BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

- - -

In the Matter of the : Application of Ohio Power :Case No. 10-2376-EL-UNC Company and Columbus : Southern Power Company for: Authority to Merge and : Related Approvals. :

In the Matter of the : Application of Columbus :Case No. 11-346-EL-SSO Southern Power Company :Case No. 11-348-EL-SSO and Ohio Power Company for: Authority to Establish a : Standard Service Offer : pursuant to Section : 4928.143, Revised Code, in: the Form of an Electric : Security Plan. :

In the Matter of the : Application of Columbus :Case No. 11-349-EL-AAM Southern Power Company :Case No. 11-350-EL-AAM and Ohio Power Company : for Approval of Certain : Accounting Authority. :

- - -

PRESENTATION

before the Public Utilities Commission of Ohio, 180 East Broad Street, Room 11-B, Columbus, Ohio, on Monday, September 19, 2011, at 1:30 p.m.

- - -

ARMSTRONG & OKEY, INC.
222 East Town Street, Second Floor
Columbus, Ohio 43215-5201
(614) 224-9481 - (800) 223-9481
Fax - (614) 224-5724

- - -

In the Matter of the :
Application of Columbus :Case No. 10-343-EL-ATA
Southern Power Company to :
Amend its Emergency :
Curtailment Service :
Riders. :

In the Matter of the :
Application of Ohio :Case No. 10-344-EL-ATA
Power Company to Amend its:
Emergency Curtailment :
Service Riders. :

In the Matter of the :
Commission Review of :Case No. 10-344-EL-ATA
the Capacity Charges of :
Ohio Power Company and :
Columbus Southern Power. :

In the Matter of the :
Application of Columbus :Case No. 11-4920-EL-RDR
Southern Power Company for:
Approval of a Mechanism to:
Recover Deferred Fuel :
Costs Ordered under :
Section 4928.144, Ohio :
Revised Code :

In the Matter of the :
Application of Ohio :Case No. 11-4921-EL-RDR
Power Company for Approval:
of a Mechanism to Recover :
Deferred Fuel Costs :
Ordered under Section :
4928.144, Ohio Revised :
Code :

\- - -

COMMISSION:

Chairman Todd A. Snitchler
Commissioner Paul A. Centolella
Commissioner Cheryl Roberto
Commissioner Steven D. Lessser
Commissioner Andre T. Porter

Attorney Examiners:

Mr. Gregory Price
Mr. Jeffrey Jones
Ms. Greta See.

AEP Panel:

Mr. Steven T. Nourse, Senior Counsel

Mr. Joseph Hamrock, President

Mr. Richard E. Munczinski, Vice President

Mr. William A. Allen, Director, Regulatory Case Management

Ms. Laura J. Thomas, Managing Director, Regulatory Projects and Compliance

Mr. David M. Roush, Director, Regulated Pricing and Analysis.

\- - -

Monday Afternoon Session,
September 19, 2011.

- - -

EXAMINER JONES: Pursuant to attorney-examiner entry issued on September 16, 2011, the Commission has called for a public presentation Case No. 10-2376-EL-ENC; Case Nos. 11-346 and 11-348-EL-SSO; Case Nos. 11-349 and 11-350-EL-AMM; and Case No. 10-343-EL-ATA; Case No. 10-344-EL-ATA; Case No. 11-4920-EL-RDR; and Case No. 11-4921-EL-RDR.

EXAMINER PRICE: Mr. Nourse.

MR. NOURSE: Thank you, your Honor.

Mr. Chairman, Commissioners, I will go through the slide show that we presented. I think it is up and has been passed around. I can't say it's a comprehensive summary of the Stipulation, but we tried to hit some of the major provisions, and also we will certainly attempt to respect the directive not to advocate or get into arguments, certainly, so feel free to put me back on the path if I stray there.

I'd also, just as a preliminary matter, say that this is a presentation we put together. Due to the time constraints, it was not endorsed by the other parties, the signatory parties, so these are our views, and if there are any differences of opinion, it can be aired out later, even among the signatory parties.

EXAMINER JONES: Steve, I believe we are having trouble hearing you until we resolve the microphone issues.

MR. NOURSE: With that, I will start into the slide show here. Slide 2, this is a list of the cases that are also reflected in the caption in front of the document, all of which would be proposed to be resolved through the Stipulation.

The next slide are the signatory parties that are listed here. I won't read them all to you. Those are all parties that either signed the document originally or subsequently indicated their support for the Stipulation.

Next slide begins "Summary of Integrated Plan," and the term is expanded as compared to our ESP filing, so now it would extend through May of 2016, and generation rates are set based on fixed dollar per KWH amounts for the base generation rate, and then the Fuel and the Advanced Energy Rider would also apply, and this is through the middle of 2015.

The last year of the ESP there will be a competitive bid process, Commission-approved process for the auction-based SSO. The auctions there for that delivery period starting mid 2015 would actually be divided into three separate auctions. It would be commencing in late 2013 for the first part.

One of the cases that is resolved in the Stipulation is the 10-2929 case, the capacity charge docket. The Stipulation has some related provisions on that. Basically it's a two-tiered pricing for capacity that supports shopping, retail shopping, and so AEP Ohio would provide its capacity based on a $255 per megawatt-day during the period up to the auction.

In addition to that, there would be specified amounts of set-aside capacity that would be based on RPM pricing. In 2012 it's 21 percent. In 2013 it is 29, unless securitization is already implemented. In that case it would be 31 percent in that year; and for the January 2014 through May 2015 period, it would be 41 percent RPM price capacity.

Also next spring, presuming the Stipulation is adopted by the Commission, AEP Ohio would opt out of the FRR and into RPM through PJM's normal process, which works three years in advance, so that election would be effective in the middle of 2015, which would be coincident with the auction delivery period.

Another part of the Stipulation, I should say really the items on this page, reflect a restructuring of AEP's Ohio's business model, and part of that is the merger and corporate separation provisions in the Stipulation.

And the final bullet here on slide 4 is the fact that we have to go to FERC as well for corporate separation and on the related matter of modifying or dissolving the AEP generation pool.

The next slide is a Summary of the ESP Rate Structure, and the redesign of the generation rates reflects a market-based design, in part as we originally proposed in our application. There's some modifications here in the Stipulation. The Market Transition Rider --

CHAIRMAN SNITCHLER: Sorry to interrupt, if you could pause a second while our technical staff tries to get this corrected.

(Recess taken.)

CHAIRMAN SNITCHLER: Back on the record.

MR. NOURSE: We are on slide 5, Summary of ESP Rate Structure, and the generation rates were being redesigned to reflect a market-based structure, and the MTR, Market Transition Rider, that goes along with that has been diminished, if you will, through the terms of the Stipulation as more of a transition period, a longer transition period than originally proposed.

As outlined in paragraph 1 of the Stipulation, there are many riders that were originally proposed in the application that are withdrawn in the Stipulation. There you have a list of them as well.

Other riders are modified that were previously proposed and/or established. That's the Phase-In Recovery Rider. We're actually changing the carrying charge from a weighted average carrying cost to a debt rate, long-term debt rate.

And, secondly, the DIR, Distribution Investment Rider, is modified as originally proposed to remove O&M and do some other technical changes for the way the revenue requirement is established for that rider. It is also capped annually for specified amounts. They're set forth. And there's an agreed-upon stay-out provision for a base rate case, a new base rate case, which would coincide with the expiration of the DIR.

The Green Power Portfolio Rider is modified so that the additional RECs that are produced under that program would be above and beyond AEP's requirements under the statute.

Slide 6 is a continuation of the rate structure. There's a new revenue-neutral load factor rider. This retains some of the benefits of the more traditional rate design to retain some of the benefits for high-load-factor customers.

Also there's an increase in the existing IRP-D rate, or the interruptible credit, and this also helps comply. It's a customer-sited resource to help comply with peak demand reduction standards.

Schools benefit from particular shopping credits that are established and the exemption from the MTR that I mentioned earlier, and there's a $10 million shopping credit annual pool that operates as outlined in the Stipulation for GS-2 customers.

The Generation Resource Rider is established at a zero level, and there's allowance for future cases that would be filed through separate applications during the ESP term for two projects; in particular, the Turning Point solar project and the replacement unit for MR5 or Muskingum River 5.

The next slide is entitled Economic Development. There's a growth fund, Ohio Growth Fund, that's funded annually, $5 million per year, depending upon the prior year's earnings, and with input from the signatory parties on how that money is spent.

There's a commitment to support shale gas development through development and negotiation of competitively priced supply contracts that would be subject to audit, not unlike a new fuel contract would be under the normal process.

There's also an opportunity for a future filing, and I mentioned this on the prior slide, for the replacement of MR5.

I would just add this is an example where we are trying to be neutral and explain the stipulation, but as set forth in the testimony, we think there's a lot of other features that promote economic development.

The next slide is a Commitment to Alternative Energy, and then there's a few components here. The Timber Road renewable purchase agreement, as supported in testimony, would be approved as part of the Stipulation as being a prudent contract.

The Green Power Portfolio Rider is again an opportunity for customers to go above and beyond the minimum requirements and help support purchase of additional RECs, renewable energy credits.

There's also an agreement with the Association of Independent Colleges and Universities to fund some studies and projects relating to EE/PDR; as well as the next bullet, we're expanding and pursuing additional programs in consideration for customer-sited resources, including a pilot project on LED street lighting, and we're agreeing to pursue development of up to 350 megawatts of customer-sited combined heat and power, waste energy recovery, and distributed generation resources. That would be through a separate filing during the term of the ESP.

On the next slide there's a whole list of collaborative efforts that we're undertaking and agreed to as part of the Stipulation. I won't read all these, but I'll mention a couple of them.

The second bullet is for the allotment of the RPM set-aside, which I mentioned earlier. That process is already underway. In fact, there was a good meeting this morning to talk through some of those issues. Another one of note here is an advisory group for considering decoupling proposals for distribution rates.

And the last bullet also mentions that we're stepping up the efforts for passing securitization legislation in order to further reduce those carrying costs associated with fuel deferrals and potentially other regulatory assets that are legacy rate assets out there.

I would like to ask Dave Roush to come up for this portion and go through some of the rate information with you, and per the Chairman's directive, we will circle back for questions.

MR. ROUSH: Thanks Steve.

On the next slide, slide 10, basically we have a layout of what the total rates for AEP Ohio will be for 2012 rates before the ESP, basically current rates, reflecting the expiration of the fuel cap that ends at the end of 2011 and also with the commencement of the Phase-in Recovery Rider that would begin in 2012 as well. That's what is reflected in the 2012 rates before ESP.

Then it just steps through the 2012 rates under this ESP, 2013, 2014, and then January to May 2015. We further kind of subdivided that on the next three slides.

Slide 11 basically shows the impact upon the supply rates, the generation rates, what's the impact of the ESP laying it out by customer class for both CSP and OP and then a total for AEP Ohio.

There are a couple footnotes on that

slide. Our percentage increases are based on projected rates as of 1/1/12. It reflects the forecasted fuel that was in our recent EL-FAC filing. That's from the June filing, the last one that's been approved, and, obviously, as Steve mentioned, it's now a 41-month term as opposed to a 29-month term as originally proposed.

The next slide shows the EIR component of the ESP. It's the impact to CSP and OP by year, and everything represented there is at the maximum levels permitted under the caps established in the Stipulation.

Slide 13, the last slide set of numbers, is basically the combination of the previous two slides, so the net of the supply rate changes and the DIR, kind of the combined impact of those two. So that's pretty much it on the numbers.

Steve, I don't know if you want me to cover the next slide, or do you want to?

MR. NOURSE: Go ahead.

MR. ROUSH: Okay. Basically this was kind of an excerpt of some exhibits from the original filing and from the Stipulation testimony. Basically it identifies all the shaded highlighted riders are the riders that were eliminated under the

Stipulation. So as Steve mentioned earlier, the POLR Rider is eliminated by the Stipulation. The Environmental Investment Carrying Cost Rider is eliminated by the Stipulation. The Generation NERC Rider, the Facility Closure Cost Recovery Rider, Carbon Capture and Sequestration Rider are all eliminated.

Other provisions as proposed, the Rate Security Rider that was proposed is eliminated and the proposed Emergency Curtailable Service Rider is eliminated by the Stipulation.

The other notes in the column to the far right identify the Stipulation placing limitations on the gridSMART Rider, added the Load Factor Rider, and made modifications to all of the other riders identified here.

So that's kind of a comprehensive list. The only items that aren't listed on here that are current riders just continue, for example, the Universal Service Rider, will just continue like they always have.

MR. NOURSE: Okay. So that concludes our presentation of running through the slide show. I'm happy to entertain any questions you have, and I will try to act as the quarterback and defer some of these questions for the witnesses we brought here today.

CHAIRMAN SNITCHLER: Thank you.

Commissioner Roberto, I think you have the first question.

COMMISSIONER ROBERTO: Thank you, Mr. Chair.

Mr. Nourse, could you talk to us about what constitutes the electric security plan that's proposed to be adopted in this Stipulation?

Let me just give a little context for my question. I'm wondering what the relationship is of the Stipulation to the filed application. As I read through it, there are provisions that I might consider conflicting, as I interpret them.

For instance, in section IV, paragraph 1-a, six riders are explicitly excluded, but then in section IV, paragraph 1-o, one rider is expressly included, so I don't know whether we should presume that everything that was filed with the application is still part of the ESP but for how it's changed by the Stipulation; or the alternative, the Stipulation identifies everything that's in the ESP.

MR. NOURSE: I think I understand your question, and I think the answer is that we have provided for the riders explicitly in the Stipulation that the parties have agreed to. In some cases the starting point is the filing itself, like the DIR as an example, where we have taken the filing proposal and modified it.

As to paragraph 1-a, you know, without getting into the negotiating discussions, I'll just say that was kind of a running tab, if you will, of things that we had explicitly dropped. So, again, I think it's fair to say that the riders and the rates, just like another example is 1-b, you know, we've taken the company's proposed rate redesign for generation rates but then modified it in several ways as provided in that paragraph.

So for the individual riders that are retained through the Stipulation, they're modified starting with the company's proposal and modified from there.

COMMISSIONER ROBERTO: Just to clarify, if I may, so that if it's not referenced in the Stipulation, it's not in the ESP?

MR. NOURSE: Well, if you are talking about a separate rider that's not referenced in the Stipulation?

COMMISSIONER ROBERTO: Any part of the application.

MR. NOURSE: I'm not sure I'd go that far. It would be better if I had a specific context to answer that question or if you had a particular part of the application.

COMMISSIONER ROBERTO: I apologize, I don't, only because I'm not sure how to read the stipulation. Am I to put the application with the Stipulation and compare them all the way through, or do I just work from the Stipulation, understanding that if it's not mentioned there, it's not part of the ESP?

MR. NOURSE: I think the latter is fair, and, again, I think maybe saying taking the proposal and modifying it, then you have to go back and look at the application and read what that reference meant, the application or testimony that was originally filed with the application back in January.

CHAIRMAN SNITCHLER: Mr. Lesser.

COMMISSIONER LESSER: Thank you, Steven, and thank you for everybody on very quick notice coming here today.

My first question is on securitization. Does the Stipulation presume that there will be legislation enacted that would then be implemented by the Commission?

MR. NOURSE: Yes, I think that is contemplated. I guess I wouldn't necessarily say it was presumed, but it is contemplated that there would be from our perspective. I think we're on record as having said that in order to really do effective securitization, there is legislation that's needed, so that's the premise of the provisions where the parties are cooperating to support legislation.

There's not an endorsement of a particular bill or a particular version of a proposal, but certainly the one that I'm familiar with, and any of the ones I've seen, certainly involve a process to go back to the Commission and get, I'll call it, a securitization order that would then be used to go to the market and sell.

COMMISSIONER LESSER: Do you have an inventory of all the elements of the stip that are dependent on the securitization legislation?

MR. NOURSE: I don't know that they're necessarily dependent on but they're affected by. For example, I mentioned earlier that 31 percent RPM set-aside in 2013, that would be 29 percent unless and until securitization is passed.

There's also really in the Phase-in

Recovery Rider section, which I believe is paragraph 6 starting on page 25, there is certainly a reference of that undertaking that the parties are supporting the legislative initiative, as well as recognition, for example, down in A, B, the bottom of page 26, where just recognizing what I think is the reality, that if securitization is completed, then that would take over.

The carrying charge would be reduced to that securitization level once you complete securitization so that the already reduced from WACC to debt would go further down with securitization.

Another example is in paragraph 1-t where there is again a reference to -- I'm sorry. I was thinking it was in 1-t.

Well, those are the ones coming to mind. Again, they're not necessarily dependent, as in they don't happen without securitization, but they're affected or perhaps modified upon securitization being completed.

COMMISSIONER LESSER: Mr. Chairman, may I go into one other area quickly?

COMMISSIONER ROBERTO: May I ask one follow-up question on securitization? Then I'll go back.

COMMISSIONER LESSER: Sure.

COMMISSIONER ROBERTO: Thank you.

Mr. Nourse, do I understand you then to say that none of the provisions in the Stipulation with regard to securitization -- you identified two. I saw a third at paragraph 1-c, the MTR rider.

MR. NOURSE: Right.

COMMISSIONER ROBERTO: None of those would go forward with any type of securitization unless there's new legislation? You don't intend to proceed with any securitization under existing authority, or the Stipulation does not contemplate that?

MR. NOURSE: I think that's a fair portrayal of the company's understanding of what securitization is, particularly if you set aside a cost for debt, would not be of benefit to try to do it really under current law, which I think it is a one-word reference that doesn't really -- when we set that up against what we have seen in other states --

EXAMINER PRICE: Mr. Nourse, let's stay on the straight and narrow on the advocacy.

MR. NOURSE: Fair enough.

COMMISSIONER ROBERTO: Thank you.

MR. NOURSE: Thank you.

COMMISSIONER LESSER: Mr. Nourse, I'm trying to understand within the Stipulation the ownership of what will occur with some generation. Do you have an inventory of what generation will be spun out as part of the corporate separation?

MR. NOURSE: Well, we didn't provide for that specifically in the document.

COMMISSIONER LESSER: I can be more specific. For purposes of the Stipulation, is all of that generation located in the state of Ohio?

MR. NOURSE: I'm not sure of the answer.

Mr. Munczinski.

MR. MUNCZINSKI: Of course AEP Ohio has assets both owned by Columbus Southern Power and the Ohio Power Company, so those are assets that are recognized in the Stipulation, that would be moved from the T & D assets. To answer your question specifically, a number of AEP Ohio plants are in West Virginia. Thank you. Just following down that line, on page 19 the Stipulation refers to a new combined cycle gas plant. That is proposed to go into which part of the corporation? Yes, this would be under the EDU, the surviving electric distribution utility, and it's tied into the so-called GRR, which in that provision you cited mentions subsection (B)(2)(c) of the ESP statute.

COMMISSIONER LESSER: And the combined heat and power.

MR. NOURSE: That one I think is open to discussion. That particular proposal, it's going to be developed with input from the stakeholders and will be the subject of a future case, but we didn't put a lot of details in the Stipulation regarding that.

COMMISSIONER LESSER: And then again on page 19 it references competitively priced long-term shale gas contracts. Who would those contracts be with?

MR. NOURSE: Well, to the extent -- maybe a bifurcated answer in that to the extent they support the -- you'll notice under Paragraph 2-a-1 that you were referencing carrying over to page 20, there's two parts. One is the MR5 replacement unit that you referenced, and the second part is the existing gas assets, Darby 1 through 6 and Waterford. That's on page 20. Those would be served under those contracts. That's where the 60 Bcf comes from.

COMMISSIONER LESSER: Oh, okay. So what you're saying is in the Stipulation what is referenced as competitively priced long term is only those contracts that will be with existing AEP Ohio gas assets, Darby 1 through 6 and Waterford.

MR. NOURSE: Well, what I'm saying is the 60 Bcf was calculated based on the combined cycle, the 500-megawatt combined cycle, the new MR, as it's been called, and in addition the existing Ohio gas assets that are owned by AEP Ohio. So the gas needs for all those plants taken together are what the 60 Bcf reflects. What the contracts end up saying or covering, I don't know whether I can say now or limit it to that.

COMMISSIONER LESSER: If I can just -- so the Stipulation does not state who those contracts will be with?

MR. NOURSE: Correct. I'm sorry, that's where I was getting back to where I bifurcated at the beginning, because to the extent it's a GRR asset, that lies with the EDU after corporate separation. That part of the contract as a fuel cost would go through the GRR or FAC that's modified, the point being, the total cost for the MR6 would be passed through to ratepayers through the EDU.

The gas asset units that are referenced on page 20 would be part of what's shifted to the generation affiliate through corporate separation. Certainly those, if that's a portion of the contract or a separate contract, that gas cost would not flow through the EDU.

COMMISSIONER LESSER: Mr. Chairman, if I could ask one more associated question and then I'll stop my list.

CHAIRMAN SNITCHLER: Okay.

COMMISSIONER LESSER: The reference to the Turning Point plant, if the Commission approves the Stipulation as written today, what is the Commission approving in regard to that plant?

MR. NOURSE: Well, it's probably the same answer with the MR6; that is, it's simply approving the GRR, the Generation Resource Rider, as a mechanism, an empty bucket, if you will. It's a rider that is set at zero, and the only way a charge would flow through that GRR would be through a subsequent Commission decision that approves a charge, either based on the Turning Point project and/or the MR6 project. So that's what the Commission would be approving.

COMMISSIONER LESSER: I'll stop.

CHAIRMAN SNITCHLER: Question, Mr. Centolella.

COMMISSIONER CENTOLELLA: Thank you, Mr. Chairman.

Mr. Nourse, let me begin by trying to clarify a few things that Commissioner Lesser was starting to get into. With respect to the gas contracts, as I look at paragraph IV-2-a there is an expectation that those contracts would flow through the fuel adjustment clause.

Is that true irrespective of whether or not those units are, in fact, a cost-effective part of providing POLR service to customers? Are we obligated on the terms of those contracts? Are the terms of those contracts sort of a take or pay regardless, or is it just to the extent it supports the POLR charge?

MR. NOURSE: No, Your Honor. I would say two things. Number one, on page 20, paragraph 2, near the top half of the page indicates the intention of the signatory parties that the gas contracts, shale gas contracts, would be subject to a prudence review, and so that's shorthand for saying they have to be economically and competitively priced. They have to be prudent in order for the Commission to give its approval after and through an audit process, not unlike a new fuel contract that would occur under the current regime.

The second thing I wanted to clarify in response to your question is that this same paragraph, item 2 on page 20, attempts to address this as well, that it would be through the bypassable FAC during the term of the ESP for the nondedicated; for the life of the facility for the dedicated.

And I should say this is really leading up to corporate separation. Once these other units, like the Darby 1 through 6 and Waterford, would be put into the generation affiliate, then, obviously, their fuel costs, as well as their capacity costs and costs of providing generation service, would not be recovered through the EDU. They would be recovered in the competitive market, wholesale and retail markets.

COMMISSIONER CENTOLELLA: Let me ask one other clarifying question if I could in this area. I was trying to reconcile what we see here in paragraph IV-2-a-1 and 2 with what is in paragraph IV-1-m, which refers to a modified FAC for the GRR, whereas back in IV-2-a it refers to the fuel costs associated with GRR units flowing through the GRR. Is this the same thing, or are these different things?

MR. NOURSE: Yes. I mean, you're correct to connect those two. They're definitely related, and the intention of that language is to say that it would be recovered through the FAC until the auction begins in May 2015 in connection with a nonbypassable charge, if any, for the GRR.

So, again, it's up to the Commission in that future case when they -- Turning Point doesn't have any fuel, but with the MR6 case, it would be up to the Commission as one of the many issues in that case, which all the parties reserve their right to make arguments in that case.

And in that case the Commission will decide whether to approve a charge, and that charge would either be nonfuel costs, then put the fuel costs through a modified FAC that would survive for that limited purpose; or the Commission might say we'll have a charge that's going to be updated quarterly, and it will reflect both fuel and nonfuel costs. So the attempt is to retain flexibility and preserve that for future Commission decisions.

COMMISSIONER CENTOLELLA: Thank you, Mr. Nourse.

If I could go to a different area now. In IV-1-g the Stipulation speaks to a 13.5 percent threshold for the SEET test. Is the Stipulation suggesting there be a bright-line test for significant excess earnings such that unlike what we did in our last significant excess earnings case, there would be no allocation of any returns above that between what might be reasonable for a utility to retain and what might be considered significantly excess?

MR. NOURSE: I think that's correct. Let me restate it and see if I am saying the same thing. The 13.5 percent would be as the SEET REO threshold, so there would be a fixed amount. To the extent the Commission has to determine an REO threshold under this plan, that would be predetermined.

You know, it's -- well, I'm going to stop before Mr. Price stops me.

COMMISSIONER CENTOLELLA: Okay. So just so that I'm clear, the Stipulation's provisions would be any return in excess of 13.5 percent the Commission would consider significant excess earnings; that would be the recommendation?

MR. NOURSE: Yes. And Mr. Hamrock helps set this forth in more detail in his testimony as far as the process as the company understands it and how he would see this working.

And, you know, I think there's some ongoing discussion about the mechanics of how that would be done under a four-plus-year plan. But what the parties have agreed to explicitly in paragraph 1-g is the REO threshold, to the extent the Commission needs to use one to view the plan, it would be 13.5 percent.

COMMISSIONER ROBERTO: If you wouldn't mind, I'd like to follow up with the same question a little bit. The 13.5 percent REO, was that intended to be for both companies until the merger and is it intended to be used annually for each year of the analysis?

MR. NOURSE: Yes. Again, I'll just tell you the way we see it. Because this plan is over three years, there's two aspects of the SEET test, we believe, under subdivision (E) of the ESP statute. One is a pro forma review of the entire term, and in that pro forma view, that same REO threshold would be used. Mr. Allen in his testimony sets forth a pro forma projection of the plan and, you know, again, his pro formas show that projected earnings are below that 13.5 percent REO threshold.

And the second component of the SEET under subdivision (E) is the review in the fourth year of the plan. The ESP statute contemplates kind of two categories: below a three-year plan, like had been in all the prior plans thus far to date; and a plan that is longer than three years, which this would be the first one.

And under that it basically says do the up-front test and then do a test every four years, so for ten years you would have two fourth-year reviews, and under this plan you would have one fourth-year review.

COMMISSIONER ROBERTO: That section also refers to a 2009 Commission order calculated in a manner to be consistent with the 2009 Commission order. Could you tell me what Commission order you're referencing?

MR. NOURSE: It's the January 2009 Commission Opinion and Order -- I'm sorry, no. It was in 2011. It was relating to 2009. So it was January of this year relating to calendar year 2009. That's what we're referring to.

COMMISSIONER CENTOLELLA: Mr. Chairman, if I can probe one other area here at this point.

Mr. Nourse, regarding the distribution stay-out proceedings, the language in the Stipulation relates to not commencing proceedings. How does that language relate to the company's pending distribution rate cases? Are they covered, not covered? What is anticipated?

MR. NOURSE: It's not covered. The existing cases were not part of the Stipulation and they're not resolved. They're not in the case caption. This stay-out really relates to after the current AIR cases are resolved, the companies will not initiate a new case sooner -- so that rates would not be affected any sooner than mid '15, I believe.

COMMISSIONER CENTOLELLA: There is also a provision in the Stipulation, I think paragraph IV-1-h, that references a potential separate AEP filing to initiate phase 2 of gridSMART. Does the stay-out provision preclude AEP from making such a filing for rates to go into effect prior to 2015?

MR. NOURSE: I don't believe so, Your Honor. That's a stay-out relative to base distribution rates, and there's a parenthetical that explains in part, an example really, is that riders would still be pursued. The example given there is the Decoupling Advisory Group, how that comes out. But I believe the stay-out is really limited to base distribution rates.

COMMISSIONER CENTOLELLA: Such that the company could pursue an expansion of the gridSMART rider within that time frame under the Stipulation?

MR. NOURSE: Right. I think the intention of paragraph 1-h is just to complete the review and analysis relating to phase 1, and certainly if that occurs before mid '15, I don't think the stay-out for the AIR application would affect moving forward on gridSMART.

COMMISSIONER CENTOLELLA: Does the Stipulation's language contemplate any specific limitation on the time line for completing that review and analysis of gridSMART phase 1?

MR. NOURSE: No, there was no term or deadline imposed or agreed to as part of the Stipulation.

CHAIRMAN SNITCHLER: Commissioner Porter.

COMMISSIONER PORTER: Mr. Nourse, thanks for your appearance today and for the remaining witnesses as well. We appreciate your appearance here.

MR. NOURSE: Certainly.

COMMISSIONER PORTER: With regard to all of the cases that are mentioned within the Stipulation, specifically captioned on the first page, are there additional issues left unresolved or issues within those cases that may not be resolved specifically within this Stipulation? In other words, is this Stipulation intended to resolve all of the outstanding issues in each of those captioned cases?

MR. NOURSE: It is the latter, your Honor.

COMMISSIONER PORTER: Let me ask about the GRR rider. I just want to get some sense of how this impacts, you know, what the world looks like going forward, and am I correct to understand that there's a corporate separation proposed to be approved within this Stipulation and that there's a GRR rider that will remain -- the recovery of which will remain an asset in any surviving EDU going forward?

So does that mean there will necessarily be generation and/or -- there will be more distribution assets owned, controlled, or operated by the surviving EDU?

MR. NOURSE: Your Honor, I think it provides for that possibility. Again, that's going to be subject to the Commission's review and approval in a subsequent case.

I think what this provision recognizes -- and there's testimony about the value of the GRR so I won't get into that -- but I think it recognizes the corporate separation mandate of Senate Bill 3, which has been there in some form, and modified in Senate Bill 221 of 2008. And as part of the ESP statute, Senate Bill 221 allows for this EDU-owned generation in the context of that provision such as it is.

COMMISSIONER PORTER: I understand that. But what I want to ensure that I'm clear on is with the approval of the Stipulation as written, we would approve the GRR and the assets. There are specific generation assets included within the Stipulation. We would be approving those remaining assets of the Ohio distribution utility?

MR. NOURSE: I think they would necessarily be that if approved because otherwise -- yes, I believe that statute would only apply to an EDU as part of an ESP plan. So, for example, AEP's then affiliated generation company, APGenco, after corporate separation could build and/or own or purchase or sell generation without the need for explicit Commission approval, without establishing a nonbypassable charge.

So, again, I think there's a few things

in paragraph 1-d on page 6 that the signatory parties provided for. One is that we, the company, would limit its pursuit of generation under this GRR, Turning Point, and the so-called MR6, and also that we're agreeing up front to only ask for net costs so that revenues that would be associated with that facility would essentially be a pure dedicated unit.

And then you will notice at the end of 1-d, all the parties agree that, again, all these other issues would be fair game and open in some future case.

COMMISSIONER PORTER: Mr. Nourse, thank you. So with regard to Turning Point and the MR6, the fees associated or the cost to customers would be billed at a generation rate today?

MR. NOURSE: I'm not sure I understand that.

COMMISSIONER PORTER: How would customers if we are going to -- if Turning Point is constructed and MR6 is constructed, the recovery for those assets is recovery as part of the generation rate or distribution rate?

MR. NOURSE: Well, I would say it's a charge by the EDU per the statute. I don't think it relates to distribution service, but some would call it a wires charge or a distribution charge just because it's coming through the EDU, but, again, I would just say it's a charge under (B)(2)(c) under the ESP statute.

COMMISSIONER PORTER: Going forward, the EDU will have within its distribution rate the Turning Point and other assets and it will be in addition to wires charges?

MR. NOURSE: It could be if that's what the Commission approves. I would also just note one additional point. Part of what I think you're driving at is in the context of the auction, we get to auction mid 2015 going forward, how those GRR assets, if there are any, are treated is to be determined under the stakeholder process.

Paragraph R is a very long paragraph. At the bottom of page 13 you will find that reference. But, again, all those questions are open to further -- or final Commission consideration and decision in a future case.

COMMISSIONER PORTER: Okay. Just one other topic, Mr. Chairman.

This is with regard to the shopping credit. I believe this is on page 5. The Stipulation describes schools. What is meant by "school"? Is this K through 12 or some other type of school?

MR. NOURSE: I will let Mr. Roush clarify that.

COMMISSIONER PORTER: I'm sure it's written somewhere, but it's not in the Stipulation.

MR. ROUSH: It's basically anything that is identified under major SIC Code 82, so it is both colleges and universities, primary education, anything in that broader education category.

MR. NOURSE: Can I add? Make sure I am correct. If there is a really large school, it might take service under a tariff like GS-3. Then they wouldn't be part of this, as it's directed to GS-1 and GS-2.

MR. ROUSH: That's absolutely correct, Steve.

COMMISSIONER PORTER: Thank you. And so for this shopping credit as it relates to schools, schools must be shopping currently. The Stipulation states that schools must be shopping currently. What does "currently" mean, as of the approval of the Stipulation?

MR. NOURSE: I think it would probably mean September 7, the date the Stipulation was signed by the signatory parties.

COMMISSIONER PORTER: That's probably something we would have to clarify.

MR. NOURSE: It could be subject to clarification by the Commission.

COMMISSIONER PORTER: Okay. And am I correct to understand that if a school is not currently shopping, even if that school is a GS-1 or GS-2 customer, the school would not qualify for the credit going forward if it were not currently shopping as of the date that we interpret the provision to mean?

MR. NOURSE: I believe that's correct.

MR. ROUSH: Well, mostly correct. All GS-2 customers, school or nonschool, are eligible for the shopping credit up to the 1,000 megawatt-hour limit.

COMMISSIONER PORTER: So there's no limitation on a school, depending upon whether it is shopping as of the current date of whatever we mean by "current"?

MR. ROUSH: Correct. It's any GS-2 customers that can avail themselves of this shopping credit up to a one million megawatt-hour cap.

MR. NOURSE: Right.

COMMISSIONER PORTER: Just a few more, Mr. Chairman.

I just want to be clear. Is the $8.21 IRP credit the same as it is under the existing SSO? Or is this an increase in the credit or decrease in the credit?

MR. NOURSE: It's an increase.

Dave, do you have the current rate for the credit?

MR. ROUSH: The company's proposed credit was $6.57, so that was an increase from the $6.57.

COMMISSIONER PORTER: Okay. And this credit goes to industrial customers that are served under the interruptible rate, I presume, Mr. Nourse?

MR. NOURSE: Correct.

COMMISSIONER PORTER: And the recovery for this credit is billed to customers as part of the Economic Development Rider?

MR. NOURSE: The incremental cost, which is the amount above the current rate.

MR. ROUSH: It is the amount above the $6.57.

MR. NOURSE: It is approximately $5 million.

COMMISSIONER PORTER: Okay. So the 6.57

rider, which is the currently existing rider, would continue?

MR. ROUSH: Actually, I apologize. To clarify, the current credit I don't recall off the top of my head. The company proposed in the ESP a credit of $6.57. As part of the Stipulation they agreed upon $8.21. The difference between the 8.21 and 6.57 is the amount that would go to the EDR.

COMMISSIONER PORTER: Got you.

That's all I have for now.

CHAIRMAN SNITCHLER: Any other questions?

COMMISSIONER ROBERTO: Thank you. I would like to return to the GRR, and you had referenced in your response to Commissioner Porter the language at the bottom of page 13 that talks about a stakeholder process and the relationship of the GRR assets to the auction.

And my question just goes to because of the requirement, the statutory requirement, that when generation assets are supported by something like the GRR, the capacity and the energy and the rate associated with it has to be dedicated to the customers.

As I read through the Stipulation, it

appeared that there has been a stipulation in paragraph 1-r that both the energy and the capacity must be bid in to PJM, and then in paragraph 2-c, all the revenues from those GRR assets are then credited back to customers. So I guess I'm puzzled as to what is there left for the stakeholders to discuss about the auction?

MR. NOURSE: I think there's two aspects to this. One, just like AEP's existing generation is bid into the PJM process as a clearinghouse, you know, that would be done. The thing that is reserved for determination at the end of paragraph R is how any GRR assets would be handled relative to the auction itself.

So if the auction would be for 100 percent, you know, number of tranches for the full retail load, or do you take part of that off the top and do an auction for 96 percent. That's how I would explain it. I don't know if Rich or somebody else has additional.

MR. MUNCZINSKI: I would look at it as that we actually came up with two examples. One, as Steve mentioned, you can auction off 100 percent of your load. If this represents 4 percent of the load, maybe you'll only auction off 96 percent of the load, or you can auction off 100 percent of your load and you can sell this energy and capacity into the PJM markets and then give it back to the customer of the EDU in credits or the charges that resulted from that action.

COMMISSIONER ROBERTO: I think that's where my question was. I thought this Stipulation said you were going to do that. I mean, if I'm reading 1-r, it says that GRR assets must be bid into PJM for both energy and capacity, and then it says on page 24 that then the revenue goes back to the customers. So I wasn't able to figure out how you could do that example where you would hold the 4 percent back because it looked to me like the Stipulation was saying you must bid it in.

MR. HAMROCK: I think the distinction is between the base residual auction and the year-ahead capacity auction where you anticipate bidding those units in because the EDU would be an RPM entity under this framework.

Then there's day-ahead energy and there's also the SSO auction itself. So there are different types of auctions and there's interplay between the different auctions. It may be a little confusing.

COMMISSIONER ROBERTO: I was looking at

that, but since you used the words both "energy" and "capacity," because I thought that's what you intended to do, too, but since you used both energy and capacity, it sounded like you were bidding on both the energy and capacity, capacity going to the capacity auction.

MR. HAMROCK: You are referring to 1-r?

COMMISSIONER ROBERTO: Yes.

MR. NOURSE: I would just add I think whatever the sources of revenue are associated with the unit, if that's PJM auctions, that would be reflected in the net costs, so that the net effect and the intention of the language is to have the same set of ratepayers that would be paying for GRR assets, that is, all the customers would receive all the benefits and the attributes of that GRR asset, including revenues associated with it, whether those revenues are PJM revenues or, you know, bilateral wholesale, off-system sales or what have you.

Again, I think this is ultimately -- that part of it, what the charge would be, you know, will be litigated in a future case under the GRR and would be, you know, I'm sure fully debated and reviewed to decide then.

The more immediate question, I suppose,

depending on the timing of all of this, when the stakeholder process for the auction is finalized -- and our witness, Chantale Lacasse, addresses some of that and the time line that is anticipated, just as a factual matter.

But that provision at the bottom of 13 carrying over says if the stakeholders can't agree, then it goes to the Commission. So, again, the Commission will have the final say on both of those issues as your queuing them up. The intent is to say that the net cost of the GRR asset would be what would be the net charge for the customers.

COMMISSIONER LESSER: Actually, I have a few questions. I am confused because as what I'm -- again, I'm just trying to stay within the language of the Stipulation. I think what you're describing is the possibility in a competitively bid process that this utility-owned generation would be set aside and then a certain portion of the load would be then put out for competitive bid. What I can't find is where that is in this Stipulation, that is, the ability of the Commission to do that.

MR. NOURSE: Well, that's my understanding, Commissioner Lesser, of the phrase I was just referring to at the bottom of 13. The manner in which to include any dedicated resources under IV-1-d -- that's the GRR -- above in any auction-based SSO procurement process shall be developed by the stakeholders. And if the stakeholders can't agree, the Commission should address that as part of deciding the GRR case.

And, again, I would add that I believe the intention is, as Witness Lacasse goes through the details of the stakeholder process and the time line for that, to finalize the auction itself and how the auction itself would be conducted, would be that, you know, to the extent there's any disagreement, it would come back to the Commission to decide.

So I think whether it's 96 percent, you know, of the SSO load that's auctioned or 100 percent with this other mechanism that flows back all the revenue that's received to reduce the charge that the customers would pay for that unit is all subject to Commission decision and approval.

COMMISSIONER LESSER: Mr. Chairman and Commissioner Roberto, I had a loosely connected question to ask, if that's okay.

CHAIRMAN SNITCHLER: That's fine.

COMMISSIONER LESSER: You have a very long list of recitals in the competitive bid process section, and considering what you just described now as that section of the Stipulation, does that mean that that list of recitals is not meant to be exclusive but is subject to the ongoing decision and modification by the Commission?

MR. NOURSE: Your Honor, what we attempted to do, if I can ask you to look at the beginning of paragraph R back on page 11, in the second sentence there it says that certain CDP-related matters addressed are being resolved as part of the Stipulation and there will be a stakeholder process for the remainder. And, again, I would suggest that if there's something that's unresolved, that the Commission -- it would come back to the Commission for final approval of the CDP.

But there certainly are matters in paragraph R, in particular, that the signatory parties did agree to up front and considered as, you know, vital parts of the Stipulation, if you will. So it's the matters that are unresolved. This one that you had a series of questions on is one I believe that is unresolved as, you know, specified at the end of paragraph 1.

COMMISSIONER LESSER: As associated with that, I have some other questions for later.

COMMISSIONER CENTOLELLA: Mr. Chairman, let me turn to a different section of the Stipulation, paragraph IV-1-q. It provides that if approved, the Stipulation serves as Commission approval of the full corporate separation as contemplated in Revised Code 4928.17(A).

Of course, as you're aware, 4928.17(A) requires a corporate separation plan, which there is not a modification to the corporate separation plan attached to the Stipulation.

Am I right in reading that there will be some modification filed and other than the fact that there will be some form of corporate separation, the Commission is free to approve or modify or change whatever plan AEP files with respect to corporate separation?

MR. NOURSE: No, Your Honor. I think the intention here is that the Commission would be approving as part of approving the Stipulation, you know, a spin-off of the generation assets of AEP Ohio to an affiliate.

COMMISSIONER CENTOLELLA: And where does it say that in the Stipulation?

MR. NOURSE: Well, I would submit the paragraph that you just referenced. It says, Approval of this Stipulation will serve as the Commission's approval of full legal corporate separation such that the T & D assets will be held by the EDU, while any GRR assets will also remain in the EDU. That's the opposite of what I said, that the generation would be separated to an affiliate, but that's the corollary.

COMMISSIONER CENTOLELLA: I guess I don't see a provision that requires us to say it has to be separated into an affiliate. Maybe I missed that, but I'm wondering where that appears in the Stipulation, if it does?

MR. NOURSE: Well, that's what that sentence is intended to say. Again, such that the T & D assets will be separated from the G. To the extent, you know, there's additional specificity that's required or there's another filing to be made to conform to that, that would be a matter that the Commission could address.

Clearly, as part of the core provision in the restructuring of AEP Ohio and moving to an auction-based SSO is to separate the generation assets from the EDU.

COMMISSIONER CENTOLELLA: Does the Stipulation speak at any point as to whether there will be a separate -- as to whether AEP believes there will be a separate corporate separation plan filed?

MR. NOURSE: No, it does not.

COMMISSIONER CENTOLELLA: Next question, with respect to paragraph 5, I believe it is, there is a reference to a pool modification rider. What type of costs are contemplated to be in a potential pool modification rider?

MR. NOURSE: Well, this is another example that the signatory parties have agreed that a rider would be established at a zero level, and the Commission, through a separate application during the term of the ESP, would consider to the extent AEP filed such a request for approval of the recovery of the pool termination costs.

I think the way I would explain it, and there is testimony on this as well speaking from Mr. Munczinksi, it's a before and after impact, before corporate separation pool termination and after. So if the effect of the pool termination or modification before and after is greater than 50 million by mid 2015 -- that's again when the auction would pick up -- that would be something that is permitted to be filed and request approval for the recovery of those costs.

COMMISSIONER CENTOLELLA: I guess, Mr. Nourse, I'm struggling a little bit to understand what are the nature of the charges that would result in a pool termination cost to the company? Where are those charges coming from? Are they coming from AEP's pool termination proposal at FERC and a reallocation of some costs? What is the nature of the charges?

MR. NOURSE: Yes. I think it would relate back to the FERC case, what that solution is, what's approved. Ohio, the PUCO and/or the staff would be part of that FERC docket in determining the outcome, as would stakeholders of other jurisdictions of AEP and other parties.

And, you know, there are certain charges and revenues that are implemented based upon the FERC-approved pool, as they have been for the last 50 years. And so to the extent those charges or revenues were impacted adversely to the tune of greater than $50 million, again, a before and after view, then that would be something that we, the company, could come and ask for recovery of, subject to subsequent Commission approval.

COMMISSIONER CENTOLELLA: Does the

language in paragraph 5 that commits the signatory parties to support full pool termination at FERC commit the parties to support whatever pool termination or modification proposal, including any reallocation costs that AEP might propose at FERC?

MR. NOURSE: No. I think that the language at the bottom says that parties are preserving the right to challenge the amount of recovery of the costs, so to extend your example, we can't just propose anything and then come, you know, and force it through this Commission. Again, this Commission is reserving its judgment on these matters until if and when there is such a filing.

CHAIRMAN SNITCHLER: Commissioner Lesser.

COMMISSIONER LESSER: Thank you.

Mr. Nourse, there's a reference to a 2015 filing of an ESP, and that would be during the pendency of this current ESP, which goes until, I think, May of 2016. And I have been trying to figure out what the parameters of that ESP could be. If you could at least explain it within the context of what is covered in the Stipulation.

MR. NOURSE: Sorry, I'm still looking for that reference. Paragraph 8, page 27. That is basically addressing the scenario that in the next case once the Stipulation is adopted, we are implementing it throughout the term, we come back to do the next plan, and if there's modifications and the company were to withdraw its consent for making that future ESP term filing --

COMMISSIONER LESSER: Could you stop for a second and tell me what you mean by what modifications or consent you are referring to? This current Stipulation?

MR. NOURSE: No. For the future ESP in the future term, we will have to come back. Under the Commission's rules, you have to come back I believe 275 days ahead of your plan expiring, at least that early. We filed this plan earlier, the current case.

But in that future case if there are modifications made that cause the company to withdraw its consent under this statutory process, the ESP statute, the effect of that scenario is what this paragraph is dealing with. And basically the net effect is that the auction-based SSO would continue, which is in keeping with the letter and spirit, I believe, of how that statute works in the circumstance of a withdrawn plan so that the current rate plan continues. This paragraph is really defining what it means to continue the current rate plan into the mid 2016 period.

COMMISSIONER LESSER: So the reference to the filing by February 1, 2015 is just to allow a sufficient period of time for an ESP MRO to be filed, for the company to theoretically not consent to the ruling, and for a mechanism to be in place to allow for, you know, supplying that load.

MR. NOURSE: Right. And so it's being done well in advance. That's the commitment in order to try to avoid that scenario. But it's also possible that there could be a rejection or a withdrawal and then another filing. You know, that cycle could occur more than once even before the middle of 2015, 2016.

But we're setting a deadline essentially there of April 1, 2016. If there's not a new plan by then, then we will continue the rate plan by doing basically a 90-day auction interim plan until there is a new plan. So that the upshot of this is that the auction-based SSO doesn't go away if we're in that narrow circumstance that's addressed in paragraph 8.

COMMISSIONER LESSER: Okay. I just have one last follow-up to Commissioner's Centolella's question. On the cost recovery of over $50 million for dissolution of the pool agreement, is that $50 million as determined by FERC or as determined by the PUCO? Just a simple question.

MR. NOURSE: I think it is just by the company in the first instance. That's the threshold limit under this provision. We are entitled to come and ask, and so we would make that determination in the first instance. I suppose it's possible that the Commission could come back and say there was only 49, therefore, we don't even have to consider your request. That would be the Commission's decision.

COMMISSIONER LESSER: Okay. That answers my question.

CHAIRMAN SNITCHLER: Commissioner Roberto.

COMMISSIONER ROBERTO: Thank you.

Thank you, Mr. Nourse. I'm looking at the paragraph on page 17 with regard to the Partnership With Ohio and the Ohio Growth Fund, and my remaining questions are trying to figure out some of the language.

Both of the provisions make the company's contribution contingent on a return on equity in excess of 10 percent. And I was wondering is that a return on equity for CSP, OP, both companies merged?

MR. NOURSE: Yes. The Stipulation certainly is premised on the merger being approved. But in the period of time, for example, in 2012, the return on equity for the prior calendar year, hopefully, if the merger is approved and it's reported at the end of year, it would be on a merged basis, and that's what it would be triggered on.

If there was some weird timing issue and that didn't happen, I mean, I'm not sure how it would be applied. That's the premise, that the merger is approved in 2011 and it would be reported on a merged basis.

COMMISSIONER ROBERTO: Okay. Thank you.

Then the Ohio Growth Fund has specific language that says the $5 million is not recoverable from customers but the PWO fund is actually silent on recovery.

MR. NOURSE: Right.

COMMISSIONER ROBERTO: Am I to take it then that the POW funding is recoverable from customers?

MR. NOURSE: I think that is just a matter of wording, your Honor. They're both references to shareholder funding.

COMMISSIONER ROBERTO: Mr. Chairman, may I continue on another topic?

CHAIRMAN SNITCHLER: Yes.

COMMISSIONER ROBERTO: Thank you.

Looking at the 350 megawatts of customer-sited new generation, does the Stipulation address what is to be done with the energy or capacity from those resources?

MR. NOURSE: No, it does not.

COMMISSIONER ROBERTO: So it in no way limits the use of those resources?

MR. NOURSE: No. I think what I would contemplate or understand here, again, there would be a stakeholder process to develop the proposal, the way the proposal would work, and be brought before the Commission. But I think ultimately it would end up being some sort of contract or bilateral agreement with customers that would be brought back to the Commission to use those resources. So those kinds of matters would be open for development.

COMMISSIONER ROBERTO: Thank you. As to the auction process, we were just speaking just earlier that a certain number of features in the auction process are stipulated and others are reserved for stakeholders.

I'm unclear on how we are to distinguish between those two. For instance, while the process calls for an independent auctioneer, it doesn't, for instance, say who hires the auctioneer.

MR. NOURSE: Right.

COMMISSIONER ROBERTO: Does the Stipulation answer that question, or can the Commission answer the question?

MR. NOURSE: Who hires the auction manager?

COMMISSIONER ROBERTO: Yes.

MR. NOURSE: I think that would be something again that is -- I guess I look at it as three phases here in the way it would work, or three parts. Part one are the things that are directly and explicitly provided for in paragraph R by the signatory parties. Part two is the stakeholder process which would be undertaken to try to fill in all the blanks; and part three would be the Commission deciding things that were not agreed upon.

So I think Chantale Lacasse's testimony, she's a person who is familiar to the Commission as far as managing auctions, and she does lay out a schedule in more detail of the process that is envisioned.

But, again, I'm not sure, you know, the auction manager is not going to be selected by AEP Ohio without any input or approval by stakeholders and the Commission, if that's what you're getting at, but that's how I would see it working.

COMMISSIONER ROBERTO: Does the language then suggest if stakeholders agree on the process, the Commission is to defer to that if we adopt the Stipulation as written?

MR. NOURSE: I would say again, only with part one that I described, the things that are supposedly provided for by the signatory parties.

COMMISSIONER ROBERTO: On the Timber Road REPA, I just have a question as to there's a reference -- I'm sorry, I don't see my page number here -- to termination rights of AEP Ohio and its successors under Article 6.1(G).

MR. NOURSE: Right.

COMMISSIONER ROBERTO: What document is Article 6.1(G) in?

MR. NOURSE: I recognize that maybe it's not clear on its face, but certainly the signatory parties understood this. It is further explained in Peggy Simmons' testimony. But what it is, it's essentially an ongoing regulatory out clause that AEP would have an off ramp, if you will, to that contract if there were a problem with cost recovery in the future.

And so what this second sentence in paragraph 1-j is saying that if the REPA is transferred as part of the corporate separation to the generation affiliate away from the EDU, then the reg out clause no longer applies.

COMMISSIONER ROBERTO: I'm sorry, then is that a contract that exists somewhere?

MR. NOURSE: It is. It's part of the REPA, the Renewable Energy Purchase Agreement.

COMMISSIONER ROBERTO: And that was filed with your application?

MR. NOURSE: Yes, it was. And it's referenced again and adopted and sponsored in Peggy Simmons' testimony that was just filed last week.

COMMISSIONER ROBERTO: Thank you. Quick question on the school shopping credit then. Jumping up to I believe it's the section IV, paragraph 1-c, there's a sentence that says, "AEP Ohio agrees to modify the MTR so that only 50 percent is phased out by May 31, 2015. The MTR rider will cease to exist with the June 1, 2015 billing cycle." I'm sorry, I just don't understand that.

MR. NOURSE: I will take a shot and Dave Roush can correct me if I'm wrong. The MTR is a transition rider. So when the generation rates are redesigned, the MTR is a transition to soften or reduce the impact of that generation rate redesign.

What we had proposed in the original application was to phase out the MTR; in other words, the mitigating effects of the rate redesign would be phased out so at the end of the term, the full generation redesign, rate redesign, would be implemented by the end of the term.

Under the Stipulation we're saying that it's only going to be in transition to the point of the auction in the middle of '15. It's a different time period. But we are also saying that only 50 percent is phased out, so I believe that would just be spread out over a longer time period and only -- you only get halfway there, so there will be then a change or, you know, maybe a slightly more abrupt change at that point in the middle of 2015 to get to the full redesign rate, generation rates by the time the auctions kick in.

COMMISSIONER ROBERTO: So does the Stipulation provide that the funding for the credits through the MTR rider will be paid for in the year that they're provided? There's no temporal deferral of the credit?

MR. NOURSE: Well, there's a quarterly reconciliation, so it's pretty current.

COMMISSIONER CENTOLELLA: Mr. Chairman, if I may follow up on that last question for a moment. There is, I thought, an under- and overrecovery attribution in the MTR. What happens when the MTR ends on May 31, 2013? Does the company just spend it or eat the balance, or is there a carryover?

MR. NOURSE: I think it goes away, so that may be an imperfection, so to speak. I'm not sure how else to deal with that, but I think it's the latter. It would be eating the difference or a slight difference. Again, with the quarterly reconciliation, it should be very slight either way.

COMMISSIONER CENTOLELLA: I want to explore just for a moment here some of the provisions in Appendix C and how the cap works. I guess in particular I'm not sure I can fully understand the difference between an expanding load for a group one customer and a group three customer.

And in particular, the language on page 1 of 5 in that appendix indicates that the group one customer is allowed to increase its usage above the cap for both existing and expanded load of that facility.

Does that imply that that customer's priority expands with the expanded load? Does it imply an increase to the overall cap? What does that language mean, and how does it relates to language for a group three customer?

MR. NOURSE: I mentioned earlier that the implementation plan is being developed, and its first meeting was this morning. Bill Allen is heading that up and also addresses that in his testimony. I will defer this series to Bill.

MR. ALLEN: With regard to the group one customer, the intent of the language is if a group one had an expansion, even if the entire cap was full, they would be eligible to receive RPM price capacity for any expanded load they would have; whereas group two customers, there would need to be room within the cap for them to receive that same RPM price capacity.

COMMISSIONER CENTOLELLA: What happens if a group one customer does expand? Does it knock someone else with a lower priority out of the cap?

MR. ALLEN: No one is kicked out of the

cap under the allotment process. They would just get priority to get under the cap next. So we would be -- in the case where a group one customer expanded, there would be a period of time where the total allotment would exceed the cap, and you would have to keep going under the cap gradually as customers left CRES service or we increased the cap in subsequent years, so they would get first in under that cap.

COMMISSIONER CENTOLELLA: Okay. Who is a group three customer and how does that then -- is there any situation where a group one customer becomes a group three customer by expanding, or is that just someone who is a group two and by expanding load goes to group three?

MR. ALLEN: Group one and two customers remain group one and two customers indefinitely. A group three customer would be a customer that is currently shopping, like a group four customer or a group five customer who was expanding their load.

We had a lot of questions this morning about that, and that's an area that as we develop a detailed implementation plan, we will clarify some of that. But it is intended that when you grow your load, if there is room under the cap, there is priority for customers that have yet to receive an allotment under the cap.

COMMISSIONER CENTOLELLA: So tell me a little bit more about what does it mean to be first-come, first-served under the cap. Does one have to go through a process of applying for an allotment, or do you automatically get allotments?

MR. ALLEN: Allotments come in a couple of different ways. One, you can receive an allotment by responding to queue by being a current shopping customer. Customers already shopping as of September 7 or July 1, depending upon the provision, they get an allotment under the RPM set-aside. Once we start having additional shopping -- I'm sorry, I lost my train of thought. What was your question again?

COMMISSIONER CENTOLELLA: I asked how does one -- what is the process for getting in the queue? What does that mean?

MR. ALLEN: The next step for a new customer that hadn't already received an allotment, that isn't already shopping, they can sign a contract with a CRES providor. We would get an EDI transaction where that customer would notice the company that they were switching to a CRES providor.

That transaction is more typical with what a residential customer would see. That would get them in the queue when they made that switch.

There is also some provision for larger commercial and industrial customers where they have a 90-day notice provision in their contracts with us. Where they noticed us of their intent to switch, that would be the first-come, first-served. When they told us that date, when they noticed us, that put them in the queue.

The third alternative is for a customer to have an affidavit submitted from a CRES provider that they have a contract with that CRES provider to take service.

COMMISSIONER CENTOLELLA: If I may clarify, why would a customer not just have an EDI transaction with a CRES provider? Why would they have an affidavit?

MR. ALLEN: They may not be switching yet. They may be switching January of next year in their contract, so they have an affidavit at that point in time.

COMMISSIONER CENTOLELLA: Okay. There is the reference, I think it's in IV-1-s about the 90-day notice provision being eliminated. Is that eliminated for all customers that have that provision today, and what replaces it?

MR. ALLEN: It is just eliminated and there's no replacement.

COMMISSIONER CENTOLELLA: If I may go to a slightly different topic. I want to go back to the GRR resources for a second. The statutory provisions related to coming in under 4928.142 (B)(2)(b) and (c) refer to a resource planning process. Is the contemplation that would occur under the Ohio Administrative Code 4901:5-5-06, Resource Planning Process, or is there some other filing contemplated by the Stipulation?

MR. NOURSE: Yes. It's the former, your Honor. That's already been undertaken for Turning Point. I think it's the 11-501, 502 cases. There's a supplemental filing. Actually, it was probably a 2010 case number.

But I would expect it to work the same way in the case of MR6, that there would be the need. It first determines need. The language that you are referring to would occur in the same manner.

COMMISSIONER CENTOLELLA: So does the Stipulation require AEP to make such a supplemental filing in that docket, or where does this go from here?

MR. NOURSE: Well, that docket that I was referring to is specifically relating to the supplemental forecast that included Turning Point in particular. That's already pending. I think there is a schedule and so forth. So that, in conjunction with what would be spun off in a separate docket. I would anticipate like an EL-RDR docket. That would be how the Turning Point goes forward, and then on MR6 it would be a similar process but in two future filings that would occur down the road.

COMMISSIONER CENTOLELLA: So you're contemplating the MR6 filings to come forward prior to merger?

MR. NOURSE: No, I wouldn't contemplate that.

COMMISSIONER CENTOLELLA: Well, you said two future filings.

MR. NOURSE: I'm sorry. What I meant was the LTFR, the FOR filing, and the RDR filing companion cases, as was done for Turning Point.

COMMISSIONER CENTOLELLA: I have one other small question to make sure I understand. If you go to pages 23 and 24 of the Stipulation, I'm not entirely sure I am following the reference back here.

In paragraph 2-d it's talking about the offset of GRR costs, and there is reference in 2-d to any biomass facilities, referencing back to 2-c, but 2-c doesn't reference biomass facilities, so I was wondering what was intended there.

MR. NOURSE: I think what was intended there was the net cost concept would apply, not only to the MR6 and Turning Point, but to the items listed in paragraph 2-c, specifically the combined heat and power, waste energy recovery, and distributed generation resources. That proposal would also be done under a net-cost construct.

COMMISSIONER CENTOLELLA: I guess I'm a little unclear about this, given one of your prior answers. Is the Stipulation suggesting that the combined heat and power, the waste energy recovery, and distribution of generation resources, that would also be a nonbypassable charge under the nonbypassable generation provisions in 143?

MR. NOURSE: I think technically it is to be determined. We didn't provide for that explicitly. I think de facto that is probably what would end up being proposed if it is done by the EDU, which is what is contemplated. So, again, we really didn't fill in the details in that filing. We will study it, work with parties, and come back with a proposal.

The only statement or effect in 2-d that if you reference it applies to the combined heat and power paragraph, there would be a net cost. So, for example, under a contract we have the environmental attributes or we are able to produce RECs and sold them, that would cost up the costs, for example.

COMMISSIONER CENTOLELLA: That's all I have.

CHAIRMAN SNITCHLER: With that, I see no further questions from the panel. The commissioners have done a very good job of exploring the issues. With only one scolding, you made it through remarkably well.

I thank you and all the folks from AEP for taking time to present to us today in this little bit of unusual circumstance. I know I found it very helpful. I know I speak for the other commissioners as well. I appreciate your time here this afternoon.

MR. NOURSE: Thank you, your Honor.

(The presentation concluded at 3:15 p.m.)

\- - -

CERTIFICATE

I do hereby certify that the foregoing is a true and correct transcript of the proceedings taken by me in this matter on Monday, September 19, 2011, and carefully compared with my original stenographic notes.

____
Rosemary Foster Anderson,
Professional Reporter and
Notary Public in and for
the State of Ohio.

My commission expires April 5, 2014.

(RFA-8679)

- - -