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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Columbus Southern Power Company for Approval of its Electric Security Plan; an Amendment to its Corporate Separation Plan; and the Sale or Transfer of Certain Generation Assets.	)	Case No. 08-917-EL-SSO
In the Matter of the Application of Ohio Power Company for Approval of its Electric Security Plan; and an Amendment to its Corporate Separation Plan.	)	Case No. 08-918-EL-SSO

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NOTICE OF FILING DEPOSITION BY
THE OFFICE OF THE OHIO CONSUMERS' COUNSEL

Pursuant to Ohio Adm. Code 4901-1-21, The Office of the Ohio Consumers' Counsel gives notice of filing the deposition of Dr. Chantale LaCasse, which was taken on June 16, 2011.

Respectfully submitted,

JANINE L. MIGDEN-OSTRANDER
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CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing *Notice of Filing Deposition by the Office of the Ohio Consumers' Counsel* was provided to the persons listed below via electronic transmission this 8th day of July, 2011.

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BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

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In the Matter of the Application of Columbus Southern Power Company for Approval of an Electric Security Plan; an Amendment to Its Corporate Separation Plan; and the Sale or Transfer of Certain Generating Assets. :	Case No. 08-917-EL-SSO
In the Matter of the Application of Ohio Power Company for Approval of Its Electric Security Plan; and an Amendment to Its Corporate Separation Plan. :	Case No. 08-918-EL-SSO

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DEPOSITION

of Dr. Chantale LaCasse, taken before me, Karen Sue Gibson, a Notary Public in and for the State of Ohio, at the offices of Janine L. Migden-Ostrander, Ohio Consumers' Counsel, 10 West Broad Street, Suite 1800, Columbus, Ohio, on Thursday, June 16, 2011, at 2:15 p.m.

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On behalf of The Kroger Company.

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Thursday Afternoon Session,
June 16, 2011.

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DR. CHANTALE LACASSE

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

DIRECT EXAMINATION

By Ms. Grady:

Q. Good afternoon, Dr. LaCasse.

A. Good afternoon.

MS. GRADY: At this time I would like marked as Deposition Exhibit 1 the Notice to Take Deposition Upon Oral Examination and Request for Production of Documents dated June 2, 2011.

(EXHIBIT MARKED FOR IDENTIFICATION.)

MS. GRADY: Can we have -- I'm sorry. I did it again, and I did it this morning. I forgot to take appearances. Could we have appearances, please, on the record for the deposition starting with Mr. Conway.

MR. CONWAY: Thank you. My name is Daniel R. Conway with the firm Porter, Wright, Morris & Arthur, on behalf of AEP Ohio, and with me is Christen Moore also with Porter, Wright.

MR. DARR: Frank Darr, McNees, Wallace &

Nurick, here on behalf of IEU-Ohio.

MS. GRADY: Maureen Grady on behalf of Janine L. Migden-Ostrander, Consumers' Counsel.

MR. SMALZ: Michael Smalz of the Ohio Poverty Law Center on behalf of the Appalachian Peace and Justice Network.

MR. ALEXANDER: Trevor Alexander, law firm Calfee, Halter & Griswold, representing FirstEnergy Solutions Corporation.

MS. GRADY: And now appearances from the phone.

MR. KRAVITZ: Zach Kravitz, Chester, Willcox & Saxbe, representing the Kroger Company.

MS. GRADY: Hearing no others we will continue on with the deposition.

Q. (By Ms. Grady) Dr. LaCasse, is it your understanding that you are appearing today pursuant to Deposition No. -- Deposition Exhibit No. 1, the Notice to Take Deposition Upon Oral Examination?

A. Yes.

Q. Now, with respect to this Notice of Deposition specifically, if you turn to page 3, you were asked to bring to the -- to produce at the time of your deposition the following documents: Subsection A, documents supporting or underlying your testimony. And with respect to that particular request what did you bring?

MR. CONWAY: Dr. LaCasse has brought with her today her testimony prefiled in this remand proceeding along with I believe -- did you have your affidavit with you also?

THE WITNESS: I do.

MR. CONWAY: It was attached to the initial remand filing or the initial merit filing on remand and then she, of course, has her -- she has her workpapers which are three items, I believe. And maybe I should let Dr. LaCasse describe them actually.

MS. GRADY: That would be great. Thank you.

A. The first item is the testimony of Scott Fisher which is referred to in the testimony as to the NorthBridge Study. The second document is the report from the Illinois staff -- Staff of the Illinois Commerce Commission. And the third one is the NERA Study that was prepared for Allegheny Power and Baltimore Gas and Electric.

Q. If I could approach the witness, please, just to make sure that we understand exactly what you brought. You referred to the direct testimony of

Scott G. Fisher. Would this be the PECO Energy Company Statement No. 3?

A. That is, yes.

Q. Okay. And you referred to the Illinois report. Would this be the 55-page document entitled LaCasse Workpaper Post-Auction Staff Report dated December, 2006?

A. Yes.

Q. And the third document you referred to would be the NERA Study, the Evaluation of Longer-Term Procurement Plan dated October 1, 2008?

A. That's correct.

Q. Thank you. You were also asked, Dr. LaCasse, to bring documents supporting or underlying the affidavits filed as an exhibit in the initial merit filing on remand and you indicated you brought in response to that your LaCasse Affidavit Exhibit A; is that correct?

MR. CONWAY: That's true, Maureen. I would just also mention as I did with Ms. Thomas that since the affidavit was prepared ahead of the testimony which was later submitted, that the testimony and the workpapers for the testimony provide a breadth of support and scope of support which encompasses the affidavit also. So in addition to the affidavits, the other items I think are related to it and help to support the affidavit. And then -- and then similarly the workpapers and the affidavit are related to the testimony itself so.

Q. (By Ms. Grady) You were also asked, Dr. LaCasse, to bring documents that respond to intervenor discovery. Did you bring any documents that pertain to that?

MR. CONWAY: And, again, Maureen, let me just interject that I did not instruct Dr. LaCasse to bring any discovery responses. It was our view that the duces tecum provision being part of the original Notice to Take Depositions which was before any discovery had been responded to is -- you know, we have complied with that by the responses that we have provided so far as part of discovery which you have along with whatever attachments or other documentation the company provided in response to your discovery requests.

Q. With respect to Subsection D you were asked to bring documents pertaining to NERA work with AEP Ohio to evaluate and develop methods of quantifying shopping-related risks. Did you bring any documents that pertain to that particular document request?

A. Nothing in addition to the workpapers.

Q. You were also asked, Dr. LaCasse, to bring documents from which the information contained in the AEP Ohio initial merit filing on remand were derived. Did you bring any additional documents to respond to that particular document request?

MR. CONWAY: And, once again, I would just repeat what I had to say with the affidavit which is that the subsequent testimony and the other workpapers provide additional support for the affidavit and, thus, for Dr. LaCasse's role in supporting the initial merit filing.

Q. Dr. LaCasse, let's turn to your testimony. That is, you have a copy of your testimony, do you not, that was filed, your direct testimony that was filed June 6, 2011, in this case?

A. I do.

Q. Now, referring -- let's talk for a moment about your consulting experience at NERA and I am going to reference your testimony at page 2, lines 2 through 9. Do you see that reference?

A. Yes.

MR. CONWAY: Ms. Grady, could you hold on one second.

MS. GRADY: Sure.

MR. CONWAY: Thank you.

Q. Now, specifically with your consulting experience at NERA, when have you examined the nature of the shopping risk that is faced by an electric utility or competitive resource energy supplier?

A. Could you please repeat the question.

Q. Yes. With respect to your consulting experience at NERA, can you tell me if or when you examined the nature of shopping risk that has been faced by an electric utility or a CRES supplier?

A. As part of the design and implementation of competitive bidding processes and the evaluation of those competitive bidding processes, it's part of that assignment to consider the type of risks that the suppliers would face in bidding for supply of default service or standard service offer as it is called in Ohio.

Q. What would -- how were these -- the risks examined -- how did you examine the risks -- did you specifically examine the shopping risk as part of the design and implementation of the bid process?

A. As part of the design and implementation and evaluation of the competitive bidding process, it was certainly a part of that evaluation to note that the suppliers that would be participating in the competitive bidding processes would be facing shopping-related risks.

Q. With respect to noting that the suppliers would have faced specific shopping risks, would you have, during your work with NERA, examined how the suppliers had determined the shopping risks?

A. Not specifically. As I mention in the -- in my testimony, I would expect suppliers that participate in those competitive bidding processes would use different methods to assess these risks and that these -- that these bidders would be expected to be quantifying those risks in advance of their participation in competitive bidding processes and these risks would include the shopping-related risk, and I would expect that each bidder would use different proprietary methods that depend on their own strategies of managing those risks.

Q. Did you analyze the different methods that were used by the suppliers when they submitted bids in your work at -- at NERA?

A. No.

Q. Can you quantify -- did you look at or do an examination of the -- of how the risks were quantified or whether the quantification of risks by buyers were appropriate?

A. No.

Q. Now, when we were speaking just a moment ago, I asked you about your experiences when you were telling me that you were part of the design and implementation of bid process. Is that you personally, or is that a team at NERA that was involved in that?

A. The implementation always involves a team at NERA so this design that I have testified on, the design and implementation, personally for some of the utilities that I mentioned.

Q. Now, your experience or consulting experience in NERA with respect to designing and implementing a bid process, were the environments that you designed and implemented the bid process similar to the competitive market or environment that is currently in Ohio, if you know?

A. Is it possible to rephrase the question?

Q. Let me try. You indicated that you -- as part of your consulting experience at NERA, that you were involved in the design and implementation of bid processes. What states were you involved in the design and implementation of bid processes?

A. Well, one state was Ohio for the FirstEnergy Companies as part of the -- their 2004 process for --

Q. Yes.

A. -- the market test to see whether auction would be rejected in favor of the rate stabilization plan pricing. I have been involved in New Jersey since 2001 and in their implementation of an auction for the procurement of supply for their default service customers.

I have been involved in the design and implementation for Penn Power since 2005 for their customers, default service customers, in Pennsylvania as well as the auction for Met Ed, Penn Electric, and more recently adding Penn Power for also their default service customers in Pennsylvania as well as for PECO and PPL also in Pennsylvania for their default service customers.

I have been involved in Illinois for also the procurement of supply for the customers of the utilities ConEd and Ameron, Illinois utilities, in 2006 and ComEd more recently since 2006 as well.

Q. Now, in your work, again, just to make sure that I understand, in your work that you have just described you would have been part of designing and implementing the bid process and not necessarily looking at specifically the shopping risks faced by the electric utilities or the CRES in those situations?

A. That risk would be part of the considerations used by the suppliers to bid in those processes. They -- the suppliers do not provide a set quantification of that risk as a part of submitting their bids.

Q. So you wouldn't -- I'm sorry. I didn't mean to interrupt you. So you wouldn't be looking at it -- in your work you didn't really look at how the suppliers priced out the shopping risk nor did you look at how the shopping risk was quantified and determine whether or not the quantification was appropriate?

A. That's correct. There have been studies that look at the quantification of the overall risks that have been included in such bids and two of those studies are quoted in the testimony, namely, the study of the staff of the Illinois Commerce Commission and the NorthBridge Studies. And those quantifications as I mention in my testimony can be estimated by comparing the visible cost components of the supply with the price bid by those bidders at the auction.

Q. Now, with respect to the Illinois study that you mentioned, that was the staff -- the post-auction public report of the staff?

A. That's correct.

Q. And did you have any responsibility for generating that post-auction report?

A. No.

Q. And did NERA have any responsibility with respect to generating that post-auction report?

A. No.

Q. Was part -- were you retained in the Illinois proceeding which addressed the post-auction public report?

A. Yes. I was the auction manager for the Illinois auction.

Q. And as part of the -- as the auction manager for the Illinois auction, did you determine whether or not the shopping risk calculations were properly quantified?

A. No.

Q. And as part of the work that you did with respect to the Illinois proceeding, did you -- let me strike that.

With respect to the NorthBridge Study that you mentioned --

A. Yes.

Q. -- that was one that was actually conducted by NERA --

A. No.

Q. -- is that right? Did you provide workpapers on the NorthBridge Study? Do you know?

A. Yes. That's the Scott Fisher testimony.

Q. Oh, okay. Thank you. And in the NorthBridge Study, Scott Fisher is somebody who is a NERA consultant; is that correct, or no?

A. No. He is from Northridge.

Q. Okay. And with respect to the proceeding that Scott Fisher testified in, did NERA have a responsibility or assignment?

A. I was also a witness for PECO in that proceeding.

Q. And as a witness for PECO in that proceeding, were you -- did you attempt to quantify the risks or make a determination as to whether the risks produced were appropriately -- were appropriate in -- in the methodology or in the final result that was offered?

A. No.

Q. Let's go a moment -- you had mentioned that you served as an auction manager for the FirstEnergy market test. Did you recall that reference -- and I will direct you to your testimony at page 2, lines 10 through 23. Do you see that?

A. Yes.

Q. In your role as the auction manager for the FirstEnergy market test, did you examine the nature of the shopping risk that was faced by the participants to the auctions or did you examine -- let me strike that.

Did you examine the nature of shopping risk customers faced by the participants to the auction?

A. No.

Q. Did you examine the shopping risk faced by FirstEnergy related to the auction?

A. No.

Q. Did you quantify or examine the costs incurred by the suppliers or FirstEnergy associated with the shopping risks?

A. No.

Q. Did you examine the methodologies used to measure the cost associated with shopping?

A. No.

Q. Did you examine the -- any analysis by FirstEnergy or any of the CRES suppliers associated with that auction that pertained to shopping-related risks?

A. No.

Q. Let's go to your consulting experience, your Exhibit CL-1 which you have listed. Can you point at -- to any experience listed in CL-1 that pertains to the following areas of inquiry: Can you point to consulting experience where you examined the nature of shopping risks that is faced by an electric utility or a CRES?

A. Not specifically other than, as I said, as a general matter as part of the design implementation of competitive bidding processes.

Q. Can you point to a -- any of your experience on CL-1 where you examined the costs incurred related to shopping for an electric utility or a CRES supplier?

A. No.

Q. Can you point to any of your consulting experience listed on CL-1 where you looked at the tools to measure the costs incurred regarding the shopping risk for the electric utility or a CRES supplier?

A. No.

Q. Can you point to any experience on CL-1 where you looked at ways to measure shopping-related risks?

A. No.

Q. Now, we talked about the consulting experience that you have listed on -- under CL-1. I am going to direct your attention to your testimony listed on CL-1 and ask you the same questions. In your testimony listed on CL-1, can you point out any specific testimony where you would have addressed the nature of shopping risk customers that were faced by an electric utility or a CRES supplier?

A. I'm sorry. Can you repeat that?

Q. Yes. Specifically on Exhibit CL-1, you have a listing of testimony which runs from page 6 through page -- page 10. My questions are directed to whether you can point to any of the testimony that's listed on that exhibit where you addressed the nature of shopping risks that are faced by an electric utility or a CRES supplier.

A. There's not specifically on that issue.

Q. And can you point in Exhibit CL-1 to testimony where you would have testified on the costs incurred related to shopping with respect to an electric utility or a CRES supplier?

A. No.

Q. And can you point on CL-1 to any

testimony specifically that would have addressed tools to measure the costs incurred regarding shopping risks for an electric utility and/or a CRES supplier?

A. No.

Q. And can you point on CL-1 to any testimony that would have addressed ways to measure shopping-related risks?

A. No.

Q. Thank you. I am going to direct your attention to your testimony on page 4, lines 17 through 19. And there you indicate that you had an opportunity to discuss the POLR option analyses with AEP personnel. Do you see that reference?

A. Yes.

Q. Can you tell me whom your discussions occurred with?

A. My main contact was Laura Thomas and I discussed the details of the model with her and she also arranged various calls for other people to provide a more technical description of the model.

Q. And do you know if you can recall who the -- who those calls -- who would have been on those calls that would have provided a more technical description of the model?

A. No, I'm sorry. I don't know the names off the top of my head.

Q. And when did -- when did you have the -- the discussions with the company on the POLR option analyses?

A. In the course of preparing testimony.

Q. And when did you begin preparing the testimony?

A. After the -- after the initial filing and it was determined that there was going to be -- which is after the entry, whenever that was, that determined there was going to be a remand proceeding.

Q. When you say initial filing, you are talking about the initial merit filing?

A. I did.

Q. Now, did you -- did you have any responsibility for the initial merit filing?

A. Aside from the affidavit you mean?

Q. Yes.

A. Just the affidavit.

Q. Now, with respect to your discussions that you had with the AEP personnel where you discussed the POLR option analyses, were there any documents that were produced as a result of your discussions with AEP?

MR. CONWAY: At this point I am going to interpose an objection. I let it go when you were inquiring whether she had discussions with AEP personnel who she could recall having discussions with. But I'm not going to permit deposition examination of our trial strategy and the -- our work product or let alone privileged communications. So with that you can go forward in fairly short order if you keep going in this direction, I will instruct her not to answer.

Q. You may answer.

MS. GRADY: You are not instructing her at this point to not answer, are you?

MR. CONWAY: Let's have the question. Let me make sure I'm not -- hear the question again.

(Question read.)

MR. CONWAY: By "produced" you mean that she generated, that she prepared?

MS. GRADY: We can start with that.

MR. CONWAY: Because the only thing she has been asked to prepare is her testimony and her affidavit which you already have.

Q. Let's ask the question this way, were there any documents that you were given by AEP personnel related to the discussions on the POLR option analyses?

MR. CONWAY: I am going -- at this point I am going to instruct her not to answer because you are getting into our work product.

MS. GRADY: Are you maintaining that your work product exists beyond the preparation of your testimony and submission of your testimony?

MR. CONWAY: Certainly. As you -- as you've continuously maintained every time we ask for information from you about the preparation of your positions and your testimony.

MS. GRADY: I'm not sure what you are referring to, but we can -- we can hold that discussion for later. So you are instructing the witness not to answer on the basis that you are maintaining trial preparation privilege; is that correct, Mr. Conway?

MR. CONWAY: That's correct.

MS. GRADY: Any other privilege you are asserting with respect to those documents?

MR. CONWAY: Well, very well could be attorney-client communications. The discussions that we have internally regarding the preparation of our case would be regarded as confidential and privileged and protected from disclosure.

Q. Were there any -- let me ask you this, were there any documents, Dr. LaCasse, that were given to you by AEP with respect to the POLR option analyses? Not inquiring as to the content, I am asking if there were any documents given.

MR. CONWAY: Why don't we go off the record for a minute.

MS. GRADY: Uh-huh.

(Recess taken.)

MR. CONWAY: In order to possibly advance the discussion, I won't object to inquiries about documents that she might have reviewed in the course of and relied upon in the course of preparing her testimony, but if it gets into internal discussions between counsel and her between -- between our internal working group at AEP with the case, then I will -- I will stop it, but if you want to ask her what documents that she --

MS. GRADY: That's where I was proceeding.

MR. CONWAY: Okay. There is kind of fine -- I don't know how fine. There is a line and I don't want to inadvertently trip across it.

MS. GRADY: It would be my understanding to the extent you are claiming privilege, you need to be specific about the privilege, and I would -- consistent with what I understand the Commission's practice is if you were going to assert privilege on particular documents, there would be an expectation of the production of a privileged log consistent with the Court's -- with the Commission's ruling in the FirstEnergy all electric case where privileged logs were required when a party claimed privilege and the other party was seeking discovery of that privileged information.

MR. CONWAY: My objection really is -- and the significant one is it's not just about communications that are, or information that's in documents, but also oral or whatever the form of the communication. So when I say we're concerned about intruding upon areas of communication that are privileged, I'm talking about other than -- I am not just talking about documents. But, like I said, and I certainly don't want to prevent you from going into an area that you are interested in. It's -- it's not -- doesn't intrude improperly and so, like I said, if you want to inquire into what documents that she reviewed and relied upon in the course of developing her testimony, I mean, okay, but to the extent that -- extent into the trial preparation and attorney-client communication area, whatever the form, then I will object.

MS. GRADY: Okay. I appreciate that.

Q. (By Ms. Grady) Let me rephrase my question or ask it again. Dr. LaCasse, you mentioned that you had within -- you had the opportunity to discuss the POLR option analyses with the AEP personnel. And my question is with respect to that discussion or analyses, were there documents that you were given by AEP to assist or to facilitate that discussion in your review of the POLR option analyses?

A. The documents and materials that I reviewed in connection to that are provided in or listed in my testimony and include the testimony and analyses that were related to the calculation of the POLR charge in the initial case.

Q. And when you say they were the documents listed in your testimony, are you referring to your testimony on page 4, lines 3 through 21?

A. I am.

Q. Were there no additional documents other than what you have listed that were given to you by AEP for purposes of your analysis of the POLR option?

MR. CONWAY: And, once again, the

qualification is that she used in order to prepare her testimony.

A. No other document that I used in preparation of this testimony.

Q. When you say this testimony, was this a prior version of this testimony; is that what you are referring to?

A. No.

Q. Did you in the course of your -- the materials that you reviewed in preparing your testimony review discovery responses and requests that were made by intervenor -- intervening parties in this proceeding?

A. Yes.

Q. And you were directed to the intervenors' discovery responses by the company; is that correct?

A. Yes.

Q. Do you recall what -- what discovery you reviewed, or do you have a list of what discovery and responses you reviewed?

A. No.

MR. CONWAY: Maureen, just might -- not point out but observe, I think, that we, in the course of preparing responses to discovery requests, we do list the witnesses that are responsible for the various discovery requests. I think we've provided you with responses to one, I am not sure if we have done two sets yet but at least one set. We have done some with IEU also.

Q. Have you looked at the discovery responses in the ESP2 proceeding, current filing of the company, if you know?

A. I don't know.

Q. Let's go to page 6 of your testimony. Specifically I want to direct your attention to line 14, the discussion beginning on line 14 and carrying over to page 7, line 6. And here I believe you are talking about hedging, and you are speaking of hedging the financial exposure to the spot market through forward sales. Is that -- is that a fair characterization of your testimony here?

A. I'm saying that a significant aspect of optimally managing generation output is the hedging of financial exposure to spot markets of forward sales.

Q. Now, the hedge opportunities for an EDU would be wholesale capacity and wholesale energy sales; is that correct?

A. No. What I mean here is retail sales.

Q. So your testimony is that the hedge

opportunities for EDUs are available on the retail sale level?

A. Yes.

Q. When you -- when you -- let me strike that.

If the hedge opportunities are those that are strictly related to retail sales and not wholesale, who are you assuming that the electric distribution utility will sell to?

A. The -- in this specific paragraph where we're talking about an EDU that does not have POLR obligations, and in this whole question and answer we are looking at an EDU in the broader context that has a POLR obligation and would make retail sales, and in following the methodology that is in this proceeding and was in the previous proceeding as well, the assumption that's implied in that methodology is that if those sales are not made to the SSO customers, then they are replaced by other retail sales.

Q. Thank you, Dr. LaCasse. Now, specifically with respect to AEP, is it your understanding that AEP has POLR obligations?

A. Yes.

Q. And with respect to the hedging opportunities for AEP, would you agree that those hedging opportunities exist only on the wholesale capacity and only on wholesale energy sales?

A. No.

Q. Can you explain to me how AEP has hedging opportunities on the retail sale and retail energy sales -- retail -- let me strike that.

Can you explain to me your understanding of how AEP Ohio has hedge opportunities that would be for retail capacity and retail energy sales?

A. Presumably it would be retail sales in other jurisdictions.

Q. Off-system sales, is that -- could we use that term? Is that a correct term to describe what you are talking about or sales outside of Ohio?

A. I don't know the particular term that you are using.

Q. You said sales to other states. Are you talking about sales to customers?

MR. CONWAY: She said sales in other jurisdictions.

Q. So nonjurisdictional sales is what you are talking about.

A. Sales to retail customers that are not SSO customers.

Q. And do you know in the -- in Ohio how the

Ohio Commission treats the profits from nonjurisdictional sales from a regulatory perspective?

A. I do not.

Q. Have you reviewed the AEP pool agreement?

A. No.

Q. So it would be safe to say you did not factor the AEP pool agreement in your analysis?

A. Yes.

Q. Are you familiar with the PJM Reliability Assurance Agreement?

A. Generally I am.

Q. Are you familiar with the Fixed Resource Requirement Option?

A. I know the term, but I'm not familiar with details.

Q. Are you aware of whether or not AEP has implemented the Fixed Resource Requirement Option?

A. Yes. I know that they have.

Q. And can you explain to me what your understanding is of how the Fixed Resource Requirement Option works for AEP?

A. I don't know how it works for AEP. I just know at a general level that it's a different capacity zone.

Q. Do you know with represent to -- at the -- at the general level do you know under a Fixed Resource -- under a Fixed Resource Requirement whether there are any restrictions placed on the ability to sell capacity that has been identified as a resource used to fulfill the FRR commitment?

A. No, I don't know the details.

Q. Dr. LaCasse, have you factored AEP's Fixed Resource Requirement capacity commitments which restrict capacity sales opportunities into your analysis?

A. No.

Q. Let's go to page 5, specifically lines 18 through 23. There you are discussing the nature of shopping risks that an EDU takes on under its POLR obligation. Is the risk that an EDU faces different from the competitive risk that a CRES supplier faces in Ohio?

A. Yes.

Q. Can you tell me how that risk is different?

A. The CRES provider can write a contract with the customer; that's one difference that would prevent the customer from leaving. The CRES provider can choose its customers, and does not have to contract with any customer who wants service from the CRES provider. So basically a CRES provider, if the -- if the -- I'll stop there.

Q. When a CRES supplier loses a customer to a competitor, does the CRES supplier typically receive a capacity payment from the competitor, if you know?

A. I don't know.

Q. Have you factored into your analysis the fact that CRES providers must make a capacity payment to AEP for the demand associated with the shopping customer load that the CRES serves in the AEP service territory?

A. No.

Q. Would it be appropriate to factor into your analysis the fact that CRES providers must make capacity payments to AEP?

MR. CONWAY: Objection.

A. It assumes a premise which is -- has not been demonstrated.

Q. Okay. Let's assume that a CRES provider must make a capacity payment to AEP for the demand associated with the shopping customer load that it serves. Would you believe it's appropriate to factor that into your analysis of POLR -- in determining the

POLR risk?

A. No.

Q. And why is it not appropriate?

A. Because the POLR risk and the costs associated with the POLR risk compare the situation of the EDU that serves its SSO customers at the SSO price as filed and as approved by the Commission, and compares that situation, that baseline, to a situation where customers are able to shop and where the revenues that are realized by the EDU because of this shopping would be different. So as I explain in the portion of the testimony that you are pointing to starting on line 20 of page 5, if the customers do shop, then the EDU would find that portion of the output that is expected to be used to serve those SSO customers would need to be sold at below expected prices. So comparing a situation where there is no shopping, an EDU would be able to sell to all its SSO customers, to a situation where it does not, there is a revenue shortfall.

Q. Let's point to -- or let's turn to page 12 of your testimony. And on page 12 of your testimony, line 4, you -- you indicate "the companies in their filing in the 09-11 ESP." Are you referring to the first ESP filing, Case No. 08-917-EL-SSO, there?

A. Yes. That's defined on lines 14 and 15, page 4 of my testimony.

Q. Oh, thank you. Is it your understanding that the company used a Black-Scholes model to compute POLR and that -- that they called this -- that this model was the original -- was the original -- let me strike that.

Is it your understanding that in the 09-11 ESP that the company used a Black-Scholes model to compute POLR?

A. What does "to compute POLR" mean?

Q. To calculate the POLR rider that would be charged to customers for the companies' POLR cost.

A. Yes.

Q. And can we agree to call this model the companies' original unconstrained model; is that acceptable?

A. (Witness nods head.)

Q. What steps did you take in reviewing the companies' original unconstrained model?

A. Well, I reviewed the original testimony in the 09-11 ESP. I looked at generally the Black-Scholes model and the inputs. I also relied on other experts at NERA that work with these models on -- on a regular basis to understand what had been done.

Q. When you say you looked at -- you generally looked at the Black-Scholes model, what do you mean by that?

A. To understand what the Black-Scholes model was used for and what its inputs typically are.

Q. Are you referring -- when you say that, are you referring to the formulas or are you actually referring to the Excel spreadsheet associated with the original unconstrained model?

A. To the spreadsheet.

Q. Did you prove the formulas in the spreadsheet?

A. No.

Q. Did others that you indicated that work with the -- these models more regularly prove the spreadsheet?

A. No.

Q. I take it that by your reference to others -- other experts at NERA that work with these models more regularly that you don't work with the Black-Scholes model regularly; is that -- would that be a correct characterization?

A. Yes.

Q. When -- when you indicated you looked at the spreadsheet, are you actually talking about an active model -- the electronic model for the Black-Scholes tool, or are you talking about a printout?

A. Electronic version.

Q. And when did they provide you with the electronic version to look at, if you recall?

A. I don't recall.

Q. Do you recall what the electronic version was called?

A. No.

Q. Was it in the version of software?

A. It's an Excel --

Q. It's an Excel spreadsheet?

A. (Witness nods head.)

Q. With active links?

A. In the Excel spreadsheet it's -- it's one of the functions in Excel.

Q. And with that -- with that electronic spreadsheet were you able to replicate the companies' results?

A. Yes.

Q. And can you personally replicate the companies' results, or were there others at NERA that would have replicated the companies' results?

A. Maybe I should ask what you mean by "replicate."

Q. Well, you mentioned you had an electronic spreadsheet, and you mentioned it was a working electronic spreadsheet; is that a fair characterization of what you testified?

A. Yes.

Q. And you also mentioned that you -- in that context that you looked generally at the model and the input. Did you in -- what did you do with the electronic spreadsheet? I guess that's probably the real basic question. What did you do with that electronic spreadsheet?

A. I looked at the inputs.

Q. Did you run -- run the model?

A. The functions are there so there's nothing to run.

Q. Did you test alternative assumptions under the electronic spreadsheet?

A. No.

Q. Did you test the assumptions that were listed on the spreadsheet at all? Did you test the inputs, or did you merely accept the electronic model as it was given to you?

A. I accepted the model as it was given to me.

Q. So would it be a fair characterization to say that the sole -- would it be a fair -- is it a fair characterization to say that all you did with the electronic spreadsheet is look at the inputs period?

A. Yes.

Q. Did anyone else at NERA do anything else with the spreadsheet beyond looking at the inputs?

A. No.

Q. Is it your understanding in the companies' current ESP filing in Case No. 11-346-EL-SSO that the companies have adjusted the original unconstrained model?

A. Yes.

Q. And that they have then used the original -- they have used now -- they are using a Black model now which incorporates constraints for determining the POLR charge in the ESP2 case?

A. Can you repeat the question?

Q. Yes. Is it your understanding that the company is proposing in the ESP2 case, the 11-346 case, to use the Black model incorporating constraints for switching?

A. My understanding between the difference between the two models is one is to incorporate the switching restrictions in the model, and the second is to look at the series of option -- options rather than one option that expires at the end of the term. I'm not going to address whether it's Black-Scholes or Black. I believe that's -- I could not make the distinction between those two.

Q. Thank you. So you said it's your understanding -- you were talking about the difference between the ESP -- the new ESP filing and the original unconstrained model. You mentioned that one of the differences that is -- that one looks at a series of options versus the other one looks at one option that expires at the end of the term; is that correct? And which -- which model as you would characterize it looks at the series of options?

A. The new model.

Q. And you -- is it your understanding then that the -- the -- what the company refers to as a constrained model, what they have presented in the ESP2 looks at one option that expires at the end of the term?

A. Can you repeat that?

Q. Yes. I think earlier you said one of the differences between the original unconstrained model and the -- the constrained model presented in ESP2 was that one looked at a series of options and one looked at one option expiring at the end of the term, and I guess I was focusing on your phraseology that one of the models looks at one option that expires at the end of the term, and I want to understand what you mean by that. Are you saying that the new model, the ESP2 model, it incorporates one option that expires at the end of the term?

A. No. The new constrained model has a series of options, looks at monthly options that continue throughout the term of the ESP.

Q. So when I mention that one model looked at one option expiring at the end of the term, were you meaning to -- what was your -- I am not sure -- what was your characterization there of? Are you characterizing one of their models as one contained an option that expires at the end of the term?

A. Yes, the 09-11 model.

Q. Okay. When I mentioned, Dr. LaCasse, the ESP2 model, is it your understanding that in this proceeding this is the -- which we'll call the remand proceeding, that they are also looking at that very same model?

A. Yes.

Q. Okay. What steps, if any, have you taken in reviewing the companies' new ESP2 constrained model that's presented for purposes of remand?

A. I discussed the differences between the two models with Laura Thomas and other AEP personnel and looked at the testimony in the 12-14 ESP.

Q. And the 12-14 ESP is what we have been talking about as ESP2, Case No. 11-346; is that -- is that correct?

A. 346, yes, that's correct.

Q. And when you call something the 9-11, you are referring to the ESP 2009 through 2011, and when you refer to 12 to 14, you are talking about an ESP that runs from 2012 through 2014?

A. That's correct.

Q. Did you actually run the newer constrained model?

A. No.

Q. Did you look at the coding for the newer constrained model?

A. No.

Q. Did you review the input value for the -- the input values for the newer constrained model?

A. For purposes of the remand testimony?

Q. Yes.

A. I reviewed the testimony of Laura Thomas.

Q. Do you have an opinion as to the appropriateness of the input values that were used in either the constrained or unconstrained model?

A. I looked at some of the inputs in considering whether those inputs would be factors that would tend to either overstate or understate the POLR charge that was estimated. So, for example, as I mention on page 15 of my testimony, lines 8 and 9, I looked at the volatilities that were being used and noted that the volatilities that were being used were annual volatilities and, therefore, this would be something that would tend to understate the POLR charging to the extent that customers can switch monthly and that monthly volatilities are typically greater than annual volatilities.

Similarly I considered the fact that the strike price that was used in the option in the constrained model was the ESP price that was projected for the first year of the ESP term, but since that price was expected to rise over the term of the ESP then all else equal using a higher ESP price would have provided for a higher option cost.

Q. Now, you mentioned the issue of using monthly volatilities versus annual volatilities. Did you -- did you -- do you have an opinion about the appropriateness of the ultimate level of volatility that was used in the Black-Scholes constrained model or unconstrained model, either model? Both the models use the same volatility percentage, correct?

A. Correct.

Q. Do you have an opinion as to the appropriateness of that volatility percentage in terms of computing POLR?

A. No, I did not examine that.

Q. Now, you indicated -- you opine on the appropriateness of using a monthly volatility factor as opposed to an annual volatility factor. Can you tell me how you -- can you tell me how it is appropriate to use a monthly factor for some of the inputs and yet use yearly factors for other inputs into the Black-Scholes constrained model?

A. Some of the inputs such as the strike price or the ESP price, if it's assumed to be stable for that year, would be appropriate to use the same price every year a customer that has the ability to switch in any given month, then it would be appropriate to look at the volatility of price over that same period which is -- would be the monthly period.

Q. Is it your understanding that the -- one of the inputs to the -- to the Black-Scholes model is interest rates?

A. Yes.

Q. And is it your understanding that the model uses an annual interest rate versus a monthly interest rate?

A. Yes.

Q. And would it be appropriate to use an annual interest rate when you use monthly volatilities, monthly volatilities?

A. I have not examined that.

Q. Would you see that there would be an inconsistency between using some values and have monthly data for some values while using annual values for others with respect to the inputs to the Black-Scholes model?

A. Not necessarily. As I mentioned, it depends what the -- what the input is for so, again, to the extent that the customer in making his decision of whether or not to shop is doing that on a monthly basis, to look at volatility of prices on that basis would be appropriate.

Q. Are you familiar with how the volatility input value is calculated for the Black-Scholes model?

A. No.

Q. So you are not testifying as to the appropriateness of how the volatility was calculated and used in the Black-Scholes model?

A. I have not looked at that.

Q. Have you calculated the option values independently of the company?

A. No.

MS. GRADY: Would now be an appropriate time for a 5-minute break?

(Recess taken.)

MR. ALEXANDER: Mr. Conway, thank you for giving me the opportunity to take this right now. FirstEnergy Solutions is here and ready to go forward, but as we talked about during the break, I understand that your position is the same as it was for Witness Thomas's deposition?

MR. CONWAY: That's correct.

MR. ALEXANDER: Thank you very much.

MR. SMALZ: Also, Mr. Conway, I understand that your position is the same with respect to questions that might be presented by the Appalachian Peace and Justice Network. We are also ready to go forward with questions today, and as indicated earlier, we may file an interlocutory appeal or motion for reconsideration.

MR. CONWAY: Understood and the response is the same as it was for Mr. Alexander.

MS. GRADY: We can get started back with that?

Q. (By Ms. Grady) Dr. LaCasse, let's refer to your discussion on page 6, line 14, which carries over to page 7, line 6. And there you discuss POLR and the impediments to hedging that are created for an Ohio electric distribution utility that observes generation assets. Do you see that reference?

A. Yes.

Q. And we actually were focused on this testimony earlier, were we not, where you indicate that was a general discussion of EDU that had no POLR obligation?

A. Yes.

Q. Are you saying in your testimony that an EDU who has POLR responsibilities -- let me strike that.

Are you saying that an EDU's POLR responsibilities create a lost opportunity; is that your testimony?

A. Creates constraints on how to manage generation output given the POLR obligations of serving SSO customers at the ESP price in the case of an ESP auction.

Q. And when I said a lost opportunity, I was referring to your testimony specifically on -- on 7 -- on page 7 on lines 10 through 14 where you say an EDU assumes additional risks and costs, and if the market prices fall so that customers shop, a portion of the generation output that the EDU would have expected to serve SSO customers instead would be sold at prices below the ESP leading to a shortfall in revenue. Would you consider that a lost opportunity?

A. No. I consider the shortfall and revenue to be a difference between the revenues that the EDU would realize selling to all its SSO customers at the SSO price, so absent shopping the difference between that revenue and the revenue that it would get with a shopping-related risk where the customers may leave.

Q. Are you also saying -- are you saying that in -- and I am looking at the following couple of sentences. Are you saying if the market prices rise so that the customer returns, the EDU then has to divert its generation which could have been sold at higher market prices. Do you see that reference?

A. Yes.

Q. And would you consider that a lost opportunity for the EDU?

A. In that particular sentence so if market prices rise sufficiently so that customers return, it assumes that in the first instance customers left so prices dropped first.

Q. Yes.

A. Customers were shopping leading to shortfall of revenue so there's a difference in revenue that's attributable to the shopping-related risk that the EDU is taking and this is looking at prices rising afterwards and there are two circumstances that are -- that are here. One is if the generation output was sold elsewhere in the meantime but could be diverted to SSO customers here, and in that case once the SSO customer is returned, the -- the EDU would have the revenues at the SSO price from all the SSO customers as it -- as in its further case of the AEP filing at the Commission, but it also means that the generation output would not have been hedged so there would not have been any forward sales in the meantime between the prices dropping and the prices rising. In the second part I'm looking at a situation where the EDU would purchase from the market at those higher market prices. So that means that when prices dropped and customers left, the EDU made some forward sales at those lower prices and has to purchase additional supplies for the market -- from the market to serve SSO customers.

Q. Would you agree with me that the inability to -- and this is the first part of your testimony, the inability to do forward sales is a lost opportunity?

A. I don't understand the question.

Q. You indicated to me that -- and you were referring to your testimony on lines 14 through 18 that the first part of that statement refers to the fact that EDU would have to divert a portion of its generation output that could have been sold at higher market prices to serve the SSO customers, and I thought you characterized that as the inability to do forward sales; is that a correct characterization?

A. No. The -- what I'm saying is that when I am looking at the situation when the market prices rise and I say that the EDU would divert a portion of its generation output that could have been sold at those higher market prices to serve its SSO customers, those would be a case where when prices dropped in the first instance before prices rose again and customers returned, the EDU would not have made any forward sales at that point while the second part of the sentence where I talk about the EDU would purchase from the market at those higher market prices to serve its SSO customers, it means that when the price is dropped in the first instance, the EDU did make forward sales to be able to hedge its financial exposure to spot market but prices rose again, customers returned, and then the EDU to purchase from the market at higher market prices to serve the SSO customers.

Q. When you use the term forward sales, can you tell me what you mean by that?

A. I mean sales for output going into the future that are for a determined term that's fixed that's done in advance.

Q. Are you talking about nonjurisdictional sales for purposes of AEP Ohio?

A. No. A forward sale is a more general term that just means selling forward in time.

Q. Okay.

A. And I do believe -- yes, just refers to forward in time.

Q. Okay. Can you define what you mean by "financial exposure to the spot market" as you use the term on page 6, line 17?

A. That refers to the fact that the spot market is volatile and that simply selling in the spot market without any forward sale that are at the determinant price means that there is a lot of risk being taken and that is a financial risk and a financial cost to the entity in question. So, for example, suppliers and bidders in competitive bidding processes that win are signing a contract that allows them to do forward sale for a certain period of time, and it is not uncommon for some of these bidders to want to announce that fact because having a forward sale provides a hedge to that exposure to the spot market and is seen positively by financial markets.

Q. Did the forward sales that you mention create other financial exposures?

A. Yes. They could.

Q. And if so, what would those other financial exposures be?

A. Well, for example, when we were discussing the case of the EDU when market prices fall, if the EDU makes a forward sale at that point at one the price has fallen, it faces the risk that customers would return and it would have to purchase supply at higher market prices to serve its customers so there are other risks that can be associated with forward sales.

Q. Are there any others? If you did not have POLR responsibilities, wouldn't the -- wouldn't these -- the financial -- wouldn't these other financial exposures be created by forward sales?

A. Sorry. Can you repeat the question?

MS. GRADY: Can the court reporter reread the question, please.

(Question read.)

A. I don't understand the question.

Q. Dr. LaCasse, I apologize if I cut you off from your prior answer. Were you finished answering your prior question?

A. Yes.

Q. Is generator failure a risk of forward sales?

A. What do you mean by "generator failure"?

Q. If the generation that you relied upon to provide energy has a, for instance, a forced outage.

A. I would expect that if you make a forward sale, you would take those potential risks into account.

Q. But there would be potential risks? That would be, for instance, a potential risk?

A. Yes.

Q. Can a company make a mistake when it uses forward sales to hedge financial exposures to the spot market?

A. Can I have the question reread.

(Question read.)

MR. CONWAY: I'll object to the form of the question. It's at least vague, if not ambiguous. What do you mean by "mistake"?

Q. Can you answer the question?

A. I'm not sure what "a mistake" means.

Q. Can you make -- can a company make a bad decision whether or not to use forward sales to hedge financial exposure?

A. I'm assuming everybody can make a bad decision. Presumably the company is -- is looking and can put varying portions of its generation output locked into forward sales or not and that's part of its strategy in managing its generation output.

Q. Using either the constrained or unconstrained model, are there assumptions that are made how efficiently or effectively the company would hedge if the company had the opportunity to hedge?

A. No.

Q. Are there any implicit assumptions made in either the constrained or unconstrained model regarding how efficiently or effectively the companies would hedge if they had the opportunity?

A. No.

Q. Would you agree that a proper quantification of POLR risk would require a comparison of what happens under a scenario where the POLR obligation versus a scenario without a POLR obligation?

A. Could you repeat the question?

MS. GRADY: Could the court reporter reread that.

(Question read.)

A. No.

Q. And why -- why do you say no?

A. Because the quan -- a quantification that is appropriate is given the -- given the POLR obligation and given that the risk associated with this POLR obligation is shopping-related risk, the comparison would be between what happens to the EDU without shopping but with the POLR obligation and the EDU with that same POLR obligation but with shopping, so with and without shopping.

Q. On page 12 of your testimony, lines 20 through 22, you say that the expected cost is the relevant measure. Do you see that?

MR. DARR: Give me the page again, please.

MS. GRADY: I'm sorry. That's page 12, lines 20 through 22.

MR. DARR: Thank you.

A. Yes.

Q. Are you saying that actual cost is not relevant?

A. Actual cost is not relevant to the measure of the POLR charge and to the valuation of the option on an a priori basis.

MS. GRADY: Can I have that answer reread please.

Q. If the option valuation was measured not on an a priori basis, would actual cost be relevant?

MR. CONWAY: Could I have the question reread?

(Question read.)

A. Relevant to what?

Q. Let me -- let me withdraw the question and try to rephrase it. If the calculation of the POLR obligation was not done on a priori basis, would actual cost be relevant to determining the expected cost of the POLR obligation?

A. The POLR charge is done on an expected basis and it's done on an expected basis so that expected cost can be measured and reflected in rates and that's based on the ESP approved by the Commission and as intended being an SSO under which the price that customers receive is mostly fixed and, therefore, that there's also stability in the revenues to the companies.

Q. Does the POLR charge have to be calculated on an expected basis?

A. To be reflected in rates, yes.

Q. It can't be done on a retrospective basis?

MR. CONWAY: Just a point, a question of clarification, were you shorthanding your reference there, Ms. Grady, to an option valuation approach to establishing a POLR charge or were you being -- referring to some other basis other than option valuation?

MS. GRADY: I was referring to some other basis.

MR. CONWAY: Okay. Could I have the question reread with that in mind.

(Question read.)

Q. That's the question.

A. Yes.

Q. It has to be in your opinion.

A. Yes.

Q. On page 13, line 2, you refer to an ESP price as mostly fixed, and you just referred to just moments ago that the ESP price is mostly fixed. Can you tell me what you mean by "mostly fixed"?

A. The price for the duration of the ESP is not the same every year. And although I do not know all the details, I know that there are potential for adjustment to the ESP price during the term of the ESP.

Q. Is that by virtue of retrospective riders?

A. I don't know.

Q. Did you factor the existence of riders into your analysis of the POLR risk to the companies?

A. No.

Q. Are you familiar with the fuel adjustment clause rider and what costs that rider recovers?

A. I know that there is one, but I do not know the details of the -- of that.

Q. Can you assume with me for a moment that the actual adjustment clause recovers purchased power and capacity costs. And on the basis of that assumption -- let's strike that.

Assume for me for the moment that the fuel adjustment clause rider recovers fuel and purchased power which would include energy and capacity costs. How would that, the fact that the company is recovering fuel and purchased power costs including capacity costs, impact the companies' POLR risk?

A. To the extent that in the first instance customers left for -- because of the decrease in price and that the company did not make any forward sales or hedge that generation output and customers came back and that the EDU would need to purchase at market prices to serve those returning SSO customers, it would in part reduce that risk. And I don't know the details of the fuel adjustment, so I don't know how big a factor that is.

Q. Is the reduced risk that would be associated with a fuel -- with a fuel adjustment clause which recovered the purchased power energy and capacity costs factored into the POLR value that you present in the constrained model?

A. I don't think I present a POLR value.

Q. Is the potential mitigation of risk by a fuel adjustment clause rider that would allow the company to pass through purchased power energy and capacity costs factored into the companies' constrained POLR model, if you know?

A. I don't believe it does.

Q. Now, on page 13, line 18, you cite that -- I am just looking at the very last phrase on page 18 -- or on line 18. You say "these constraints must be modeled carefully." Do you see that?

A. Yes.

Q. Are you -- what constraints are you talking about there? Are you talking about the switching constraints?

A. Yes.

Q. And how must they be modeled in order to be treated appropriately?

A. The options that the customers have on the model must reflect any restrictions that are in the companies' tariff for the switching of customers.

Q. If there are other restrictions on customers' ability to shop, would you agree with me that the model should take these into account?

A. I can't say.

Q. But you're saying that with respect to the switching restrictions that they should be taken into account?

A. Certainly improves the model when they are taken into account.

Q. If there are restrictions, for instance, that certain customers cannot shop, should those restrictions be reflected in the model to make the model more appropriate?

A. I'm not aware that there are customers that do not have the option to switch. That could be an additional constraint that's added to the model. I can't say any more without understanding more about the situation.

Q. Can you assume that there are particular customers, for instance, the Percentage of Income Payment customers, low income customers, that have no ability to shop? Can you make that assumption with me for AEP Ohio?

A. There's certainly a difference here between the constraints on customers in terms of their option that I am discussing at line 18 that refers to constraints such as the customer has shopped and returned that there may be a mandatory stay that would apply to everyone. It does not refer to -- so it's a constraint that's for particular classes of customer does not refer to whether it's economically viable or not for a certain customer to shop.

Q. If the matter is not whether the customer is economically viable but if this is a restriction imposed by law or by Commission regulation that certain customers cannot shop, would that be the type of restriction that -- that the model should take into account in order to be more appropriate?

MR. CONWAY: Could I have the question reread, please.

(Question read.)

MR. CONWAY: It's a restriction on certain customers, not all customers is what the premise is?

MS. GRADY: Yes.

MR. CONWAY: Okay.

A. Yes. That could be another restriction on or constraint on customers that could be taken into account in the model.

Q. Is it your understanding that the -- the constrained model calculates the put and call option at the same time?

A. I don't know.

Q. Can you assume for me for a moment the Black-Scholes constrained model calculates the put and call option at the same time. Accepting that assumption, can you tell me how the switching restrictions do not measure the expected cost to the companies of the customers potentially leaving and then returning during the term of the ESP as you testified to on page 17, lines 20 through 22?

A. They -- my understanding of the constrained model is that it doesn't take the full dynamics of prices into account, that it looks at the risk of the price decreasing and of customers leaving.

Q. *So are you saying it doesn't look at both* puts and calls?

A. No. I'm saying it doesn't look at all potential price paths including prices falling and then increasing.

Q. Have you personally developed binomial models in the past?

A. No.

Q. On page 16 of your testimony you discuss the Black-Scholes data assumptions or factors, and I believe earlier we had a discussion about the fact that you have reviewed the input data or assumptions. Do you recall that discussion?

A. Yes.

Q. Are you familiar with the data assumptions that were used in the original unconstrained Black-Scholes model that was introduced by the company in the 09-11 case?

A. What's dates are you referring to?

Q. The valuation date. When I say valuation date, do you know what I am referring to?

A. Generally, yes. The calculation was made as -- in filings before the ESP period started and inputs were taken as of that date including using the ESP price from the first year.

Q. Is it your understanding the original unconstrained model -- that in the original unconstrained model the companies calculated the value of a European put option?

A. I don't know.

Q. When I use the term "a European put option," do you know what I am referring to?

A. I understand "put option." I don't know the distinction you are making by saying "European put option."

Q. When I use the term "American option," do you know what distinction I am making?

A. No, I don't.

Q. Okay. Let's flip to page 20 of your

testimony, lines 4 through 7. You state that "NERA has previously used a statistical analysis to quantify explicitly the cost of shopping-related risk." Do you see that reference?

A. Yes.

Q. Did the NERA study you cite use a Black-Scholes or a binomial model, if you know?

A. Neither.

Q. Okay. And so what -- what -- what kind of model did it use?

A. It used a statistical model that looked at the portfolio of supply under various options, looked at the volatility of prices, and looked at the shopping risk for various ways of providing supply to the equivalent of SSO customers, but it did not use the quantification of an option to arrive at the cost of shopping-related risk.

Q. And the NERA model you are referring to is the October 1, 2008, evaluation that was prepared for Allegheny Power and Baltimore Gas and Electric?

A. That's correct. And there's a general description of steps for the model on page 25 of that.

Q. Just so I understand, you indicate that the model cannot quantify the shopping option; is that what you said?

A. I said it did quantify the shopping-related risk but did not use valuation of option approach.

Q. And the valuation of option approach is something similar to Black-Scholes; is that correct?

A. That's correct.

Q. Okay. Do you believe that the NERA model that was presented and prepared for Allegheny Power and Baltimore Gas and Electric was an appropriate gas model?

A. The NERA model was done for a specific purpose that's described in the -- in the report and that was prepared given a Commission order of certain examinations that had to be made. I did not participate in doing that study. I am sure it was appropriate to the purpose of the study.

Q. Was one of the purposes of the study determining what cost benefits and risks would result from the companies' mapping a portfolio of power purchases as opposed to relying on full requirements?

A. Are you quoting from somewhere?

Q. Yes. I would be -- I am looking at page 1 of the NERA Economic Consulting Study, the introduction.

A. And where are you quoting from?

Q. The Subsection C which is one of the -- apparently under this report that the efforts were focused on developing an analysis that would help the Commission understand the following questions. I am wondering if that was one of the purposes then of the NERA that -- the use of the NERA risk model?

MR. CONWAY: Do you have a page?

MS. GRADY: Yeah. That's No. 1.

MR. CONWAY: Page 1.

MS. GRADY: Introduction.

MR. CONWAY: Introduction. Hold on a second. And you are looking at item C; is that where you are looking?

MS. GRADY: Yes, that's correct. Item D.

MR. CONWAY: Item D. And what's -- again, could you just ask the question?

Q. Let me ask the question again. You indicate and I was asking you about the NERA model that was used and developed, the risk model that was used and developed for Allegheny Power and Baltimore Gas and Electric, and you indicated it was an appropriate model for what the purpose the Commission had -- it was appropriate for the purpose that it was used. And I guess I am exploring what was one of the purposes that the model was developed for, so my question was was one of the purposes that the model was developed for was to determine what cost benefits and risks would result to the EDU from managing a portfolio power purchase as opposed to relying on a full -- on a full requirements product; is that correct? That's one of the purposes?

A. That was one of the questions asked by the Commission.

Q. Yes. Would the use of the -- of the NERA risk model be appropriate to use in this jurisdiction in this particular proceeding for the purposes of determining the POLR risk -- the appropriateness of the POLR risk that's presented to AEP Ohio for the duration of the remaining ESP1 period term?

A. I haven't examined that.

Q. Do you have an opinion on that?

A. I don't have an opinion on that.

Q. Do you know why with respect to the NERA risk model that was presented for -- in Maryland whether or not -- or do you know why the NERA chose that type of model versus choosing a Black-Scholes or binomial model?

A. I do not.

Q. Is it your understanding, Dr. LaCasse, that with respect to the constrained and the unconstrained model that non-price factors are not considered when calculating the POLR risk to the company?

A. Non-price factors for what?

Q. For the -- for the customer in determining -- let me step back a second.

The unconstrained and the constrained model as far as you understand, it makes assumptions about when the customer will shop; is that correct?

A. Yes.

Q. And the assumption under both the constrained and the unconstrained model is that if the price of the market falls below the standard service offer price, that the customers will shop, correct?

A. That's correct.

Q. And is it your assumption under the constrained and unconstrained model that the price differential between the market price and the standard service offer price need only be a penny for the customer -- for the model to assume that the customer would shop?

A. That's right and the fact that the model assumes that all customers would then avail themselves of the possibility of shopping and that contrary to that it is possible that not all customers would avail themselves to the possibility of shopping at that moment is one of the sources of overstatement that I mention in my testimony and that I believe remains in any model. Sorry, I will not use constrained and unconstrained because I get them confused.

Q. That's right. All right. So in your response you would -- you would agree with me that there are non-price factors that could affect whether or not a customer shops or does not shop regardless of whether the price -- this SSO price is above or below market?

A. Well, I don't know whether there are non-price factors as such. There could be transaction costs that are different across different customers. It may be that different customers needed more or less of a differential depending on how costly it is for them to switch to a CRES provider so that certainly it's possible that not all customers would avail themselves of the option the moment that it's economically advantageous to do so. And I think that the factors that offset that is the possibility of opt-out aggregation that exists in Ohio and that makes switching by customers bulky in the sense that large groups of customers may then all switch at the same time under an aggregation option.

Q. But you haven't quantified that, have you?

A. I have not.

Q. Are you -- are you familiar with the NERA risk model that was -- that we have been discussing for the Allegheny Power and Baltimore Gas and Electric, how that model that was developed by NERA treats the cost of migration?

A. The cost of migration?

Q. Yes. And what assumptions it makes as to when customers will migrate from the standard service offer price to the market.

A. I know the model only very generally. I did not develop or work with the model -- I do know that there is a function that determines the proportion of customers that shop given a price difference in general terms. I'm not sure how appropriate it would be for here, and I haven't examined that. Again, I think the big difference between the jurisdictions that are examined by the NERA report and Ohio is the possibility of opt-out aggregation.

Q. With respect to the NERA risk model, are you aware of whether or not the model assumes that there is a limit to the percent of customers switching regardless of the differential and price between market and standard service offer?

A. No, I am not aware of that.

Q. And are you aware of the threshold differential that the NERA risk model incorporates before making an assumption that a customer will shop?

A. Yes, I am aware that there is a certain amount of price difference before it's assumed customers switch.

Q. Is it your testimony that there is no customer aggregation occurring in the -- in the jurisdiction where the NERA risk model was used to calculate the cost of migration?

A. I believe that that's true. I am not aware of opt-out aggregation occurring in that state.

Q. Is there opt-in aggregation occurring?

A. I don't know.

Q. Now, you indicated at the very outset of your deposition that you have brought with you Exhibit A, your affidavit that was attached to the companies' initial merit brief filing. Do you recall that?

A. Yes.

Q. Now, in your affidavit at page 5, you say that "NERA is working with AEP Ohio to evaluate and develop methods of quantifying shopping-related risk." Do you see that?

A. Yes.

Q. Can you tell me what the status of that work is at this point?

A. At this point the -- that work has consisted of looking at other studies that have quantified the risks in the context of compet -- competitive bidding processes by comparing the visible cost components, visible price for the price components, and the price obtained in the competitive bidding process, and those studies are cited in my testimony, namely, the NorthBridge Study and the report from the staff of the Illinois Commerce Commission.

Q. Is it anticipated that a model will be developed by NERA for AEP Ohio to quantify shopping-related risk?

A. I don't know.

Q. When you were retained by AEP Ohio, was one of the work-related requirements that a model be developed to evaluate and quantify shopping-related risk?

A. The requirement was the ability to evaluate those methods of quantifying shopping-related risk and potentially develop such methods.

Q. As an alternative to the Black-Scholes model or the constrained or unconstrained model?

A. No.

Q. You said that the status of your work -- or that the work consisted of looking at other studies that have quantified the risks, and you talked with NorthBridge and the Illinois Commerce study. Were you also looking at the NERA risk model that was developed for Allegheny Power and Baltimore Gas and Electric as part of your task to evaluate and develop methods of quantifying shopping risk?

A. I have not looked in detail at that model.

Q. Is there a work plan in place for that for the work you are doing with AEP Ohio to evaluate and develop ways of quantifying the shopping rates and risk?

MR. CONWAY: Objection. She's described what it is she's -- she has done, and I think that's -- that's sufficient. As far as what other work plans there might be, that's not -- that's not subject to discovery or testimony at this point.

MS. GRADY: And I -- are you -- are you asserting privilege?

MR. CONWAY: Yes. It's a work product privilege.

Q. Dr. LaCasse, is -- has -- has NERA completed its work for AEP Ohio which was to evaluate and develop methods of quantifying shopping-related risk?

A. I don't know.

Q. And you testify in your affidavit that you anticipate that the methods of quantifying the shopping risk could include costs that would be incurred to hedge these risks using Monte Carlo modeling and potentially other statistical methods to estimate costs in the absence of hedges. Are you -- are you looking at this point at Monte Carlo modeling for purposes of evaluating and developing methods of quantifying the shopping-related risk for AEP Ohio?

A. Not at this point.

Q. Has Monte Carlo modeling been ruled out?

A. No.

Q. And why aren't you looking at it?

MR. CONWAY: Well, we have already filed our testimony, Maureen. We had until whatever it was, June 6, so you have what you have.

Q. Has NERA been retained for purposes of ESP2 to do work to evaluate and develop methods of quantifying shopping-related risk?

MR. CONWAY: Objection. That's also work product on an additional case.

MS. GRADY: If I may have a moment just to quickly look through my notes, I may be done.

(Discussion off the record.)

Q. I guess I have a few questions on your Exhibit CL-2, Exhibit CL-2. Now, there you present the NorthBridge Study, the premium for various utilities, and this premium represents compensation for risk; is that correct?

A. Yes. It would be -- it is the -- as a percentage of the price obtained in the competitive solicitation. It's the difference between the price in that solicitation and the sum of the identifiable cost components that have visible prices so whatever that includes it does include risk, and the NorthBridge Study lists the other components that are included in that premium.

Q. Would you agree with me that the premium that's presented in CL-2 represents a residual compensation for eight identified costs and risks but is not -- not necessarily even an all inclusive list?

A. I believe you are quoting from the NorthBridge Study.

Q. That's correct.

A. Yes.

Q. So that shopping risk would be one of eight potential costs and risks represented in the study?

A. Yes, I believe it's listed first as being one of the important risks that suppliers face.

Q. Is it your understanding that Mr. Fisher did not estimate the value of the costs and risks, that this is really just a residual mathematical calculation of what's left after deducting the values of cost components that he was able to quantify?

A. Yes.

Q. Is it your understanding the testimony was presented September 10, 2008; is that right?

A. Yes.

Q. And how old is the data in that study, if you know, on which CL-2 was based?

A. I don't know. The exhibit shows the date of the solicitation, I believe, so it's based on prices that were determined on the dates that are immediately below the name of the utility so between -- so they are based on prices and solicitations that were between November, 2007, and March, 2008.

MS. GRADY: Okay. Thank you very much. That's all the questions I have. Thank you for your time.

THE WITNESS: Thank you.

MR. DARR: Why don't we go off the record for a second.

(Discussion off the record.)

MR. DARR: Okay. Back on the record.

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EXAMINATION

By Mr. Darr:

Q. Dr. LaCasse, my name is Frank Darr. I'm with Industrial Energy Users of Ohio. I represent them. I want to clear up a couple of things that came up during the questions that were raised by Ms. Grady. One of the things that you commented on in response to a question is that you felt that the companies may be able to hedge at the retail level, and I didn't quite understand what you meant by that. Do you -- do you remember -- do you recall that conversation?

A. Yes.

Q. It was very early in Ms. Grady's questions.

A. And what I'm examining in the testimony I'm making the same assumptions as the method used by the companies to quantify the POLR charge and estimate the value of the option, namely, that if customers leave, that they are replaced by other retail sales at the new market price.

Q. So the company would displace current sales with new sales in some manner.

A. Correct.

Q. Now, you were very insistent that these would be retail sales. And then there was a question concerning the ability to make new retail sales inasmuch as this is a service territory state. I think that was the gist of it. What retail sales are you expecting these customers -- these -- this EDU that would lose to a market transaction, what are these retail sales that you are describing for us?

A. They would be other sales in other jurisdictions. As I said, I'm using the method that's incorporated into the model of replacing lost sales to SSO customers by other retail sales, and at this point I was not aware that had been an issue in the proceeding this far.

Q. Okay. Inasmuch as there would be -- by your assumption there would be some additional sales to other retail customers or other customers, let's take the word retail out of this for the time being, would that operate as some form of mitigation to the loss that would otherwise occur because a customer or group of customers left the EDU?

A. I don't believe it would be a mitigation. I believe that the way to think about those alternative sales so if customers were leaving because the price is -- has decreased and customers have started shopping, then it means that those sales are made at the then market price which is lower than the SSO price and, therefore, there is a loss in revenue from the EDU's perspective comparing the price -- the sale they would have had at the SSO price had all customers been present to the alternative which is that the EDU is selling at the SSO price for a portion of its customers and having sales at the lower market price otherwise.

Q. And essentially what you are saying is that they would be -- the EDU would be receiving less revenue than if they had been able to retain that customer or had been legally required to retain that customer?

A. Correct, or that --

Q. Have the legal opportunity to retain that customer.

A. Or that it would have less revenue than what is anticipated at the point where the ESP is filed where there is an SSO price and where the sales correspond to all customers being on the standard service offer.

Q. Right, the SSO.

A. Yes.

Q. As opposed to the SOS or, you know, the variety of other terms that various states have come up with in the past. And I don't mean to -- I really don't mean to be argumentative here because it's late in the day and we are all tired, but you seem to be -- there seems to be some disagreement as to whether or not that constitutes mitigation. The company would not be losing -- in your description the company would not be losing all revenue; it would be losing a part of that, correct, for a customer that left the system?

A. It would be replacing it by revenue that's lower.

Q. That's lower, okay. So there would be a delta or a difference between what they thought they could earn if the EDU customer stayed on system and what they do, in fact, earn?

A. A difference between the SSO customer being on the system which is in a way the base position in the filing where there is an SSO price and all of the sales are there and there is a revenue then that is -- that is at that point when the ESP is filed, so it's a difference in revenue from that situation that's included in the ESP and the situation afterwards where the price has decreased.

Q. In your understanding, and I believe you say this on I think it's page 12 of your testimony, your understanding of the effect of the option is essentially to make up on an -- on a future basis, on an expected basis, that differential; is that a fair characterization of your testimony?

A. That's correct.

Q. So it's an estimate based on the prices set on day one of the ESP period in this case. Which day do you want to pick? There were two.

MS. GRADY: The legitimate one.

MR. DARR: The legitimate one or the one the court said we couldn't recover for?

MS. GRADY: I think that's both the same. Well.

Q. April 1, let's call it April 1, the first date the rates went into effect. There is a calculation on April 1 of what the expected value of the possibility of the customers may walk or a group of customers may walk; is that correct?

A. Is their calculation of the -- the calculation, expected calculation, expected cost calculation for this shopping-related risk which is essentially the expected value of the difference between the ESP price and market price in the future at which customers would shop.

Q. So what you're essentially measuring is the possibility because on day one we know the -- you know in Ohio and you have told us you are familiar with the MRO versus the ESP, and the ESP calculation we know that on day one the ESP price is going to be below market; is that -- are you working from that assumption?

A. Yes.

Q. Okay. What we're measuring is the possibility that that relationship may flip someplace during the three years between '08 and '11.

A. What we are measuring is the cost for the companies taking the risk that that relationship would change and that customers would shop as a result.

Q. Not -- yeah, not only change but change -- the position would reverse itself.

A. That's correct.

Q. It's not enough that they just come down.

A. That's correct.

Q. Get closer together, they have to reverse.

A. Yes.

Q. Now, in a number of places and, again, in your testimony I think it's page 10, you refer to the option in I assume this case, I think that's a fair assumption, as being akin to an insurance policy or insurance. And I would like to understand your understanding of the insurance relationships that you are referring to.

A. I'm sorry. Can I get the question reread, please?

Q. Let me shorten this up. What are the insurance relationships that you are assuming exist here? Who is the insured or who is the insurer?

A. Let's see, the EDU provides an insurance to the SSO customers in that if prices increase, the

SSO customers can still have the stable price under the ESP and not have to purchase service at the higher market prices.

Q. And how does that fit in -- never mind. Come back to that in a minute. Are you aware of any other state that has used the Black-Scholes or the option method of calculating the residual risk?

A. What do you mean by other states?

Q. Other state commissions, has any other state commission that you are aware of accepted as a measurement of this residual risk the Black-Scholes method or an option pricing method?

A. The other states that I'm familiar with the EDU does not have -- does not have the -- has the POLR obligation, but its way of managing that risk is giving that obligation to competitive suppliers.

Q. And that's --

A. So there wouldn't be a need for filing from the prospective of the EDU to talk about that risk so that risk is included in the bids from suppliers that participate in competitive bidding processes. So this is --

Q. Well, in looking at all of those since the risk is the same whether you're -- according to your testimony the risk is the same whether it's the

EDU or competitive supplier, are you aware of any competitive supplier that's calculated its internal risk or residual risk using this option on pricing methodology?

A. I don't know the methods that bidders use.

Q. So the answer to my question is no?

A. I don't know of any methods that they use, in particular not the Black-Scholes model.

Q. And the instances where there have been calculations that have risk for examples that you give all of them have been residually priced based on model inputs and all -- the balance is all the stuff they couldn't measure?

A. And those -- and those studies that calculate overall risk, that's correct.

Q. Besides the three studies that you've identified as part of your workpapers, are there any other calculations of residual risks that you are aware of similar to the studies that you have relied upon? For example, Illinois done another review, Pennsylvania done other reviews similar to what you just -- what you relied upon?

A. I believe that Mr. Fisher also did a similar study for Illinois, but I would have to check that.

Q. In your questions and answers with Ms. Grady earlier today you said that there was a way of -- I think you described it as a single way of calculating this residual risk. In fact, there are a number of ways of doing that; isn't that correct? You could do it on a forward basis similar to what the company has done here, or you could do it on a retrospective basis?

A. I don't remember saying that, I'm sorry.

Q. Okay. There are alternative ways of calculating the cost of the company the -- of the risk of being the provider of last re -- not even provider of last resort, of being the default provider; is that correct?

A. Now, I remember what you are referring to. What I was saying is that for a calculation of the POLR charge to be included in the rates, that to be included in the rates and result in a stable ESP price, that it would have to be calculated on an expected basis.

Q. You are not saying there aren't alternative ways of doing it, of coming to a calculation of that obligation or the cost of being the default service provider.

A. The cost related to shopping risk for the purposes of -- to a POLR charge has to be on that expected cost for an a priori basis.

Q. Why on page 12 do you go into -- I think it's 12 going into 13 go into an extended discussion of why you would not prefer that or why you prefer that to the alternative of the regulated basis?

A. Of the -- sorry.

Q. I believe -- let me see if I have got the page right. Yes, on page 13 it says "instead the companies managing" -- "instead of the companies managing and hedging the shopping-related risk, these activities would be moved into a regulated framework where these costs would need to be reviewed for prudence." That suggests to me there is another way of assessing the companies' success or lack of success at hedging these costs. Am I misreading that?

A. No. I think the distinction that I am making is that if the quantification of those risks is for the purposes of establishing a POLR charge in the context of the ESP where this price is mostly fixed, that then the expected cost has to be measured and reflected in rates after the fact.

Q. The condition is very important to the conclusion in your answer, is it not? If you had to fix it first, fix a cost of providing this service, whatever this service is, your assumption is you have to do it at the front end, that you couldn't do it at the back end?

MR. CONWAY: Let me just -- not really an objection but a clarification. When you say "fix it at the front end," you are referring to the SSO rate.

MR. DARR: To set it as part of the SSO.

MR. CONWAY: To set it as part of the SSO.

MR. DARR: To set the charge, whatever we would call that charge.

MR. CONWAY: Are you talking about the POLR charge now?

MR. DARR: A charge for providing this default -- being a default provider.

A. I think the -- what's important in the assumptions that I am making is that the ESP is for purposes of the stability of the price and that is my understanding of the economic purposes of the ESP, so to the extent that that's the economic goal, then you are correct, based on that assumption, the POLR charges would be determined before the fact to be reflected in that stable rate.

Q. One other thing and then I will -- I will be done. I believe, in your discussion with Ms. Grady, one of the things that I believe you indicated was that the original model used by the company tended to overstate the revenue requirement for providing the default service because some part of the customer group may not be able to avail but that -- avail themselves of shopping but that this would be controlled by the NERA model because of the constraints that have been put in the model; is that an accurate description?

A. No.

Q. Okay. Clear it up for me.

A. I will. There are various factors that I discuss that go to either overstating or understating the POLR charge, so the cost of the EDU taking the shopping-related risk, and one of those factors is that the initial model, did not take into account switching restrictions that would limit the number of times that a customer can switch to and from SSO but that particular source of overstatement is corrected in the new model. And that is different from a second source of overstatement that I discuss in the testimony which is the possibility that not all customers avail themselves at once of the option to switch the moment that it's economically advantageous to do so and that source of overstatement has not been addressed. It's actually the remaining source of an overstatement of the factors that I cite in the testimony, and then I note that there -- with the opt-out aggregation in Ohio that there is this tendency for large numbers of customers to -- to switch so that it may not be as important a factor as it could be otherwise.

Q. Two questions. One, have you quantified the fact of opt out versus -- versus other kinds of aggregation on the charge calculation?

A. I have not.

Q. And the second question and, again, it goes back to the question that Ms. Grady asked you, have you in any way factored into the calculation for -- you have not identified -- let me start again. You have -- is it correct that you have not identified the effect of certain classes of customers not being able to shop?

A. I have not.

MR. DARR: If I may just briefly check my notes and I think I'm done.

Thank you.

THE WITNESS: Thank you.

MR. DARR: Have a good flight.

MS. GRADY: I think -- are there any questions from people on the phone?

Hearing none I guess the deposition is concluded. Thank you again, Dr. LaCasse.

THE WITNESS: Thank you.

MR. CONWAY: We do not waive signature.

(Thereupon, the deposition was concluded at 5:33 p.m.)

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State of Ohio : SS:
County of ____________________ :

I, Dr. Chantale LaCasse, do hereby certify that I have read the foregoing transcript of my deposition given on Thursday, June 16, 2011; that together with the correction page attached hereto noting changes in form or substance, if any, it is true and correct.

____
Dr. Chantale LaCasse

I do hereby certify that the foregoing transcript of the deposition of Dr. Chantale LaCasse was submitted to the witness for reading and signing; that after she had stated to the undersigned Notary Public that she had read and examined her deposition, she signed the same in my presence on the ________ day of ______________________, 2011.

____
Notary Public

My commission expires _________________, ________.

- - -

CERTIFICATE

State of Ohio :
: SS:
County of Franklin :

I, Karen Sue Gibson, Notary Public in and for the State of Ohio, duly commissioned and qualified, certify that the within named Dr. Chantale LaCasse was by me duly sworn to testify to the whole truth in the cause aforesaid; that the testimony was taken down by me in stenotypy in the presence of said witness, afterwards transcribed upon a computer; that the foregoing is a true and correct transcript of the testimony given by said witness taken at the time and place in the foregoing caption specified and completed without adjournment.

I certify that I am not a relative, employee, or attorney of any of the parties hereto, or of any attorney or counsel employed by the parties, or financially interested in the action.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my seal of office at Columbus, Ohio, on this 17th day of June, 2011.

Karen Sue Gibson

Karen Sue Gibson, Registered Merit Reporter and Notary Public in and for the State of Ohio.

My commission expires August 14, 2015.

(KSG-5373b)

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