

BEFORE THE  
PUBLIC UTILITIES COMMISSION OF OHIO

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In the Matter of the Application of )  
Columbus Southern Power Company and )  
Ohio Power Company for Authority to )  
Establish a Standard Service Offer )  
Pursuant to § 4928.143, Ohio Rev. Code, )  
in the Form of an Electric Security Plan. )

Case Nos. 11-346-EL-SSO  
11-348-EL-SSO

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In the Matter of the Application of )  
Columbus Southern Power Company and )  
Ohio Power Company for Approval of )  
Certain Accounting Authority. )

Case Nos. 11-349-EL-AAM  
11-350-EL-AAM

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**FIRSTENERGY SOLUTIONS CORP.'S  
NOTICE OF FILING DEPOSITION TRANSCRIPTS**

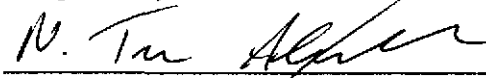
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FirstEnergy Solutions Corp. ("FES"), pursuant to O.A.C. 4901-1-24, hereby provides notice to all parties that it is filing the following deposition transcripts:

- Exhibit A- Thomas S. Lyle
- Exhibit B- Laura J. Thomas (non-confidential portion only, confidential portion filed under seal with FES Motion for Protective Order)
- Exhibit C- Anil K. Makhija
- Exhibit D- Chantale LaCasse
- Exhibit E- Joseph Hamrock
- Exhibit F- Stephen J. Baron ✓
- Exhibit G- Philip J. Nelson
- Exhibit H- David Rousch

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Respectfully submitted,



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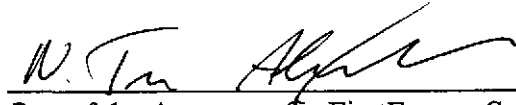
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## CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing *FirstEnergy Solutions Corp.'s Notice of Filing Deposition Transcripts* was served this 29<sup>th</sup> day of August, 2011, via e-mail upon the parties below.



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<p>BEFORE THE PUBLIC UTILITY COMMISSION OF OHIO In The Matter Of The Application ) of Columbus Southern Power Company ) And Ohio Power Company For ) Authority To Establish A Standard ) Service Offer Pursuant To 4928.143, ) Ohio Rev. Code, In The Form Of An ) Electric Security Plan ) Case No. 11-0346-EL-SSO Case No. 11-0348-EL-SSO</p> <p>TELEPHONIC DEPOSITION OF STEPHEN J. BARON August 12, 2011 10:30 a.m.</p> <p>Jones Day Suite 800 1420 Peachtree Street, NE Atlanta, Georgia</p> <p>Robin K. Ferrill, CCR-B-1936, RPR</p>	<p>1 APPEARANCES OF COUNSEL CONT'D 2 On behalf of the AEP Ohio companies Matthew Satterwhite, Esquire (via phone) 3 American Electric Power 1 Riverside Plaza 4 Columbus, Ohio 43215 614.716.1915 mjsatterwhite@aep.com 5 6 7 8 On behalf of Representing Ormet Primary Aluminum Corporation 9 EMMA F. HAND, Esquire (via phone) SNR Denton US LLP 10 1301 K Street NW Suite 600, East Tower 11 Washington, DC 20005 202.408.7094 emma.hand@snrdenton.com 12 13 14 15 HOLLY RACHEL SMITH, Esquire (via phone) Holly Rachel Smith, PLLC 16 Hitt Business Center 3803 Rectortown Road 17 Marshall, Virginia 20115 holly@raysmithlaw.com 18 19 20 21 22 23 24 25</p>
<p>1 APPEARANCES OF COUNSEL 2 On behalf of First Energy Solutions Corp. DAVID A. KUTIK, Esquire (via phone) 3 Jones Day 901 Lakeside Avenue 4 Cleveland, Ohio 44114 216.586.3939 dakutik@jonesday.com 5 6 7 8 On behalf of the Witness MICHAEL L. KURTZ, Esquire (via phone) 9 BOEHM, KURTZ &amp; LOWRY 36 E. Seventh St., Suite 1510 10 Cincinnati, Ohio 45202 513.421.2255 mkurtz@BKLawfirm.com 11 12 13 14 On behalf of The Kroger Co. MARK YURICK, Esquire (via phone) 15 Chester, Willcox &amp; Saxbe, LLP 65 East State Street 16 Suite 1000 Columbus, Ohio 43215 17 614.221.4000 myurick@cwslaw.com 18 19 20 On behalf of the Staff of the Public Utilities Commission of Ohio 21 Werner L. Margard III, Esquire (via phone) Assistant Attorney General Public Utilities Section 22 180 E. Broad St., 6th 23 Columbus, Ohio 43215 614.995.5532 werner.margard@puc.state.oh.us 24 25</p>	<p>1 INDEX 2 TELEPHONIC DEPOSITION OF STEPHEN J. BARON August 12, 2011 3 4 5 EXAMINATION BY PAGE 6 Mr. Kutik 6 7 Mr. Satterwhite 64 8 9 10 DESCRIPTION OF EXHIBITS 11 EXHIBIT IDENTIFICATION PAGE 12 13 14 15 16 17 18 19 20 (No exhibits were marked.) 21 22 23 24 25</p>



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<p>1 DEPOSITION OF 2 STEPHEN J. BARON 3 August 12, 2011 4 (Reporter disclosure made pursuant to 5 Article 8.B. of the Rules and Regulations of 6 the Board of Court Reporting of the Judicial 7 Council of Georgia.) 8 STEPHEN BARON, having been first 9 duly sworn, was examined and testified as 10 follows: 11 EXAMINATION 12 BY-MR.KURTIK: 13 Q. What is your name? 14 A. Stephen Baron. 15 Q. Mr. Baron, who are you testifying on 16 behalf of in this case? 17 A. The Ohio Energy Group. 18 Q. And did you receive an assignment 19 from the Ohio Energy Group for the purposes of 20 this case? 21 A. Yes. 22 Q. And what was your assignment? 23 A. To review the AEP/ESP filing and 24 identify issues that would be appropriate for 25 response by OEG.</p>	<p>5 7 1 Q. As part of your analyses, did you 2 make any calculations? 3 A. Yes. 4 Q. And do those appear in your 5 testimony? 6 A. Well, in my exhibits and/or 7 testimony. 8 Q. Now, with respect to your testimony, 9 the pre-filed testimony in this case, are you 10 aware of whether there needs to be any 11 corrections? 12 A. None. None that I am aware of, of a 13 substantive nature. There may be one or two 14 typographical errors, but I haven't actually 15 enumerated those yet. But they would not be 16 substantive or material in terms of changing, 17 to the best of my knowledge, anything in the 18 testimony. 19 Q. Did you, as part of your work in 20 this case, attempt to quantify AEP's 21 generation costs? And by the way, when I say 22 AEP, I mean the AEP Ohio entity. 23 A. Their actual, when you say 'costs,' 24 are you referring -- are you referencing that 25 from the perspective or asking me from the</p>
<p>6 1 Q. When did you receive your assignment 2 in this case? 3 A. I don't recall the specific date. 4 It was -- it would have been shortly after the 5 filing. 6 Q. So sometime earlier this year? 7 A. Yes. 8 Q. What did you do to carry out that 9 assignment? 10 A. I reviewed the testimony and 11 exhibits, the work papers of the company, 12 reviewed discovery, issued or -- developed 13 discovery for issuance by OEG. Reviewed 14 responses and developed analyses which 15 ultimately formed the basis for the testimony 16 that I presented in the case. 17 Q. When you say you 'developed 18 analyses,' what does that mean? 19 A. Those analyses are the -- well, it 20 could range from evaluating the work papers 21 that the company submitted in the case. That 22 would be a form of analysis that I conducted. 23 As well as preparing alternative proposals 24 that I've presented as exhibits in my 25 testimony.</p>	<p>8 1 perspective of a cost-of-service type of basis 2 or regulated basis? 3 Q. Yes. 4 A. No. I looked at the information in 5 the filing, discovery that was submitted. I 6 believe I looked at some -- at one point I 7 looked at the formula rate calculations that 8 AEP submitted in a FERC proceeding regarding 9 their FRR cost. 10 But I didn't do any independent 11 calculations of that. 12 Q. But you did not make an attempt to 13 do a cost-of-service study yourself? 14 A. No. 15 Q. What I said was correct? You didn't 16 do such a study. 17 A. Yes. But let me make sure I 18 understand what you're asking. When you say 19 'cost of service,' you mean -- are you 20 referring to the company's -- the cost of 21 service of the production facilities, 22 distribution, transmission. Maybe -- I didn't 23 do any, but it would probably be helpful to 24 the record just to make sure we are 25 understanding each other.</p>



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<p>1 Q. Well, I started out talking about 2 generation costs. 3 A. Okay. Good. Then I only reviewed 4 what the company, from a cost-of-service 5 standpoint, what the company had filed at the 6 FERC as their embedded costs of generation 7 resources. 8 Q. And you did no independent 9 cost-of-service study for the generation 10 service that could be provided by AEP Ohio? 11 A. In the context of -- in the same 12 context of an embedded cost-of-service 13 analysis, no, I did not. 14 Q. Did you make a determination as to 15 what the proposed revenues would be from AEP's 16 proposed base generation service writer. 17 A. Yes, in the sense that I evaluated 18 the company's work papers and informed myself 19 as to how the proposed ESP-based generation 20 rate proposal was developed. So I did 21 analyses associated with that. 22 Q. Did you do any comparison of the 23 company's proposed revenues from their 24 proposed-based generation service writer 25 against the company's costs to provide</p>	<p>11 1 Q. Is that something you plan to do 2 prior to your testimony? 3 A. I would expect to do that prior to 4 appearing for cross-examination. 5 Q. As part of your work in this case, 6 did you become familiar with how AEP 7 calculates its margins? 8 A. I'm not sure I understand. I mean, 9 I know what a margin is. I know in the 10 context of a wholesale sales or market sales, 11 I know what a margin is. Maybe you could 12 clarify what you mean by margin in the context 13 of this proceeding. 14 Q. Well, you have made a proposal, have 15 you not, that certain margins, hypothetical 16 margins be identified and credited to certain 17 customers. Correct? 18 A. Yes, okay. With respect to the -- 19 Q. And my question is: Have you seen 20 how AEP does that, so to speak? 21 A. No, I have not. 22 Q. For example, do you know how AEP 23 treats any margins obtained from off-system 24 sales of energy or capacity? 25 A. Well, as a general matter for AEP in</p>
<p>10 1 capacity? 2 A. No, I did not. 3 Q. So would it be fair to say that you 4 do not have an opinion as to whether the 5 revenues are greater or less than the costs. 6 A. I did not -- the methodology that 7 the company employed -- the answer is only to 8 the extent that I think my colleague, Mr. 9 Colin, reported on the earned returns on 10 equity which really covers the entirety of the 11 company, AEP Ohio and not just the generation 12 service. 13 But I didn't do any comparison, if 14 what you're asking specifically of the 15 revenues under either the current or proposed 16 ESP versus the cost of generation or 17 production resources that would be used to 18 serve standard service offer customers. I 19 didn't do that comparison. 20 Q. In your work in this case, have you 21 reviewed the testimony of any witnesses that 22 have been sponsored by the intervenors in this 23 case? 24 A. I actually have not reviewed the 25 intervenor testified as of yet.</p>	<p>12 1 regulated, for the regulated companies, I'm 2 generally familiar with it. But I'm not sure 3 if that -- I don't think that's what your 4 question is. Are you asking how AEP treats 5 margins that are assigned to AEP Ohio 6 companies? 7 Q. Well, I'm basically asking do you 8 know how AEP Ohio treats its margins from 9 off-system energy sales. Let's start there. 10 A. In terms of when you say 'treats,' 11 do you mean how they treat those for 12 rate-making purposes? I recall reading some 13 discovery on that, but I don't have a 14 recollection of the specifics. It wasn't 15 something that I focused on in the case. 16 Q. For example, do you know whether 17 those margins from off-system energy sales are 18 credited against capacity costs? 19 A. In the current ESP or proposed ESP. 20 Q. In the proposed ESP. 21 A. No, they would not be. That's my 22 understanding, they would not be. Under the 23 proposal that I am making, regarding the 24 environmental investment carrying charge 25 rider, those margins would be credited.</p>



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<p>13</p> <p>1 Q. Under the current ESP, do you know 2 how that's treated?</p> <p>3 A. It would be my understanding that 4 they -- that those margins would not be 5 credited, but the cost of providing the energy 6 would not be charged either. That's my 7 understanding.</p> <p>8 But, again, I haven't really focused 9 on that.</p> <p>10 Q. Now, as part of your work in this 11 case, I understand that you have reviewed some 12 part of the ESP and MRO statutes, correct?</p> <p>13 A. Yes.</p> <p>14 Q. And, particularly, you have reviewed 15 and made some comments on Section 4928.143 B 16 and C, correct?</p> <p>17 A. Yes.</p> <p>18 Q. Now, you note, do you not, that in 19 4928.143 C1, I believe, there is a requirement 20 that with respect to riders, the Commission 21 must determine that they were paying for the 22 riders to see some benefit, correct?</p> <p>23 A. Yes.</p> <p>24 Q. And would it be fair to say that as, 25 again your understanding of the statutes, your</p>	<p>15</p> <p>1 embedded costs. To the extent that the 2 provisions of C1 that we just discussed are 3 met, meaning that customers receive benefits 4 from the burdens.</p> <p>5 Q. So it's your understanding that 6 while B2B might relate only to CWIP, B2C might 7 allow fully-embedded cost recovery.</p> <p>8 A. Well, I think C talks about the 9 recovery of the costs of an electric 10 generation facility over its life. It doesn't 11 refer to embedded costs or any other 12 determination.</p> <p>13 But that -- I think that may be -- 14 there's some reasonable -- within reason and 15 logic and a reasonable rate-making policy, I 16 think that those provisions would permit that 17 and that's the basis for the proposal that OEG 18 is making in this case that I have discussed 19 for at least the costs associated with 20 facilities that have been upgraded, 21 environmentally upgraded. And that meet the 22 other standards that I address in my 23 testimony.</p> <p>24 Q. So it's your view that the 25 fully-embedded cost of retrofit projects,</p>
<p>14</p> <p>1 comments on the statutes, that to approve a 2 rider under 4928.143 C, the rider must first 3 be authorized under 4928.143 B, particularly 4 B2B or C, correct?</p> <p>5 A. Yes, that's my understanding.</p> <p>6 Q. Now, the statutes also talk about, 7 particularly 149 --</p> <p>8 A. I'm losing -- you may need to get 9 closer to the speaker.</p> <p>10 Q. Sure. Let me direct your attention 11 to Section 149 -- excuse me, 4928.143 B2.</p> <p>12 A. Okay.</p> <p>13 Q. And particularly B2 B and C.</p> <p>14 A. All right.</p> <p>15 Q. With respect to environmental 16 retrofit costs, is it your understanding that 17 those statutes would allow the fully -- 18 recovery of the fully-embedded costs of such 19 retrofits?</p> <p>20 A. As a -- well, small B, paragraph or 21 provision small b, is strictly addressing 22 construction work in progress, CWIP. But it's 23 my understanding that taken together, both -- 24 that those -- those two, Paragraphs B and C, 25 would permit some type of recovery of certain</p>	<p>16</p> <p>1 environmental retrofit projects, could be 2 recoverable under B2B as long as the 3 conditions of 143C were met. Fair to say?</p> <p>4 A. I don't know whether it would be 5 provision B2B by itself or B2B in combination 6 with C, which talks about an electric 7 generation facility. B2BB specifically only 8 refers to CWIP.</p> <p>9 Q. Perhaps I misspoke with my question. 10 So let me try it again.</p> <p>11 I thought you had told me, and 12 perhaps you just mentioned it now, that 143B2B 13 relates only to CWIP, correct?</p> <p>14 A. Yes. I mean, that's the first 15 sentence of the provision.</p> <p>16 Q. So now let's talk about B2C. And my 17 question is whether it's your view that B2C 18 would allow the recovery of fully-embedded 19 costs of environmental retrofit projects as 20 long as the conditions of 4928.143 C were met?</p> <p>21 A. That's my -- that's my -- that would 22 be my interpretation.</p> <p>23 Q. So it's your view that 4928.143 B2C 24 is not limited to new generation construction.</p> <p>25 A. Well, it certainly says 'newly used</p>



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<p>17</p> <p>1 and useful.' And then there would really have 2 to be a determination, I guess, by the 3 Commission that an upgraded facility that 4 would otherwise have to be shut down, if it's 5 economic and prudent and least cost, 6 effectively would meet that -- those 7 provisions. 8 That's -- that would sort of -- that 9 would be the basis for my understanding of the 10 statute, the statute in terms of how such 11 facilities that are dedicated to Ohio 12 consumers could be recovered. 13 I mean, it makes no sense to simply 14 say if it's -- you know, if it's new in terms 15 of it never existed in any fashion before, 16 then it could be recovered. But if it would 17 be shut down absent the environmental upgrade 18 and then it's not new. 19 I think that's how I would interpret 20 it. That is a reasonable interpretation of 21 this provision. The Commission obviously 22 would have to make that determination. 23 Q. You said earlier that you've made no 24 comparison of the proposed revenues from the 25 proposed base generation service charge versus</p>	<p>19</p> <p>1 the earnings analysis addresses the issue of 2 the extent to which the company is earning 3 comparable rate of return on equity. But no 4 specific analysis focused just on the 5 individual item of the base generation charge. 6 And I should add, and you were just 7 rephrasing what I said about the fuel and the 8 environmental component. The company is also 9 proposing in this case, a rider to recover new 10 generation resources as well. And, of course, 11 the company's permitted to recover purchase 12 power expenses as well. Incremental purchase 13 power expenses. 14 Q. Well, with respect to those purchase 15 power expenses, would you expect those to be 16 recovered under the fuel adjustment cost or 17 the rider FAC? 18 A. Yes. 19 Q. With respect to that overall reviews 20 that you referred to, that refers to looking 21 at the earnings that might be generated from 22 all of the riders, correct? 23 A. That's correct. 24 Q. So, again, with respect to the base 25 generation service rider, we don't know,</p>
<p>18</p> <p>1 AEP's generation costs. 2 Did I get that right? 3 A. Yes, that's correct. 4 Q. And it would be fair to say that 5 with respect to that particular rider, I 6 believe it's rider GSR, is it fair to say that 7 that is not a cost-based writer? 8 A. That's correct. Not the -- the base 9 generation charge is not cost-based. Though 10 there are numerous -- there's an FAC, an 11 environmental charge rider that is incremental 12 to that, that is cost-based. 13 Q. But my question was just about the 14 rider GSR, that is not cost-based, correct? 15 A. That would being my understanding, 16 yes. 17 Q. So if it's not cost-based, then 18 would it be fair to say given that you don't 19 know or you haven't done the comparison of 20 generation costs and the revenues from that 21 rider, that we don't know whether that charge 22 covers or actually recovers all of the 23 company's generation costs less environmental 24 and less fuel? 25 A. I have -- only to the extent that</p>	<p>20</p> <p>1 sitting here today, whether that particular 2 rider recovers all the company's generation 3 costs less fuel purchase power and 4 environmental, correct? 5 A. That's right. 6 Q. Now, with respect to paying for 7 capacity costs, and assuming that all of the 8 CRES providers in the AEP Ohio territory get 9 their capacity from AEP, and also assuming 10 that all shopping customers would get a 11 pass-through or would have to pay basically a 12 pass-through of whatever AEP charged to CRES 13 providers for that capacity, do you believe 14 that shopping customers should pay more for 15 capacity than non-shopping customers? 16 A. No. No. And let me make sure I 17 understood your question. 18 When you said -- when you were 19 referring to the pass-through, you were 20 referring to the charge that AEP would impose 21 on CRES providers pursuant to the TJM tariff. 22 I assume that's what you're referring to. 23 Q. Yes. 24 A. Okay. And I did answer. And the 25 answer is that no, shopping customers should</p>



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<p>21</p> <p>1 not have to pay more.</p> <p>2 Q. Now, with respect to your proposal,</p> <p>3 with respect to the environmental cost rider,</p> <p>4 the ICCR, does any other utility in Ohio have</p> <p>5 that type of charge?</p> <p>6 A. An environmental surcharge or the</p> <p>7 type of proposal that I am making in this</p> <p>8 case?</p> <p>9 Q. The one you're making in this case.</p> <p>10 A. No, not to my knowledge. Though</p> <p>11 Duke Energy Ohio has proposed something that</p> <p>12 has some characteristics of that and I</p> <p>13 actually address that in my testimony.</p> <p>14 Q. Now, I'm just talking about things</p> <p>15 that are in existence, not things that are</p> <p>16 proposed.</p> <p>17 A. The answer is not that I'm aware of,</p> <p>18 no.</p> <p>19 Q. And would your answer be the same</p> <p>20 with respect to any utility anywhere?</p> <p>21 A. Not that I'm aware of.</p> <p>22 Q. So as far as you know, this would be</p> <p>23 a unique proposal, correct?</p> <p>24 A. As far as I'm aware, I think I'm</p> <p>25 certain that there's no similar rate in</p>	<p>23</p> <p>1 prudence of the proposed investment?</p> <p>2 A. Yes. The establishment by AEP that</p> <p>3 the power plants that are being proposed for</p> <p>4 environmental upgrade represents a least cost</p> <p>5 prudent economic decision over the life of the</p> <p>6 unit. That it makes sense for Ohio customers</p> <p>7 that such an investment be made. That's the</p> <p>8 first step in the process.</p> <p>9 Q. Would the Commission also have to</p> <p>10 determine whether the facility that was being</p> <p>11 improved, so to speak, was also prudent?</p> <p>12 A. Well, I'm not sure. Maybe you could</p> <p>13 clarify what you mean by that. How that</p> <p>14 differs from what I just answered, the prior</p> <p>15 answer.</p> <p>16 Q. Well, I thought what you were</p> <p>17 talking about was whether the proposed</p> <p>18 investment was prudent. Correct?</p> <p>19 A. Yes. And in order to do that, one</p> <p>20 would have to evaluate the cost, effectively</p> <p>21 the incremental cost to produce electricity</p> <p>22 with the -- including the upgraded investment,</p> <p>23 compare that to alternatives to determine does</p> <p>24 it make sense to actually spend X million</p> <p>25 dollars to make the investment.</p>
<p>22</p> <p>1 existence in Ohio. And I'm not aware of any</p> <p>2 in other jurisdictions, but I just -- I</p> <p>3 haven't done any comprehensive review to</p> <p>4 inform myself of that.</p> <p>5 Q. Well, certainly in coming up with</p> <p>6 this proposal, you didn't research, you know,</p> <p>7 50 states and say, Oh, I see that there are</p> <p>8 these similar proposals and we should adopt</p> <p>9 them in Ohio. That wasn't part of what</p> <p>10 happened, correct?</p> <p>11 A. That's correct.</p> <p>12 Q. Now, I want to talk with you about</p> <p>13 the issues that would have to be determined by</p> <p>14 the Commission under your proposal for the</p> <p>15 environmental cost rider. Would you believe</p> <p>16 that there would have to be a series of</p> <p>17 proceedings to determine the appropriate</p> <p>18 recoveries under your proposed rider?</p> <p>19 A. Yes, I do believe that. There would</p> <p>20 have to be a number of determinations by the</p> <p>21 Commission. I mean, it could be one</p> <p>22 proceeding, but there would have to be a</p> <p>23 number of things determined.</p> <p>24 Q. Right. One of those things that</p> <p>25 would have to be determined would be the</p>	<p>24</p> <p>1 Now, that's normally how you would</p> <p>2 do an economic evaluation of the investment</p> <p>3 decision. I don't know when you -- so in this</p> <p>4 latest question you asked about prudent, I'm</p> <p>5 not sure what decision or issue that would --</p> <p>6 you're asking about. Other than the one I</p> <p>7 just described.</p> <p>8 Q. Is what you're proposing for the</p> <p>9 Commission to determine, as you have just</p> <p>10 described it, the same as determining that</p> <p>11 there is a need for the facility based upon</p> <p>12 resource planning projections?</p> <p>13 A. Yes. Yes. That, and basically that</p> <p>14 that facility represents -- with the upgrade</p> <p>15 represents the least cost means to meet</p> <p>16 resource needs.</p> <p>17 Q. Right. And you're aware that what</p> <p>18 I've just told you, my previous question, was</p> <p>19 one of the tests provided for under 4928143B2B</p> <p>20 and B2C, correct?</p> <p>21 A. Yes, there's a specific reference in</p> <p>22 C to determination of a need for the facility.</p> <p>23 Q. So what you're proposing with</p> <p>24 respect to the determination of the prudence</p> <p>25 of the proposed environment investment is no</p>



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<p>25</p> <p>1 different than that part of the statutory 2 test. Fair to say? 3 A. Well, I don't -- I mean, when I 4 interpret the word "need," I mean it could be 5 interpreted, I guess, in a couple of ways. 6 One base determination interpretation of the 7 word "need" is do we need the megawatts and 8 megawatt hours that the facility will produce. 9 I would tend to view need in a 10 broader sense, that it -- it's not just that 11 we need the power, but that the facility 12 represents the economic, the most economic 13 least cost means of meeting that need. I 14 don't -- and so with that addition, then it's 15 similar. 16 Q. Okay. So one of the things that 17 would have to be determined was whether the 18 facility that was to be improved was necessary 19 for reserved capacity requirements? 20 A. No. No, I don't -- I mean, that 21 that could be part of it, but -- 22 Q. Yes, I'm not saying that's all of 23 it, but one thing that you would have to look 24 at is that. 25 A. You could -- yes, that would be one</p>	<p>27</p> <p>1 the benefit, the economic benefits to 2 consumers could be just -- perhaps justified 3 conceivably just on the fuel savings relative 4 to other alternatives. 5 And so I think the way you phrased 6 your question to me was, at least I 7 interpreted it that it has to be satisfied or 8 reserve capacity requirement. And I guess if 9 you look at need in a broader perspective, you 10 have to really -- you might have to consider 11 all the factors. Not just reserve capacity. 12 Though that clearly would be a key economic 13 benefit of any generating unit. 14 Q. So you could imagine a scenario 15 where it would be appropriate to approve a 16 project for recovery under 4928143B2B or C 17 where the project or the unit was not 18 necessary to meet reserve capacity 19 requirements. 20 A. I imagine that there are probably 21 some set of economic assumptions in an 22 economic analysis where the unit would be 23 needed in the sense that it would be 24 beneficial to consumers, simply because of 25 fuel benefits. Not saying that that's a</p>
<p>26</p> <p>1 thing to look at. Though it's certainly under 2 certain assumptions you could actually have a 3 facility like a coal unit that is simply less 4 expensive so the economics of running that 5 unit are so beneficial relative to other 6 alternatives, let's say natural gas went to 7 \$20 a million BTUs, then the capacity, the 8 reserve capacity component while it would 9 provide reserve capacity may not be 10 significant. 11 So the answer -- I think I agree 12 with your question, but that may or may not be 13 the most significant aspect of it. 14 Q. Sure. But certainly one box you'd 15 have to check off to determine whether this 16 recovery should be had, would be whether the 17 project or the unit was necessary for reserved 18 capacity requirements, correct? 19 A. Well, I think you certainly would 20 look at that. I think what I -- where I may 21 be disagreeing with you, the way you've just 22 phrased it, is that it's possible, though I 23 suspect with today's costs that may not be the 24 case, but it's certainly possible over the 25 remaining life of an upgraded coal unit that</p>	<p>28</p> <p>1 plausible scenario, but based on my experience 2 over many years, depending on the assumptions 3 one uses, that could -- that could exist. 4 Q. Okay. Well -- 5 A. And that would still be -- I would 6 still characterize that as the unit is needed. 7 Q. So it would be your view that it is 8 most likely that one of the things that you 9 would have to look at in making a 10 determination of the proper recovery under 11 4928.143 B 2B or C is whether it's needed 12 under reserve capacity requirements. 13 A. That would be one of the costs. 14 Basically, these types of analyses are 15 integrated resource planning analyses that 16 consider the changes in the total cost under 17 of -- of meeting customer needs for energy and 18 capacity under an examined set of plans. 19 So, for example, one might run an 20 analysis over a long-term period to determine, 21 given the extra costs of upgrading a coal 22 unit, does that produce the least cost means 23 of meeting customers' needs for capacity and 24 energy. 25 And so it would -- generally, it's</p>



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<p>29</p> <p>1 those types of analyses are done on an 2 integrated basis. But I don't -- reserve 3 capacity is certainly one of the elements that 4 is factored into that analysis. 5 Q. Now, once a determination was made 6 that what we'll call -- well, can we generally 7 call this need issue part of the prudency 8 review? 9 A. Yes. I would say prudency 10 establishment that it's the least cost 11 resource. That would be part of that review, 12 yes. 13 Q. And there are a number of other 14 issues that have to be determined for there to 15 be recovery under your proposal, correct? 16 A. Yes. 17 Q. And let's say that all of those 18 other things were determined and recovery 19 started. And that somewhere down the line 20 there was a change in technology which 21 rendered the retrofit obsolete. How would 22 that then affect your proposal, if at all? 23 A. I haven't made any specific 24 recommendation to address that possible 25 contingency. I mean, there are enumerable</p>	<p>31</p> <p>1 Q. Another issue that would have to be 2 determined would basically be setting what we 3 might call the rate that might be charged for 4 the recovery of the cost of the unit, correct, 5 or the cost of the retrofit. 6 A. Yes. In other words, under my 7 proposal, there would have to be -- there 8 would be a determination of what the -- what 9 I've referred to as the net capacity charge 10 that would be charged to shopping customers 11 and that clearly would be a rate. 12 Is that what you're referring to? 13 Q. Yes. And that rate would be 14 established through what we might call a 15 formula rate case process? 16 A. Yes. That's what I was envisioning. 17 That it would be -- it would follow -- that 18 the company would have to file a formula rate 19 proposal to the Ohio commission. I think I 20 mentioned in my testimony that I would assume 21 it would be similar to the type of formula 22 rate that AEP proposed at the FERC. 23 And the Commission would determine 24 the reasonableness of the formula and the 25 Commission would periodically, when the rate</p>
<p>30</p> <p>1 possibilities. Something can happen to a 2 facility that was approved and the question 3 then is how might you recover the costs of a 4 -- if you had to shut down the unit 5 prematurely or it was obsolete, which I think 6 is your question. 7 I haven't addressed that and I don't 8 necessarily think it needs to be addressed 9 until such an event should arise. And then it 10 would be appropriate for the Commission to 11 make a determination. 12 Q. So you would recommend that if such 13 a contingency occurred where there was a 14 change of technology or there had to be a 15 change in resource plans by AEP, that the 16 Commission revisit your proposal should they 17 adopt it in the first place? 18 A. Well, it certainly -- I think it's 19 always reasonable for the Commission to 20 consider changes in regulatory policy if the 21 facts change. And the Commission would have 22 to make a determination as to what is 23 appropriate. I don't think that's any 24 different than currently exists in Ohio at 25 least basis based on my experience.</p>	<p>32</p> <p>1 changed, review the inputs to the formula to 2 determine that they're reasonable. And that, 3 of course, there would have to be a provision 4 for the crediting of the margins, the 5 determination of what would constitute those 6 margins and the process for providing the 7 margins in the rate. 8 Q. I'll get to the margins in a moment. 9 But just in terms of cost recovery, so we're 10 basically talking about having mini rate cases 11 for each retrofit or improvement? 12 A. I would say that for each unit that 13 the company would propose to upgrade and to 14 recover costs through this EICCR on a 15 non-bypassable basis, there would have to be a 16 proceeding, an initial proceeding, to 17 establish the reasonableness, the prudence of 18 the investment. That over the life, it's 19 reasonable. 20 With regard to the formula rate 21 itself, the mechanism, I would imagine that 22 there would be a one-time proceeding to 23 establish the appropriate formula rate that 24 would cover future environmental, future 25 plants. Now that's not to say that at some</p>



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<p>1 point point in the future something might --</p> <p>2 either the Commission or the category or a</p> <p>3 party might request a change if circumstances</p> <p>4 justifies such change.</p> <p>5 But the actual change in the rate</p> <p>6 that -- to the extent that it's tied to</p> <p>7 transparent FERC form one costs, would</p> <p>8 probably -- I would envision that the rate</p> <p>9 change would be reviewed by the Commission</p> <p>10 staff and the Commission. But I don't know</p> <p>11 the extent to which it would be -- maybe that</p> <p>12 would be -- you could characterize that as a</p> <p>13 mini-rate case.</p> <p>14 I don't know how -- what the</p> <p>15 procedure would be. I'm not necessarily</p> <p>16 recommending a specific procedure for that at</p> <p>17 this time.</p> <p>18 Q. Wouldn't you have to know for each</p> <p>19 particular unit involved what the costs and</p> <p>20 revenues were to set rates under your</p> <p>21 proposal?</p> <p>22 A. Yes. But if you establish a formula</p> <p>23 rate that is designed to recover the revenue</p> <p>24 requirements of generation facilities, then</p> <p>25 it's going to basically tie to certain FERC</p>	<p>33</p> <p>1 that OEG is making, there would have to be a</p> <p>2 proceeding to establish the formula rate. And</p> <p>3 factors such as the return on equity that</p> <p>4 would be allowed in the formula itself. The</p> <p>5 Commission would have to determine that in a</p> <p>6 proceeding.</p> <p>7 Q. And do you have an opinion as to</p> <p>8 what that rate of return should be.</p> <p>9 A. I haven't made any analysis of that,</p> <p>10 no.</p> <p>11 Q. Are you aware of whether</p> <p>12 environmental projects are able to obtain</p> <p>13 special financing from, among other things,</p> <p>14 United States Government?</p> <p>15 A. I have not. I'm not familiar with</p> <p>16 the specifics on that.</p> <p>17 Q. If there was special financing</p> <p>18 available for environmental projects, would</p> <p>19 you recommend that the rate of return be set</p> <p>20 based upon the actual cost of capital?</p> <p>21 A. Yes, I would -- I'm a little</p> <p>22 hesitant, I think, you know, in general I</p> <p>23 would say that the -- since this is designed</p> <p>24 to be a cost-based rate, the rate should be</p> <p>25 based on the costs for the facility. Beyond</p>
<p>34</p> <p>1 form one plant depreciation O&amp;M expense</p> <p>2 accounts. And so to the extent that that's a</p> <p>3 -- but the answer is yes, you do need to know</p> <p>4 those and those change periodically.</p> <p>5 That's why -- that's what a formula</p> <p>6 rate generally is designed to do. It's to</p> <p>7 self-update the rate, but still subject to</p> <p>8 review.</p> <p>9 Q. Would you be setting this rate using</p> <p>10 some type of test year?</p> <p>11 A. Generally, formula rates that I'm</p> <p>12 familiar with and, I believe, if I recall</p> <p>13 AEP's proposal at the FERC for its FRR</p> <p>14 capacity recovery proposal would be tied to a</p> <p>15 test year. Usually on a formula -- well, it</p> <p>16 could either be -- it could be a calendar year</p> <p>17 rate or some other basis. But, yes, it would</p> <p>18 be tied to a test year. It could conceivably</p> <p>19 even be projected with a true-up.</p> <p>20 Q. But you have no opinion as to how</p> <p>21 that should work.</p> <p>22 A. No. I'm not proposing anything</p> <p>23 specific in this case that the Commission</p> <p>24 adopt. I think that's something that I would</p> <p>25 envision if the Commission adopts the proposal</p>	<p>35</p> <p>1 that, I'm a little hesitant to provide an</p> <p>2 opinion, because I'm not familiar with the</p> <p>3 specifics of -- that you're suggesting exists.</p> <p>4 Q. Are you aware of whether AEP Ohio</p> <p>5 records its revenue and expenses on a</p> <p>6 unit-by-unit basis?</p> <p>7 A. Well, I believe the company would</p> <p>8 record its expenses for a generating unit on a</p> <p>9 unit-by-unit basis.</p> <p>10 Q. How about revenues?</p> <p>11 A. I'm not aware that certain -- I'm</p> <p>12 not aware that there would be a FERC account</p> <p>13 that such information would be reported.</p> <p>14 Q. Have you seen anything in the</p> <p>15 materials that you have reviewed for purposes</p> <p>16 of this case or otherwise that leads you to</p> <p>17 believe that AEP Ohio records its expenses on</p> <p>18 a unit-by-unit basis?</p> <p>19 A. Well, I should -- let me correct</p> <p>20 that.</p> <p>21 Generally, my familiarity with FERC</p> <p>22 form one data is that expenses are recorded on</p> <p>23 a plant basis. And so they may or may not be</p> <p>24 recorded on a unit basis. When I was hearing</p> <p>25 you use the word "unit," I was thinking plant.</p>
<p>36</p>	<p>36</p>



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<p>1 And that's -- so I want to correct that.</p> <p>2 Q. So it would be fair to say that</p> <p>3 you're not aware of whether AEP records its</p> <p>4 expenses on a unit-by-unit basis?</p> <p>5 A. That's correct. My knowledge of the</p> <p>6 FERC system of accounts is that the -- that</p> <p>7 information would be recorded on a plant basis</p> <p>8 and for AEP, they may or may not record it on</p> <p>9 a unit-by-unit basis. I don't know.</p> <p>10 Q. Now, there's another issue that</p> <p>11 needs to be determined as part of your</p> <p>12 proposed environmental cost recovery mechanism</p> <p>13 and that is a margin, correct?</p> <p>14 A. Yes.</p> <p>15 Q. And the margin we're talking about</p> <p>16 would be a margin that would result in</p> <p>17 comparing AEP's costs from the units involved</p> <p>18 versus the hypothetical revenues that might be</p> <p>19 generated from hypothetical sales into the</p> <p>20 market, correct?</p> <p>21 A. Yes. It would be conceptually</p> <p>22 similar to what's referred to as E&amp;AS costs,</p> <p>23 energy and ancillary services offsets. And it</p> <p>24 would be similar -- those type, similar to</p> <p>25 that.</p>	<p>37</p> <p>1 energy delivered into AEP or are we talking</p> <p>2 some other --</p> <p>3 A. Well, I would think that in the case</p> <p>4 of sales, it would be the market prices that</p> <p>5 would be reflective of the generator that</p> <p>6 actually produces the energy. So it may be</p> <p>7 appropriate -- it may be reasonable to use</p> <p>8 some -- for this purpose, if those margins can</p> <p>9 easily be determined for each sale, that would</p> <p>10 be one way to do it.</p> <p>11 Alternatively, it could be some</p> <p>12 composite of a delivered pricing to AEP</p> <p>13 similar to what the company might have used in</p> <p>14 -- or what they did use in their demonstration</p> <p>15 of the ESP versus MRO. It could be the LMP at</p> <p>16 the generator bus of the unit in question.</p> <p>17 I think that would be determined in</p> <p>18 this subsequent proceeding when the rate</p> <p>19 formula is actually determined.</p> <p>20 Q. And you have no opinion as to which</p> <p>21 particular set of market prices that you've</p> <p>22 just mentioned would be the best or the most</p> <p>23 appropriate?</p> <p>24 A. Not at this time, no. I think that</p> <p>25 would be -- it would be reasonable to address</p>
<p>38</p> <p>1 Q. What would the period of time be to</p> <p>2 record or compare these costs in sales? Are</p> <p>3 we talking a yearly basis?</p> <p>4 A. I haven't made a specific</p> <p>5 recommendation on that. And I think it would</p> <p>6 be reasonable to in the proceeding at which</p> <p>7 time the rate mechanism would be established,</p> <p>8 to consider, you know, a number of</p> <p>9 alternatives.</p> <p>10 It could change monthly based on the</p> <p>11 availability of data. It could change</p> <p>12 quarterly with a true-up. There could be a</p> <p>13 number of different approaches.</p> <p>14 I think, obviously, the purpose of</p> <p>15 it or the intent would be to provide a fair</p> <p>16 measure of these margins.</p> <p>17 Q. And what would be the market data</p> <p>18 that you would look at?</p> <p>19 A. Well, to the extent that the company</p> <p>20 is actually making sales into the market, I</p> <p>21 would envision that the company would know the</p> <p>22 hourly output of the units that would be</p> <p>23 providing energy and know what the market</p> <p>24 prices would be.</p> <p>25 Q. Would these be market prices of</p>	<p>40</p> <p>1 those issues in the subsequent proceeding to</p> <p>2 establish the formula and the rate.</p> <p>3 Q. Under your proposal, do non-shopping</p> <p>4 customers pay a rider EICCR?</p> <p>5 A. They would pay a rider EICCR for the</p> <p>6 incremental environmental investment. But</p> <p>7 they would not pay the net capacity charge</p> <p>8 because that presumptively is included in the</p> <p>9 SSO generation rate and the FAC and so forth.</p> <p>10 Q. If you are incorrect that it is --</p> <p>11 that those capacity costs are recovered</p> <p>12 through the base generation service rider,</p> <p>13 should those costs, those additional costs or</p> <p>14 non-recovered costs be part of the EICCR</p> <p>15 charge?</p> <p>16 A. Okay. I'm not sure I followed your</p> <p>17 question. When you said incorrect, meaning</p> <p>18 that the base generation charge has a</p> <p>19 provision to recover the embedded cost of all</p> <p>20 of AEP's fleet of generating resource, AEP</p> <p>21 Ohio's fleet of generating resource.</p> <p>22 Q. Isn't that an assumption you're</p> <p>23 making?</p> <p>24 A. Wait, I'm still confused then.</p> <p>25 We're now talking about the base</p>



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<p>41</p> <p>1 generation charge that's standard -- that SSO 2 customers pay. And I thought we had discussed 3 earlier that it's my understanding that it's 4 not based -- that charge is not based on cost. 5 But you're now asking me to assume -- you're 6 asking me to assume that I'm incorrect, that 7 it is based on cost. 8 Q. What I'm asking you is the question 9 based upon your comment -- 10 A. Okay. 11 Q. -- that it includes capacity costs. 12 A. Okay. I understand. I'm sorry. 13 Q. I'd say that presumption is wrong. 14 Would you modify your proposal? 15 A. No, because I believe it does 16 include capacity costs. 17 Q. Well, let me ask you for a second 18 about rider GRR. Are you familiar with that 19 proposed rider? 20 A. Yes. 21 Q. And that proposed rider is proposed 22 to cover what? 23 A. It's the generation resource rider 24 and it's designed to recover the cost of new 25 generation facilities.</p>	<p>43</p> <p>1 themselves, the best of my understanding, that 2 there would have -- as a non-bypassable 3 charge, shopping customers would, therefore, 4 pay it. And that there would have to be some 5 provision to recognize the provision of 6 benefits to these customers. Though there's 7 no specific proposal. 8 My testimony recommends that for the 9 GRR as it applies to shopping customers, that 10 a similar type of net capacity rate be 11 determined similar to what I'm proposing for 12 the EICCR. 13 Q. But non-shopping customers would pay 14 rider GRR. 15 A. Yes, I'm not opposed to that. 16 Q. And I'm not sure where your 17 testimony is now. Would non-shopping 18 customers also pay EICCR? 19 A. Only the portion associated with the 20 incremental environmental investment. 21 Basically, SSO customers, non-shopping 22 customers, would pay an EICCR similar to the 23 proposal or identical to the proposal that AEP 24 is making in this case. My proposal on EICCR 25 principally addresses the application of that</p>
<p>42</p> <p>1 Q. And are you aware of whether it is 2 proposed that that rider recover the capacity 3 of new facilities? 4 A. That would be my understanding, 5 though I haven't seen any specific -- I don't 6 recall reviewing a specific cost calculation, 7 but that would be my understanding, yes, that 8 it's designed to recover the capacity, the 9 fixed costs associated with the resource, 10 including return on and of investment. 11 Q. Would, under your proposals, 12 customers, non-shopping customers, pay rider 13 GRR? 14 A. Well, it's my understanding that 15 that's what the company's proposal is. 16 Q. I'm asking in terms of your 17 proposal. 18 A. Well, I haven't changed -- okay. 19 That non-shopping standard service customers 20 would -- yes, I'm not objecting or proposing 21 any change with respect to the GRR as it 22 applies to SSO customers. 23 My testimony addresses the fact that 24 the company, AEP, is proposing it as a 25 non-bypassable charge. And they have stated</p>	<p>44</p> <p>1 as a non-bypassable rate to shopping 2 customers. 3 Q. So if I understand both with respect 4 to your proposal regarding the EICCR and the 5 rider GRR, you're proposing that both shopping 6 and non-shopping customers pay that, but that 7 shopping customers get a credit that 8 represents a margin derived from hypothetical 9 sales of the units involved? 10 A. Right. Yes. And the rationale for 11 that is SSO customers, non-shopping customers, 12 implicitly receive that benefit via the FAC. 13 So the company is proposing that the GRR be 14 non-bypassable. And we discussed in 15 4928.143B2C there's a requirement that the 16 capacity and energy be dedicated to Ohio 17 consumers. And large C says that the benefits 18 and burdens have to be commiserate. So that's 19 sort of the basis for the recommendation I'm 20 making on GRR. 21 Q. Now, do your proposals change 22 depending on whether the CRES provider is 23 purchasing its own capacity? 24 A. No. No, they do not change. And 25 effectively to the extent that a CRES provider</p>



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<p>45</p> <p>1 self-supplies under the FRR provisions of the 2 OATT, then the CRES provider would not have to 3 supply the amount of capacity that is 4 effectively being provided by AEP to shopping 5 customers, through either the EICCR or the 6 GRR. 7 Q. How would that work? 8 A. Well, under the -- I think I mention 9 in my testimony that effectively a portion -- 10 let's take the EICCR, a portion of that 11 dedicated or re-dedicated capacity that would 12 now be serving all AEP Ohio customers, both 13 non-shopping and shopping, a portion of that 14 would be deemed to be serving shopping 15 customers based on a load ratio calculation, 16 load responsibility. And those megawatts 17 would be effectively assigned to each CRES 18 provider based on the shopping load that they 19 have. And that would effectively amount to a 20 credit on the amount of capacity obligation 21 under the FRR that they would otherwise 22 self-supply. 23 Q. And when would that credit be 24 determined, before the fact? 25 A. I think that it would have to be</p>	<p>47</p> <p>1 In other words, if a CRES provider 2 currently has, you know, 500 megawatts of 3 shopping load, then -- and it determines that 4 it's going to elect the self-supply option, 5 then the CRES provider would have to have 6 capacity to meet that 500-megawatt load. 7 If six months or a year later, the 8 CRES provider has 600 megawatts of shopping 9 load, because additional customers have 10 decided to shop, that CRES provider presumably 11 would have to meet a different self-supply 12 obligation. 13 And I don't think this proposal that 14 I'm making would change that. It would simply 15 be that each shopping load would arrive or 16 depart with a certain amount of associated 17 capacity under the EICCR. 18 Q. I guess my question, though, which 19 I'm not sure you answered is how often would 20 that amount of capacity that AEP is 21 responsible for shopping customers have to be 22 determined? Or, again, in a situation where a 23 CRES provider is otherwise providing its own 24 capacity for the customers. 25 A. I would assume that -- I mean, the</p>
<p>46</p> <p>1 determined when the capacity is being -- 2 basically goes into service and shopping 3 customers are charged for the EICCR. 4 Q. So just as a matter of resource 5 planning, it would have to be determined 6 before the fact, correct? 7 A. Yes. In other words, the CRES 8 providers would -- it would have to be some 9 type of flexible arrangement, obviously, 10 because load can go to a CRES provider and 11 leave a CRES provider based on the provisions 12 of the tariff and the rules. And so there 13 have to be some flexibility, but it would be 14 known that AEP is providing a certain amount 15 of capacity to the AEP Ohio footprint. 16 Q. And how often would that commitment 17 of AEP capacity to shopping customers have to 18 be determined? 19 A. In terms -- I think I understand 20 your question, but are you asking how often 21 would the -- I mean, basically, every time a 22 CRES provider adds or subtracts shopping 23 customer load, it would change the obligation 24 of the CRES provider to self-supply 25 irrespective of this proposal.</p>	<p>48</p> <p>1 assumption I'm making is that it would not 2 change the methodology or the timing of the 3 obligation of a CRES provider that elects 4 self-supply. 5 It's my understanding right now that 6 none of the CRES providers are currently 7 self-supplying. But the proposal that I'm 8 making, I just don't see how it changes that 9 calculation. That the CRES provider has an 10 obligation -- if the CRES provider elects 11 self-supply, then whatever the requirements 12 are for meeting that self-supply obligation, 13 based on the amount of shopping load that the 14 CRES provider supplies, that wouldn't really 15 change -- this wouldn't change that. 16 The only difference would be if the 17 CRES provider now has 500 megawatts of 18 shopping load and four percent of it is now 19 being provided for by the EICCR, then only 20 nine -- then the CRES provider would only have 21 to self-supply 96 percent of the 500 22 megawatts. 23 So I don't really see how -- the 24 answer to your question is whatever the 25 procedure would be today for self-supply, I</p>



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<p>49</p> <p>1 would think would exist after the proposal is 2 implemented.</p> <p>3 Q. Are you familiar with a project 4 called a Turning Point Project?</p> <p>5 A. I've just seen some -- I haven't 6 really looked at it, but I have seen 7 references to it in testimony and some of the 8 discovery. It's one of the projects that is 9 being proposed for recovery under the GRR. I 10 think it's a wind farm.</p> <p>11 Q. Are you aware --</p> <p>12 A. Or solar. I don't remember 13 actually.</p> <p>14 Q. Have you looked at the proposed 15 costs of that project?</p> <p>16 A. I have not.</p> <p>17 Q. So would it be fair to say that you 18 don't know whether the value of the capacity 19 or energy of that project is greater or less 20 than the cost of the project?</p> <p>21 A. I have not made any analysis of 22 that, no.</p> <p>23 Q. Now, for many years you have worked 24 with OEG, correct?</p> <p>25 A. Yes.</p>	<p>51</p> <p>1 A. Investments by businesses?</p> <p>2 Q. Yes.</p> <p>3 A. Yes. Especially electric intensive 4 large manufacturing, that would be true all 5 else being equal.</p> <p>6 Q. And do you have an opinion with 7 respect to how the retention or creation of 8 jobs correlate with higher rates, electric 9 rates?</p> <p>10 A. Well, as a general matter, the 11 higher -- for large industrial manufacturing 12 customers, the higher the electric rates, all 13 else being equal, the less competitive that 14 those customers are, the more likely it is 15 that they -- that such a facility will not be 16 able to compete with other facilities in other 17 states in the United States and other 18 countries in the world.</p> <p>19 So to the extent that that is true, 20 and I believe it is, there would also be a 21 corresponding impact on employment in Ohio.</p> <p>22 Q. If a customer is faced with paying 23 for electricity that is above the market value 24 for electricity, is that customer better off?</p> <p>25 A. I don't -- I mean, obviously, as I</p>
<p>50</p> <p>1 Q. And you have analyzed issues with 2 their potential effect on industrial customers 3 of energy in Ohio, correct?</p> <p>4 A. Yes, with respect to the rate 5 proceedings, the proceedings that I have been 6 involved in, I have, yes.</p> <p>7 Q. And you have opined in the past of 8 the importance of energy prices. And by that 9 I mean, electricity prices, to industrial 10 customers and the consequent effect on 11 economic development and the economic 12 well-being of Ohio, correct?</p> <p>13 A. Yes.</p> <p>14 Q. And it would be a fair statement to 15 say, would it not, that businesses do not 16 benefit when they pay higher electric costs. 17 Fair to say?</p> <p>18 A. Yes, I think that's true of every 19 business. And, obviously, to the extent that 20 a business is more energy intensive, it's even 21 more significant.</p> <p>22 Q. And would it be fair to say that all 23 other things being equal, investments in Ohio 24 would be more likely with lower electric 25 rates?</p>	<p>52</p> <p>1 answered, I think in two questions ago, every 2 customer, whether it's a residential customer, 3 commercial industrial, all else being equal, 4 is better off with lower electric rates. But 5 I don't think you can simply answer the 6 question you posed with a yes or no without 7 understanding all of the implications of such 8 a question.</p> <p>9 There are, at any given instant in 10 time, I would believe, I do believe that 11 customers, all customers, are better off 12 paying lower costs than higher costs. All 13 else being equal. But when you say better off 14 that there may be trade-offs over time. There 15 are a lot of complications that I could 16 envision that may impact that.</p> <p>17 So when you compare it to market, 18 the value of energy, utilities traditionally 19 -- at any given point in time, a market rate 20 is always going to be higher or lower than 21 some rate determined in a non-market or a 22 quasi-market mechanism. And it really can't 23 be answered or is a customer better off, as 24 you posed it.</p> <p>25 MR. KURTZ: Well, David, this is</p>



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<p>53</p> <p>1 Mike Kurtz. He's been on for an 2 hour-and-a-half. I know he wanted to eat 3 lunch if we're going to go an extremely long 4 period of time. Do you have any idea how much 5 longer you'll be and if any of the other 6 counsel could answer if they have questions? 7 MR. KURTIK: Well, let's go off the 8 record for a minute. 9 (WHEREUPON, there was a discussion off 10 the record.) 11 MR. KURTIK: Let's go back on the 12 record. 13 Q. (By Mr. Kurtz) Would it be correct 14 to say that your preference, if there was a 15 situation where market rates were less than, 16 let's say, a cost base rate, that you would 17 want your customer to pay the market rate, 18 correct? 19 A. Yes. Like I said, at any given 20 point in time, that would always be true. 21 Though in trying to evaluate -- well, yes, 22 that would be true at any given point in time. 23 I think that's self-evident. 24 Q. Do you view the recovery of rates 25 that are higher than a market rate a subsidy?</p>	<p>55</p> <p>1 that would be a subsidy. 2 A. I don't know that it would be 3 characterized as a subsidy. I tend to think 4 of a subsidy as being determined -- it depends 5 -- again, it depends on the context, but a 6 subsidy -- for example, in many of the 7 proceedings that I'm involved in, in other 8 jurisdiction, subsidies exists between rate 9 classes on a cost-of-service basis. 10 And in that context, there's a 11 comparison made between the rate that a 12 particular class pays and the allocated cost 13 to serve that customer and that's 14 characterized as a subsidy. 15 In economic terms, a subsidy is 16 basically, it could be considered a transfer 17 payment. So I'm not sure I really understand 18 fully the context that you're asking the 19 question. Maybe I've just confused myself, 20 but I just don't understand it. 21 Q. Well, you obviously answered the 22 question about situations where it wouldn't be 23 a subsidy and you can't imagine a circumstance 24 where you could consider the recovery of rates 25 that are in excess of market rates a subsidy.</p>
<p>54</p> <p>1 A. Not necessarily. It depends on the 2 context. 3 Q. In what context would it be? 4 A. Well, under cost base regulation, 5 for example, that exists in Kentucky, it's the 6 fact that a market rate may be higher or lower 7 than the cost to serve the regulated rate 8 doesn't mean that there's a subsidy being paid 9 or received by the utility. So it depends on 10 the context. 11 Q. You answered the opposite of my 12 question. 13 My question would be in what 14 circumstances would the recovery of rates that 15 are greater than the market rate be a subsidy? 16 A. Well, then I will have to -- a 17 subsidy to who? 18 Q. Well, you said that they wouldn't be 19 a subsidy, so I -- 20 A. Well, I said it depends on the 21 context, and I gave you an example of 22 regulated electric utilities in Kentucky. 23 Q. And you gave me an example of 24 something that wouldn't be a subsidy. I'm 25 asking you now, okay, tell me an situation</p>	<p>56</p> <p>1 Is that your testimony? 2 A. Well, if a provider -- if you're in 3 a situation where everyone, all of these 4 sellers are presumably selling at market 5 prices, that's the entirety of the universe, 6 and some sellers are selling above the market 7 price, in a competitive market, for whatever 8 reason and actually succeeding, then they are 9 receiving a windfall, an economic rent. I 10 don't know whether that would be characterized 11 as a subsidy. 12 Q. My question was approximate about a 13 subsidy. 14 A. Okay. Well, I guess maybe then -- 15 maybe what I really need is for you to define 16 what you mean by subsidy. 17 Q. Well, again you, seem to understand 18 that term in responding to at least four or 19 five of my questions already. 20 And my question simply to you is, 21 however you want to define that term, can you 22 imagine a circumstance where you would 23 consider the recovery of rates, in excess of 24 the market rate, a subsidy? 25 A. It's certainly possible, yes.</p>



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<p>57</p> <p>1 Q. Okay. And can you give me a 2 circumstance where that would occur? 3 A. I think I was about to give you one 4 where we have a situation where all of the 5 sellers are selling at market prices except 6 one that's selling at some price greater than 7 market. And to the extent that they're 8 receiving a windfall or an economic rent for 9 some reason, I suppose that could be 10 characterized as a subsidy. Though I don't 11 really know that that would be the best way to 12 characterize it. I can't think of anything 13 else beyond that. 14 Q. All right. You anticipated my next 15 question. 16 Now, in your view under your 17 proposal, does AEP get any competitive 18 advantage over its -- over CRES providers 19 because of how they would be able to recover 20 their environmental costs? 21 A. I don't believe so. I think it's 22 competitively neutral because the CRES 23 provider would still be competing with respect 24 to the full rate, other than the capacity 25 share that's being provided by the EICCR</p>	<p>59</p> <p>1 the issue is whether those costs are to be 2 recovered only from SSO customers or from all 3 Ohio, AEP Ohio customers. 4 And it really goes to the -- you 5 know, it is true that CRES providers would not 6 be guaranteed the recovery of their 7 environmental costs were they to elect 8 self-supply under the PJM FRR provisions. 9 But I don't see -- my view is that 10 this provides a rational mechanism to ensure 11 that economically-justified capacity is not 12 shut down in Ohio when environmental upgrades 13 could support that capacity. And it strikes 14 me that that's beneficial to all of Ohio 15 customers and, therefore, CRES providers would 16 benefit by having, you know, viable market. 17 Q. So I'm not sure you answered my 18 question. 19 Does AEP Ohio get a competitive 20 advantage in that their environmental costs 21 would be recovered or have some assurance of 22 recovery under your proposal while a CRES 23 providers' environmental costs would not have 24 such assurance? 25 A. I don't consider that, given the</p>
<p>58</p> <p>1 capacity. And I don't -- especially under 2 this net capacity formulation, I don't see how 3 that would be anything other than 4 competitively neutral. 5 MR. KURTICK: Robin, could you read 6 that answer, please? 7 (WHEREUPON, the record was read back 8 by the reporter as follows:) 9 "Answer: I don't believe so. I 10 think it's competitively neutral because the 11 CRES provider would still be competing with 12 respect to the full rate, other than the 13 capacity share that's being provided by the 14 EICCR capacity. And I don't -- especially 15 under this net capacity formulation, I don't 16 see how that would be anything other than 17 competitively neutral." 18 Q. (By Mr. Kurtik) Well, is it true 19 that AEP essentially gets an assurance of a 20 sort of the recovery of its environmental 21 costs while a CRES provider does not? 22 A. Well, for the Commission-approved 23 resources, the statute provides for the 24 company to recover its environmental cost, 25 upgrade costs. The statute permits that. And</p>	<p>60</p> <p>1 circumstances of an ESP, to be a competitive 2 advantage. I consider it to be an advantage 3 that would be provided. It's a win-win 4 situation for all the consumers in Ohio. 5 And so I don't know the -- I haven't 6 done an evaluation of CRES provider 7 environmental upgrade costs. But the statute 8 provides that AEP and any utility in its 9 situation be permitted to recover 10 environmental, incremental environmental 11 upgrades. 12 The issue here is whether that 13 should be all charged to standard service 14 customers or it can be charged as well to 15 shopping customers. 16 Q. Under your proposal, you are 17 envisioning that shopping customers would pay 18 their fair share of the bottom line costs, 19 correct? 20 A. Yes. 21 Q. And the same thing for new resource 22 costs? 23 A. Yes, but they would also receive a 24 commiserate benefit as required under the 25 statute.</p>



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<p>61</p> <p>1 Q. I'm sorry. I thought my question 2 was non-shopping customers. 3 A. Oh, I'm sorry. Okay. I apologize. 4 But the answer is yes, they would 5 pay both. Non-shopping customers would pay 6 the environmental upgrade costs and they would 7 pay the GRR costs. 8 MR. KURTIK: Let me have about a 9 minute. Let's go off the record. 10 (WHEREUPON, a recess was taken.) 11 MR. KURTIK: Okay. I'm ready to go 12 back on the record. 13 Mike, are you there? 14 MR. KURTZ: Yes, I am. 15 MR. KURTIK: And, Mr. Baron, are you 16 ready. 17 THE WITNESS: Yes. 18 MR. KURTIK: Let's go back on the 19 record. 20 Q. (By Mr. Kurtik) Mr. Baron, would the 21 Commission under your proposal for rider GRR 22 have to make the same types of determinations 23 that we talked about with regard to your 24 proposal for rider EICCR? 25 A. I would envision it, yes.</p>	<p>63</p> <p>1 Q. These by -- these sales would not be 2 sales that would necessarily be made, I think 3 your phrase was first through the meter, 4 correct? 5 A. Correct. Right. 6 In that sense, they are 7 hypothetical -- I wouldn't characterize them 8 as hypothetical, but it would not be -- it 9 would be sort of an allocated calculation 10 rather than a specific assignment of first 11 through the meter kilowatt hours and KW. 12 MR. KURTIK: With that, I have no 13 further questions at this time. 14 THE WITNESS: This is Mr. Baron. 15 Could I just take a five-minute break? 16 MR. KURTIK: Sure. 17 MR. SATTERWHITE: I only have two 18 questions if you just want. 19 THE WITNESS: All right. Go ahead. 20 EXAMINATION 21 BY-MR.SATTERWHITE: 22 Q. This is Matt Satterwhite from AEP 23 Ohio. How are you doing today? 24 A. All right. 25 Q. First question: Do you think it's</p>
<p>62</p> <p>1 Q. So for example -- 2 A. And I think the statute -- I mean, 3 my understanding of the statute is that it 4 requires a determination. 5 Q. So we would have a determination 6 with respect to -- well, I think we generally 7 were calling the prudence of the project. 8 A. Yes. 9 Q. Correct? 10 A. Yes. 11 Q. We would have a determination about 12 the costs and expenses of the project to set a 13 rate. 14 A. Yes. 15 Q. And we would have to determine a 16 hypothetical margin based upon hypothetical 17 sales, correct? 18 A. Yes. Well, when you said 19 'hypothetical margin and hypothetical sales,' 20 I was talking about the actual margins. When 21 you say I'm -- maybe we're not communicating. 22 But I thought -- I recall saying 23 that the margin calculation could be done 24 monthly or quarterly subject to true-up to 25 actual. Now --</p>	<p>64</p> <p>1 appropriate to characterize the level of a 2 PUCO-approved standard service offer as a 3 subsidy in relation to the rates of a 4 competitive retail electric service provider 5 in Ohio? 6 A. No, I don't. I've never used that 7 characterization to the best of my 8 recollection. 9 Q. Okay. Second question: You talked 10 about least cost a lot today in your 11 testimony. Is least cost a pure economic 12 figure of the lowest dollar amount or does the 13 analysis have a reasonableness component to 14 it? 15 A. Well, generally, least cost -- I 16 guess the answer is yes, it has to have a 17 reasonableness component. But, generally, the 18 methodologies that are used to determine a 19 least cost resource plan involve a 20 quantitative analysis that requires 21 assumptions about load, energy, capacity, 22 capacity or peak demand needs of customers 23 fuel costs, alternative resource costs. 24 Obviously, each of those inputs has to be 25 reasonable.</p>



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<p>65</p> <p>1 Q. And there's other exterior factors 2 like maybe legal obligation that would affect 3 least cost as well, correct? 4 A. I think, yes. I think obviously to 5 the extent that there are certain 6 requirements, say, for renewable portfolio 7 standards or for other factors, those would 8 have to be considered if that's an example of 9 what you're referring to. 10 MR. SATTERWHITE: Okay. That's all 11 I have. 12 MR. KURTIK: Does anyone else have 13 any questions? 14 Hearing none. As you know, Mr. 15 Baron, as part of the deposition process, you 16 have the right to review the transcript to 17 determine whether there are any transcription 18 errors. You also have the ability to waive 19 that right at this point in the proceedings. 20 You need to indicate whether you wish to read 21 the transcript or whether you wish to waive 22 that right. 23 THE WITNESS: I would like to have 24 the opportunity to review the transcript. 25 MR. KURTIK: Okay. Very good. And</p>	<p>67</p> <p>1 CERTIFICATE 2 STATE OF GEORGIA: 3 FULTON COUNTY: 4 I hereby certify that the foregoing 5 deposition was reported, as stated in the 6 caption, and the questions and answers thereto 7 were reduced to the written page under my 8 direction, that the preceding pages represent 9 a true and correct transcript of the evidence 10 given by said witness. 11 I further certify that I am not of 12 kin or counsel to the parties in the case, am 13 not in the regular employ of counsel for any 14 of said parties, nor am I in any way 15 financially interested in the result of said 16 case. 17 18 19 Dated this 15th day of August, 2011. 20 21 22 23 ROBIN K. FERRILL, CCR-B-1936, RPR 24 25</p>
<p>66</p> <p>1 with that, we are concluded. 2 Thank you very much. 3 (WHEREUPON, the proceedings were 4 concluded at 12:17 p.m.) 5 6 7 (Pursuant to Rule 30(e) of the 8 Federal Rules of Civil Procedure and/or 9 O.C.G.A. 9-11-30(e), signature of the 10 witness has been reserved.) 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25</p>	<p>68</p> <p>1 COURT REPORTER DISCLOSURE 2 3 Pursuant to Article 10.B of the Rules and 4 Regulations of the Board of Court Reporting of 5 the Judicial Council of Georgia which states: 6 "Each court reporter shall tender a disclosure 7 form at the time of the taking of the 8 deposition stating the arrangements made for 9 the reporting services of the certified court 10 reporter, by the certified court reporter, the 11 court reporter's employer or the referral 12 source for the deposition, with any party to 13 the litigation, counsel to the parties, or 14 other entity. Such form shall be attached to 15 the deposition transcript." I make the 16 following disclosure: 17 I am a Georgia Certified Court Reporter. I am 18 here as a representative of Esquire Deposition 19 Solutions. Esquire Deposition Solutions was 20 contacted to provide court reporting services 21 for the deposition. Esquire Deposition 22 Solutions will not be taking this deposition 23 under any contract that is prohibited by 24 O.C.G.A. 9-11-28(c). 25 26 Esquire Deposition Solutions has no 27 contract/agreement to provide reporting 28 services with any party to the case, any 29 counsel in the case, or any reporter or 30 reporting agency from whom a referral might 31 have been made to cover this deposition. 32 Esquire Deposition Solutions will charge its 33 usual and customary rates to all parties in 34 the case, and a financial discount will not be 35 given to any party to this litigation. 36 37 ROBIN K. FERRILL, CCR-B-1936 38 39 40 41 42 43 44 45</p>



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<p>1 DEPOSITION ERRATA SHEET</p> <p>2</p> <p>3 Our Assignment No. 243632</p> <p>4 Case Caption: In the matter of the</p> <p>5 Application of Columbus Southern Power</p> <p>6 Company, et al.</p> <p>7</p> <p>8 DECLARATION UNDER PENALTY OF PERJURY</p> <p>9 I declare under penalty of perjury</p> <p>10 that I have read the entire transcript of</p> <p>11 my Deposition taken in the captioned matter</p> <p>12 or the same has been read to me, and</p> <p>13 the same is true and accurate, save and</p> <p>14 except for changes and/or corrections, if</p> <p>15 any, as indicated by me on the DEPOSITION</p> <p>16 ERRATA SHEET hereof, with the understanding</p> <p>17 that I offer these changes as if still under</p> <p>18 oath.</p> <p>19 Signed on the _____ day of</p> <p>20 _____, 20____.</p> <p>21</p> <p>22 _____</p> <p>23 STEPHEN J. BARON</p> <p>24</p> <p>25 DEPOSITION ERRATA SHEET</p> <p>Page No. _____ Line No. _____ Change to: _____</p> <p>Reason for change: _____</p> <p>Page No. _____ Line No. _____ Change to: _____</p> <p>Reason for change: _____</p> <p>Page No. _____ Line No. _____ Change to: _____</p> <p>Reason for change: _____</p> <p>SIGNATURE: _____ DATE: _____</p> <p>STEPHEN J. BARON</p>	69
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