&L financial database; is
11 that correct?

12 A. Yes.

13 Q. Have you checked to see whether or not
14 those returns are accurate?

15 A. Whether or not the data that was
16 reflected in the S&L financial database was accurate?
17 If that's the question, the answer's no, I did not.

18 Q. Okay.

19 MR. RANDAZZO: Your Honor, I would like a
20 multipage document with American Electric Power on
21 the front of it, Analyst & Investor Meeting,
22 October 19th, 2010, to be marked as IEU Exhibit No.
23 2.

24 EXAMINER SEE: IEU Exhibit 2 is so
25 marked.

1 MR. RANDAZZO: Marked for identification
2 purposes, please.

3 (EXHIBIT MARKED FOR IDENTIFICATION.)

4 Q. Mr. Kollen, do you have before you what's
5 been marked for identification as IEU Exhibit No. 2?

6 A. I do.

7 Q. All right. On page 19 in your testimony
8 you have a 2009 return on equity for Appalachian
9 Power of 6.01 percent. Do you see that?

10 A. I do, yes.

11 Q. Would you turn to page -- I need to find
12 it again. Would you turn to page 36 of what has been
13 marked for identification purposes as IEU Exhibit No.
14 2.

15 A. I have that.

16 Q. Did you see the return on equity for 2009
17 for Appalachian Power that AEP is reporting in this
18 document?

19 A. Yes, I do. It says that the ROE,s
20 represent Appalachian Power and Wheeling Power and I
21 would expect that the combined return on equity for
22 2009 of those two utilities would be greater than
23 what S&L had simply for Appalachian Power because
24 Wheeling Power was in the neighborhood of 60 percent,
25 but the West Virginia Commission regulates those two

1 utilities on a single utility basis, so if you
2 combine Appalachian Power and Wheeling Power, I would
3 expect the 6.01 percent simply for Appalachian Power
4 to go up, 6.8 percent sounds reasonable to me given
5 that circumstance.

6 Q. You have no reason to quarrel with AEP's
7 presentation here that it was 6.8 percent.

8 A. I don't. I think that's reasonable.

9 Q. With regard to Kentucky Power, would you
10 turn to page 46 of IEU Exhibit No. 2, please.

11 A. I have that.

12 Q. And there do you see the return on equity
13 reported for Kentucky Power by AEP for 2009?

14 A. Yes, it says 5.8 percent which is
15 consistent with what the S&L database had at 5.77.
16 Rounded that would be 5.8 percent.

17 Q. Okay. And now let's turn to I&M. That
18 would be on page 40, would it not?

19 A. Okay, I see that.

20 Q. Again, a slight variance in the numbers
21 you report in your testimony.

22 A. There is a slight variance. The chart
23 shows 13.7 percent, and the S&L database shows
24 13.84 percent. I can tell you what the basis for the
25 S&L calculation was a beginning and ending year

1 common equity in the denominator. As far as how AEP
2 computed its actual earned return for the year, I
3 don't know. It may have used year-end equity which
4 would put it down a little bit if, in fact, the
5 common equity had grown for that utility.

6 Q. Would it be acceptable to you to use the
7 returns that have actually been reported by AEP for
8 purposes of this analysis?

9 A. Not for the purposes of my analysis
10 because I was using the return on the average common
11 equity as reported in the S&L database and it's quite
12 possible that the actual reported by AEP is on
13 year-end common equity.

14 Now, there's not normally much difference
15 unless the common equity balance goes up or down
16 significantly from the beginning of the year to the
17 end of the year. So in my opinion it's better to use
18 the average common equity in the denominator, and in
19 fact that's what I did. And in fact that's what the
20 Commission ordered for the SEET test itself.

21 Q. All right. But for purposes of
22 determining the earned return -- well, strike that.

23 Let me now turn to -- before I leave
24 that, you indicate there that -- or compare earned
25 returns for the operating companies. Have you taken

1 a look at the relative rate levels for the various
2 operating companies? In other words, what the
3 residential rate is for I&M or Kentucky Power or
4 other operating companies relative to the residential
5 rate for Columbus & Southern?

6 A. I have not for the residential rate, but
7 I did note in my testimony, and I have an exhibit
8 that shows that the operating margins for the Ohio
9 utilities are significantly in excess of any of the
10 other jurisdictions in which AEP has utilities and
11 operates. In fact, it's more than 50 percent greater
12 than the other jurisdictions. But I didn't look at
13 it on a customer class basis.

14 MR. RANDAZZO: Your Honor, I'm
15 distributing a document I would like to mark as IEU
16 Exhibit No. 3.

17 Q. Mr. Kollen, while I'm distributing this,
18 the rates charged by the various operating companies
19 obviously would have an impact on the return on
20 equity that is shown for the various operating
21 companies, right?

22 A. Yes. And, in fact, I made that point in
23 my testimony and referred to one of my exhibits, page
24 14, of the year-to-date comparison where it has
25 effectively a jurisdictional breakdown of the

1 companies' margins.

2 Q. And if the returns on equity are lower
3 than Columbus & Southern is shown to have had in 2009
4 for the other operating companies, you would expect
5 the rates to be lower for the other operating
6 companies; is that right?

7 A. At least the standard service offer rates
8 I would think so.

9 (EXHIBIT MARKED FOR IDENTIFICATION.)

10 Q. Okay. And would you turn to page 8 of
11 what has been marked for identification purposes as
12 IEU Exhibit No. 3.

13 A. I have that.

14 Q. And again, this document, for the record,
15 is titled -- it's got American Electric Power's logo
16 on it. It's a presentation from the Annual EEI
17 Finance Meeting, New York, New York, June 23rd, 2010.

18 MR. McNAMEE: What page is that?

19 MR. RANDAZZO: Page 8.

20 Q. Now, do you see the rate comparison
21 that's portrayed on page 8?

22 A. I do.

23 Q. And is it correct for those of you that
24 are not colorblind that on the bar graph that's in
25 the upper left portion of that page you can identify,

1 based on information presented by AEP, the relative
2 rate levels for the residential customers of the AEP
3 operating companies for the 12 months ended 1/1/2010,
4 essentially for 2009; is that correct?

5 A. That's what it says. I can't vouch for
6 this information.

7 Q. Well, the pattern that you see here in
8 the relative rate levels is consistent, in other
9 words, the companies with the lower returns on equity
10 have lower rates, right?

11 A. That's generally true with the apparent
12 exception of APCo in West Virginia --

13 Q. Okay.

14 A. -- where it's fairly close to Columbus
15 Southern Power rates. But it's true for all of the
16 other AEP companies.

17 Q. Well, APCo in Virginia --

18 A. I'm sorry, I misspoke. I said West
19 Virginia, but I meant Virginia.

20 Q. Okay. Now, if you would turn to -- well,
21 I'd like to ask you a question about your Exhibit
22 LK-4 and the testimony at page 20 at lines 8 through
23 14 where you're talking about gross profit margin.

24 A. Yes.

25 Q. Are with you me?

1 A. I have that.

2 Q. Is it -- would I be correct that AEP
3 describes or defines gross margin as revenue less
4 related direct cost of fuel including consumption of
5 chemicals and emission allowances and purchased
6 power?

7 A. I believe that's correct.

8 Q. And that's the way you've used the term
9 in your testimony.

10 A. That's correct.

11 Q. Now, I'd like to talk to you a little
12 bit, some people may call it cross-examination, about
13 your views on refunds which start on page 26 of your
14 testimony beginning at line 15. And there you say --
15 beginning on page 15, you say that contract customers
16 should not share in any portion of the refund,
17 correct?

18 A. You're talking about the carryover of the
19 answer on page 27?

20 Q. Yes, I'm sorry, I meant to say that in
21 the testimony beginning on page 26 and obviously
22 carrying over to the next page, yes, page 27.

23 A. Okay. I say on page 27 starting on line
24 8 "No refund should go to customers on economic
25 development contracts because the rates have been

1 separately set based on their particular
2 circumstances."

3 Q. Okay. And one would need to look at the
4 specific way in which those rates were set in order
5 to apply your principle here; is that correct?

6 A. I would agree with that.

7 Q. And there may be some contract customers
8 that were actually on standard service offer rates
9 during 2009, correct?

10 A. If so, they should share.

11 Q. Okay. Let me ask you this, Mr. Kollen,
12 do you understand the significance of the words
13 "delta revenue" as they apply in Ohio?

14 A. I may or may not.

15 Q. Okay.

16 A. But go ahead and try.

17 Q. I'd ask you to assume for purposes of my
18 question that delta revenue in Ohio means the
19 difference between the revenue collected pursuant to
20 a reasonable arrangement approved by this Commission
21 under Section 4905.31 and the revenue that would
22 otherwise be collected from that customer if the
23 customer was served at an otherwise applicable
24 standard rate.

25 A. A tariff rate.

1 Q. Tariff, that's correct.

2 A. Yes, I have that understanding in mind.
3 I'll accept that, yes.

4 Q. So delta as in the Greek delta is the
5 difference between those two points measured.

6 A. Yes.

7 Q. Okay. Now, are you aware of what happens
8 to the delta revenue in Ohio?

9 A. My understanding is that it's deferred
10 and then collected from all of the other customers.

11 Q. Right. So with regard to that portion of
12 any refund that your principle would say should not
13 go to a special contract customer, wouldn't it be
14 better if that portion were used as an offset against
15 that revenue that was deferred and then subject to
16 future collection?

17 A. I think that would be acceptable, yes.

18 Q. And actually, it would be better for
19 customers because you would avoid the deferrals and
20 the carrying costs on the deferrals, right?

21 A. I would agree with that. And I think
22 that's consistent with the approach that the customer
23 parties have taken that to the extent there are
24 deferrals, those should first be used to address the
25 refund issue.

1 Q. Well, I was going to ask you that because
2 your testimony says there should be a bill credit.
3 So are you now suggesting that any amount of
4 prospective adjustment that the Commission may make
5 for purposes of applying the significantly excessive
6 earnings test might be better applied towards
7 deferrals?

8 A. Well, that is our position. I think that
9 our position is first if there are remaining
10 deferrals on Columbus Southern Power's books, at
11 whatever date the refund would be effective, that
12 should first be used to eliminate -- reduce or
13 eliminate the deferrals, and then the residual would
14 be a bill credit and that's my testimony.

15 Q. Okay. Now, you did not have any changes
16 or corrections to your testimony.

17 A. No. And that was my testimony, yes.

18 Q. All right.

19 A. I think maybe you overlooked that, but
20 that is my testimony.

21 Q. Okay.

22 A. No changes.

23 Q. I may have misunderstood it. I am
24 capable of doing that.

25 Now, with regard to your principle again,

1 related to special contract customers, I mean, you
2 would not extend that principle to customers,
3 residential customers, that were receiving benefits
4 from the universal service fund, would you?

5 A. I haven't even addressed that or
6 considered it quite frankly.

7 Q. Well, there are other customers who have
8 their rates determined other than by the standard
9 service offer; isn't that correct? If you know.

10 A. I don't know.

11 Q. Okay. If there were, you would apply
12 your principle consistently.

13 A. I would apply the principle consistently
14 if the facts and circumstances were consistent.

15 Q. Okay.

16 A. And I don't know that to be the case.

17 Q. Okay. Fair enough.

18 Now, at page 27 of your testimony, again,
19 at lines 5 through 16, the portion of that answer,
20 the paragraph there where you're talking about the
21 bill credit that I misunderstood earlier.

22 A. Yes.

23 Q. You say there that you're excluding
24 transmission rates from the computation that you're
25 suggesting the Commission should make for purposes of

1 calculating what should go back, how it should go
2 back to customers?

3 A. The transmission revenue so that it would
4 be the generation and distribution revenue and
5 applied then on a percentage basis using that
6 revenue. So, for example, if the refund was a
7 hundred dollars and the combined generation and
8 distribution revenue was a thousand, then everybody
9 would get a 10 percent refund or bill credit.

10 Q. Right. Okay. Thank you for that. But
11 you make that recommendation as you explain because,
12 as you explain beginning at line 6 and carrying over
13 to line 7, that you don't know which segment of the
14 utility's business generated excess profits, right?

15 A. That's true.

16 MR. RANDAZZO: That's all I have, thank
17 you.

18 EXAMINER SEE: Mr. Nourse.

19 MR. NOURSE: Am I the last
20 cross-examiner, your Honor?

21 EXAMINER SEE: No, that would be staff.

22 MR. NOURSE: Okay. Besides staff. Thank
23 you.

24 - - -

25 CROSS-EXAMINATION

1 By Mr. Nourse:

2 Q. Good afternoon, Mr. Kollen.

3 A. Good afternoon.

4 MR. RANDAZZO: I would note I was on
5 time.

6 EXAMINER SEE: According to you, okay.

7 Q. I'll ask you to turn to page 13. Page
8 13, you're talking about your recommendation for
9 the -- what I'll call the SEET cap. Do you
10 understand that term?

11 A. I do, that's the limitation on the amount
12 of refunds that can go back to the customers.

13 Q. And your recommendation is 155.9 million?

14 A. Yes, at least.

15 Q. I just want to make it clear for the
16 record the difference between your recommendation and
17 that of Mr. Mitchell for the company. You're
18 familiar what his recommendation on the SEET cap --

19 A. Yes, I am.

20 Q. -- refund? And is it fair to say there
21 are two categories where you differ with
22 Mr. Mitchell, one category being the deferred FAC
23 amount of 36.9 million?

24 A. Yes, I would agree with that.

25 Q. And the second category is as it relates

1 to the three riders for enhanced service reliability
2 rider, and the environmental investment carrying
3 charge rider, and the gridSMART rider?

4 A. Yes.

5 Q. And in essence what you did was include
6 all the revenue associated with those three riders
7 for 2009 in your calculation, correct?

8 A. Yes, that's correct.

9 Q. Okay. Let me ask you, Mr. Kollen, do you
10 agree that Ohio Power's 2009 earnings fall within the
11 safe harbor established by the Commission's
12 June 30th order?

13 A. I'm sorry, did you say Ohio Power?

14 Q. Ohio Power.

15 A. Yes.

16 Q. Okay. Let me ask you a couple questions
17 about the off-system sales sharing and you talk about
18 this on page 24 of your testimony. And you're making
19 reference in the bottom half of the page there to
20 other AEP-East operating companies and how off-system
21 sales margins are shared in those other
22 jurisdictions, correct?

23 A. That's part of it. The other part is the
24 AEP-West companies as well. I've split it into two
25 groups of companies, the East companies and the West

1 companies, but --

2 Q. Fair enough.

3 A. -- I address all of the jurisdictions.

4 Q. Thank you. Now, in those other
5 jurisdictions are a hundred percent of off-system
6 sales margins reflected in retail rates?

7 A. I think there's -- if we could look at my
8 exhibit where I address this.

9 Q. LK-6?

10 A. Yes, that's correct. Yes, this is an
11 excerpt from AEP's 2009 Securities and Exchange
12 Commission Form 10-K and it shows -- there's a table
13 in that report that I've excerpted, shows by
14 jurisdiction the percentage of off-system sales
15 profits that are shared with ratepayers, that's that
16 middle large column, and it's a hundred percent in
17 Michigan according to this table from AEP in one area
18 of Michigan, zero percent in the other areas, and for
19 other jurisdictions it's a graded or tiered sharing
20 that would go up to a hundred percent, for example,
21 in Louisiana and Arkansas.

22 Q. So in most of the examples you're citing
23 there is a sharing between the company and
24 ratepayers?

25 A. Yes, that's correct. And in West

1 Virginia there's a hundred percent reflection of the
2 off-system sales margins in what is the equivalent in
3 that jurisdiction to the FAC in the Ohio
4 jurisdiction.

5 Q. Okay. And is the utility's portion of
6 the sharing for off-system sales margins, is that
7 subjected to earnings tests in any of those
8 jurisdictions? If you know.

9 A. I don't know because I haven't done that
10 analysis.

11 Q. Okay. And what happens to retail rates
12 in those OSS sharing jurisdictions when OSS margins
13 go down?

14 A. Well, effectively then the FAC or the
15 ENEC, E-N-E-C, riders would effectively go up, all
16 else being equal because the off-system sales margins
17 are a credit, in other words, they reduce the amount
18 recoverable through the rider. So if the margins go
19 down, the subtraction is less and so all else being
20 equal the riders would go up.

21 Q. Okay. And would you agree that there's
22 no rate adjustment in CSP's electric security plan
23 for off-system sales margins?

24 A. In the sense of an automatic rate
25 adjustment, yes, I would agree with that.

1 Q. And you didn't include that in your cap
2 that we talked about earlier.

3 A. I'm not sure. I don't understand your
4 question.

5 Q. You didn't make a rate adjustment
6 relating to off-system sales margins in your SEET cap
7 that we discussed earlier, the 155 million.

8 A. No, nor do I think one is appropriate,
9 and I might add that the company did not make one
10 either.

11 Q. Okay. Could I verify that you're not an
12 attorney, you're not offering legal conclusions or
13 assertions in your testimony.

14 A. Yes, that's correct, I'm not an attorney
15 and I'm not offering legal opinions. I'm offering my
16 interpretation in the application of Commission
17 decisions and the SEET statute, as do the other
18 witnesses.

19 Q. Well --

20 A. But they're not legal opinions, that's
21 correct.

22 Q. Okay. None of the other witnesses talk
23 about federal preemption in their testimony, do they?

24 A. I think that maybe that word isn't used,
25 but Mr. Hamrock certainly suggests that in the sense

1 that somehow or another FERC jurisdictional rates are
2 off limits for retail ratemaking purposes, a point
3 which I completely disagree with.

4 Q. And you would characterize that as
5 federal preemption?

6 A. It certainly addresses that issue,
7 touches on it.

8 Q. So the discussion on page 24 of your
9 testimony, the bottom half of the page regarding
10 federal preemption, that is your theory, it's not a
11 legal theory that you were advised by counsel?

12 A. I was not advised by counsel on that. I
13 was involved in a number of cases involving AEP
14 affiliates including in Kentucky where federal
15 preemption was an issue and the clear determination
16 is that if FERC imposes rates that then create costs
17 on a jurisdictional utility, they must be -- those
18 costs must be reflected for retail ratemaking
19 purposes unless there's a determination of
20 imprudence.

21 Q. So you've taken that Kentucky case and
22 applied it here to Ohio law as it applies to the
23 Columbus Southern Power FACs?

24 A. I haven't taken it and applied it to Ohio
25 law. What I've done is I've taken it in the context

1 of all of these other jurisdictions reflect the
2 off-system sales margins just as they reflect the
3 cost to make these off-system sales pursuant to FERC
4 tariffs in the retail rates. So if that were somehow
5 precluded, then AEP would have, A, made the argument,
6 and, B, prevailed in all of these other
7 jurisdictions.

8 Q. But again, Mr. Kollen, you're taking the
9 law as you understand it in another jurisdiction and
10 applying it here in Ohio and the facts in this case,
11 is that what you're doing?

12 A. I'm applying the concept of federal
13 preemption in this case and drawing an analogy to the
14 other AEP utilities in other jurisdictions.

15 Q. Is federal preemption the same as saying
16 something violates federal law?

17 A. I was looking at it more from the
18 perspective of ratemaking. In other words, if a
19 federal agency, in this case the Federal Energy
20 Regulatory Commission, establishes a tariff that
21 imposes a cost or a revenue upon a utility, then the
22 retail regulator has no choice but to reflect that in
23 retail rates unless the retail regulator makes a
24 determination of imprudence.

25 Q. Yeah, that's cost trapping, that's an

1 entirely different concept. So you don't know the
2 answer to my question.

3 A. No; I'm sorry, I didn't mean to interrupt
4 you.

5 Q. Okay. Can you explain what federal
6 preemption doctrine means?

7 A. Yeah, I just did. That was my last
8 response.

9 Q. Okay. That was your understanding as a
10 layperson?

11 A. Yes, it is.

12 Q. Okay.

13 A. As a layperson but with experience in the
14 regulated-utility industry.

15 Q. Are you or are you not offering legal
16 opinions in your testimony?

17 A. I am not offering legal opinions.

18 Q. Okay. To page 18. You've got a Q and A
19 about Ohio utilities' ROE. Is it your opinion that
20 Ohio electric utilities face comparable risks,
21 business and financial risks?

22 A. There are variations of risk among all
23 utilities that can be captured by different measures,
24 but perhaps not a single measure in totality. But I
25 didn't really address the differences in the risks

1 among utilities, but there are differences.

2 Q. Does that statement apply to all four of
3 your comparisons? You didn't compare the business
4 and financial risk of the companies in those four
5 groups.

6 A. Generally I think that's correct. What I
7 did was I compared the returns on the equity for
8 2009.

9 Q. And you made no reference or distinction
10 with respect to whether any of the companies in the
11 four comparisons you make are within Dr. Woolridge's
12 comparable group; is that true?

13 A. I did not make that comparison, that's
14 correct.

15 Q. Let me ask you with respect to your
16 comparison of the AEP-East operating companies, have
17 you examined the regulatory system that applies in
18 each of these jurisdictions?

19 A. Not for purposes of my testimony in this
20 case. I am familiar with them generally speaking and
21 more so in some of the jurisdictions than others.

22 Q. Have you examined the retail rates of
23 each of the AEP affiliates in comparison to CSP's
24 retail rates?

25 A. I think that's a similar question we had

1 from Mr. Randazzo earlier and I have not, except to
2 the extent that I addressed the information reported
3 by AEP to the investors and analyst conference and
4 that's attached as my Exhibit LK-4 and it shows the
5 Ohio utilities together had a much higher gross
6 margin than all of the other jurisdictions.

7 Q. We can talk about that since you raised
8 it. LK-4, page 14. This is the only page in Exhibit
9 LK-4 that you rely on and discuss in your testimony,
10 correct?

11 A. That's correct. I guess we could argue
12 that the cover page is descriptive of the source of
13 the information, but I only specifically relied upon
14 numerically page 14 in the presentation.

15 Q. Okay. And in your testimony, then, in
16 reference to LK-4, this is on page 20, you're talking
17 about gross profit margin.

18 A. Correct.

19 Q. And are you taking the data in lines 1
20 through 8 of page 14 of LK-4 as being gross profit
21 margin?

22 A. Yes, that's what it says, utility gross
23 margin.

24 Q. You're equating gross margin to gross
25 profit margin.

1 A. Yes, that's correct. And that's a pretty
2 universal definition. So I don't have any quarrel
3 with that.

4 Q. You don't have any quarrel with that, is
5 that what you said?

6 A. The use of that term, no.

7 Q. Okay.

8 A. On the presentation.

9 Q. Well, the presentation says "gross
10 margin," correct?

11 A. Yes, and I used the term "gross profit
12 margin," one and the same.

13 Q. And is it a measure of profit, gross
14 margin?

15 A. Yes, it is one measure of profit.

16 Q. Does it measure profit?

17 A. It measures gross margin as one measure
18 of profit.

19 Q. Okay. But really to get to profit you
20 have to also apply the expenses that are in lines 9
21 through 15 on page 14, correct?

22 A. Yes. When you get to -- gross margin has
23 a definition, or gross profit margin, either of those
24 terms have an equivalent definition, and then in
25 order to get to net income you have to subtract the

1 other expenses which include those that are in lines,
2 on this particular page, includes those expenses that
3 are on lines 9 through 14.

4 Q. So, Mr. Kollen, your statement on page
5 20, line 11, that the Ohio companies were 57 percent
6 higher than the gross profit margin earned by the
7 other AEP affiliates, that doesn't really tell us the
8 relative profitability or ROE for this period, does
9 it?

10 A. It tells you what it tells you. In other
11 words, it tells you that the revenues minus the cost
12 of -- direct costs, the immediate cost, the cost of
13 sales is also what it's known as in accounting
14 terminology, is that the Ohio jurisdiction has the
15 highest gross margins.

16 But to take it down to return on equity
17 you would have to subtract all of the other expense
18 amounts, which I have not done for that purpose.

19 Q. And you don't know whether, after having
20 done that exercise to actually determine earnings,
21 how the Ohio companies compared to the other East
22 companies; is that correct?

23 A. Well, I do know that because I do know
24 what the earned returns on common equity are for the
25 Ohio utilities as we discussed previously and we know

1 that Columbus Southern Power is by far and away the
2 highest return on equity of all of the Ohio utilities
3 and all of the AEP utilities.

4 Q. Okay. But this 57 percent number on page
5 20, line 11, does not measure that comparison of
6 profit, does it?

7 A. It does not directly, but it's consistent
8 with the bottom line return on equity. In other
9 words, the gross margin is the highest, the return on
10 equity is the highest.

11 Q. But again -- okay, let's leave it at
12 that.

13 So, Mr. Kollen, continuing with the
14 comparison you made in LK-3 and LK-4 with the AEP
15 affiliates, would you agree that AEP Ohio has the
16 most risky line of business as compared to the other
17 AEP-East operating companies?

18 A. I don't believe that I would agree with
19 that. I haven't made that analysis, but I don't
20 believe I would agree with it.

21 Q. You haven't evaluated it, but do you have
22 an opinion?

23 A. I do not sitting here today.

24 Q. Okay. Let's turn to LK-3, then, the
25 investor-owned utilities exhibit. Have you examined

1 the regulatory system that applies in each of those
2 jurisdictions?

3 A. I have not. I have some familiarity with
4 many of the utilities listed in this dataset and
5 simply because I've been involved in rate proceedings
6 involving those utilities, but I haven't done any
7 kind of examination for purposes of my testimony in
8 this case.

9 Q. Okay. And did you examine the other
10 companies' retail rates in that group?

11 A. No.

12 Q. Have you examined the business and
13 financial risks faced by each company in this group?

14 A. Not as an independent study for the
15 purposes of this proceeding.

16 Q. Now, in footnote 3 on page 20 of your
17 testimony you basically say that Wheeling Power ROE
18 should be disregarded because of unique regulatory
19 treatment.

20 A. Yes.

21 Q. Is that a fair summary?

22 A. Yes.

23 Q. Are you aware of any other companies that
24 have unique regulatory requirements that are in the
25 142 companies?

1 A. No. I mean, the environments that they
2 operate in all can be differentiated, I'm certain of
3 that, with one factor or another, but the reason that
4 I investigated the Wheeling Power reported return on
5 equity is because it seemed such an anomaly, and also
6 our firm had some familiarity as well because of the
7 work that we do in West Virginia. So I was able to
8 go back into the record in those proceedings and also
9 the company's financial reporting to the FERC and to
10 the SEC and determine Wheeling Power and Appalachian
11 Power are treated as if they were one company in West
12 Virginia.

13 Q. Mr. Kollen, my question wasn't about
14 Wheeling Power. I acknowledge your footnote. What I
15 asked you was whether any of the other 142 companies,
16 whether you know or not, whether any of them have
17 unique circumstances that would also suggest they
18 should be disregarded.

19 A. Right. And I answered that no, and that
20 I hadn't performed an independent investigation, but
21 that I was aware that there were certainly unique
22 circumstances, differentiating factors in each one of
23 the utilities and each one of the jurisdictional
24 environments that they operate.

25 Q. Does that suggest they should all be

1 disregarded?

2 A. No. Again, the magnitude of the return
3 on equity for Wheeling Power in the 60 percent range
4 was so numerous that it cried out for further
5 investigation.

6 Q. Because you happened to be aware of that
7 particular anomaly.

8 A. No. Because it was such an anomalous
9 result.

10 Q. You don't know whether if you had
11 examined each of the companies for similar unique
12 circumstances, you told us a minute ago you don't
13 know what you would have found, you didn't do that
14 exercise, correct?

15 A. That is a correct statement.

16 Q. Okay. Thank you.

17 Now, let me ask you about the 142
18 companies. Do you know how many of those companies
19 had shopping risk like CSP?

20 A. I do not know because I haven't -- didn't
21 investigate that specifically. I mean, we could go
22 through the Ohio companies and make that
23 determination, but -- and we could go through by
24 jurisdiction and make that determination, but I
25 didn't investigate that specifically for this

1 proceeding.

2 Q. Okay. Now, with respect to the LK-5
3 exhibit and the 39 utility rate case decisions, did
4 all of these cases involve additional rate base rate
5 of return regulation?

6 A. I cannot answer that question
7 unequivocally yes, but to the extent that there is an
8 adjudicated or authorized rate of return, the only
9 purpose for that would be in a regulated type of
10 environment. So I can infer from that that the
11 answer to the question is yes, but I haven't done any
12 independent examination to make that determination.

13 Q. Have you examined the retail rates of
14 these companies?

15 A. I have not for purposes of this
16 proceeding.

17 Q. Have you examined the business and
18 financial risks faced by these companies?

19 A. No, not for purposes of this proceeding.

20 Q. Is it your understanding that all of
21 these 39 cases were decisions by state commissions?

22 A. That is my understanding.

23 Q. Were some of them based on stipulations?

24 A. Yes, but nevertheless they still would
25 involve decisions by a state commission approving the

1 stipulations.

2 Q. So some of them were based on
3 stipulations.

4 A. I believe that's correct.

5 Q. Did they all involve vertically
6 integrated utilities?

7 A. No. For example, I see Toledo Edison in
8 there on January 21, 2009, on page 5 of the RRA
9 report, and I know that Toledo Edison is not a
10 vertically integrated utility.

11 Q. Any others?

12 A. Well, that would also be true with
13 respect to Ohio Edison and Cleveland Electric, and
14 there may be others as well.

15 Q. You don't know?

16 A. I didn't do that analysis.

17 Q. Thank you.

18 Let me ask you about the topic of the
19 fuel deferrals here that you included in your SEET
20 cap, correct, 36 million?

21 A. Yes.

22 Q. Now, do you have an understanding of the
23 FAC mechanism the Commission adopted in the ESP case?

24 A. Yes. To the extent that I read the order
25 and the order on rehearing, yes.

1 Q. Okay. Would you agree that the
2 Commission rejected the proposal to offset the FAC by
3 off-system sales margins?

4 A. In the ESP proceeding, yes, that's
5 correct.

6 Q. Do you have an understanding of the FAC
7 baseline aspect of the decision?

8 A. You're testing the limits of my
9 recollection, but yes, I do understand that there was
10 a baseline.

11 Q. And how was that done?

12 A. There was I believe a historic year,
13 without referring back to the order which I would
14 have to do, I believe there was a historic year and
15 changes above that.

16 Q. Is it your understanding that the premise
17 of the decision was that the companies, including
18 CSP, were recovering their fuel costs through their
19 prior rate plan?

20 A. No, there was no fuel adjustment clause
21 in the prior rate plan to my recollection.

22 Q. So you don't believe the companies
23 recovered any of their fuel costs through their prior
24 rate plan?

25 A. I didn't say that. I said there was no

1 fuel adjustment clause in the prior rate plan. There
2 was apparently, to the best of my recollection, some
3 level of fuel cost that was deemed recoverable
4 through the existing rates.

5 MR. NOURSE: Could I have the answer read
6 back, please?

7 (Record read.)

8 Q. Okay. And you don't recall that level
9 that was deemed recovered?

10 A. If I could just correct something, I said
11 that there was not a fuel adjustment clause in the
12 prior case.

13 (Record read.)

14 Q. Did you hear my question?

15 A. I'm sorry, I just wanted to make sure the
16 record and reading it back was correct. Okay, go
17 ahead.

18 Q. So you don't recall or have any knowledge
19 or recollection about any level of fuel costs that
20 were deemed to be recovered under the prior rate
21 plan?

22 A. What I do recall is that there was some
23 quantification, I believe it may have been
24 Mr. Mitchell's or someone else from AEP, maybe
25 Mr. Nelson who quantified the amount in the prior

1 rate plan, to the best of my recollection. But that
2 was not a fuel adjustment clause.

3 Q. Okay. On page 30 of your testimony you
4 talk about shopping risk and you start off with a
5 statement that CSP's already been generously
6 compensated for shopping risk through the POLR
7 charge; is that correct?

8 A. I do say that, yes.

9 Q. Now, does the POLR charge, to your
10 understanding, make CSP whole for shopping customers?

11 A. It's not a direct correlation. There
12 were assumptions made in the ESP order by the
13 Commission and I believe that the assumption was that
14 AEP would be subject to 90 percent shopping risk.
15 And that was the predicate, then, used as one of the
16 input assumptions for the Black-Scholes model that in
17 turn was used to compute the revenue the company
18 would have been allowed to charge for this purpose.

19 Q. And what costs, to your understanding,
20 are captured with the POLR charge?

21 MR. RANDAZZO: Object. No foundation.
22 There's no indication that there are any costs
23 associated with POLR.

24 Q. What costs, if any, to your understanding
25 of the POLR charge, are recovered by CSP?

1 EXAMINER SEE: Wait just a second.

2 Okay, go ahead.

3 A. My recollection of the Commission's order
4 is that, and again, based upon Mr. Baker's testimony
5 in that proceeding in which the quantifications were
6 developed that the Commission in turn relied upon,
7 was a risk of customers that went shopping and then
8 returned to standard offer service, and the concern
9 was, as I appreciated, was that the company would
10 then be perhaps required to purchase additional
11 energy at a higher cost than its embedded cost. That
12 was the risk.

13 Q. Okay. Now let me ask you this way: Does
14 the POLR charge, does that provide for recovery of
15 lost distribution revenue associated with shopping?

16 A. No, not to my understanding.

17 Q. Or transmission revenue?

18 A. Not to my understanding.

19 Q. Or generation revenue?

20 A. Yes. Effectively, yes. Or --
21 effectively what it is an attempt to capture is a
22 projection of increased costs based upon the
23 perceived risk of shopping customers returning to
24 standard service -- stand offer service.

25 Q. Does Dr. Woolridge's comparable group

1 capture the shopping risk that's faced by CSP?

2 A. I don't know.

3 Q. With reference to your statement on page
4 30, lines 18 and 19 -- 18 through 20, that whole
5 sentence, is it your understanding that CSP is
6 advocating increasing the SEET threshold for shopping
7 risk separate and apart from Dr. Makjija's
8 recommended ROE threshold?

9 A. I don't think that is the company's
10 position, but we're -- the customer parties are
11 obviously very concerned about having a further adder
12 onto what Dr. Woolridge has recommended for this
13 alleged shopping risk.

14 Q. Yeah, is it fair, though, to your
15 understanding of Dr. Makjija's and Dr. Woolridge's
16 testimony respectively that they attempt to capture
17 the business and financial risks faced by a
18 comparable group of companies that CSP faced?

19 A. That's generally my understanding. I
20 can't personally testify to that other than a general
21 understanding.

22 Q. Okay. And in the context of SEET and,
23 let's stick to this shopping risk topic you're
24 addressing here in your testimony, do you believe
25 that CSP's shopping risk that CSP faced going into

1 2009 was changed by actual shopping that may have
2 been experienced during 2009 or the lack thereof?

3 A. I'm not sure I can answer that yes or no.
4 I think that certainly we can inform by the actual
5 shopping as to the level of risk. I mean, everything
6 else, if you're sitting in a historic period, as the
7 Commission was in early-2009, the only thing it can
8 do is look forward. It had to make some assumptions.

9 But now given that the year has passed we
10 can look backward and say, you know, that risk wasn't
11 so great, it was less than 2 percent. But the
12 Commission assumed that it was as much as 90 percent.
13 And in retrospect that was an excessive assumption.

14 Q. So your understanding of the 90 percent
15 figure that the Commission uses in granting the ESP
16 orders to grant the AEP Ohio companies a POLR charge
17 was that they were assuming 90 percent shopping? Is
18 that your understanding?

19 A. No. As much as 90 percent shopping.

20 Q. Okay. With respect to the shopping risk
21 you discuss in your testimony at page 30, is it your
22 understanding or belief that the other electric
23 utilities in Ohio face similar shopping risk?

24 A. Well, they face shopping risk. Whether
25 it's similar, I don't know. I haven't done that

1 analysis. It would all depend on market pricing and
2 availability of market prices compared to standard
3 offer service prices.

4 Q. But you would look at actual switching in
5 those areas to assess that risk?

6 A. Certainly to inform my assessment of that
7 risk.

8 Q. But you haven't done that analysis.

9 A. No, not for the other utilities in Ohio,
10 that's correct. That's all the questions I have.

11 Thank you, Mr. Kollen.

12 THE WITNESS: You're welcome.

13 EXAMINER SEE: Mr. McNamee?

14 MR. McNAMEE: No thank you.

15 EXAMINER SEE: Let the record reflect
16 that counsel for OPAE is not in attendance this
17 point.

18 Mr. Kurtz.

19 MR. KURTZ: Your Honor, we have no
20 redirect of Mr. Kollen.

21 EXAMINER SEE: Okay.

22 MR. KURTZ: And we move the admission of
23 Joint Intervenor's Exhibit No. 2.

24 EXAMINER SEE: Are there any objections
25 to the admission of Joint Intervenor's Exhibit 2?

1 MR. NOURSE: Object --

2 MR. RANDAZZO: Yes, your Honor.

3 MR. NOURSE: -- based on all the prior
4 arguments I made supporting the motion to strike and
5 also note that with respect to LK-4 Mr. Kollen agreed
6 he only relied on page 14 of that exhibit, I don't
7 think that the rest of the material should be
8 admitted.

9 EXAMINER SEE: Mr. Randazzo.

10 MR. RANDAZZO: Your Honor, for reasons
11 similarly expressed regarding the methodology
12 employed by Mr. Kollen as well as the other witnesses
13 which focused on total company and at least we have,
14 in Mr. Kollen testimony, a very honest statement at
15 page 27 that he doesn't know which segment of the
16 utility's business generated excess profits.

17 Based upon the statutory requirements,
18 the Commission's rules, the question before the
19 Commission is whether or not the EDU's earnings were
20 excessive, and not what the total company might have
21 earned, and Mr. Kollen, Professor Woolridge, and
22 others have not conducted that analysis. So I
23 object.

24 EXAMINER SEE: Did you wish to respond to
25 Mr. Randazzo's objection as well as Mr. Nourse's

1 objection?

2 MR. KURTZ: To Mr. Nourse, on the exhibit
3 that is the earnings document, page 14 was the only
4 one that he relied on. We don't care if you want to
5 leave the cover page and then page 14, that would be
6 fine. We thought we'd put the whole document in for
7 clarity.

8 EXAMINER SEE: Then let's strike
9 everything except for the cover page so we know what
10 we're talking about. When I say "the cover page,"
11 I'm talking about American Power Fourth Quarter '09
12 Earnings Release so we know that and the date and
13 LK-4 and then we'll keep page 14 of the presentation
14 and everything else.

15 MR. KURTZ: That's fine, your Honor.

16 With respect to Mr. Randazzo's I guess
17 motion to strike the whole testimony.

18 MR. RANDAZZO: Yeah, and I'm assuming
19 that Mr. Kurtz will adopt the arguments that have
20 previously been expressed by others and sustained by
21 your Honor, so if we're interested in moving this
22 forward, I'm comfortable with having that assumed for
23 purposes of you making your ruling.

24 MR. KURTZ: We'll adopt the previous --

25 MR. RANDAZZO: The winning arguments,

1 very wise of you.

2 EXAMINER SEE: You're correct, it is the
3 winning argument today. Your objection is overruled,
4 Mr. Randazzo.

5 MR. RANDAZZO: Thank you.

6 EXAMINER SEE: And LK -- Exhibit LK-4 as
7 revised as discussed and with that Joint Intervenor
8 Exhibit 2 is admitted into the record.

9 (EXHIBIT ADMITTED INTO EVIDENCE.)

10 MR. RANDAZZO: I marked IEU Exhibits 2
11 and 3 and would move those, your Honor.

12 EXAMINER SEE: Are there any objections
13 to the admission of IEU Exhibits 2 and 3?

14 MR. NOURSE: Your Honor, I will take the
15 same posture that Mr. Randazzo did just now and say
16 that my objections will be the same as they were for
17 IEU No. 1 and expect a similar ruling.

18 MR. RANDAZZO: Well, if I might, the
19 argument on 1 related to a transcript, subject to
20 that difference, we now have documents that are
21 specific AEP documents.

22 MR. NOURSE: Well, some of my arguments
23 would apply. I was trying to short circuit it.

24 MR. RANDAZZO: And with that
25 clarification, yeah.

1 EXAMINER SEE: IEU Exhibits 2 and 3 are
2 admitted into the record.

3 MR. RANDAZZO: Thank you.

4 (EXHIBITS ADMITTED INTO EVIDENCE.)

5 EXAMINER SEE: Let's go off the record
6 for a second.

7 (Discussion off the record.)

8 EXAMINER SEE: Let's go on the record.
9 We will start again tomorrow at 9 o'clock, consider
10 the issue of -- Ms. Grady has raised the issue of
11 possibly depositions, we will address that issue and
12 then we will start with Staff Witness Cahaan
13 tomorrow. We are adjourned till 9 o'clock tomorrow.

14 (The hearing was adjourned at 5:18 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 Tuesday, October 26, 2010, and carefully compared with my original stenographic notes.

Maria DiPaolo Jones, Registered
Diplomate Reporter and CRR and
Notary Public in and for the
State of Ohio.

My commission expires June 19, 2011.

(MDJ-3637)

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Summary: Transcript Transcript of Columbus Southern Power Co. hearing held on 10/26/10.
electronically filed by Mrs. Jennifer Duffer on behalf of Armstrong & Okey, Inc. and Jones,
Maria DiPaolo Mrs.