BEFORE THE
PUBLIC UTILITIES 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 Nos. 11-346-EL-SSO 11-348-EL-SSO
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

FIRSTENERGY SOLUTIONS CORP.'S NOTICE OF FILING DEPOSITION TRANSCRIPTS

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

Respectfully submitted,

N. Trevor Alexander

Mark A. Hayden (0081077)
FIRSTENERGY SERVICE COMPANY
76 South Main Street
Akron, OH 44308
(330) 761-7735
(330) 384-3875 (fax)
haydenm@firstenergycorp.com

James F. Lang (0059668)
Laura C. McBride (0080059)
N. Trevor Alexander (0080713)
CALFEE, HALTER & GRISWOLD LLP
1400 KeyBank Center
800 Superior Ave.
Cleveland, OH 44114
(216) 622-8200
(216) 241-0816 (fax)
jlang@calfee.com
lmcbride@calfee.com
talexander@calfee.com

David A. Kutik (0006418)
JONES DAY
901 Lakeside Avenue
Cleveland, OH 44114
(216) 586-3939
(216) 579-0212 (fax)
dakutik@jonesday.com

Allison E. Haedt (0082243)
JONES DAY
P.O. Box 165017
Columbus, OH 43216-5017
(614) 469-3939
(614) 461-4198 (fax)
aehaedt@jonesday.com

Attorneys for FirstEnergy Solutions Corp.

CERTIFICATE OF SERVICE

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

N. Trevor Alexander

One of the Attorneys for FirstEnergy Solutions Corp.

Steven T. Nourse
Matthew J. Satterwhite
American Electric Power Corp.
1 Riverside Plaza, 29th Floor
Columbus, Ohio 43215
stnourse@aep.com
mjsatterwhite@aep.com

Dorothy K. Corbett
Amy Spiller
Duke Energy Retail Sales
139 East Fourth Street
1303-Main
Cincinnati, Ohio 45202
dorothy.corbett@duke-energy.com
amy.spilller@duke-energy.com

Daniel R. Conway
Porter Wright Morris & Arthur
41 South High Street
Columbus, Ohio 43215
dconway@porterwright.com

David F. Boehm
Michael L. Kurtz
Boehm, Kurtz & Lowry
36 East Seventh Street. Suite 1510
Cincinnati, Ohio 45202
dboehm@bkllawfirm.com
mkurtz@bkllawfirm.com

Samuel C. Randazzo
Joseph E. Oliker
Frank P. Darr
McNees Wallace & Nurick
21 East State Street, 17th Floor
Columbus, Ohio 43215
sam@mwncmh.com
joliker@mwncmh.com
fdarr@mwncmh.com

Terry L. Etter
Maureen R. Grady
Office of the Ohio Consumers' Counsel
10 West Broad Street, Suite 1800
Columbus, Ohio 43215-3485
etter@occ.state.oh.us
idzkowski@occ.state.oh.us
grady@occ.state.oh.us

Richard L. Sites
Ohio Hospital Association
155 East Broad Street, 15th Floor
Columbus, Ohio 43215-3620
ricks@ohanet.org

Thomas J. O'Brien
Bricker & Eckler
100 South Third Street
Columbus, Ohio 43215-4291
tobrien@bricker.com

Colleen L. Mooney
David C. Rinebolt
Ohio Partners for Affordable Energy
231 West Lima Street
Findlay, Ohio 45840
cmooney2@columbus.rr.com
drinebolt@ohiopartners.org

Jay E. Jadwin
American Electric Power Service Corporation
1 Riverside Plaza, 29th Floor
Columbus, Ohio 43215
jejadwin@aep.com

John W. Bentine
Mark S. Yurick
Zachary D. Kravitz
Chester Willcox & Saxbe, LLP
65 East State Street, Suite 1000
Columbus, Ohio 43215
jbentine@cwslaw.com
myurick@cwslaw.com
zkravitz@cwslaw.com

Michael R. Smalz
Joseph V. Maskovyak
Ohio Poverty Law Center
555 Buttles Avenue
Columbus, Ohio 43215
msmalz@ohiopovertylaw.org
jmaskovyak@ohiopovertylaw.org

Terrence O'Donnell
Christopher Montgomery
Bricker & Eckler LLP
100 South Third Street
Columbus, Ohio 43215-4291
todonnell@bricker.com
cmontgomcry@bricker.com

Lisa G. McAlister
Matthew W. Warnock
Bricker & Eckler LLP
100 South Third Street
Columbus, Ohio 43215-4291
lmcalister@bricker.com
mwarnock@bricker.com

Jesse A. Rodriguez
Exelon Generation Company, LLC
300 Exelon Way
Kennett Square, Pennsylvania 19348
jesse.rodriguez@exeloncorp.com

William L. Massey
Covington & Burling, LLP
1201 Pennsylvania Ave., NW
Washington, DC 20004
wmassey@cov.com

Glen Thomas
1060 First Avenue, Ste. 400
King of Prussia, Pennsylvania 19406
gthomas@gtpowergroup.com

Laura Chappelle
4218 Jacob Meadows
Okemos, Michigan 48864
laurac@chappelleconsulting.net

Henry W. Eckhart
2100 Chambers Road, Suite 106
Columbus, Ohio 43212
henryeckhart@aol.com

Pamela A. Fox
Law Director
The City of Hilliard, Ohio
pfox@hilliardohio.gov

Christopher L. Miller
Gregory H. Dunn
Asim Z. Haque

M. Howard Petricoff
Stephen M. Howard
Michael J. Settineri

Schottenstein Zox & Dunn Co., LPA
250 West Street
Columbus, Ohio 43215
cmiller@szd.com
gdunn@szd.com
ahaque@szd.com

Lija Kaleps-Clark
Vorys, Sater, Seymour and Pease LLP
52 E. Gay Street
Columbus, Ohio 43215
mhpetricoff@vorys.com
smhoward@vorys.com
mjsettineri@vorys.com
lkalepsclark@vorys.com

Sandy Grace
Exelon Business Services Company
101 Constitution Avenue N.W., Suite 400 East
Washington, DC 20001
sandy.grace@exeloncorp.com

Gary A. Jeffries
Dominion Resources Services, Inc.
501 Martindale Street, Suite 400
Pittsburgh, PA 15212-5817
gary.a.jeffries@dom.com

Kenneth P. Kreider
Keating Muething & Klekamp PLL
One East Fourth Street, Suite 1400
Cincinnati, Ohio 45202
kpkreider@kmklaw.com

Steve W. Chriss
Wal-Mart Stores, Inc.
2001 SE 10th Street
Bentonville, Arkansas 72716
stephen.chriss@wal-mart.com

Holly Rachel Smith
Holly Rachel Smith, PLLC
Hitt Business Center
3803 Rectortown Road
Marshall, Virginia 20115
holly@raysmithlaw.com

Barth E. Royer
Bell & Royer Co., LPA
33 South Grant Avenue
Columbus, Ohio 43215-3927
barthroyer@aol.com

Gregory J. Poulos
EnerNOC, Inc.
101 Federal Street, Suite 1100
Boston, MA 02110
gpoulos@enernoc.com

Werner L. Margard III
John H. Jones
Assistant Attorneys General
Public Utilities Section
180 East Broad Street, 6* Floor
Columbus, OH 43215
werner.margard@puc.state.oh.us
john.jones@puc.state.oh.us

Philip B. Sineneng
Carolyn S. Flahive
Thompson Hine LLP
41 S. High Street, Suite 1700
Columbus, Ohio 43215
philip.sineneng@thompsonhine.com
carolyn.flahive@thompsonhine.com

Emma F. Hand
Douglas G. Bonner
SNR Denton US LLP
1301 K Street, NW, Suite 600, East Tower
Washington, DC 20005-3364
emma.hand@snrdenton.com
doug.bonner@snrdenton.com

E. Camille Yancey
Nolan Moser
Trent A. Dougherty
Ohio Environmental Council
1207 Grandview Avenue, Suite 201
Columbus, Ohio 43212-3449
camille@theoec.org
nolan@theoec.org
trent@theoec.org

Tara C. Santarelli
Environmental Law & Policy Center
1207 Grandview Ave., Suite 201
Columbus, Ohio 43212
tsantarelli@elpc.org

Shannon Fisk
2 North Riverside Plaza, Suite 2250
Chicago, IL 60606
sfisk@nrdc.org

Cynthia Fonner Brady
550 W. Washington Street, Suite 300
Chicago, IL 60661
cynthia.a.fonner@constellation.com

BEFORE THE PUBLIC UTILITIES 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. 11-346-EL-SSO : Case No. 11-348-EL-SSO
In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Approval of Certain Accounting Authority.	: Case No. 11-349-EL-AAM : Case No. 11-350-EL-AAM

- - -

DEPOSITION

of Dr. Chantale LaCasse, taken before me, Maria DiPaolo Jones, a Notary Public in and for the State of Ohio, at the offices of Porter, Wright, Morris & Arthur, LLP, 41 South High Street, Columbus, Ohio, on Tuesday, August 9, 2011, at 1:30 p.m.

- - -

ARMSTRONG & OKEY, INC.
222 East Town Street, 2nd Floor
Columbus, Ohio 43215
(614) 224-9481 - (800) 223-9481
FAX - (614) 224-5724

- - -

APPEARANCES:

American Electric Power
By Mr. Matthew J. Satterwhite
1 Riverside Plaza
Columbus, Ohio 43215-2373

On behalf of the Applicants.

Calfee, Halter & Griswold, LLP
By Mr. N. Trevor Alexander
1100 Fifth Third Center
21 East State Street
Columbus, Ohio 43215-4243

On behalf of FirstEnergy Solutions Corporation.

APPEARANCES VIA SPEAKERPHONE:

Thompson Hine, LLP
By Mr. Philip B. Sineneng
41 South High Street, Suite 1700
Columbus, Ohio 43215

On behalf of Duke Energy Retail.

Ohio Poverty Law Center
By Mr. Michael Smalz
555 Buttles Avenue
Columbus, Ohio 43215

On behalf of Appalachian Peace and Justice Network.

McNees, Wallace & Nurick, LLC
By Mr. Frank P. Darr
Fifth Third Center, Suite 1700
21 East State Street
Columbus, Ohio 43215-4288

On behalf of Industrial Energy Users.

APPEARANCES VIA SPEAKERPHONE (continued):

Chester, Willcox & Saxbe, LLP
By Mr. Zachary D. Kravitz
65 East State Street, Suite 1000
Columbus, Ohio 43215-4213

On behalf of Kroger Company.

SNR Denton US, LLP
By Ms. Emma F. Hand
1301 K Street NW
Suite 600 East Tower
Washington, D.C. 20005

On behalf of Ormet Primary Aluminum Corporation.

Janine L. Migden-Ostrander
Ohio Consumers' Counsel
By Mr. Terry Etter
Ms. Maureen Grady
Assistant Consumers' Counsel
10 West Broad Street, Suite 1800
Columbus, Ohio 43215-3485

On behalf of the Residential Ratepayers of Columbus Southern Power Company and Ohio Power Company.

ALSO PRESENT:

Mr. Pat Lawrence.

- - -

INDEX

- - -

- - -

2c48ca1a-4775-4a92-a90a-c1f7d104c37c

Tuesday Afternoon Session,
August 9, 2011.
- - -
(Witness sworn.)
MR. ALEXANDER: Good afternoon. My name is Trevor Alexander and I'm one of the lawyers representing FirstEnergy Solutions Corporation. Could all the parties that are present in person today please identify themselves.
MR. SATTERWHITE: Sure. Matthew Satterwhite on behalf of the companies.
MR. ALEXANDER: And could all the parties that are participating via telephone please identify themselves.
MS. HAND: This is Emma Hand representing Ormet Primary Aluminum Corporation.
MR. SMALZ: This is Mike Smalz of the Ohio Poverty Law Center representing the Appalachian Peace and Justice Network.
MR. SINENENG: Philip Sineneng on behalf of Duke Energy Retail.
MR. DARR: Frank Darr on behalf of IEU.
MR. KRAVITZ: For The Kroger Company, Zach Kravitz, Chester, Willcox & Saxbe.

MR. ETTER: Terry Etter with the Office of the Ohio Consumers' Counsel.
- - -
DR. CHANTALE LaCASSE
being by me first duly sworn, as hereinafter certified, deposes and says as follows:
EXAMINATION
By Mr. Alexander:
Q. Dr. LaCasse, I'm going to be asking you a few questions today. If you don't understand something, please let me know and I'll rephrase it or ask the court reporter to read it back. If you need to take a break, please just let me know, I'll just ask that you don't take a break while the question is pending. It is important to wait until I have completely finished the question before answering. When you do answer, please state your answers clearly. Do not use gestures, shrug, nod your head, or use phrases likes "uh-huh" because those will not be reflected in the transcript.
During this deposition we are going to be discussing the constrained Black-Scholes model proposed by Ms. Thomas. As you did in your testimony, I'm going to refer to this model as the

"Black model." Do you understand this definition?
A. Yes.
Q. And as another definition of convenience I'm going to refer to Ohio Power Company and Columbus Southern Power Company collectively as "AEP." Do you understand this definition?
A. Yes.
Q. Could you please state your name for the record and provide the correct spelling.
A. My name is Chantale LaCasse, C-h-a-n-t-a-l-e L-a-C-a-s-s-e.
Q. And I am handing you what the reporter has previously marked as Exhibit 1. Do you recognize this document?
A. Yes.
Q. And what is the document?
A. It's the direct testimony.
Q. And do you believe all of your testimony contained in this exhibit is still true and accurate?
A. I do.
Q. And if I asked you these same questions again right now, would your answers be the same?
A. Yes.
Q. Is the address listed on page 1, line 3

still your correct business address?
A. It is.
Q. Is your compensation for testifying in this case based in any way on the eventual outcome of this litigation?
A. No.
Q. No contingency fee or success fee?
A. No.
Q. Did you review any documents in preparation for your deposition today?
A. In the course of preparing my testimony I reviewed the documents in the 9-11 ESP, I reviewed also testimony and analyses that are in the current case, what I call the 12-14 ESP, and I also reviewed some of the intervenor testimony.
Q. Do you recall if you reviewed the intervenor testimony for the witnesses from FirstEnergy Solutions?
A. Some of that testimony.
Q. Which testimony did you review?
A. I reviewed Mr. Schnitzer's testimony.
Q. Did you review Mr. Lesser's testimony?
A. No.
Q. Did you review Mr. Banks' testimony?

A. No.
Q. Did you review Mr. Shanker's testimony?
A. No.
Q. Did you review Staff Witness Benedict's testimony?
A. No.
Q. Have you reviewed the mathematical formula used by AEP to create the Black model value that we've been talking about in this litigation?
A. Could you rephrase the question?
Q. Certainly. Have you reviewed the workpapers provided by Company Witness Thomas that show the Black model formula used by AEP in this case?
A. Yes.
Q. Your CV is attached to your testimony as Exhibit CL-1; is that correct?
A. That's correct.
Q. Do you have any education, training, certificates, or degrees other than as reflected on Exhibit CL-1?
A. No.
Q. And I note that your CV does not reflect your testimony in the case number 08-917 which I

think you referred to as the 09-11 ESP case or in this proceeding. Other than those two proceedings does your testimony accurately list all of your prior testimony experience?
A. Yes.
Q. And there's a list of consulting experience which begins on page 3 of Exhibit CL-1. Is this a true and accurate list of all of your significant consulting experience?
A. Yes.
Q. None of the consulting experiences which you have listed on Exhibit CL-1 relate to the nature of the shopping risks that are faced by an EDU or a supplier, correct?
THE WITNESS: Could I have the question reread, please.
(Record read.)
A. That's correct.
Q. And none of the consulting experiences which you have listed on Exhibit CL-1 relate to examining the cost which an EDU or supplier may incur as a result of shopping, correct?
A. That's correct.
Q. And none of your consulting experience

listed on Exhibit CL-1 relates to examining the methods by which costs associated with shopping risks were quantified by the EDU or supplier, correct?
A. That's correct.
Q. None of your consulting experience listed on Exhibit CL-1 relates to using the valuation of an option as a method for measuring costs associated with shopping risk; is that correct?
A. Correct.
Q. None of your consulting experience listed on Exhibit CL-1 involved the calculation of the shopping risk to an EDU using the Monte Carlo method, correct?
A. That's correct.
Q. And there's a list of your prior testimony contained on Exhibit CL-1, pages 6 through 8. With the exception of your testimony in this case and in the remand proceeding I'm going to be asking you some questions about all of your prior testimony, but it's with the understanding that we are exempting your testimony in this case and your testimony in the remand proceeding. Do you understand that clarification?
A. I do.

Q. None of the testimony which you have listed on Exhibit CL-1 relates to the nature of the shopping risks that are faced by an EDU or supplier, correct?
MR. SATTERWHITE: Just for clarification before she answers, when you say "shopping risk," you're referring to the Ohio structure, shopping under the Ohio statute?
MR. ALEXANDER: No.
Q. I'm referring to any sort of shopping risk which would include the shopping risk from any other state which you believe is relevant to the Ohio shopping risk. Would it be helpful for me to reread the question?
A. It would, please.
Q. None of the testimony which you have listed on Exhibit CL-1 relates to the nature of the shopping risks that are faced by an EDU or a supplier, correct?
A. I would just clarify here that some of the testimony that is listed here relates to default service plans in which I, as a part of my testimony I would have referred to the fact that bidders in providing supply, default service supply, would be

2c48ca1a-4775-4a92-a90a-c1f7d104c37c

facing certain risks.
Q. What specific testimony experience are you referring to?
A. For example, the Met-Ed and Penelec, the Metropolitan Edison Company and Pennsylvania Electric Company, for the petition of their approval of default service plan.
Q. That would be on page 6 of Exhibit CL-1?
A. Correct.
Q. When you say your testimony related to default service, how does that relate to shopping risk?
A. Right. I just want to clarify that from your question it sounded like there was no overlap, let's say, between shopping risk and the testimony that is listed here. I don't have all of the testimony in my head at this moment, but in the course of looking at methods to provide supply for default service I may in the course of that testimony have mentioned the risks that are faced by suppliers in the course of bidding in the auction to provide default service, and that would include risks that those suppliers face.
Q. When you say "risks that those suppliers

face," are you referring to shopping risks?
A. That would be one of those risks, yes.
Q. But the testimony did not specifically concern shopping risks.
A. That's correct.
Q. None of the testimony which you have listed on Exhibit CL-1 relates to examining the costs which an EDU or supplier must incur as a result of shopping, correct?
A. That's correct.
Q. None of the testimony listed on Exhibit CL-1 relates to examining the methods by which costs associated with shopping risk were quantified or measured by an EDU or supplier, correct?
A. That's correct.
Q. None of your testimony listed on Exhibit CL-1 relates to using the valuation of an option as a method for measuring costs associated with shopping risk, correct?
MR. SATTERWHITE: Just for the record I'm going to -- you gave your clarification of what shopping was and it was pretty broad, so I'm just going to object to how broad it is. Go ahead.
A. That's correct.

Q. And none of your testimony listed on Exhibit CL-1 involved the calculation of the shopping risk to an EDU using the Monte Carlo method, correct?
A. That's correct.
MR. SATTERWHITE: And that objection was for all the questions that dealt with shopping.
Q. There's a list of your publications contained on Exhibit CL-1, pages 8 to 9. Is this a true and accurate list of all of the publications which you have authored?
A. Yes.
Q. None of the publications which you have listed on Exhibit CL-1 relate to the nature of the shopping risks that are faced by an EDU or supplier, correct?
A. That's correct.
Q. None of the publications which you have listed on Exhibit CL-1 relate to examining the costs which an EDU or supplier may incur as a result of shopping, correct?
A. That's correct.
Q. None of the publications listed on Exhibit CL-1 relate to examining the methods by which costs associated with shopping risk are quantified or

measured, correct?
A. That's correct.
Q. None of your publications listed on Exhibit CL-1 relate to using the valuation of an option as a method for measuring costs associated with shopping risk, correct?
A. That's correct.
Q. And none of your publications listed on Exhibit CL-1 involve the calculation of the shopping risk to an EDU using the Monte Carlo method, correct?
A. That's correct.
Q. What portion of your education, if any, included a discussion of the Black model?
A. I did not study that specifically.
Q. Do any of your published works contain a discussion of the Black model?
A. No.
Q. You don't work with the Black model regularly; is that correct?
A. I do not.
Q. And have you ever worked with the Black model before your testimony in these two AEP cases?
A. Not specifically. I relied on other experts at NERA that do work regularly with the Black

2c48ca1a-4775-4a92-a90a-c1f7d104c37c

model and -- that's it. Sorry.
Q. Outside of your testimony in these two AEP cases have you ever worked with an option model to price shopping risk?
MR. SATTERWHITE: I guess I'll object to the form. I don't want to object to every question. When you say "shopping risk," I think you're meaning the POLR obligation, correct?
MR. ALEXANDER: No. And, in fact, I'll tell you what we'll do, let's ask the witness.
MR. SATTERWHITE: I just want to clarify because --
MR. ALEXANDER: Sure, we'll clarify it so we're all on the same page here.
Q. Dr. LaCasse, what do you understand the phrase "shopping risk" to mean to you, not what I have been meaning by the words, but when you hear the words "shopping risk," what do you think?
A. What I'm understanding by "shopping risk" is what I've used in my testimony, that is the risk that customers that are taking SSO type service will take service from, in the Ohio context, a CRES provider and potentially return to the EDU or SSO provider.

Q. And, in fact, that risk is not limited to Ohio; isn't that correct?
A. That's correct.
Q. And you've cited studies from other states which have a similar shopping risk to Ohio in your testimony; isn't that correct?
A. Yes.
Q. So when we say "shopping risk," can we agree that means the risk of customers shopping regardless of state?
A. Yes.
MR. SATTERWHITE: I just wanted to make sure we're all on the same page.
Q. So I'm going to reask the last question because I want to make sure we're on the same page here. Outside of your testimony in these two AEP cases have you ever worked with an option model to price shopping risk?
A. No.
Q. Please turn to page 2 of your testimony, specifically lines 1 through 3. In these lines you state your consulting experience at NERA has principally consisted of designing and implementing competitive bidding processes for the procurement of

default service for electric utilities; is that correct?
A. That's correct.
Q. In your role at NERA did you analyze the different methods that were used by the suppliers to determine their shopping risks?
A. As I mention in my testimony, I would expect those bidders to utilize a variety of different methods and that those strategies to manage the POLR risk would be proprietary.
Q. Are you finished?
A. Yes.
Q. I didn't want to cut you off there.
I certainly understand that, we're going to get into that in detail, I'm just trying to understand right now what you do in your day-to-day operations at NERA. In your role at NERA did you analyze the different methods that were used by the suppliers to determine their shopping risks?
A. No.
Q. In your role at NERA were you aware specifically of how any particular bidder quantified the risk of shopping?
A. No.

Q. In any auctions which you conducted each bidder's evaluation of shopping risk would be proprietary information; is that correct?
A. That's correct.
Q. And that information -- strike that.
Each bidder's evaluation of shopping risk would not have been shared with you; is that correct?
A. That's correct.
Q. And in all of the auctions that you conducted did you ever examine the methodologies used by bidders to measure the costs associated with shopping?
A. No.
Q. And outside of your testimony in this case and in the remand case have you ever attempted to quantify shopping risk?
A. Shopping risk specifically, no.
Q. Do you work regularly with Monte Carlo models?
A. No.
Q. You testified regarding a Monte Carlo model in the remand proceeding; is that correct?
A. That's correct.
Q. That model was the first time you had

ever had hands-on experience with the Monte Carlo method; is that correct?
A. Yes.
Q. And someone else at NERA created that model; is that correct?
A. Someone else at NERA programmed the model, yes.
Q. Have you or anyone else at NERA created a Monte Carlo model for use in this case?
A. The Monte Carlo model that was presented in the remand case, the structure of the model itself could be used in this case as well.
Q. The exact same structure?
A. By which I mean the logic of the model, not necessarily -- obviously, the inputs may be different so it's not the exact -- not the, if you want, spreadsheet that was provided, but the logic structure of the model could be used to do an analysis in this case as well.
Q. Have you or anyone else at NERA run the Monte Carlo analysis with inputs for this case?
A. Well, this analysis was not presented as an additional analysis in my testimony, and if such an analysis was completed for this case, then I'm not

aware of that.
Q. I didn't ask if it had been prepared for this case. My question was have you or anyone else at NERA run the Monte Carlo method with inputs from this case? And if you would like that question reread, I'd be happy to do it.
A. Yes, please.
Q. My question was have you or anyone else at NERA run the Monte Carlo model with inputs from this case?
MR. SATTERWHITE: I guess I'll object at this point on a work product basis. I think she already testified that she's not aware of anything being run. So to the extent anything was, you're trying to get into the trial prep of what the company put together. What's in the testimony is what's presented, anything else would be work product.
MR. ALEXANDER: She testified that the model had not been run for this case. She is a testifying expert, though, and I am allowed to explore what she did and did not look at. And so it's your prerogative if you're going to instruct her not to answer on this basis, but since she is a testifying expert and I am entitled to know what she

did or did not look at, I would ask you to think about that.
MR. SATTERWHITE: Correct. And I think she testified already she's not aware of anything being run. Your question then was looping the entire world of NERA which she doesn't have knowledge of what every single person is doing. So I think her testimony stands that she's not applied it to this case, what she's applied is what's in her testimony, so that would be the scope of what I think the question should be at this point.
MR. ALEXANDER: Could you read the witness's answer to the original question here.
(Record read.)
Q. Dr. LaCasse, you qualified your answer as an analysis was completed for this case.
MR. SATTERWHITE: "If" I believe was the word.
MR. ALEXANDER: Correct. Fair.
Q. If such an analysis was completed for this case. Are you aware of such an analysis being run by you or anyone else at NERA?
MR. SATTERWHITE: And I guess it's the same -- I think you're just asking the same question

again. I think she's testified that she's not aware of it and --
MR. ALEXANDER: "For this case" was the qualification she used, and I want to avoid that qualification and find out if such an analysis was run.
MR. SATTERWHITE: You're asking in the broader sense, then?
MR. ALEXANDER: Was the analysis run, that's all I want to know.
MR. SATTERWHITE: Right. Is that a different question, though? I'm not understanding.
MR. ALEXANDER: She added a qualification to her original answer --
MR. SATTERWHITE: So you're talking about beyond this case.
MR. ALEXANDER: -- that the analysis was not run for this case. And I want to know, despite the fact the analysis has not been presented or attached to her testimony, was that analysis run.
MR. SATTERWHITE: Without the qualifier of "in this case." I'm just trying to see the --
MR. ALEXANDER: Correct.
MR. SATTERWHITE: -- difference in your

question.
A. By which you mean run with the input from this case?
Q. That's correct.
A. I think, again, if an analysis was done with the inputs from this case and was completed, I'm not aware of that.
Q. The Monte Carlo model does not incorporate switching restrictions; is that correct?
A. By the Monte Carlo model you mean the Monte Carlo model that was presented in the remand testimony?
Q. Correct.
A. No. The Monte Carlo model has switching restrictions in it, so it assumes, for example, that if an industrial customer switches to a CRES provider on the basis of the current market price and the customer, because prices rise again, subsequently switches back to the EDU, then the customer has to stay for 12 months.
Q. And it's your testimony that the Monte Carlo model would track each such customer who shopped and then returned and prevent that customer from shopping again for a period of 12 months?

A. Yes.
Q. The Monte Carlo model which you created in the remand case calculates costs to AEP as the total revenue that AEP would have received absent shopping; is that correct?
A. Can you repeat the question?
Q. Sure. The Monte Carlo model which you created in the remand case calculates costs to AEP as the total revenue that AEP would have received absent customer shopping.
A. I'm sorry. I don't understand the question.
Q. Sure. Let me come at this from a different angle. You used the Monte Carlo model to evaluate the results provided by the Black model; is that correct?
A. Yes.
Q. And you have defined AEP's cost as the revenue that AEP would have received absent customer shopping; is that correct?
A. No.
Q. Okay. Why isn't that correct? Dr. LaCasse, just to refresh your recollection when you consider this answer, you may want to look at

page 7, line 11.
MR. ALEXANDER: Could we have the question reread, please? How about this, how about we just strike that question and I'll ask a new one.
Q. What do you consider to be AEP's cost as a result of the POLR obligation?
A. The cost as it's evaluated by the company's model is essentially driven by the expected value of the difference between the ESP price and the market price at which customers choose to shop. And that is also the amount by which revenue for the EDU can be expected to be below the ESP revenue that the EDU would have received absent customer shopping, and that's what the model measures as being the POLR cost.
Q. So according to the model AEP's cost will equal its -- so under the model AEP's cost will equal the difference between the projected revenue and the actual revenue, correct? The projected revenue -- let's strike that.
Dr. LaCasse, I'm struggling here because I don't understand the distinction between your definition and my definition which is AEP's cost equals the revenues they would have received absent

shopping. I don't understand the difference between those two definitions. Can you explain the difference in your mind?
MR. SATTERWHITE: I guess I'll object to the form of the question because you're asking her to explain -- she's given her definition. You're asking her to explain why your mind doesn't match up with her explanation.
Q. You can answer the question if you can.
A. Well, again, I think that the cost is driven by the expected value of the difference between the ESP price and the market price, and that's also the amount by which revenue can be expected to be below the ESP revenue that the EDU would have received absent a customer shopping.
Q. So there are two aspects to POLR risk that have been discussed ad nauseam here, the first aspect of POLR risk is the risk of customer migration when market price falls below SSO price; is that correct?
A. That's correct.
Q. And AEP calculates its cost of customer migration as the difference between the revenue it would have received under the SSO pricing and the

2c48ca1a-4775-4a92-a90a-c1f7d104c37c

expected revenue as a result of shopping that will be lower than its expected revenue; is that correct?

A. If market prices fall sufficiently, so when the SSO period starts, the ESP price is below market, that's why it was better than the alternative, and if market prices then fall sufficiently so that SSO customers shop, a portion of the generation output that the EDU expected would serve those SSO customers instead would be sold at prices below the ESP and those prices in the model are assumed to be retail prices that are now below the ESP price and, of course, the EDU does not have the opposite situation of being able to sell above the ESP price when market prices rise because customers come back, and that's the second part of the risk that you were mentioning.

Q. So AEP's calculation in the Black model captured the difference between the SSO price and the expected market price as revenue that AEP would have received absent shopping, and that is one aspect of AEP's anticipated recovery; is that correct?

THE WITNESS: Can I have the question reread.

(Record read.)

A. I'm not sure I understand "anticipated recovery" so, again, the value of the option is driven by the expected difference between the ESP price and the market price at which customers would choose to shop. So that when market prices fall sufficiently and then a portion of the generation output that the EDU expected would serve SSO customers, because those customers shopped, would then be sold at prices that are below the ESP.

Q. Let's move on. The Monte Carlo method does not calculate out-of-pocket cost; is that correct?

A. The Monte Carlo model, like the constrained model, measures expected cost on an a priori basis.

Q. When you say "expected cost," what do you mean?

A. Expected cost means that we don't know the future and we have to come to a quantification of cost before knowing what the future path of prices would be. So it takes an average overall possible, over some of the possible changes in prices in the future.

Q. How do you define the word "cost" when

you say "expected cost"?

A. Well, it's essentially the expected value of the difference between the ESP price and the market price at which customers choose to shop.

Q. When I say "out-of-pocket cost," I am referring to funds actually expended by AEP to provide POLR optionality. So just please understand that distinction and definition. Do you understand that?

A. Yes.

Q. Okay. The Monte Carlo model does not calculate out-of-pocket costs; is that correct?

A. By out-of-pocket cost I understand an after-the-fact cost, and the Monte Carlo model, like the constrained model, measures the expected cost on an a priori basis.

Q. It would be possible to evaluate estimated out-of-pocket costs on an a priori basis; isn't that correct?

A. I'm not sure I understand the question.

Q. What's the difference between an ex-ante and an ex-post evaluation of risk?

A. Ex ante is before the fact, and ex post is after the fact.

Q. And you believe that from a ratemaking perspective the Commission should look at ex-ante costs as opposed to ex-post costs; is that correct?

A. By looking at an expected cost on an a priori basis the expected cost can be reflected in rates so that customers received an ESP price that is mostly fixed.

Q. Is that a "yes"?

A. Yes.

Q. And is it possible on an ex ante basis to know for certain whether the market price will drop below the SSO price?

A. No.

Q. And you would object to looking at AEP's historical shopping data because that would be evaluating loss on an ex post basis; is that correct?

A. Can you repeat that?

Q. You would object to looking at AEP's actual shopping data because that would be evaluating cost on an ex post basis.

A. I looked at the shopping data in looking at the effect of aggregation. Looking at the shopping data provides certainly some information from the point of view of the expected cost to AEP

2c48ca1a-4775-4a92-a90a-c1f7d104c37c

from its POLR obligation, it has that obligation with respect to all customers and that evaluation is done on an expected cost basis.

Q. So historic shopping is helpful to determine the expected cost.

A. No.

Q. Dr. LaCasse, you just testified that looking at the shopping data provides certainly some information from the point of view of the expected costs to AEP from its POLR obligation. What did you mean by that?

THE WITNESS: Could I have the question reread.

(Record read.)

A. So you asked whether I would object to looking at the shopping data, so I was making the point that I have looked at the shopping data for purposes of determining the impact of opt-out aggregation and to understand the effect of that on shopping in Ohio, there's no blanket objection to looking at shopping data, however, from the point of view of looking at or quantifying the cost from POLR risks, that that evaluation measures an expected cost that's on an a priori basis.

Q. Please look at your testimony, page 10, lines 11 to 14. You compare shopping related risk to an insurance policy and state that, quote, ". . . there is a cost of the insurer of providing the protection."

When you talk about ex-ante evaluation of risk, are you comparing POLR risk to an insurance product?

A. Can you repeat just the last part of the question?

Q. Sure. When you talk about ex-ante evaluation of risk, are you comparing POLR risk to an insurance product?

A. No. What I'm doing in this portion of the testimony is explain why the difference, when it's estimated between the cost to meet the POLR shape and the price that results from a competitive solicitation, is referred to as a premium.

Q. At line 13 you say, "The premium reflects the costs of bearing POLR risks . . ." and then it goes on. When you say "costs," what are you referring to in that sentence?

A. I'm referring to the costs of having the POLR obligation in the context of customers being

able to shop and to return to SSO.

Q. To that same revenue related cost, not out-of-pocket cost; is that correct?

MR. SATTERWHITE: Objection to form. I don't think you ever agreed on -- established that earlier.

A. The expected cost that's measured on an a priori basis and that the constrained model quantifies as the value of an option that's driven by the expected value of the difference between the ESP price and the market price.

Q. In the insurance industry, insurers evaluate risk of loss all the time; isn't that correct?

A. I don't know.

Q. You've never looked at how insurance companies evaluate risk?

A. No.

Q. So at line 12 when you talk about there's a cost to the insurer, what are you referring to?

A. That an entity that provides an insurance -- an insurance policy has a potential cost in the future, the contingency under which the insurance policy provides a payout if that

contingency occurs, then it will incur a cost.

Q. Sure.

A. So there's an expected cost of that event happening.

Q. And for an insurance product like let's say fire insurance, that expected cost would be the losses the insurance company will face if somebody's house burns down, correct?

A. It would be over many customers and over all the customers of that insurance company given the products that it's offering. That's what I would assume.

Q. Sure. It would be the probability of a loss after taking into account the potential amount of losses, and that's how they would set premiums, correct?

A. I don't know how they set premiums.

Q. And insurers do evaluate risk of loss on an ex ante basis; is that correct?

A. Can you repeat the question.

Q. Insurers evaluate risk of loss on an ex ante basis, correct?

A. By that I understand that they ask you to pay the premium before it happens, so yes.

2c48ca1a-4775-4a92-a90a-c1f7d104c37c

Q. No. They evaluate the potential risk of loss, the potential they will have to pay out claims, before those claims actually occur. So they evaluate them on an ex ante basis; is that correct?
A. I said I don't know the specifics of how the premiums are set.
Q. So when you include this discussion comparing POLR risk to insurance policies, what are you referring to?
A. Do you have a particular line in mind here?
Q. Line 8 to line 14.
A. This draws -- this is an analogy with an insurance policy where for the case of SSO the customers have the security of a given price and never need to exceed the SSO price that would be approved by the Commission. And like any insurance policy that a customer would take, it's valuable to the insured so, in the case of SSO, to have the benefit of the fact that the price for electric service need not exceed the SSO price, that's approved by the Commission, and that is true whether or not the prices, in fact, rise during the SSO term.
So in insurance policies in general,

without knowing the details of how premiums are set, there is a cost to the insurer of providing that protection and whatever is paid by the customer would then reflect the costs of providing that protection.
Q. And the cost to the insurer of providing that protection that you just testified about, what is that cost?
A. It's the expected cost of having to pay out under the policy.
Q. Let's return to the Black model. The value calculated or -- excuse me. I said the Black model. Let's turn to the Monte Carlo model. The value calculated by the Monte Carlo model was approximately 20 to 24 percent lower than the value calculated by the Black model. The constrained Black model. Is that correct?
A. I do not have my remand testimony and exhibits with me.
Q. Do you recall what percentage of the value calculated by the Monte Carlo model was associated with the risk of customer migration and what percentage was associated with the risk of customers returning to SSO service?
A. That calculation was not done.

MR. ALEXANDER: Let's go off the record for just a moment.
(Recess taken.)
MR. ALEXANDER: Let's go back on the record.
Q. Dr. LaCasse, you understand you're still under oath?
A. Yes.
Q. I'd like to talk about your knowledge of the Black model generally. The Black model attempts to calculate the market price of an option; is that correct?
A. Yes.
Q. And specifically the Black model attempts to calculate the market price of an option which would eliminate the risk of owning the underlying asset thereby creating a risk-free portfolio at the risk-free interest rate; is that correct?
A. I don't know.
Q. Will publicly traded options always trade at the Black model price?
A. I would assume not.
Q. And would that likely be two different assumptions regarding volatility?

A. Can you repeat that?
Q. Sure. Would that likely be due to different assumptions regarding volatility?
A. No. The results from any model when confronted with empirical data may show a difference.
Q. Have you ever heard the phrase "option smirk"?
A. No.
Q. How about "volatility smile"?
A. Yes.
Q. What does the phrase "volatility smile" mean do you?
A. I cannot define it, but I have heard it.
Q. And does the Black model attempt to quantify the anticipated out-of-pocket cost of selling an option?
A. Can you repeat the question.
Q. Does the Black model attempt to quantify the anticipated out-of-pocket cost of selling an option?
A. No.
Q. Does the Black model attempt to quantify the subjective value placed on an option by the purchaser?

Page 41

A. No.
Q. Do you know the fundamental assumptions of the Black model?
A. I know that there are a number of assumptions that underlie that model. I'm not sure I would be able to name each and every one of them.
Q. Well, you discuss some of them in your testimony. Is the lack of transaction cost a fundamental assumption of the Black model?
A. I do not discuss the assumptions of the Black model in my testimony.
Q. So you're not aware that zero transaction cost is a fundamental assumption of the Black model?
A. I'm not sure that I know that the assumption was characterized as being an essential assumption or however you phrased it exactly. Given that it is a model for an idealized market, it stands to reason that it assumes that there's no transaction cost.
Q. And does the Black model assume that markets are perfect?
A. What do you mean by "markets are perfect"?
Q. That all market participants will act in

Page 42

their economic best interests.
A. Yes.
Q. Does the Black model assume that price volatility is constant?
A. Yes.
Q. Does the Black model assume that the strike price is constant?
A. Yes.
Q. Does the Black model assume that returns are lognormally distributed?
A. Yes.
Q. Does the Black model assume that it is valuing a European option?
A. Yes.
Q. What is a European option?
A. One that is exercised at the end of the term.
Q. What is an American option?
A. An option that can be exercised any time during a certain period.
Q. Have you examined the mathematical formula for the Black model used by AEP in this case?
A. I believe you asked this question already in asking me whether I looked at Ms. Thomas' exhibits

Page 43

and workpapers, and I said "Yes."
Q. Did you or anyone else at NERA prove the formula?
A. Anyone else at NERA?
Q. Prove the formula.
A. Prove the formula? What does that mean?
Q. I'll tell you what, I'll withdraw the question.
MR. ALEXANDER: Let's go off the record for just one minute.
(Off the record.)
MR. ALEXANDER: Let's go back on.
Q. Did you or others at NERA test alternative assumptions or inputs?
A. I did not.
Q. Do you know if anyone else at NERA did?
A. I don't know.
Q. Did you or others at NERA examine the constraints in the formula to ensure that they accurately reflected all Ohio switching restrictions?
A. I don't believe so.
Q. You relied on AEP to do that?
A. To do what?
Q. To ensure that the constraints in the

Page 44

formula accurately reflected Ohio switching restrictions.
A. Well, I know that there was some simplifications in the switching restrictions that were included in the model, so, for example, all commercial customers were deemed to have to stay one year should they return to SSO while actually not all commercial customers are in that position; I believe that's explained in Ms. Thomas' testimony. So like any model there are simplifications with respect to reality.
Q. Sure. I'm just trying to understand what you did and what Ms. Thomas did. So is it your testimony that Ms. Thomas input the constraints into the formula?
A. My testimony is that Ms. Thomas discusses the switching restrictions that were incorporated into the constrained model.
Q. And did you review those restrictions to ensure that they reflected all relevant restrictions in Ohio law?
A. As I said, I'm aware that there are simplifications in the model with respect to the switching restrictions that are in Ohio law.

2c48ca1a-4775-4a92-a90a-c1f7d104c37c

Q. Do you know if the constraints included in the Black model by AEP include constraints relating to the percentage of income payment plan program?
A. I know that they do not.
Q. So you did independently review each of these constraints.
A. I am aware of what's in Ms. Thomas' testimony on this topic.
Q. So is your information from Ms. Thomas's testimony or is it from your view of the actual formula used by AEP?
A. From Ms. Thomas' testimony.
Q. So you have not reviewed the actual formula to determine whether it appropriately included the shopping constraints that exist in Ohio law.
A. That's correct.
Q. The Black model formula provided by AEP is a binomial model; is that correct?
A. Yes.
Q. Do you have any hands-on experience in developing binomial models?
A. No.

Q. Does the Black model used by AEP create a series of one-month options or does it create one three-year option?
A. It's a series of one-month options.
Q. Do you have any opinion as to the propriety of each of the inputs into the model such as the risk-free interest rate or the volatility?
A. I looked at some of the inputs and -- into the constrained model for the purpose of seeing whether these factors would tend to understate or overstate the POLR charge.
So, for example, the constrained option model uses a single annual volatility and customers with a limited set of restrictions can switch monthly, and as monthly volatilities are greater than annual volatility the cost of the monthly option is not fully captured so that this factor would tend to understate the POLR charge.
Q. Do you know what the volatility used by AEP in its model was?
A. I don't remember the number off the top of my head.
Q. Did you check AEP's calculation of the volatility?

A. I did not.
Q. Did you check AEP's calculation of any of the inputs into the Black model?
A. No.
Q. Would you agree that customers contemplating switching face transaction costs in association with that switching?
A. There are transaction costs that can vary depending on the customer, and the presence of those transaction costs would imply that some but not all of the customers may consider switching to a CRES provider for some given market price and this factor limits the degree to which customers take full advantage of the option and, therefore, limits the cost of providing that option. And it's one of the -- it's the factor that I identify as being one that would overstate the POLR charge.
Q. And would you agree that not all customers will switch even though it may be in their financial interest to do so?
MR. SATTERWHITE: Objection. Go ahead. Sorry.
A. Well, if their financial interest to do so is taking into account the price of the CRES

provider and their transaction cost, then I would expect customers to switch once they have taken that into account.
Q. So if there's a price difference of one cent per megawatt-hour, would you expect, as a practical matter, a hundred percent of customers to shop?
A. As I said, I would expect that there are transaction costs that vary depending on the customer and it would imply that some but not all customers would consider switching at a given point where prices, market prices, have followed -- have fallen compared to the ESP price.
Q. We may be agreeing here. When you say "transaction costs," are you including things like customer apathy and customer loyalty as part of a larger definition of "transaction costs"?
A. No. I'm considering the cost that a customer would have, the financial cost that a customer would have of actually switching.
Q. Do you believe that there is some customer apathy where customers may not switch when it is in their financial interest to do so?
A. It's hard to distinguish a customer

having a large transaction cost in terms of doing the research and understanding the option and customer apathy, so I'm really pointing to these transaction costs which may vary depending on a customer's ability to understand their option.

Q. Would you agree that the amount of customers who actually switch -- let me strike that.

Would you agree that the percentage of customers that actually switch will vary depending on the distance between the market price and the SSO price?

A. Yes.

Q. Are you aware of any evidence which would suggest that the volatility of PJM prices is constant?

A. I haven't looked at that.

Q. The SSO price is not fixed throughout the ESP price term; isn't that correct?

A. That's correct.

Q. You earlier testified about an American versus European option. What type of option is more similar to the option received by Ohio customers?

A. I would think that it could be modeled with either one.

Q. It would be modeled using the Black model?

A. The Black model is for European options. I don't think that's the question that you asked.

Q. No. My question was which type of option is more similar to that given to Ohio customers for the ESP term?

A. Right. And you could think about customers having a series of options that would be European options and that would expire on a monthly basis, that's one way of thinking about it and it's the way in which the company has modeled the option.

Q. So you believe that the option given to Ohio consumers is more similar to a European option than an American option.

A. What I'm saying is that it depends in the way you define what the option is and that in modeling choices of customers you could think about it in either way.

Q. Would you agree that AEP has attempted to mimic the outcome of an American option by running a series of European options?

A. I don't know. I can't answer that.

Q. If AEP ran the Black-Scholes formula for

one three-year option, that would be a European option; isn't that correct?

A. Yes.

Q. Because there's no way to run a three-year American option through the Black-Scholes formula.

A. I don't believe that the constrained model is a single option.

Q. There's no way to run a three-year American option through the Black-Scholes formula; isn't that correct?

A. My understanding is that the model addresses European options.

Q. Is there any way to run one three-year American option through the Black-Scholes formula?

A. Black-Scholes formula is not for that purpose.

Q. And so in attempt to replicate the results of an American option AEP has created a model, a series of one-month European options, in an attempt to replicate and get to the same result we would have gotten through an American option; is that correct?

A. I believe you're assuming that we've all

agreed that the option given to customers is an American option, and I believe that my response on that was that it depended the way you looked at it.

Q. Have you personally run the Black model proposed by AEP in this case to verify that the outcome testified on by Witness Thomas is correct?

A. No.

Q. Look at page 17, lines 20 to 22. Would you agree that not all customers will always act on an economically rational basis?

MR. SATTERWHITE: Objection. Go ahead.

A. Are you saying this is what you understand by lines 20 to 22?

Q. No. I just wanted your answer to the question.

THE WITNESS: Was there a reference to lines 20 to 22 at page 17?

(Record read.)

A. What I'm referring to here is the fact that I point out that there may be transaction costs that vary depending on the customer and that the presence of those transaction costs imply at any given time when prices fall compared to the ESP price, some but not all the customers may consider

2c48ca1a-4775-4a92-a90a-c1f7d104c37c

switching to a CRES provider and that limits the full value of the option and, therefore, the cost of providing the option and that factor tends to overstate the POLR charge, and this is what I'm referring to as the source of the overstatement in line 20.

Q. What are you referring to with everything after the comma after the word "overstatement" specifically, and I quote, ". . . namely the possibility that not all customers may avail themselves at once of the option the moment that it is economically advantageous to do so."

A. When I say "the moment it is economically advantageous to do so," I mean the moment that the market price offered by a CRES provider falls below the ESP price and that customers that may have varying transaction costs may or may not at that point consider switching to a CRES provider.

Q. So you have not considered customer apathy in your analysis.

A. As I stated before, it's hard to distinguish between apathy and customers having high transaction costs of understanding their options.

Q. Would one of those transaction costs be

the time it would take the customer to identify what potential shopping opportunities are out there?

A. That's right. That's correct.

Q. So when you say "transaction costs," you mean both financial and nonfinancial costs.

A. I mean financial costs in terms of also opportunity cost of time.

Q. And you have not quantified the impact to customers who do not avail themselves of the option the moment it is not economically advantageous to do so.

A. No. I have, as I said, reviewed switching data and noted that there is opt-out aggregation in Ohio which means that a large group of customers could leave SSO all at once, so that would tend to mitigate that as a source of overstatement.

Q. Does the Black model include any offset for the revenue which AEP would receive from sales of the excess energy created by customer shopping?

A. Can you repeat the question, please.

Q. Sure. Does the Black model include any offset for the revenue which AEP would receive from the sales of the excess energy created by customer shopping?

A. What do you mean by "offset"?

Q. Sure. If a customer shops, AEP no longer has to provide energy to that customer, correct?

A. Correct.

Q. So AEP can then sell the energy that customer would have used, let's just say for example in the spot market, correct?

A. Correct.

Q. And AEP will receive revenue from that sale, correct?

A. Correct.

Q. But the Black market doesn't attempt to take any of this into account. The Black market only attempts to determine the market value of the option received by customers; is that correct?

A. The Black market?

Q. If I said that, I apologize. The Black model does not attempt to take any sort of revenue offsets into account. Instead, the Black model only attempts to identify the market value of the option given to customers; is that correct?

A. No. The value of the option is driven by the difference between the ESP price and the market price. And the model in some sense assumes that

there are going to be replacement sale at the then retail price.

Q. So the market price will, by definition, equal the difference between the ESP and market price.

A. No.

Q. Will the value of the option equal the difference between the ESP price and the market price?

A. It's driven by the expected value of the difference between the ESP price and the market price at which customers would choose to shop.

Q. Will the value of the option be equal to the expected value of the difference between the ESP price and the market price?

A. Essentially it's that expected -- expected value of that difference between the ESP price and the market price at which customers choose to shop.

Q. Would the discussion we just had with regard to energy sales as a result of shopping apply equally to capacity receipts from CRES providers as a result of shopping?

A. Can you be more specific?

Q. Sure. Does the Black model take into account that AEP will receive capacity payments from CRES providers if customers shop?

A. The model assumes that the replacement sale that -- sales that AEP-Ohio would make are at a retail price and, thus, the model assumes that AEP-Ohio receives for its capacity the payment that's embedded in the competitive benchmark price.

Q. That would be $347.97?

A. I don't know the figure off the top of my head.

Q. Would you accept, subject to check, that AEP has included the value of $347.97 in its competitive benchmark price?

A. Subject to check.

Q. And the Black model assumes that AEP will receive that as a result of customers shopping?

A. The model assumes that the replacement sale that AEP-Ohio would make are at a retail price and, therefore, it assumes that AEP-Ohio receives for its capacity the payment that's embedded in the competitive benchmark price.

Q. Are you aware that AEP has made an FRR election for its territory?

A. Yes.

Q. Do you know if the Black model includes any offset for increased fuel adjustment clause revenues as a result of customers returning to SSO service?

A. Again, can you explain what you mean by "offset" in this case?

Q. Sure. If customers return to AEP, AEP is entitled to seek an increase in fuel adjustment clause payments to provide capacity and energy to those customers. Is that consistent with your understanding?

A. Yes.

Q. And that will be revenue to AEP. Those fuel adjustment clause payments will be revenue to AEP; is that correct?

A. Yes.

Q. And so when the Black model calculates the revenue delta between shopping and no shopping, does it take into account the fuel adjustment clause payments that AEP will receive?

A. I believe that the circumstances where the fuel adjustment clause may play a role are limited to the following: First, prices fall and SSO

customers switch to service from a CRES provider; AEP-Ohio enters into forward sales to hedge its exposure to the spot market; and afterwards prices rise sufficiently so that customers return to SSO. AEP-Ohio, having entered into replacement sales when prices fell, would now have to purchase energy to serve those customers, and these purchases would be made at a price that would render the ESP price unprofitable.

The model that AEP-Ohio uses to estimate the POLR cost does not capture the full dynamics of prices and, in particular, scenarios where prices drop, customers switch, and AEP enters into alternate term sales to hedge its exposure to the spot market and then prices rise and customers return to SSO, hence the fact that the fuel adjustment clause could mitigate the impact of the scenario does not mean that AEP-Ohio has overstated these POLR costs.

Q. Is the fuel adjustment clause -- are the fuel adjustment clause payments that AEP will receive a variable in the Black model?

A. They're not a variable because the model doesn't consider the potential cost to AEP-Ohio of scenarios where the fuel adjustment clause would come

into effect.

Q. So the Black model does consider the scenario where a customer will shop and return, correct?

A. It considers the possibility that a customer will shop and return, yes.

Q. And that accounts for approximately 12 percent of AEP's POLR risk, correct?

A. I don't know that.

Q. Witness Thomas testified to that. Are you aware of that?

A. I don't know the precise number.

Q. Okay. If a witness -- excuse me. If a customer shops and returns and AEP purchases power to provide to that customer, is it your understanding that AEP's entitled to a fuel adjustment clause payment?

A. No, not automatically. I believe that the circumstances where the clause may play a role is limited to prices falling, SSO customers switching to service from a CRES provider, and if AEP-Ohio enters into forward sale to hedge its exposure into the spot market and prices rise sufficiently so that customers return to SSO, then given that AEP-Ohio has entered

Page 61

into replacement sales when prices fell, now AEP-Ohio would have to purchase energy to serve those customers and these purchases would be made at a price that renders the ESP price unprofitable.

Q. So your distinction is that -- I guess your clarification is that the fuel adjustment clause only becomes relevant if AEP has sold its energy and capacity when the customer first migrated.

A. Correct.

Q. And AEP's decision as to whether to sell at that point or not is not considered by the Black model, correct?

A. Correct.

Q. Did you make any effort to identify the actual out-of-pocket expenditures which could be incurred by AEP during the term of this ESP to satisfy AEP's POLR obligation?

A. No.

Q. Can you tell me the categories of actual out-of-pocket expenditures which AEP faces to provide the POLR option to customers?

A. No. As I said, by out-of-pocket expenditures I understand ex-post costs that would be determined after the fact and the quantification of

Page 62

the POLR cost through the company's model is a measure of expected cost on an a priori basis.

Q. Is it ever possible to evaluate potential out-of-pocket costs on an a priori basis?

A. Didn't we get this question before?

Q. Please just answer.

A. I don't know how to answer the question.

Q. Let's do a hypothetical. Fire insurance. The insurance company may have to pay out if someone's house burns down, correct?

A. Correct.

Q. And that would be an out-of-pocket cost to the insurance company, correct?

A. After the fact, once the house has burned down.

Q. Let's not get to before or after the fact yet. That would be an out-of-pocket cost to the insurance company, correct?

A. Yes.

Q. And when the insurance company prices fire insurance, it doesn't know if my house is going to burn down or not, correct?

A. Correct.

Q. And so the insurance company has to

Page 63

evaluate the probability that my house will burn down, correct?

A. I would assume so. As I said, I don't know what insurance companies do and how they determine premiums.

Q. I understand. I'll just take your understanding.

So the insurance company will evaluate the probability that my house will burn down.

A. I don't know what the insurance company is going to do.

Q. So on an ex ante basis, before my house burns down, the insurance company has to evaluate the potential out-of-pocket cost of selling me fire insurance, correct?

A. Can you repeat that.

Q. Sure. On an ex ante basis, before my house burns down or doesn't burn down, the insurance company has to evaluate the potential out-of-pocket cost of selling me fire insurance.

A. It has to evaluate its expected cost on an ex ante basis.

Q. And those costs would be out-of-pocket costs, paying my claim value for my house burning

Page 64

down.

A. As I said, I don't understand the out-of-pocket. If it's done on an expected basis, it's going to look at its expected costs before anything happens.

Q. If you sold a million fire insurance policies, you'd assume that some of those houses are going to burn down, correct?

A. The probability of one house burning down, if you have a million of them, is greater than one out of one if that's what you're asking.

Q. So as an insurance company you'd be evaluating the potential out-of-pocket payments to claimants ahead of time based on the probability of loss.

MR. SATTERWHITE: Objection.

A. So I don't know what they do exactly and I would assume that they, that an insurance company would look at its expected payments looking at the pool of customers that it has, different values for different houses, different clauses in the insurance policies that it has, and would come to a -- can come to a determination ex ante of its potential costs from there.

Q. Let's look at page 6, line 10 of your testimony. At this citation you discuss hedging as a, quote, significant aspect of optimally managing generation output. Is that correct?

A. Hedging the financial exposure to the spot market through forward sales, yes.

Q. How does hedging through forward sales work?

A. So as an example, a company could have a hedge of future prices coming down by selling forward at the current price, so meaning that it would continue to make those sales into the future at the current price and that would be a hedge against prices coming down in the spot market and it being exposed to a lower price in the spot market.

Q. Would you sell the type of forward contract that you just testified about if you had an excess of energy as well?

A. I don't understand the distinction you're trying to make.

Q. I don't know that it is a distinction. Correct me if I'm wrong, there are two reasons why someone would sell a forward contract, the first is a hedging transaction to account for the potential of a

price decrease in the future, the second is you simply have more energy than you can sell and so this is a way to sell that energy; would that be correct?

A. Well, I think the hedge that I'm referring to here is the first case you mentioned, so as a hedge to prices decreasing further in the spot market, then a forward sale now is one. If there is an excess of energy, it could be that the company decides to sell in the spot market or sell through a forward sale.

Q. Forward contracts, are those publicly traded?

A. Some are.

Q. Those are traded in New York?

A. I don't know specifics.

Q. And hedging, you would agree, would be a potentially useful strategy to mitigate against shopping risk?

A. Can you repeat the question.

Q. Sure. Would you agree that hedging is a potentially useful strategy to mitigate against shopping risk?

A. As I mentioned, making such forward sales outside the ESP that could be used to hedge the

financial exposure to the spot market is risky for an EDU with a POLR obligation because it is possible that the prices may increase in the future and that customer may return because those forward sales outside the ESP in a way assumed that the prices have -- market prices have fallen below the SSO price so that customers have shopped.

Q. I understand your distinction.

Please look at page 8, lines 17 to 23. I think you and I are on the same page here. Hedging is a potentially useful strategy to mitigate against the chance that a customer will shop.

A. There are hedges that could be used if -- and here the line that you are referring to talks about bidders in SSO auction that may choose to partially hedge the risk of increased shopping by acquiring certain instruments that would increase in value if market prices declined.

Q. So is that a "yes"?

A. What was the question?

MR. ALEXANDER: Could you read it back, please.

(Record read.)

A. There are potential ways to hedge the

risk of either customers shopping or returning.

Q. Do you think those ways are potentially useful?

MR. SATTERWHITE: Objection. Go ahead.

A. Useful? What does that mean?

Q. Useful to mitigate against the revenue impact of customer shopping.

A. That's what a hedge would do.

Q. Do you think an EDU with a POLR obligation would quantify the cost of hedging?

A. Can you repeat the question.

Q. Do you believe an EDU with a POLR obligation would be expected to quantify the cost of hedging?

A. Not necessarily.

Q. Please look at page 8, line 23 -- 22 and 23, excuse me. You say, and I quote, "The cost of such instruments would be part of the quantification of such risks." What are you referring to by that sentence?

A. I'm referring to the fact that bidders in SSO auction would use different strategies to manage their POLR risks including shopping related risk and that a bidder in such an auction would be expected to quantify the cost of these POLR risks on the basis of the strategies that it employs to manage such risks. So --

Q. And would that bidder have a POLR obligation?

A. To finish my previous answer, so if a bidder were hedging, intending to hedge the risk of customers by barring some instrument that would increase in value if prices increase in an environment with significant shopping, then the cost of those instruments that correspond to the bidder's strategy would be part of the quantification of such risks.

Q. Would the bidder in the auction that you just testified to have a POLR obligation?

A. They're facing the same kind of POLR risk by being suppliers to SSO customers aside from the POLR obligation that is in the case where CRES customers default. CRES providers, I'm sorry, default.

Q. And you expect the cost of hedges would be part of the quantification of their POLR risk.

A. If a bidder were intending to use those instruments to hedge the risk, then the bidder would,

I would expect, quantify the cost of such instrument in quantifying the risk.

Q. And wouldn't a reasonable bidder at least have to consider the cost of a hedge to compare it against other potential ways to mitigate against this risk?

A. As I say, I think the quantification would depend on the particular strategies that the bidder would employ to manage these risks and they may be different for particular bidders, and if a particular bidder does not hedge a particular risk, it may use other models and analyses to price the residual risk.

Q. Have you personally done any analysis to determine how much it would cost AEP to hedge the risk of customer shopping?

A. No.

Q. Are you aware of anyone else at either AEP or NERA who has done any analysis to determine how much it would cost AEP to hedge the risk of customer shopping?

A. As I said, there would be various strategies, various hedges. I'm not sure the question is answerable.

Q. Are you aware of anyone else at either AEP or NERA who has done any analysis to determine how much it would cost AEP to hedge the risk of customer shopping?

A. No.

Q. Do you know -- strike that.

Have you asked anybody at AEP if they've done this analysis?

A. No.

Q. Have you attempted to compare the cost of hedging to the value produced by the Black model used by AEP in this case?

A. Can you repeat that.

Q. Have you attempted to compare the cost of hedging to the value produced by the Black model used by AEP in this case?

A. I don't think the cost of hedging is something that's definable outside of a particular strategy for hedging. You've already asked whether we quantified that, and the answer was no. And as I mentioned previously, I do consider that for an EDU that retains the obligation to serve customers when they return to the SSO, if a hedging strategy, for example, would be making a forward sale outside the

ESP, then that is risky precisely because customers could return.

Q. Look at page 21, line 22. You say "There may well be controversy over what fuel and purchased power costs could be attributed to SSO sales so that it is not certain that the fuel adjustment clause would fully mitigate the impact." What is the controversy that you're referring to in that sentence?

A. This comes from the fact that the fuel clause would play a role in the circumstances where prices fall and SSO customers switch to service from a CRES provider, and if AEP-Ohio were to enter into forward sales to hedge its exposure to the spot market at that point but subsequently prices rise sufficiently so that customers return to SSO, then AEP-Ohio having entered into replacement sales when price fell would now have to purchase energy to serve these customers. And these purchases would then be made at a price that renders the ESP price unprofitable.

And the controversy that I'm pointing to in line 22 is over what fuel and purchased costs should be attributed to SSO sales versus the sales to

hedge the exposure to the spot market in which AEP-Ohio entered once prices fell and SSO customers switched to service from a CRES provider.
Q. Do you know if AEP can track customers' usage who shop and then return?
A. I would assume so.
Q. Look at page 12 just generally to familiarize -- I'm going to ask you some questions about the two reports that you cite in your testimony. And in the interest of time I'm going to address both of them together, but if at any time that becomes problematic because your answers would change from one to the other, then just let me know and we'll split it up. But I want to hit this at a pretty high level, and I don't think there's any reason we need to go through the same questions for both. Is that okay with you?
A. Yes. I'll let you know if that becomes a problem.
Q. Great. Did you personally conduct either of these studies?
A. No.
Q. Are either of these studies published publicly?

A. The study from the staff of the Illinois Commerce Commission was made available publicly on the, certainly on the auction website at the time and perhaps, although I'm not certain, on the website of the Illinois Commerce Commission. So it was certainly publicly available. Similarly, the NorthBridge study was publicly available on the website of the Pennsylvania Public Utility Commission.
Q. And those would have each been part of their respective dockets.
A. For the NorthBridge study it would have been part of the docket for the default service case of PECO. For the Illinois Commerce Commission ICC Staff Report it would have been on a publicly available website not as part of a docketed matter.
Q. Are you aware of any other place those reports were published?
A. No.
Q. Did you review in detail the specific methodology used by either of these studies to build up the costs for each bidder?
A. Do you want to expand on what you mean by "in detail"?

Q. Sure. It's my understanding that each study reviewed the visible costs of each bidder. Is that your understanding as well?
A. It reviewed the visible costs of supplying the POLR shape, yes.
Q. I'm sorry. When you say "POLR shape," what do you mean?
A. Of supplying the load, the cost of meeting the POLR shape that can be estimated using market data on the prices of each cost components and the hourly loads of the customers.
Q. And so each study then compared those visible costs to the results of the auctions, correct?
A. That's correct.
Q. And so my question was have you reviewed the method by which either study calculated the visible costs for each bidder?
A. The studies did not calculate the visible costs for each bidder. Each bidder individually calculated the visible costs using market data on the price of each cost component.
Q. Is the premium identified in each of these studies solely shopping related risk or does

that premium include other types of costs and risks as well?
A. It includes other types of costs. It captures all risks that the supplier assumes together and does not separately estimate shopping related risk.
Q. And there are no less than eight separate types of costs and risks that are included in that premium?
A. Can you tell me which study you're referring to?
Q. Sure. Let's just take them one at a time. Would the premium include unexpected congestion charges or cost? Excuse me. I said "charges." Would the premium identified by each of these studies include costs related to unexpected congestion?
A. I believe that's one of the costs that is mentioned in the NorthBridge study. I think each study makes a list of the risks that the premium is intended to capture and the first such risk that's mentioned by the NorthBridge study is the shopping related risk and, similarly, the study by the Illinois Commission staff also mentioned shopping

Page 77

related risk as an important risk.
Q. So we've identified shopping related risk, unexpected congestion. Would usage and price uncertainty also be included in that premium?
A. Yes.
Q. Would adverse selection be included in that premium?
A. What do you mean by that?
Q. In terms of Mr. Fisher's analysis in the NorthBridge study, the effect of adverse selection on the premium included by winning bidders -- by bidders, excuse me.
A. Do you have a page reference for that?
Q. I do not. If you don't know, that's okay.
A. I don't know about that one.
Q. Would the potential for changes in laws and regulation be included in that premium?
A. Yes.
Q. Would administrative and legal costs be included in that premium?
A. I would assume so.
Q. Would satisfaction of alternative energy portfolio standards be included in that premium?

Page 78

A. Not necessarily. It depends whether it was part of the cost of meeting the POLR load shape that was estimated using market data. I'm not sure whether it was or not in those studies.
Q. And would the potential costs associated with holding bids open be included in that premium?
A. Yes.
Q. Do you have any way of knowing what amount of the premiums identified were relating to shopping related risk?
A. I do not.
Q. Do you have any personal knowledge regarding how each bidder examined in the studies evaluated the risk premium associated with potential shopping?
A. The study did not examine specific bidders.
Q. Let me rephrase that. You're right. Do you have any personal knowledge regarding how the shopping premium was included in the overall premium examined by these studies?
A. I don't understand the question. I'm sorry.
Q. I'm going to withdraw it.

Page 79

Moving on here from those two studies, during the remand trial in this case you were questioned extensively about a document entitled "Evaluation of Longer Term Procurement Plans Prepared for Allegheny Power and Baltimore Gas & Electric" which was prepared by NERA. Do you recall that cross-examination?
A. I must not because I don't remember it being extensive.
Q. I just have one question about that study. That study assumed that 20 percent of customers will not switch regardless of the level of available savings; is that correct?
A. I'm not sure.
Q. You weren't involved with that study, correct?
A. I was not.
Q. And AEP's Black model assumes that a hundred percent of customers will switch if it's in their economic interest to do so.
A. That's my understanding.
Q. You have not reviewed the testimony of Staff Witness Benedict; is that correct?
A. I don't believe I have, no.

Page 80

Q. Do you believe that POLR risk includes both the risk of customers migrating and the risk that customers will return to SSO service?
A. Yes.
Q. Does AEP's POLR charge have any relationship to the capacity and energy required to serve the returning customer?
A. Can you repeat that.
Q. Does AEP's --
MR. ALEXANDER: Actually, why don't you repeat that. I don't want to misstate it.
(Record read.)
A. The POLR charge that is being proposed is a quantification of the POLR cost to the company, and the EDU must stand ready to serve those returning customers and that is part of the POLR risk.
MR. ALEXANDER: Could you repeat the question, please.
(Record read.)
Q. So is it your testimony that the POLR charge compensates AEP for the capacity and energy required to serve the returning customer?
A. No. I'm trying to make sense of the question. I'm just saying that the POLR charge is a

2c48ca1a-4775-4a92-a90a-c1f7d104c37c

quantification of the risks and the costs to the company of the POLR obligations and those do include serving customers that return. So once prices have decreased and customers have shopped, once prices rise again it is the obligation of the EDU to serve these customers at the SSO price which is essentially fixed.

Q. Okay. Dr. LaCasse, I think we're making this harder than it has to be. When the customer returns to SSO service, AEP-Ohio would be compensated for the energy and capacity required to serve that customer as a result of its SS -- excuse me, from its SSO rate; is that your understanding?

A. When the customer returns, the EDU, AEP-Ohio, must provide service at the SSO price which is now below the market price if customers are returning.

Q. If customers were required to return at a market based rate, would that eliminate AEP's risk of customers returning?

MR. ALEXANDER: Excuse me. Did I say "allowed" or "required"?

THE REPORTER: Required.

MR. ALEXANDER: Could you please repeat

the question.

MR. SATTERWHITE: Thanks.

(Record read.)

A. I haven't examined that particular question. It would definitely seem that it would mitigate the risk.

Q. If AEP receives the POLR charges it has requested in this case, then it would capture the difference in revenue between its original SSO and the expected results of shopping, correct?

THE WITNESS: Can you repeat that.

(Record read.)

A. No.

Q. Why not?

A. Well, the expected results of shopping, as you mention, have two components, one, that customers may leave, and others that those customers may return. In the situation where the customers are returning and AEP-Ohio would have to serve those customers there may be various costs to that that are not captured by, if I understand correctly, your expected result of shopping.

Q. Let's just take the first aspect of the POLR charge which I understand to be 80 percent of

the -- I'm sorry. You didn't recall Ms. Thomas's testimony about that, correct?

A. I didn't recall the exact figure, no.

Q. Let's just take the migration risk. AEP's calculated value captures the difference between the value it would have received at the SSO rate and the expected market price. Now, my question is this, if that is, in fact, the value that's paid to AEP in this case, what is the benefit to customers of having the ability to shop?

A. Well, they get the lower price and if prices rise again, they have the insurance of an SSO price that's essentially fixed.

Q. But don't they have to pay AEP the POLR charge that captures the difference between the lower price and the SSO price? Aren't they basically going to be paying the exact same amount regardless of whether they shop or not?

A. No. The calculation of the POLR charge is on an expected basis that can -- that can consider various scenarios for the future price.

Q. So if -- I'm sorry. Were you finished?

A. And it doesn't mean that after the fact that the price that would be received by the customer

and the benefit they would have to shopping is negated by the POLR charge.

Q. So tell me if this is correct, if the actual market price drops further than expected, then the customer will receive a net benefit from being able to shop. And if the actual market price falls less than the expected value, or doesn't fall at all and, in fact, never goes below the SSO price, then the customer will be a net loser in this transaction.

MR. SATTERWHITE: Objection. Go ahead.

A. Again, the POLR charge and the option valuation calculates the cost on an expected basis. What happens in actual fact may differ from the expected cost. And you're looking at just the benefit from shopping, and the customer may have that benefit to a greater and lesser degree. And, in addition, the customer is always protected from the opposite scenario where the price would rise above the SSO price in which case the customer can always return to AEP-Ohio.

Q. I'm not sure you answered my question. If the market price falls below the expected market price, then the customer will be a winner as a result of shopping, correct?

MR. SATTERWHITE: Same objection. Go ahead.

A. I think the customer starts as being in a position when the SSO starts where if the Commission has approved the SSO rate, it's below market. So the customer has a benefit for -- of the ESP being approved.

And then the POLR charge looks at the expected value of the difference between the ESP price and the market price and captures the fact that the customer benefits if the price eventually falls below the ESP price understanding that it's -- the ESP price started below the market price and understanding as well that the customers -- the customer would benefit should, after having fallen below the ESP price and the customer shopping, prices were to rise again, that the customer, if it pays the POLR charge, has the option to return to the SSO price.

Q. Dr. LaCasse, I don't think you're answering my question. I'm trying to determine the value from shopping that is received by customers in two different scenarios. One where the actual market price falls below the expected market price produced

by the Black-Scholes model, and two, where the actual market price does not fall that far but is still below the SSO value.

So if AEP does receive a POLR charge, it's determined on an ex ante basis, is that what AEP is requesting in this case, an ex ante basis POLR charge?

A. Yes.

Q. And that POLR charge attempts to quantify the market value of the option received by customers, correct?

A. Correct. And the cost to AEP-Ohio of providing that optionality for customers.

Q. And by "cost" you mean the revenue difference between what AEP would have received under its SSO and what is the actual result as a result of shopping, expected shopping.

A. Not the actual result. It's the expected -- value's driven by the expected value of the difference between the ESP price and the market price.

Q. Would it be fair for me to say that by setting the POLR rate equal to the value of the optionality to customers AEP is essentially

extracting from customers the entire economic value afforded to them by the right to shop for a generation supplier?

MR. SATTERWHITE: Objection. Go ahead.

A. No, I don't think that's correct.

Q. Why not?

A. Because it doesn't take into account that the part of the benefit to shopping that is provided under an SSO is that it doesn't have the risk of the customer shopping and having to pay a higher market price than the SSO.

Q. Do you believe under Ohio law the customer's right to shop is created through the ESP or is it as a result of statute?

A. Can you say that again?

Q. Do you believe that under Ohio law a customer's right to shop is created through AEP's ESP or as a result of statute?

MR. SATTERWHITE: Objection. Go ahead.

A. I'm not an attorney. I don't think it is as a part of the ESP if I understand the Ohio code on that.

Q. So the right to shop is not as a result of the SSO, is it?

A. No.

Q. Any other reasons why you don't feel that setting the POLR rate equal to the value of the optionality to customers extracts all the value from AEP's customers?

MR. SATTERWHITE: Objection. Go ahead.

A. Again, there are other benefits including where prices start, where the SSO price starts lower. I also think that it's a, again, it's expected value. I believe that your statement makes it sound as if any difference in price would be somehow captured by AEP-Ohio after the fact, and I don't believe that's correct.

Q. Do you recall what the total POLR charge was for the 09-211 ESP?

A. The exact number you mean? No.

Q. What would be your best estimate if you have any?

A. I just said I don't remember.

Q. You said you didn't remember the exact number. My question is what would be the estimate if you have one?

MR. SATTERWHITE: Objection.

Q. Would you accept something in the

2c48ca1a-4775-4a92-a90a-c1f7d104c37c

neighborhood of $500 million?
A. I still don't know.
Q. So you never checked to determine what the total amount was for the ESP period?
MR. SATTERWHITE: Objection. That's not what she said.
Q. You can answer.
A. No.
Q. Do you know what it was on a per-year basis?
A. No.
Q. Do you know what the per-year POLR charge proposed by AEP from '12 to '14 is?
A. I don't know the figures on a yearly basis, no.
Q. Do you know what it is for the entire ESP term from 2012 through 2014?
A. No.
MR. ALEXANDER: Let's go off the record for just a minute.
(Recess taken.)
MR. ALEXANDER: Let's go back on. I have no further questions at this time. Thank you, Dr. LaCasse. If anybody on the phone would like to

ask any questions.
MS. GRADY: Yes, on behalf of OCC, Maureen Grady.

\- - -

EXAMINATION

By Ms. Grady:
Q. Good afternoon, Dr. LaCasse.
A. Good afternoon.
Q. Dr. LaCasse, you mentioned in response to questions from counsel that shopping risks, and you were referring to the NorthBridge study, shopping risks is one of the first components listed in the residual premium calculation. Do you recall that line of questioning?
A. I do.
Q. Were you referring to Mr. Fisher's testimony listing that item as one of the first factors?
A. I was.
Q. Do you know whether or not the order in which Mr. Fisher placed the components was intended to signify the importance of the components or not?
A. I don't know what his intention was, and I would just assume that one would place first what

one assumes is most important.
Q. But you do not know for a fact that Mr. Fisher listed those factors in order of importance or in order of the percentage of the residual premium that the factors would represent, correct?
A. That's right. I believe he does not quantify each of those risks but only the overall difference between the price in the auction and the visible cost components and that would include all of the risks.
Q. So we cannot assume, can we, Dr. LaCasse, that by presenting the shopping risk first, that that is the most important aspect found in Mr. Fisher's testimony, correct?
A. We cannot know that that's what he intended. We don't know exactly what he intended and he did not specify that. As I said, it would be usual to list the more salient characteristic or feature or risk first.
Q. Now, Dr. LaCasse, there were some questions that counsel asked you with respect to your defining the risk of POLR, and I believe your response was you defined POLR as the risk associated

with customers leaving and the risk associated with customers returning. Do you recall those lines of questions?
A. I do.
Q. What is the basis of your belief that POLR includes both the return and the leaving risk?
A. The basis for that is that whether one considers an EDU that has POLR obligation or one thinks about winning bidders in a competitive solicitation for SSO supply, that those risks would be assumed by an SSO provider. So that winning bidder in competitive solicitation would be compensated for bearing shopping related risk for the portion of POLR load that the bidder would serve and that would include costs from leaving and costs from returning.
Q. Are the winning bidders compensated for customers leaving? Are they compensated when customers leave?
A. I would assume that they would include as part of their bid prices an estimate of such cost and that they would formulate their bid prices to be compensated for customers leaving.
Q. Do you know in the bid prices that you

2c48ca1a-4775-4a92-a90a-c1f7d104c37c

present as part of your testimony whether or not the bidders actually define the shopping risk as customers leaving and customers returning?

A. Well, I don't present bid prices as such. What I do know are the types of questions that bidders typically ask when they are about to participate in a competitive solicitation for SSO type supply and that their questions and the type of data that they request are -- there's always a body of those questions that is to be able to estimate the risks of customers leaving or returning from -- to the SSO type service.

Q. Do the winning bidders have a reasonable expectation that they will be compensated for customers leaving service and switching?

A. As I said, they would put -- they would be formulating their bid prices with that risk in mind and, therefore, it would be my assumption that they would include in those bid prices amounts to be compensated for bearing that shopping related risk.

Q. Let's talk specifically about the POLR risk associated with AEP-Ohio. What is the basis of your belief that AEP-Ohio's POLR risk relates to the return and the customers leaving?

A. The basis is that the, in my view, the EDU that uses its own generation to meet its SSO obligation bears the same type of risks as the winning bidders in a competitive solicitation for SSO supply.

Q. Is your view based upon -- is your view an independent view that you arrived at?

MR. SATTERWHITE: Objection. I'm not sure what you're asking there.

Q. Let me try to rephrase it. Was it your view of AEP's Ohio's POLR -- let me strike that.

In coming to your view of AEP-Ohio's POLR risk did you review any of the statutes associated with SB 221?

A. No.

Q. And are you aware of any regulatory requirements associated with the providing of generation service under SB 221 that relate to POLR obligations of AEP-Ohio?

A. I don't understand the question.

Q. Are you familiar with any regulatory requirements in Ohio that would establish any POLR obligation for AEP-Ohio specifically related to customers leaving?

A. I'm familiar with the provisions that require AEP-Ohio to provide all of its customers a possibility of taking SSO service and to provide that service to all of its customers.

Q. Are you familiar with any regulatory treatment of lost generation revenues in Ohio?

A. No.

Q. Are you aware of any regulatory treatment in Ohio that would indicate that electric distribution utilities are guaranteed recovery of lost revenues associated with generation offered through a standard service offer?

A. No.

Q. Dr. LaCasse, do you believe the POLR charge in Ohio is a distribution charge or a generation charge?

MR. SATTERWHITE: Objection. Go ahead.

A. I don't believe it's a distribution charge, and I can't -- cannot answer further.

Q. And on what basis do you believe it is a distribution charge?

A. It is not a distribution charge.

Q. I'm sorry. I thought your testimony was that you believed it is a distribution charge.

A. It is not a distribution charge.

Q. And what is the basis of your belief?

A. Well, that distribution charges are typically for that particular function of the company for its distribution wires function and that I don't believe that is such a charge.

Q. Do you understand that in Ohio distribution charges are regulated in a different method than generation charges?

A. I don't know the details of that, no.

Q. Do you know, Dr. LaCasse, whether the company has booked any POLR expenses?

MR. SATTERWHITE: Objection. Go ahead.

A. No, I don't know that.

Q. Do you know whether for financial accounting purposes the company has recognized any financial risks associated with POLR?

A. I don't know that.

Q. Do you know, Dr. LaCasse, whether the company has recognized any lost revenues associated with its POLR responsibilities during the ESP period?

A. I don't know.

MS. GRADY: That's all the questions I have. Thank you.

THE WITNESS: Thank you.

MR. ALEXANDER: Does anyone else have any questions?

(No response.)

THE WITNESS: Hearing none . . .

MR. ALEXANDER: We don't have Mr. Randazzo for you to catch with your "one question" comment this time. Hearing none --

THE WITNESS: I said zero questions.

MR. ALEXANDER: Hearing none, we're going to call it a day. Thank you, Dr. LaCasse. We'll see you next week.

THE WITNESS: Thank you.

MR. SATTERWHITE: Thanks. We don't waive signing. We want to read it.

(The deposition concluded at 4:38 p.m.)

\- - -

State of ________________ :
: SS:
County of ________________ :

I, Dr. Chantale LaCasse, do hereby certify that I have read the foregoing transcript of my deposition given on Tuesday, August 9, 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, Maria DiPaolo Jones, 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 12th day of August, 2011.

____
Maria DiPaolo Jones, Registered Diplomate Reporter, CRR and Notary Public in and for the State of Ohio.

My commission expires June 19, 2016.
(MDJ-3877)

\- - -

2c48ca1a-4775-4a92-a90a-c1f7d104c37c

State of ________________ :
: SS:
County of ________________ :

I, Dr. Chantale LaCasse, do hereby certify that I have read the foregoing transcript of my deposition given on Tuesday, August 9, 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 ________________, ________.

- - -

I do further certify that the said deposition was not examined, read or signed by the witness within the time allowed.

____