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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Ohio Power Company and Columbus Southern Power Company for Authority to Merge and Related Approvals	Case No. 10-2376-EL-UNC
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
In the Matter of the Application of Columbus Southern Power Company to Amend its Emergency Curtailment Service Riders	Case No. 10-343-EL-ATA
In the Matter of the Application of Ohio Power Company to Amend its Emergency Curtailment Service Riders	Case No. 10-344-EL-ATA
In the Matter of the Commission Review of the Capacity Charges of Ohio Power Company and Columbus Southern Power Company.	Case No. 10-2929-EL-UNC
In the Matter of the Application of Columbus Southern Power Company for Approval of a Mechanism to Recover Deferred Fuel Costs Ordered Under Ohio Revised Code 4928.144	Case No. 11-4920-EL-RDR

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

FIRSTENERGY SOLUTIONS CORP.'S
NOTICE OF FILING DEPOSITION TRANSCRIPT

FirstEnergy Solutions Corp. ("FES"), pursuant to O.A.C. 4901-1-21, hereby provides notice to all parties that it is filing the following deposition transcripts:

- Exhibit A- Philip J. Nelson

Dated: October 11, 2011

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing *FirstEnergy Solutions Corp.'s Notice of Filing Deposition Transcript* was served this 11th day of October, 2011, via e-mail upon the parties below.

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BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

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

In the Matter of the :
Application of Columbus :
Southern Power Company :
and Ohio Power Company :
for Authority to Establish:
a Standard Service Offer : Case No. 11-346-EL-SSO
Pursuant to §4928.143, : Case No. 11-348-EL-SSO
Ohio Rev. Code, in the :
Form of an Electric :
Security Plan. :
In the Matter of the :
Application of Columbus :
Southern Power Company : Case No. 11-349-EL-AAM
and Ohio Power Company : Case No. 11-350-EL-AAM
for Approval of Certain :
Accounting Authority. :
:
In the Matter of the :
Application of Columbus :
Southern Power Company to : Case No. 10-343-EL-ATA
Amend its Emergency :
Curtailment Service :
Riders. :
:
In the Matter of the :
Application of Ohio Power :
Company to Amend its : Case No. 10-344-EL-ATA
Emergency Curtailment :
Service Riders. :
:
In the Matter of the :
Commission Review of the :
Capacity Charges of Ohio : Case No. 10-2929-EL-UNC
Power Company and Columbus:
Southern Power Company. :

In the Matter of the :
Application of Columbus :
Southern Power Company for:
Approval of a Mechanism to: Case No. 11-4920-EL-RDR
Recover Deferred Fuel :
Costs Ordered Under Ohio :
Revised Code 4928.144. :
:
In the Matter of the :
Application of Ohio Power :
Company for Approval of a :
Mechanism to Recover : Case No. 11-4921-EL-RDR
Deferred Fuel Costs :
Ordered Under Ohio Revised:
Code 4928.144. :

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DEPOSITION

of Philip J. Nelson, taken before me, Maria DiPaolo Jones, a Notary Public in and for the State of Ohio, at the offices of Calfee, Halter & Griswold, LLP, Fifth Third Center, 21 East State Street, Columbus, Ohio, on Friday, October 7, 2011, at 8:39 a.m.

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EXHIBIT A

APPEARANCES:

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On behalf of the Applicants.

Calfee, Halter & Griswold, LLP
By Mr. James F. Lang
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On behalf of FirstEnergy Solutions Corporation.

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Friday Morning Session,
October 7, 2011.

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STIPULATIONS

It is stipulated by and between counsel for the respective parties that the deposition of Philip J. Nelson, a witness called by FirstEnergy Solutions Corporation under the applicable Rules of Civil Procedure, may be reduced to writing in stenotypy by the Notary, whose notes thereafter may be transcribed out of the presence of the witness; and that proof of the official character and qualification of the Notary is waived.

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PHILIP J. NELSON
being by me first duly sworn, as hereinafter certified, deposes and says as follows:
EXAMINATION
By Mr. Lang:
Q. Good morning. Mr. Nelson, could you give us your full name to start.
A. Philip James Nelson.
Q. And what is your position with AEP?
A. Managing Director of Regulatory Pricing and Analysis.
Q. And with what AEP entity are you employed?
A. American Electric Power Service Corporation.
Q. Is American Electric Power Service Corporation an affiliate of Columbus Southern and Ohio Power?
A. Yes.
Q. In this case you are adopting the testimony of Mr. Munczinski; is that correct?
A. That's correct.
Q. Mr. Munczinski is your boss?
A. He is.

Q. Can you tell me the circumstances that resulted in you adopting his testimony?
MR. NOURSE: Well, Jim, I just want to object. When you're saying "adopting," we filed substitute testimony, so Mr. Nelson is just-- we filed his testimony in place of.
MR. LANG: I'll be happy to use that term.
Q. Can you tell me the circumstances of your testimony being substituted for Mr. Munczinski's?
A. Mr. Munczinski and his family had a medical issue that required his attention.
Q. With Mr. Munczinski's testimony, did you have a role in the preparation of his testimony?
A. No, I did not have a role in the preparation of his testimony.
Q. I'm going to go a little backwards here this morning. If I could take you to page 24, I think it's 24. Let me see here. Make sure I'm looking at the right testimony. Yes.
It starts at the bottom of page 24 talking about the pool modification rider, going to the top of page 25 you reference the stipulation provision with regard to the $50 million trigger for

seeking cost recovery related to pool modification. In, let's see, on line 5 of page 25 you refer to a separate RDR application. Can you tell me what an RDR application is, please?
A. I'm sorry. My pagination may be a little different. Are you looking at my testimony?
Q. Are we off? I believe I am.
MR. NOURSE: Can we go off the record for a moment?
MR. LANG: Sure.
(Discussion off the record.)
MR. LANG: Let's go back on the record.
THE WITNESS: Why don't you read the question if you can.
(Record read.)
A. As far as I recall it's to do with a rider, I believe riders are designated "RDR," but I'm not positive.
Q. Is there a deadline for filing the application for cost recovery related to the pool modification rider?
A. I don't recall.
Q. Is there a limitation in the stipulation on the period of time for which costs can be

recovered through the pool modification rider?
A. The only limitation I'm aware of at the moment is with respect to item 5 on page 25, it says "However, if the impact of the Pool termination/modification on AEP Ohio during the ESP term is greater than 50 million prior to May 31st, 2015, the Company may pursue cost recovery of the entire impact during the ESP term . . .."
Q. So is your understanding of that provision that the cost recovery referenced in this provision is limited to the impact during the ESP term?
A. I think I'll rely on the wording of the stipulation to say 50 million prior to May 31st, 2015.
Q. So would cost recovery be limited to the impact prior to May 31, 2015?
A. What do you mean, limited impact prior to? I need a little clarification on that.
Q. I'm just trying to find out your understanding of this provision. It says you could file a separate RDR application. That RDR application would seek cost recovery. I'm trying to find out what the bounds are of what would be in that

application.
A. Well, I think this provision defines in some sense the period we'd be looking at for determining the amount. The, you know, filing would be made subsequent to the time that we determine the amount and then, you know, obviously in the regulatory process there's lag and so forth. But the actual rate implication would occur sometime perhaps after that.
And it could cover before that period, too. I don't want to limit it to that. That's not determinable at the moment because we haven't made the filing, of course.
Q. Okay. What would the basis be for asking the Commission to approve this rider allowing AEP to recover costs incurred as a result of the pool termination?
A. The basis is that, you know, this is a major cost to the company, perhaps, we don't know yet what the impact will be, but obviously this is a part of meeting the corporation requirement in Ohio. So it is a cost associated with that.
Q. With the corporate separation requirement?

A. I think it might be broader than that, but that's one of the aspects of it. But it's the restructuring, you know, meeting the, of course the terms of the stipulation set this out, so it's driven primarily by the terms of the stipulation itself.
Q. Do you know whether cost recovery would be requested under the provisions of 4928.143(B), the ESP language in Ohio law?
A. I don't know that.
Q. This is an interrogatory response to FirstEnergy Solutions' interrogatory set 25, number 8, which --
MR. NOURSE: I'm sorry. Do you have another copy? Or if not, that's all right. Go ahead.
MR. LANG: I just had the two.
Q. And this asks how AEP Ohio will determine, pursuant to section Roman numeral IV-5 which we were just referring to of the stipulation, whether the impact of the AEP pool termination/modification on AEP Ohio is greater than $50 million prior to May 31, 2015. I just had a couple questions for you about the response.
I'll start with the easy one, on line 2

where it says the "twelve-month period proceeding," should that be "preceding"?
A. Yes.
Q. Twelve months preceding the effective date?
A. Yes.
Q. It's just a typo.
A. Right.
Q. Now, there's a reference on I guess lines 1 and 2, it refers to the actual AEP pool capacity revenue, and that's in the most recent 12-month period before the change in the pool. Is the actual AEP pool capacity revenue, is that publicly filed somewhere?
A. I believe it would be reported in the FERC Form 1.
Q. So if I wanted to --
A. Though it may not be separately identified. I don't recall. It may be, there's a Capacity column there, but I don't recall.
Q. If I wanted to find the actual AEP pool capacity revenue for the, you know, most recently reported 12-month period going back in time, I may be able to find that in the FERC Form 1?

A. Well, the FERC Form 1 is a, you know, is prepared annually and I believe, so if you were looking at a period that may end in a June period, I'm not sure you'd find it there. We do also have footnotes in 10-Qs, of course 10-Ks, and so forth which may set out certain pool items. And I just don't recall if, you know, the particular number, the pool capacity revenue is isolated in those footnotes.
Q. We're comparing the actual AEP pool capacity revenue. Is that the revenue for the two AEP Ohio companies or the pool overall?
A. It would be related to the merged Ohio Power entity.
Q. Do you know what the current AEP pool capacity revenue is on an annual basis?
A. The most recent number I recall is, I would say between 350 to 400 million. But, you know, it does vary depending on the period you're looking at.
Q. When you say the AEP pool capacity revenue, this is a number that's limited to the, is this the sales of capacity into the pool by Ohio Power? I guess for this calculation it will be the sales of capacity into the pool by the merged Ohio

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Power?
A. Yes. It would be sales to other members of the pool.
Q. There are also energy sales of Ohio Power into the pool; is that correct?
A. Yes. AEP Ohio typically provides energy into the pool. They're a long company with respect to both capacity and energy. That sale of energy would be a cost.
Q. Is the AEP pool capacity revenue number a net number?
A. Would you define "net" for me?
Q. To put it another way, are there any offsets to the capacity sales revenue?
A. If your question is meant to ask whether there is like energy offset to that capacity charge or anything that I -- outside of capacity, I would say no, but, you know, capacity, the pool contract defines all the terms, so it is what it is as defined in the pool capacity agreement or, I'm sorry, the interconnection agreement.
Q. Now, the AEP pool capacity revenue number is being compared to increases in net revenue related to new wholesale transaction. Let's start with that.

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The increases in net revenue related to new wholesale transaction, what would that be? What would the new wholesale transactions be?
A. That the point I really can't say exactly what they'd be. You know, we haven't come up with its replacement or whether we'd terminate or modify for the remaining three companies. We may have, you know, sales to those affiliates, we may have sales to nonaffiliates, we may have sales into the market itself on a wholesale basis that would be used to offset this amount.
You know, what we're after, of course, in this is, you know, not to make money on it, it's just to be made whole if it exceeds the $50 million that we've set out. So, you know, we would look at all the types of transactions that may replace that lost revenue. Of course, it would be probably well debated in our filing, but, you know, that's the way we'd approach it.
Again, I can't tell you specifically today what all those transactions would be because that's in the future, but that's the general concept.
Q. One example, because I guess Appalachian Power is one of the members of the -- one of the

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other members of the pool; is that right?
A. That's correct.
Q. And Appalachian Power is short.
A. Yes, on both capacity and energy at the moment.
Q. Okay. So one example of a new wholesale transaction would be a bilateral sale for energy and capacity from Ohio Power to Appalachian Power?
A. Yes, that's one example.
Q. You also refer to -- so that's the increases in net revenue. You also say "or decreases in generation asset costs." How would that be determined?
A. Well, I'll use the example that I think that may come into play. This isn't probably exclusive, but, for example, if we had one of the coal facilities and rather than have a contract as we just talked about you have a sale of that actual asset to Appalachian Power Company, of course the capacity revenue needed for Ohio Power is no longer there so that's a reduction in their cost that will be taken into account, because they've sold that asset and no longer have those costs.
And it would be the, you know, of course

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the AEP -- well, I'll stop there because I don't want to set the wrong time frame, but that's the general concept.
Q. So if there's a sale I guess taking, as an example, a sale of a generating unit from Ohio Power to Appalachian Power, Ohio Power in that case would lose the future revenue from capacity sales of that unit, correct?
A. That's correct. And they'd also not have the cost on their books. I'm going back specifically to the interconnection agreement, the way the pool capacity charge is determined, it's your original cost in that plant, that's one of the terms, it's divided by the megawatts you're selling in a general sense. So, obviously, a couple things would change there. You'd have the cost of the plant being reduced and as well as the megawatts would change.
Q. And the cost of that unit would also be taken off the Ohio Power books?
A. If we did a sale of the unit for -- a pure sale, yes, it wouldn't remain on the books of the AEP Genco. I don't know if we're using AEP Ohio and AEP Genco synonymous, but for purposes of this discussion we're talking in a general manner and we

can make that assumption.

Q. That actually was a question that I had is the timing of this with regard to the corporate separation and the pool termination, this whole calculation related to the $50 million is before pool termination and post pool termination, so the -- when we're talking of this example of asset transfer, is this an asset transfer from AEP -- an asset that AEP Genco has post corporate separation that is then being transferred to Appalachian Power or, you know, is that one possibility? Let's stop there.

A. Yeah, that's one possibility in the sense that AEP Ohio may first transfer all these assets to the AEP Ohio Genco and then there could be a subsequent transfer of that asset to another affiliate. They may occur almost exactly at the same time. There may be a couple steps to it, but they may occur pretty much concurrently.

It depends on, of course, what occurs in the FERC filing and, you know, what we propose and what we end up in the end state with the 203 and 205 filings, but it could be, for example, you know, and we haven't made this determination yet, but it could be part of this 203 filing. We could make one, we

could make separate filings for that type of transaction, but that hasn't been determined yet.

Q. The 203 filing, that's the pool termination filing?

A. No. I think that would be the asset transfer filing.

Q. Okay. So the corporate separation transfer is the 203.

A. Yeah.

Q. And then the 205?

A. Is for contracts and rates.

Q. Okay. If all goes according to plan, it's a big "if," but if all goes according to plan, would the date of the pool termination and the date of the corporate separation and the transfer of assets, would all that occur at the same time?

A. No guarantees, but I think that that would be a goal in my opinion. I may not be the final word on that. You know, we have to think all that stuff through with the attorneys and all will, obviously, jump in on that issue, but I would see them, you know, occurring around the same time, but again, I'm not the one to really determine that. That's my opinion.

Q. In this interrogatory response on the fourth line after the reference to decreases in generation asset costs it says "using that same twelve-month period." Can you explain what you mean by "that same twelve-month period"?

A. Yes. For the parameters, you want them to be apples to apples, and we just talked about the asset sale example. So you know that that asset sat there in that 12 months for when you determined how much revenue I was getting from the pool for capacity. You'd want to look at how much that asset, when you sell it, you use the same period, that is it would have a, you know, a book balance and so forth, so you'd compare that to what existed at that time.

That's my initial assessment of it. Obviously, our filing is going to determine, if we make a filing, and it's not certain, but if we were to make a filing, we'll have all those things in that filing. Again, I don't think the stipulation at this point dictates anything with respect to, you know, our positions or the other parties.

Q. So that the 12-month period, are you looking at the -- are you comparing the 12 months before pool modification to revenue and costs the 12

months after pool modification?

A. Of course, again, we haven't gone through that particular calculation so I don't want to limit it one way or the other, but I guess I would equate it to the concept of a test year, if you're familiar with that concept from ratemaking, you're kind of looking at a period and comparing, you know, the results on that period if another scenario had happened in this instance. So I think that's kind of the theory or the basis there.

Q. Okay. Thank you. I think I understand a little bit more now.

Do you have any documents at this point that discuss or estimate the potential financial impact of pool modification on AEP Ohio?

A. No, not at this time.

Q. Will the, under corporate separation will the transfer of AEP Ohio's generation assets occur before or after the merger of Ohio Power and Columbus Southern?

A. I would expect that the merger would occur first. I anticipate that would occur this year. And the other's going to take a while to accomplish.

Q. So it would be the merged Ohio Power that is transferring generation assets out of Ohio Power?
A. That's what I would anticipate, yes.
Q. And then the transfer of those assets can't occur until after you have FERC approval of that transfer; is that correct?
A. Yes.
Q. Okay. Do you know at this point in what state AEP Genco will be incorporated?
A. No, I don't.
Q. Do you know whether any steps have been taken yet with regard to the creation of AEP Genco?
A. No, I don't know if any formal steps have been taken other than, obviously, we're discussing it.
Q. Do you understand that AEP Ohio's or, say the future Ohio Power's transfer or sale of generation assets must be preapproved by the Public Utilities Commission of Ohio?
A. That's my understanding.
Q. And that's a requirement found in section 4928.17(E) of the Revised Code which I think you have in your testimony somewhere but I don't have a page reference for it.

A. Do you want me to confirm that it is in my testimony?
Q. I'm not asking you to confirm. I'm just asking for if you remember that that's the -- if that's the Revised Code provision.
A. No, I don't worry as much about code provisions. I trust my attorneys have given me the right section.
Q. I'm going to show you the, this is a response, it says it was prepared by you to FES interrogatory set 25, number 15. This is going to link back to your testimony. The question, small (a), "Does AEP Ohio intend that approval of the Stipulation will serve as the PUCO's approval, as required by RC 4928.17(E), of the transfer of generation assets that it wholly or partly owns?" And your response was see your testimony at page 25.
Can you direct me to the portion of your testimony at page 25 that answers that question?
A. It begins at the bottom of 25, the Q and A beginning on line 19.
Q. Okay. So this is in your testimony where it says, ". . . the Stipulation will serve as the Commission's approval of structural corporate

separation of AEP Ohio such that the transmission and distribution assets will be held by the electric distribution utility while any GRR assets will remain with the electric distribution utility." Is that your testimony that you're referencing?
A. Yes. And, of course, it continues on through line 6 of page 26. I think there is a reference to REM-1 there that would be probably PJN-1 now.
Q. I don't see in your testimony here that starts at the bottom of page 25 a reference to generation assets being transferred to AEP Genco. So I'm just -- this is why I'm asking the question is the PUCO has to approve the transfer of the specific generation assets. So is it your understanding that when and if the Commission approves this stipulation, that that order is the Commission order that's required to approve the transfer of generation assets?
THE WITNESS: Could I have the question reread, please?
(Record read.)
A. I believe it's the order that's required I believe if they approve the stipulation or approve

the corporate separation, however, we have made a separate filing on I think Friday, last Friday, I think a week ago Friday, which, you know, I'm not, again, I'm not an attorney so I don't know whether -- coupled together, I think we're asking for approval of that at the same time as the stipulation, or about the same time.
So I think the combination of those two would satisfy the requirements. But, again, that's more of a legal question. I'm sure our attorneys can address that issue.
Q. If the Commission approves this stipulation in the ESP cases, is it your understanding that the Commission will have a separate opportunity to review the terms and provisions of the generation asset transfers in a later proceeding?
A. No, I don't believe so.
Q. So this ESP proceeding, which the stipulation is seeking to resolve, this is the proceeding where the Commission reviews the terms and conditions of the generation asset transfer.
A. Yes, I believe so. Again, I mentioned the Friday filing a week ago and, again, I don't know

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how those two, from a technical sense, line up, but I think the concept that you've laid out is the way I understand it should work.

Q. I don't understand it either so that's why I'm asking. Just trying to get some clarification.

With regard to the pool termination notifications, the members the pool gave notice of termination of the pool, was that in December of last year?

A. Yes. December 10th.

Q. Were you involved in the decision-making that went into the provision by all the members of the pool termination notice?

A. Yes, I was involved in some of that and sat in on the operating committee meeting where they, the members, determined that that was the course of action they were going to take.

Q. That was a question I had for you. I believe your boss, Mr. Munczinski, is he actually the pool manager?

A. He is.

Q. But the pool meetings, you would also attend those pool meetings, the pool members?

A. I have recently. I can't say that I'll attend them all, but typically I would, yes.

Q. Would you typically go with Mr. Munczinski or would you rotate one or the other if you would go?

A. Normally we would have all members of the pool operating committee there, we try to schedule it such that they're all there, including Mr. Munczinski. There or on the phone, I should add that little caveat.

Q. I'd say obviously the notice to terminate the pool is not related to the stipulation filed this last September, correct?

A. Yeah. It predates the stipulation.

Q. So what motivated the members to give notice of the pool termination?

A. I addressed that in my original testimony in this case. I laid out the, I think there were three or four bullet points that went over that, if you're curious. It's part of the record of the case, it's there, so if I leave anything out, you can refer to that.

Q. By "original testimony" you mean filed in --

A. I think it was January 22nd, yeah.

Q. Okay.

A. One of the things we have recognized is that, you know, the industry is changing, of course, and we've seen that since obviously the pool went in initially and was last modified in 1980. So we're starting to see a different structure, obviously, in Ohio with competition and the like.

We know that there's been a lot of things that weren't anticipated at the time that the document was put together, the pool agreement. You know, things like mandates for renewables and, you know, wind, how to handle wind in this agreement and so forth.

So we recognize that it probably had run its course and, you know, that's why we had given this notification to terminate the pool, and we expect it could be replaced with some different type pool at the time or, you know, there's also the options we've been debating I think through at least discovery and so forth in the last couple months.

So that's kind of a general idea is we really felt that with the way Ohio was heading that was one big driver, obviously, with customer choice.

And of course the pool wouldn't have anticipated these types of things.

Q. The notice, on the pool agreement a notice to terminate requires three years' advance notice; is that right?

A. Yeah, that's the provision. We can look at the actual document, obviously, if you want to get precise, but I think it's not less than three years as I recall.

Q. Okay. And so --

A. And I think it also is, it may be tied, as I recall, to, you know, a particular calendar year.

Q. So that the notice that was given was to terminate effective January 1, 2014; is that correct?

A. Yes. That was the date that we put out there as the notification that would terminate on that date. Now, you know, I'm not sure that the members of the pool agreement could theoretically, you know, agree to terminate earlier perhaps if all were in agreement, but we also respect the wishes of our other jurisdictions and so forth, all the jurisdictions that are affected by the pool so, you know, the three-year notice at that point was most

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likely to be needed.

And, you know, the FERC would I think also look at that provision of the contract and may hold us to the three-year agreement.

Q. Are there benefits of aligning the termination date with the PJM planning year?

A. I believe so.

Q. Why is that?

A. Well, obviously, we're in PJM now as AEP and, you know, that tends to line up with certain elections you make around planning years and so forth, like whether you're FRR or RPM, there's probably some other benefits around that synching up with the planning year. So it's just a -- I'm not sure it's an overwhelming need, but it certainly is a plus if you can do that.

Q. Would it be AEP Ohio's preference to align this notice termination with the PJM planning year so instead of doing it on January 1, 2014, you would do it May 30th, 2014?

MR. NOURSE: I'm sorry. Did you mean to say "2013"?

MR. LANG: I'm sorry. 2014.

A. 2014?

Q. Yes.

A. Okay.

Q. Yes. And, in fact, as I recall when I met with some of the state commissions, West Virginia, Virginia, and so forth, and we had let them know that that might be a desire of the members even though the termination could be effective on January 1st of 2014, that we envision maybe pushing it back to the start of the planning year which would be June 1, 2014.

Now, of course the stipulation, you know, we have to look at that and the planning year concept may not be, as I said, an overriding factor. It's a desire, but I don't know that we need to have that as a standard we have to meet. We can be flexible, I believe, with that provision. But, again, we're now evaluating what's required to get all this stuff done so I don't have a final answer on that.

Q. Would you say that at this point in time that June 1, 2014, is the target date for the cutover?

A. No, I don't believe that's the target date for the cutover, but, again, I don't know -- I think what we're attempting to do is do it as quickly

as we can to meet the provisions of the stipulation.

Obviously, we aren't in control of the whole process, there are a lot of players, but the goal is to get it done as quickly as possible.

Q. Now, you've had discussions with stakeholders in Virginia and West Virginia regarding the pool termination?

A. Yes. And I've also had at least a brief conversation in Indiana as well. So those are the states that I've actually gone out and met with parties in those states.

Q. Based on those meetings, in particular the meetings in Virginia and West Virginia, is it your belief that you will not be able to terminate the pool before June 2014?

A. No, I wouldn't say that's my belief.

Q. The stakeholders you met with in Virginia and West Virginia and Indiana, who is that?

A. I could tell you the ones that we met with, I might leave some out. There may be two parts to that question, you know, what is a stakeholder. And I think I'd probably leave that up to the operating companies, you know, their office to determine who they believe should be involved in the

process, that is, you know, Appalachian Power Company, Charles Patton is the president, you know, he would have some say, and his folks, in who we should meet, the regulatory folks, who they consider stakeholders, who we want to meet with there. Certainly the commissions themselves and the staffs I would put on that list.

Now, does it stop there? I don't know. But, you know, in terms of who we've met with already like in Virginia, it was a little bit broader than that. We met with the commission itself, the staff, the AG's office, and industrial -- Old Dominion I think which represents industrial customers, there may have been one other party. I don't know if I've got them all, but that was in Virginia.

In West Virginia it was the staff and the consumer advocate division there. Oh, also -- no, we also had a representative of some large industrials there as well.

Q. And Indiana?

A. But one thing I want to say is that in those meetings some of them were somewhat combined meetings in the sense that we were talking about some other issues as well and, for example, I think at

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least in Indiana and West Virginia and Virginia, I think they're all coupled with an IRP discussion and some other issues that maybe the president wanted to discuss at the time.

But those were the groups that were involved when I was there, at least at one meeting or so. And we've had follow-up meetings, for example, in Virginia with just the staff. But as far as, you know -- so we've had at least a couple meetings in Virginia where the parties might have been different, a smaller group and so forth.

Q. In Virginia and West Virginia what are the issues with regard to pool termination that are issues for those stakeholders?

MR. NOURSE: I'm going to object for relevance. Go ahead and answer.

A. Well, certainly an impact on rates is a major concern for all jurisdictions. You know, impacts on cost of service. Obviously, meeting reserve requirements and, you know, having an IRP that is consistent with what they think the IRP in that particular state should look like.

Obviously, we have our, you know, we want to make sure that we, whatever happens also lines up

with what we think is appropriate for the customer and so forth. So we'll probably align a lot in terms of desires to reach a workable solution for all the states.

Q. So would the primary issue be how the pool termination affects the flow of revenues that you currently have under the pool?

MR. NOURSE: I object. Are you asking about the primary issue in the FERC proceedings now?

MR. LANG: In the pool termination proceeding.

MR. NOURSE: At FERC?

MR. LANG: At FERC.

MR. NOURSE: Okay.

THE WITNESS: Could you read me the question, please?

(Record read.)

A. That would be one of the issues. I'm not sure I'd -- whether it's primary. I don't know what period you're talking about for flow or revenues and all. You know, there's a lot of issues with respect to a termination of the pool, but, you know, in some sense we're going to be concerned with the flow of revenues between the operating companies.

Q. The Virginia and West Virginia utility is short, the Indiana utility is long, I believe, so does that result in the Indiana commission and staff having different concerns than Virginia and West Virginia?

A. Perhaps.

Q. Under the pool agreement as it's in effect today how does retail shopping affect AEP Ohio's obligations under the pool agreement?

A. Obviously, that's a pretty broad question. I can't tell you all the potential effects with respect to shopping today, but one of the issues is around how it might affect the MLR that's used in the pool settlement.

MR. NOURSE: Can we define "MLR" for the record?

THE WITNESS: Yes. It's member load ratio.

A. And one of the things that the operating committee took up, I think it was sometime in '10, late-'10, is to address that issue because, as you know, since AEP Ohio's rates have been so low we've had almost no shopping in our territory and with the recession and the, you know, the wholesale market has

come down a great deal so we've now experienced a little more shopping, it has become significant over time.

In 2010 it hadn't yet reached a level that was significant, but we met as a -- had the operating committee meet to discuss how that should be handled and what we determined, what the pool members decided was that the MLR should not be affected by shopping in Ohio and the reason being that since we are an FRR utility, you know, even if customers switched, Ohio Power still had that obligation for their customers and so we determined that from that aspect that the shopping would be treated -- shopping customers for purposes of pool capacity would be treated as if they were dedicated customers of AEP Ohio.

Again, there may be other consequences, but I think that's the significant issue I think we addressed, as I recall, back in 2010.

Q. And that relates to the member primary capacity that's defined in the pool agreement?

A. It affects the peaks of the company which then has an affect on the MLR which affects capacity, MLR also affects off-system sales allocations, you

know, if affects several things in the pool. So it starts with what we did is say that the, you know, to give you a for-instance, if Ohio Power's and CSP's peak were, say, 8,000 megawatts, for purposes of the MLR there's a ratio of your peak versus the other members' peaks, I won't go into the exact definition at this time.
Q. I've tried to read it.
A. But it's in there. And so what happens is that, you know, you're affected by that peak. Now, if we had determined that the shopping customers affected that peak for Ohio Power, that would have dropped their MLR, the ultimate effect of that probably would have been to have capacity payments go up or capacity receipts, I should say, for Ohio Power go up, we'll use that because there's two companies right now. To back up, CSP is a short company, Ohio Power is a long company.
So to get back to what I told you before is we decided that since it was an FRR entity, Ohio Power was still responsible for the capacity in their zone and so we did not let shopping customers leaving affect that peak.
So, for example, if we started with 8,000

before shopping, we had 500 of shopping, we did not say their new peak is 7,500, we said that it's still the 8,000. So that was the decision of the pool operating company. And again this points to -- earlier you had asked about why we're thinking of terminating the pool, and this was, you know, what we envisioned happening over time.
And, you know, there's also a degree in these things in the sense that does it become a big issue if 2, 3 percent of your customers are shopping? Not necessarily. If it starts to become very significant, then obviously things start to break down. And what we were looking at at the time -- that doesn't mean the operating committee couldn't revisit anything around this issue, but that was the solution we thought was most appropriate.
(Interruption.)
MR. NOURSE: Can we take a five-minute break?
MR. LANG: Sure.
MR. NOURSE: Thank you.
(Recess taken.)
MR. LANG: Back on the record.
Q. We were talking about the pool and

shopping. We were talking about capacity impact. There's, in the pool agreement there's a defined term, the member load obligation. Are you familiar with that term?
A. Yes. I prefer to be looking at the term. And I think I do have a copy if you only have one.
Q. I think this is it.
MR. LANG: I did think to bring an extra copy and I think I actual I have two, Steve, if I can find where I put it. Here it is. There you go.
MR. NOURSE: Thanks.
Q. Member load obligation is defined in section 5.2, do you see that?
A. Yes.
Q. And it says "Member load obligation refers to a member's internal load plus any firm power sales to foreign companies and to affiliated companies other than members." We were talking about the impact of retail shopping. Does retail shopping also -- we were talking about in the capacity side, does it also have an impact on the pool termination on the load obligation?
A. That's a little more complex. You know, one thing is that the CRES providers -- I'll have to

think this through a bit, but the CRES providers I wouldn't consider firm load, obviously. So they wouldn't have been into that wholesale category.
Though from my earlier discussion and, of course, you know things like FRR or PJM, our membership in PJM occurred much after this document was put together, of course, again, that's as we talked about, one of the reasons that we felt it was, you know, time had come.
So let me back up and just ask you to repeat the question. I think you said -- could I have that question?
(Record read.)
A. From an energy standpoint, yes. As I mentioned, with respect to capacity we, because of the FRR election, what I've told you before, we've kind of treated that as a capacity obligation of Ohio Power Company.
But the energy we're not supplying, the CRES provider is supplying that, we're supplying capacity in my view. So energy's a little different animal.
Q. Right. That's what I was wondering. So is the member load obligation the nonshopping load of

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Ohio Power and Columbus Southern?
A. Yes.
Q. Does the participation of AEP Ohio in the FirstEnergy utility's SSO auctions have any impact obligations under the pool agreement?
A. I'm not sure that AEP Ohio has specifically participated in those. We do have a commercial ops group that, you know, would participate on behalf of all the operating companies. And if we have a transaction there which may come under the MLR provision, that all the members would share in those margins if it is an MLR type transaction.
Q. So the energy that is bid into the FirstEnergy standard service offer auctions would be surplus energy of the pool and is treated as surplus energy of the pool?
A. This is an area that's getting a little far removed from my expertise, but my understanding is that no, it's purely a trade with the market. It's not relying on the resources of the pool members. Again, that's my understanding. I'm not the expert.
Q. I understand it's getting a little far

afield.
A. Yeah.
Q. Right. Is it fair to say that the pool agreement does not explicitly preclude AEP Ohio from conducting an auction to satisfy its standard service offer obligation?
A. I don't think it can specifically preclude it because those types of things weren't around when this document was developed. However, I don't see the pool in its current form continuing with that, you know, with an auction occurring. I just don't think it can survive that.
Q. So is the issue with the pool, the pool agreement and AEP Ohio possibly supplying its standard service offer load through an auction, that the manner in which the revenue sharing and credits and charges are designed just simply creates revenue problems for AEP Ohio?
A. No. It's much beyond that.
Q. Okay. Can you explain to me what the issue is?
A. Well, the big issue is that the pool was really designed for generation owning companies to share those generation resources, and after corporate

separation you have the company, AEP Ohio, which is now a T and D company, as a member of the pool owning no generation assets other than perhaps, you know, the ones that are under the GRR.
So it's really a matter of, really it would be trying to fit a square peg into a round hole, you know, in terms of this agreement.
Q. Let me ask you, and you were talking about after corporate separation, that it's -- that it doesn't fit, but my question goes to an assumption via a hypothetical that pre-corporate separation, let's say still post merger, so you have Ohio Power that would be having an auction for its standard service offer load as of January 1, 2013. You haven't finished corporate separation and pool termination yet.
And as I understand your testimony and AEP's position in this case, there's nothing explicitly preventing that auction occurring in January 1, 2013, that's in the pool language, but it simply wouldn't work under the pool. It would cause problems. So I'm trying to understand --
A. Well, I'd like to be a little --
Q. -- what those problems were.

A. -- cautious around "nothing explicit." I don't know that I can really make that determination because I would think that there would be -- FERC would take some issues with that, you know, if it were challenged and we tried to fit a concept like that under this pool, and if one of the other members or state did a complaint filing, say a 206 or so forth.
I really think that you would have to really read a lot between the lines of this agreement since none of this stuff was anticipated and, obviously, I think the intention of the pool doesn't fit with that. So, again, I think we'd be trying to force fit something and I don't think we want just Ohio, one state, you know, trying to force fit. We can't do that.
So I think -- I don't want to be -- I think you want to look at it if it can't work, and by the way, this goes back to why we were terminating it or moving to modify it or terminate it before even all this happened. With this fact now before us, you know, there's no question, in my mind at least, that it just can't continue to function.
And one other thing that, you know, the

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reason I mention FERC and so forth is we have a lot of experience in an order we got in the SIA, which was another agreement we had, and I think working -- and again, this is more of a legal issue, but my discussions with our attorneys at the time around the pool agreement was that, you know, FERC is very, they don't like reading between the lines. If it's not pretty explicit in the contract you're going to have a problem.

So with all that background I really think it would be a real stretch to say that this thing could continue to function. If someone can come up with a way that it works and works for all the members, we'd probably listen, but I don't envision that we can keep this form and continue.

And then, of course, I think our attorneys have to look -- again, that's all I can say about it. Just from a practical standpoint, I don't even think you have to go to legal basis, from that practical standpoint I don't see that working under that scenario.

Q. If you have that auction for 2013, we discussed earlier the decisions made with regard -- on the capacity side for shopping customers because

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AEP Ohio is under the FRR, you have been shopping, it doesn't affect your capacity obligation, so would you agree that if you had that auction, all of the load was supplied through the auction, the capacity obligation would stay the under the pool?

A. Are you talking about a hundred percent of auctions?

Q. A hundred percent.

A. There again, it becomes a matter of degree as well. That could have enormous impacts on all the members. You'd have to run through that analysis. So even if, theoretically, it could work, I don't think we would be in a position to advocate that or recommend it, so it's not practical.

Q. All right. That's why I'm asking. You said it could have enormous impacts on the members. I'm thinking the impact comes on the energy side of the pool, not the capacity side, because I don't see a change on the capacity side. That's what I'm trying to understand.

A. Well, again, I haven't run through a scenario like that, and the pool is a rather complex animal, so I don't want to limit impacts without doing a thorough analysis, and I wouldn't be the one

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to sit here and do that in my head.

But, yeah, obviously it's a sea change from what was intended here, and I don't think it would be a workable solution and it wouldn't be a workable solution from, obviously, AEP Ohio's perspective as well.

Q. Now, you say in your testimony, I'm actually looking at page 24, line 8, ". . . conducting an SSO auction would have substantial impacts on the other Pool members . . .," but you just told me you haven't run the analysis, so can you explain to me what you mean in your testimony where you -- where you say "conducting an SSO auction would have substantial impacts on the other Pool members"?

A. Well --

MR. NOURSE: Is that page 24, line 8?

MR. LANG: Twenty-four, line 8.

A. If, you know, this were to happen, I think we'd first have to convene some sort of a -- we'd have to convene the operating committee. This, again, is a substantial change in the operation. Right now I described how we are treating the customers switching to CRES providers in Ohio. They are compensated, though they're not compensated at

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their cost that they get from other members so I suspect they're on the short end of the stick by the treatment we're giving, you know, to the other members in a sense, but we think it's fair because of the, as I discussed, around the FRR obligation there.

But when you get to a full auction, there's no capacity revenue at all coming in. We're not responsible for capacity or energy the way I see it. So that's an additional change from the way -- if you just have customers switching.

As I mentioned earlier, when customer switching becomes a certain threshold, you know, this thing also would start to break down from its intention, and the idea that a particular member should be disadvantaged by continuing within this pool is not something that, you know, the operating committee would want to have happen. So for those reasons I think that that statement is factual.

Q. When you refer to a particular member being disadvantaged --

A. Let me give you an example.

Q. Right.

A. Let's say, here's a way to explain it, we talked earlier about 8,000 peak and we would say that, you know, now they've auctioned all their load and that's the best example. I don't know that they'd have, for purposes of the capacity and so forth, you know, what are they responsible for, that would all have to be determined and so forth.

So, again, I just don't see that being a viable solution. What we have to keep in mind in all of this is that we have to have -- the termination of the pool or modification has to work for all the members.

Q. So with the example of 8,000 peak, all the load is auctioned off, you're assuming that AEP Ohio would no longer have that capacity obligation so they'd lose the 8,000 megawatts. Under the pool agreement does that 8,000 megawatts all become capacity surplus?

A. It's possible.

Q. And then would other members have to compensate Ohio Power for that additional capacity surplus that's now in the pool?

A. Again, we're doing a lot of speculation because I haven't really thought through all the ramifications of that, but if that became surplus, then yes, the other members theoretically would pick

up their MLR share of the surplus and, you know, that would be a substantial impact to those other members.

Q. All right. So in that circumstance AEP Ohio would benefit from revenue flows from the other members, but the other members would be --

A. Opposed to that.

Q. -- opposed, yeah. The understated way to say that. All right. I think I understand.

On page 24 you're discussing how AEP Ohio, this is starting at line 5, AEP Ohio could not prudently establish an auction-based SSO as long as it owns generation assets and remains a member of the pool, then you discuss two reasons below that.

Is your testimony that AEP Ohio could have an auction to satisfy the SSO obligation prior to corporate separation, but it simply wouldn't be prudent because of how that exposes AEP Ohio to cost recovery risks?

A. I would say that cost recovery risk might be one of the issues. To me there's -- the one we just talked about was what does that mean for the other pool members. We also want to think about codes of conduct and so forth, you know.

I think from my perspective it always

seemed to me that if you start to auction load, you know, the T and D, it should be a separate T and D company and you should have the generation separate for a lot of reasons, but that may be another thing that, you know, is not a hinderance, it's just I think a desire, I think, to have those entities legally separate and not -- because of course we wouldn't want to be restricted from participating in the auctions.

But, you know, there may be some restrictions placed on us if we haven't corporately separated, and I don't know if, you know, there would be some type of restriction within the rules that we have to operate under. But, again, that's I think another reason that I would say that we'd like to corporately separate before an auction, or legally separate.

Q. Now, if it created substantial risks for the pool members, do you agree that the pool agreement could be modified to ameliorate to reduce those risks?

A. Are you asking whether we can modify the pool in the absence of corporate separation?

Q. Yes.

A. Yes, because we had planned it anyway before we were going down this path, corporate separation. Now I don't think, again, we'd want to have AEP Ohio in that pool, but we could certainly proceed with the pool modification without corporate separation. I don't think you could keep the pool with corporate separation; that's the converse of that.

Q. Back at page 12, sorry, back at page 24 starting at line 12 you refer to ". . . a financial exposure for AEP Ohio by wholly displacing the cost recovery for those generation assets that currently exists through SSO generation rates . . .." Is the reference there that as a result of the auction the market pricing would be substituted for the current SSO rates?

A. Well, the auction would create a situation where we're not necessarily receiving those revenues if we haven't won load in the auction, so I think it's as simple as that, that you're replacing revenues we're getting today, retail revenues, with potentially no revenues.

Q. For any auction held before June 2015 AEP Ohio would still obtain revenue for the capacity,

correct? Because there's, under the FRR there's, you know, you're the only seller in town.
A. I'm not sure I understand that question. Perhaps you can explain a little more, I'll give it a shot.
Q. Prior to -- any auction that would be held prior to June 2015, the only capacity available in the AEP Ohio territory under AEP Ohio's FRR is AEP Ohio's capacity; isn't that right?
A. The only – I'm not sure I can agree with that statement that it's the only capacity available. We have -- there's entities that may have capacity, you know, in our zone, but I'm not positive of that, but generally we would be covering capacity in our zone. Whether it's a hundred percent, I'm not quite sure.
Q. Do you know whether there are other load-serving entities in the AEP zone that are self-supplying capacity in the 2014 to 2015 planning year?
A. I don't believe there are, but I'm just not positive.
Q. Okay.
A. I know there's no CRES providers

providing that, but I don't know other entities like municipalities or any other entities, that's where I'm not an expert on that and I don't want to give you the wrong answer there.
Q. For a CRES provider to self-supply capacity, say in the 2013 to 2014 planning year, they would have needed to make that election to self-supply when?
A. I think you'd back that up three years. So did you say "'13-'14"?
Q. '13-'14.
A. So that would have been 2010. And the most recent auction was this past spring. And, of course, the CRES providers had the opportunity in that auction to self-supply. They also had knowledge of our filing requesting a cost-based capacity charge, but none of them elected in the most recent auction as well.
Q. For the, let's see, the --
A. I should say elected to bring their own capacity, to complete that.
Q. The next upcoming planning year would be 2012 to 2013, that's correct, so the next planning year would start June 1 of 2012; is that right?

A. Sounds right.
Q. For the CRES provider to make an election to self-supply capacity for the planning year that starts June 1, 2012, they would have needed to make that election in the spring of 2009; is that right?
A. I believe so.
Q. Okay. So in the spring of 2009 did any of those CRES providers have notice of AEP's filing seeking a cost based capacity price?
A. They would have had notice of the provision in the PJM tariff that we had that ability. We hadn't made the filing yet. I think our filing occurred, as I recall, in November of '10. But certainly they would have been -- a lot of the major wholesale players would have been at the table when FRR was discussed and that case came up.
So I don't know that we're responsible for businesses knowing what all the tariffs are. We have our own obligations to understand those tariffs and so forth, and I would expect each entity should have done their due diligence with respect to that and should have been aware of that possibility.
Q. In the spring of 2009 AEP Ohio was pricing capacity to CRES providers based on the RPM

price; is that right?
A. In the spring of 2009, yes, any CRES transaction I believe would have been at the RPM price. Of course, at that point in time the RPM price was a good deal higher than what it is going forward.
Q. Prior to the spring of 2009 had AEP Ohio priced capacity to CRES providers at any price other than the RPM price?
A. Not that I'm aware. I think we would have, you know, once the provision went in and we had -- the provision I'm talking about is the RPM market, capacity market in PJM, and since the time the, I think it's the, let me get you the right reference, but it's the rate schedule that we're talking about, I think it's section D-8 of schedule 8.1, schedule D. Since that time I believe if there were any charges to CRES providers, they would have been at the RPM base residual adjusted for all the scalers.
Q. Are you referencing that -- do you have a reference to that section in your testimony?
A. Yes.
Q. What page and line number?

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A. It's page 4, line 7.
Q. There we go. Okay.
A. And, by the way, I'd mention that Mr. Pearce, who's a witness in this case, is more familiar with some of the details that we've talked about here today.
Q. Okay.
A. So I would defer to him if we need to get into specifics.
Q. I don't get to talk to him. I only get to talk to you, so --
A. Okay.
Q. -- I'll see what I can find out from you.
Now, following up on that reference to section D-8 of schedule 8.1, a little bit later, I think it's in page 6 of your testimony, you describe three alternatives for pricing capacity provided to CRES providers. You have a reference -- under the FRR you reference three alternatives. Are those the three alternatives set forth in that section D-8 of schedule 8.1?
A. Yes. I don't know if they've been paraphrased or not, but I would suspect they're pretty closely in line with that section.

Q. Now, are you familiar with the reliability assurance agreement?
A. Generally. Not in great detail.
Q. Have you read through the entire reliability assurance agreement?
A. The entire one? I can't say I have or haven't.
Q. Do you consider yourself an expert on the terms of the RAA?
A. No, I don't consider myself an expert on the terms of the RAA. All the terms. But obviously I have some familiarity with this term since it's become an important issue for us.
Q. With this section D-8.
A. Yes.
Q. Okay. Were you involved in negotiations of the RAA?
A. No, I was not.
Q. Between pages 4 through 6 of your testimony you have references to interaction between AEP and FERC regarding the reliability assurance agreement. Do you have firsthand knowledge of that history that you describe, again, on pages 4 through 6?

A. I do have the knowledge gained from talking to people that were directly involved in that, but I didn't participate in any of these settlement discussions.
Q. Would some of that knowledge have come from Mr. Baker?
A. Mr. Baker had that knowledge. I haven't talked to Mr. Baker specifically about this. I would have -- most of my conversation in this area has been with Mr. Horton, Dana Horton, who provided testimony in the 2929 case.
Q. Of the three options for pricing capacity there isn't a state compensation mechanism or a cost-based rate, then the default is the RPM price; is that your understanding?
A. Yes.
Q. If there is a state compensation mechanism, then the state compensation mechanism is what is used to price capacity to CRES providers; is that correct?
A. If it's a properly designed retail state compensation mechanism, that would be the rate. Now, of course that's where the difference in interpretation has arisen. We believe this was in

the instance where the state would have the capacity charged directly to the retail customer and have set that up rather than the wholesale transaction through a CRES provider.
And that's, to put that in perspective, I think that could be the situation in Duke's ESP filing more recently where they have, you know, it's a nonbypassable charge for capacity directly to the retail customer.
Q. I was just going to ask you if you were familiar with the Duke filing and their proposed treatment -- their filing proposes a sale of capacity directly to the retail customer so it's not run through the CRES provider, you're familiar with that filing?
A. I'm at least familiar with that concept. I went through the filing, don't recall all the aspects of it, but that's my understanding of the capacity piece of it.
Q. So to the extent that AEP Ohio would be providing capacity directly to retail customers, AEP's understanding is that's what the -- the state compensation mechanism in the RAA can establish.
A. Yeah. I think our position is that it

has to be a retail type transaction rather than a wholesale transaction. We think that a wholesale transaction is FERC jurisdictional.
Q. Now, do you agree that the Public Utilities Commission of Ohio has set a state compensation mechanism for AEP Ohio's capacity?
MR. NOURSE: I would object to the extent that's a legal conclusion. You can answer to the best of your knowledge.
A. I don't think they've set a proper state compensation mechanism. I believe that, you know, and that was the basis of our responses to their action in our 206 complaint to FERC I believe.
Q. Now, there is a state compensation mechanism --
A. Oh, the other thing I'd like to add, though, excuse me, is that they did something on an interim basis, of course they set up the 2929 case to kind of resolve that issue. So, again, I don't know that they set a permanent, even if they think it was a state compensation mechanism, it wasn't meant to be permanent necessarily. They opened a docket to investigate.
Q. The state compensation mechanism in that

case, in 10-2929, was set at the RPM price; is that correct?
A. Well, let me answer it this way, they set it on an interim basis. I think they set it at the RPM price. I think that's what you said, but I just wanted to --
Q. Yes.
A. They didn't set a specific rate, they just, I believe it changed over time.
Q. So as the --
A. It would be reflected.
Q. Right. As the RPM price changes over time the state compensation mechanism would change with the RPM price.
A. Correct. For example, the first part of this year the rate would have been probably $220 a megawatt-day, it's since declined I think to more like 145 as I recall. Those numbers are obviously subject to check, but I think they're set out in Mr. Pearce's testimony.
Q. They're ballpark numbers.
A. Yeah, ballpark numbers.
Q. Right. Do you agree the current state compensation mechanism does not have an end date?

A. Again, that might be better asked of an attorney, but I would say I don't -- I have no basis to say there is an end date. As I said, the Commission opened a proceeding but I'm not sure they're under any statutory obligation to resolve that proceeding.
Q. I guess another way to put it would be that it's an interim rate until they set another rate.
A. That's the way I would look at it.
Q. And AEP Ohio is currently charging CRES providers for capacity based on the state compensation mechanism established by the Public Utilities Commission of Ohio?
A. Yes.
Q. Do you know whether the --
A. Well, I'd like to say that I'm not sure what's governing our charge to CRESs at the moment, but whether it's a state compensation mechanism or the lack of FERC accepting our change, I'm not sure what the driving force is, but from a practical standpoint I think your answer is correct.
Q. So one way or the other as of today AEP Ohio is charging CRES providers for capacity

using the RPM price.
A. Correct.
Q. Okay. Does the RAA provide that the cost based option for pricing capacity shall be based on the full embedded cost of the load-serving entity?
A. The actual language isn't that specific, but, you know, there's a long ratemaking tradition in this company, or country, with FERC and state jurisdictions and, you know, we certainly can interpret, when you talk about cost based mechanism, that would be embedded costs. I think that's the most rational interpretation of that.
Q. Are you familiar with the PJM RPM auction design?
A. A little bit. I don't know that I know all the details of it, but I've read things about it, I understand a bit about it. I'll stop there.
Q. Are you familiar with how PJM calculates what they refer to as to-go costs?
A. Is to-go costs a defined term in PJM?
Q. It's a, I'd say it's more a general term used with regard to the auction design and establishing the cost of units that can be bid into the auction.

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A. I haven't heard the phrase "to-go cost" used or seen it on PJM's website, so I'm not sure.
Q. Are you familiar with auction rules governing the costs of units that can be bid into the auction?
A. I don't know that I could recite all the rules related to that. I have a general knowledge of some of the parameters, but . . .
Q. All right. Are you familiar with how the market monitor functions with regard to the PJM RPM auction process?
A. To some extent. I assume his role is to monitor that process to make sure there's no market power type issues either on the supply side or the buyer's side.
Q. One of the commitments in the stipulation is to participate in the RPM auction for 2015-'16 planning year, correct?
A. '15-'16, yes, I believe that's correct.
Q. At this point in time is it correct that AEP Ohio does not know whether all of its generation units will be bid into the 2015-'16 auction?
A. AEP Ohio, you're talking about maybe the AEP Genco at that point if they have the generation

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that was transferred down? Well, I guess -- sorry, because I guess AEP Ohio, we might not have corporate separation yet but they would have to make the election in the spring.
So we wouldn't know if, at this point, whether we would bid all that in. If you have separate contracts, for example, some generation is under contract and so forth, you wouldn't have to bid that into auction is my understanding of the rules. Any generation not committed by contract I believe has to be bid into the auction.
Q. And that bidding into the auction would occur in, not too far in the future, May of 2012, is that your understanding?
A. I think you have to make that election by March, I believe. It might be March 1st. We'd certainly want to have conversations with PJM prior to March 1st, but I think the election is March 1st as I recall. I think the auction may occur in May.
Q. Do you know whether AEP Ohio will be able to bid the units into the auction at their full embedded costs?
A. I don't know there's a restriction on what we bid the units into, so I guess we could bid

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them in at our cost, but I don't know that for a fact.
Q. Are you aware of any PJM auction rules that would prevent the units from being bid in at their full embedded costs?
A. I know there are some rules related to what you can bid units in at, but I don't know if that violates any rule. I just don't know that at this point.
Q. That's probably something that you all are going to be reading up on between now and next spring.
A. Well, certainly there are people at the company that could answer your question right now, I'm sure. But we certainly need to make a lot of decisions before next spring. This stuff is not easy, you know, there's a lot of risks and so forth involved. So we'll have to make a proper decision and we'll have to look at all the facts between now and then.
You know, we -- and certainly, as I mentioned, there's expertise in the company that can answer those type of questions. I don't know all the details myself. You know, to set that in perspective

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too is when we filed the ESP January of this year, we didn't anticipate where this has gone with the stipulation. So we do have some analysis work to do before we can be very definite in any of our answers.
Q. Who would be the best person to go to at the company to talk about the details of participating in the RPM auction? Who would have the most knowledge about that at this point?
MR. NOURSE: And I object for relevance. You can go ahead and answer if you know.
A. Dana Horton that filed testimony in our 2929 case is a good source, and Kelly Pearce in this case would also be a good source.
Q. Okay. With regard to the corporate separation issues that have to be worked through, are there generating units that are currently co-owned by AEP Ohio and another regulated utility?
A. Yes.
Q. And am I correct that the Cardinal station is one of those?
A. No. Cardinal, it's unit by unit with respect to Cardinal there's three units there. We own unit 1.
Q. And then --

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A. Buckeye owns units 2 and 3.
Q. Buckeye, okay. And is there -- are there common facilities serving those three units that would be co-owned?
A. Yeah, there would be. Cardinal Operating Company is the company that would manage the three units.
Q. Are there other facilities in addition to the Cardinal station that are co-owned?
A. Yes.
Q. Which ones?
A. Start with the affiliate co-ownership, and you're talking just AEP Ohio.
Q. Yes, just AEP Ohio.
A. They share unit 3 of Amos plant with Appalachian Power Company.
Q. Okay.
A. With respect to the Sporn units, they own some of the units and Appalachian owns the other units. And I'd try to recite the unit numbers and I probably have a 75 percent probability of getting it right but I'll skip that for the moment.
Q. Not necessary.
A. Okay. There's also co-ownership with

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what we call the CCD partners, used to be Cincinnati Gas & Electric, Dayton Power & Light we also own, and that was Columbus Southern Power owns or co-owns with those entities. And there's Zimmer, the Stuart units, and Beckjord as I recall are the units or plants that are co-owned.
Q. Is it your understanding that, with regard to the corporate separation plan, that in each of those co-ownership cases that Ohio Power's ownership interest or Columbus Southern's ownership interest will be transferred to the new AEP Genco?
A. Yes, that's my understanding.
Q. And then the plan also is that other operating units owned 100 percent by Ohio Power or Columbus Southern will also be transferred to AEP Genco?
A. Yes.
Q. With regard to the plants that are co-owned have you engaged in discussions yet with the other owners with regards to any contractual provisions that would have to be modified in order to permit the transfer from the current owner to AEP Genco?
A. I'm not aware that we've started

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conversations with those other parties. It may have occurred. We tend to, you know, keep in close contact with our joint -- our partners on those units.
The other thing I'd like to mention is there is an ownership interest in OVEC, and there's the Clifty Creek and Kyger Creek plants there. CSP actually has a direct ownership in that plant and they had that before AEP took over CSP, okay, and then Ohio Power just has an outtake of, you know, a share of what's produced from those plants. AEP, though, is the owner and, you know, there's a lot of parties not affiliated with AEP that are also joint owners of the OVEC units.
Q. So is it your understanding there will be some discussions or negotiations with the OVEC parties with regard to the effectuation of corporate separation?
A. I would expect there might be some conversations. I don't know that -- that may be a pretty clean transaction. I'm not sure there's a great deal needed there as long as you're transferring to an entity that has sufficient credit ratings and so forth. I don't know that there's a

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lot of restrictions.
But, you know, whether we reach out to those other parties I don't know. It might be common courtesy to do that, obviously. But I think with the CCD units there would be more of a discussion than, for example, with the OVEC just because of the way the contract's structured.
Q. Okay. Now, in your testimony, we've discussed this, the plan is to transfer all the generation units to AEP Genco. Is it also possible that one or more units may be transferred to another AEP regulated utility and not to AEP Genco?
MR. NOURSE: Objection. Are you asking is it possible under the stipulation and the proposed testimony or outside of that context?
Q. Actually, I don't think there is an outside of that context. But to the extent that the stipulation refers to FERC proceedings that have to occur for all of this to happen, I'm including the FERC proceedings that have to occur for all of this to happen.
A. Yeah. We haven't made all the determinations, as we discussed earlier about, you know, this is all going to be transacted. We're

developing those. But I would expect -- my initial take on this is that we would first transfer all the assets to the AEP Genco and then subsequently transfer, make any additional transfers that might be desirable, but I think the first step as I understand would probably be just transferring it all to AEP Genco.

Q. Then, as I think you have in your testimony, the transfer of all the assets in that first step to AEP Genco would occur at net book cost?

A. Yes.

Q. And that's the net book as shown in FERC Form 1?

A. Yes. FERC Form 1 records assets at their book values.

Q. It's fair to say that you do not have market value appraisals for any of the generation units?

A. I don't believe we have -- I can't say we don't have for any of them, but I don't think we would do that in the normal course of business.

Q. You're not aware that you have any recent appraisals of any of the units.

A. I am not.

Q. Okay. Do you have any opinion at this point as to whether the market value of the generation units is higher or lower than net book?

A. No, I don't have any knowledge of that.

Q. Other than appraisals have you conducted any study, any review of the market value of one or more of the generation units?

A. We may have -- we may do that type of analysis, but -- yeah, I think we make some estimate, but, you know, it's based on a lot of assumptions.

Q. Have you seen any of those studies or reviews recently?

A. I'm trying to think of a study that I have seen on the units. I want to think about whether it actually uses -- I know we have identified the book value as best we could by units. Is the study a market based? Well, we're working on some stuff now, I don't think I have a complete study, I've asked for that, we're starting to look at that stuff, but I have a, I'm not sure I would say it's a done study at this point.

Q. So the first step will be transferring the assets to AEP Genco. As a result of the FERC proceedings it's possible that one or more assets may

be transferred to another AEP pool member such as Appalachian Power as we discussed earlier.

A. That's a possibility.

Q. Do you know whether that second transfer would also be at net book?

A. Again, we're kind of early in the process, but I would expect it could be at book, yes.

Q. Is it possible that one or more assets could be sold by AEP Genco?

A. That's a possibility.

Q. So one or more of those units could be sold to a nonaffiliated entity such as Exelon.

A. Sure. We could sell to a nonaffiliate as well as affiliates.

Q. And is it fair to assume that that type of sale would be at market value?

A. To a third party I would assume it would be whatever we could negotiate.

Q. It would be the highest price that you could get.

A. Yes.

Q. The current plan is to have AEP Genco issue all of its stock to Ohio Power Company in exchange for the generation assets; is that right?

MR. NOURSE: Would you read that question back, please?

MR. LANG: I can do it again.

MR. NOURSE: Start over? Okay.

MR. LANG: Yeah.

Q. The current plan is to have AEP Genco issue all of its common stock to Ohio Power Company in exchange for the generation assets so you have a stock-for-asset trade.

A. I believe that's correct. I'm trying to find in our corporate separation filing I believe on Friday -- Steve, maybe you can point me to the right page -- the actual transaction is listed. And I believe that's correct. I don't want to hold this up too long.

Q. Okay.

A. But, again, we've written it down so if my words here conflict with anything that we filed, I'll rely on the filing.

Q. Do you have understanding of the stock, kind of the flow of the stock transactions related to the --

A. Yeah, generally. I won't put it in the terms of maybe the tax attorney or whoever's going to

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develop the transaction, but it's --

Q. God forbid.

A. Yeah. We'll first drop the generation out of existing AEP Ohio power, and I think the description you gave, where they issue stock in exchange for that. And then I think, as I recall, AEP Ohio would then dividend that stock up to the parent. But I think the best thing to do is to look at the actual description.

Q. Do you know whether dividending the stock up to the parent, as you refer to it, would have any impact on Ohio Power's financial integrity?

A. I don't believe it would.

Q. In addition to the corporate separation plan document that has been filed in the case number 11-5333, is AEP Ohio also developing detailed policies and procedures for ensuring that the regulated distribution utility does not provide an advantage to a competitive affiliate?

A. Well, I don't think we have to develop those procedures because I think they're already in place. We've had functional corporate separation that's been approved by the Commission and that's a requirement even under a functional corporate

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separation. So, obviously, we'll continue to abide by those. So I think your question was whether we were developing them, and I think they're already in place. Now whether they --

Q. So you have them.

A. There might be an enhancement or a change to them, but I wouldn't anticipate any minor, or any major changes needed in any of that around code of conduct because we're fully complying.

Q. That's what I was curious about is what changes you do anticipate having to make to the code of conduct policies when you're going from the functional separation to the full corporate separation.

MR. NOURSE: I'm sorry. You earlier on said "in addition to your filing" I think. Are you still asking what's in the filing or in addition to the filing?

MR. LANG: I'm asking, right, in addition to the redline corporate separation plan that you submitted to the Commission, because the, you know, the code of conduct itself is different than the document that's filed with the Commission, right?

MR. NOURSE: Well, it's --

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MR. LANG: Or am I not right?

MR. NOURSE: It's replicated therein, I think, to a large extent, but I'm just -- if you're referring to the filing or a particular part --

Q. (By Mr. Lang) Yeah, maybe you could just explain to me, you know, what's what. Which document, you know, is there -- is that filing the entire plan and code of conduct, or is this kind of the summary plan and then there is more detailed policies and procedures that are not in what was filed?

A. Well, certainly within the company we have detailed policies on code of conduct to implement the plan that's filed with the Commission, and of course that's one of the things they would audit, to make sure that we're in compliance with those plans. So I'm not sure -- is that what you meant?

Q. I think that's what I mean. I was simply -- my assumption has been that there's, you know, that there's more paper, there's more policies, there's more procedures that are, for example, specific to particular units than this document that's filed in 11-5333. Is that a fair assumption?

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A. I think so. I haven't participated in this document to a great extent, but I would know that you have to implement these policies and I would say that this is a little too thin to have all the policies and procedures that we have internally to make sure we're meeting all the codes of conduct that the Commission would require.

Q. It's fair to say that today you, as a Service Company employee, have to function with the code of conduct and be aware of the code of conduct, you know, every day in doing what you do, right?

A. Correct. And I have to take training every year. FERC I think also requires code of conduct training which, yeah, we're all subject to, so yes.

Q. Is it accurate to say that AEP Ohio does not know today whether it will retire any generating units prior to corporate separation?

A. Well, we don't know the exact date for corporate separation. We do know that we had planned, you know, several retirements, one is Conesville 3 which is the end of '13; I think we're pretty certain of that one. Sporn 5 we're -- we haven't got approval from the Commission. That's the

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other thing that's required, by the way, for retirements I believe in Ohio is we need Commission approval. We also have to get PJM approval.

But Sporn 5 we've gotten PJM approval as well as the market monitor has opined on it, we're not sure he has approval authority but, anyway, he's okay with the retirement. We're still awaiting the PUCO's approval of the Sporn 5 retirement.

Q. What's the status for Conesville 3 with regard to those approvals?

A. Conesville 3, we haven't started the process. We've got time because it's the end of '13 I believe, with Conesville 3. So I think PJM requires a 90-day notice, so we probably give them advance notice and then of course we have discussions all the time with PJM, they're aware of, you know, plans. We try to keep them informed. Obviously, with respect to environmental rules and so forth we've been talking with them.

Q. With regard to the pool termination and corporate separation proceedings that will be filed at FERC there will be I guess a stakeholder discussion process as part of those FERC proceedings; is that right?

A. That's correct.

Q. And at this point AEP Ohio does not know whether any stakeholder, including another state utility, would be making a claim on AEP Ohio's capacity or AEP Ohio's units; is that correct?

A. We don't know if a state commission makes some sort of claim on those units. We're not -- I would say from our perspective we wouldn't think they'd have a legitimate claim on those units, but we don't know what their intentions are.

Now, if you're saying a claim might be just a request or, you know, a desire, I would expect that we might hear some of that and we might accommodate that, but I don't know that whether they feel they have a claim on the asset or not, whether they intend to make any sort of filing to that effect.

Q. Do you know whether it would be to the benefit of AEP Ohio in that FERC process to have an order from the Public Utilities Commission of Ohio requiring the transfer of the assets to AEP Genco?

THE WITNESS: Could you read that?

MR. NOURSE: Could you repeat the question?

(Record read.)

A. Yes, I think, you know, the FERC would look to AEP -- state of Ohio as well as all the other states and would like to have their input, and certainly an order from the PUCO requiring that separation would be beneficial I would think.

Q. Just recently, September 27th, AEP filed for FERC authorization to issue $2.825 billion in securities. Do you have any familiarity with that filing?

A. No.

Q. Assuming the stipulation is approved by the Public Utilities Commission of Ohio without material modification, so things go the way you want them to go, is the Commission's approval of the application that was filed in case number 11-5333 also a precondition to AEP Ohio providing notice to PJM that it will participate in the base residual auction for -- for delivery years 2015 and '16?

MR. NOURSE: Object to the extent you're asking for a legal conclusion.

You can state your understanding.

Q. Just to make clear, I'm looking for your understanding of the stipulation process, what's

required and what's not.

THE WITNESS: Can I have the question read back then?

(Record read.)

A. Well, I think what we need is approval of the stipulation as one condition, obviously, and I think, as we discussed earlier, I'm anticipating that if they approve the stipulation, they have approved corporate separation and, coupled with that, I don't think there's any subsequent approval of corporate separation needed. And if those things happen, then I think the stipulation requires us to participate in the RPM auction beginning in planning year '15-'16.

Q. So if the Commission has not completed its review of the corporate separation plan modification, which has been filed in this separate case, then AEP Ohio would still give the notice to PJM that's required under the stipulation; is that right?

A. Well --

THE WITNESS: I don't know if you were going to say something, Steve.

MR. NOURSE: Well, same objection. I think you're asking for a future contingency on a

legal decision.
You can answer if you know.
A. Yeah, I don't know from a legal perspective, but I assume if there was some -- this proceeding was dragging out and we thought it wasn't meeting the spirit of the stipulation, you know, and we didn't get the real approval of corporate separation we needed to say that the stipulation was met, then I'm not sure we'd be under any obligation to participate in that RPM auction.
Q. I'm trying to understand your view of the impact of this, you know, what's been filed in 11-5333 because there's, I think in the testimony, the attachment or the exhibit to the testimony you refer to it as a compliance filing and, essentially, that the Commission's order in the ESP case is the order that approves corporate separation.
This different modification to the plan language is, you know, is something that needs to be done as it's part of the paperwork, but, you know, to me that didn't seem all that -- didn't seem that all important. It's, you know, paperwork, but that's why I'm trying to understand, you know, is there something in that, is there something that needs to

be done in that 11-5333 case that is important in order for you to give the notice to PJM next spring?
MR. NOURSE: Well, again, he can give his understanding, but I think you're ultimately asking for a legal conclusion. So go ahead.
A. Yeah, I think I'd look at it the same way, that we don't think it will be a problem with this getting approved, and I consider this some of the paperwork that's needing to get done, but I would fully expect the Commission to, if they approved the stipulation, would be approving corporate separation. We wouldn't expect any hang-up with just a compliance filing.
So, you know, I don't know what happens if -- I don't know what might happen in the future, but I fully expect the Commission to give us approval of corporate separation. I would hope if they need to give us an order on this compliance filing, that it would all occur before we needed to make our election in PJM.
Q. If FERC approval of corporate separation and pool modification is, you know, does not occur until 2014, is it your understanding of the stipulation that AEP Ohio nevertheless will conduct

an auction which would occur in December 2013 for the first 20 tranches of SSO load?
MR. NOURSE: We might need to read that back just because you mentioned a couple dates, I want to make sure they're clear.
MR. LANG: Yeah. I can tell you I'm generally referring to what's on page 16 of the stipulation.
MR. NOURSE: With that clarification could you read the question one more time? Thanks.
(Record read.)
A. Yes, that's my understanding, December 1st of 2013 if we haven't received approval from FERC.
Q. Is the schedule that's in Appendix B for the FERC proceedings, is that the -- does that establish a time line for those FERC proceedings that AEP Ohio believes is a reasonable time line for obtaining FERC approval?
A. Well, it was the subject of negotiations. I believe it's fairly aggressive, in my opinion. I would hope that we can make these dates, but as I mentioned before, we're not in full control of the process, but we'll do everything we can to meet these

dates set out.
Q. And I have some small experience with FERC proceedings, so it's fair to say that FERC proceedings can sometimes drag on longer than you hope they will go?
A. Yes, they can drag on. Obviously, if you can reach agreements with what FERC considers significant stakeholders, that is wholesale customers, they also listen to state public service commissions, you have much more probability of getting a quick order and success.
Q. So if FERC approval of the pool termination and corporate separation are delayed into 2015, then under the stipulation there would be another auction in December of 2014 for the I guess second 20 tranches of SSO load.
A. I'm sorry. You said not approved until 20 --
Q. Going into 2015.
A. Okay.
Q. Essentially delayed, delayed until the end of 2014, you know, if you don't have a FERC decision by that time, the next auction is a December 2014 auction for the second 20 tranches. Is that

your understanding?

A. Yeah. I'll read the section of the stipulation. I think they're pretty clearly laid out, it's just a matter of, you know, jotting them down perhaps on a time line, but -- again, I'll defer to the actual language of the stipulation.

But it says -- I'll skip some, but it says if full corporate separation or dissolution or amendment of the pool is not completed prior to the second auction for December 1st, 2014, AEP Ohio will nonetheless conduct a second auction for the next 20 tranches of the 2015-2016 auction in December 2014.

Q. Okay. Then I guess the next question would be if you still don't have FERC approval going into April of 2015, then the final auction of the remaining 60 tranches would occur in April of 2015.

MR. NOURSE: Sorry. That was a question, right?

MR. LANG: That was a question.

THE WITNESS: Could you reread it?

(Record read.)

A. I'm not sure -- once you get out to a certain date, I'm not sure it's specifically

addressed in the stipulation. Our position is that we will have an order from the FERC by that time such that we really wouldn't be into 2015 without resolution. And I think the FERC would certainly move to have an answer, you know, either no or yes by that point in time because they're going to recognize this is very important to not only AEP, but the states that we serve. So that's my position on that. I didn't think the stipulation needed to address -- keep going beyond a certain date.

Q. And that's, you know, understanding that that's the hope and the expectation with regard to getting a FERC decision, you know, I agree it's not clear in the stipulation what happens if you don't have that FERC decision by 2015, so that's why I'm, you know, I'm trying to find out if that happens, if you don't have that FERC decision, do you still complete the auctions for the SSO supply and then switch that load over to the winning bidders of those auctions come June 2015?

MR. NOURSE: Again, I object because I think you're asking for a legal obligation, it's something the stipulation doesn't address; he's already stated that. If you want to comment further

based on your knowledge, you can.

A. The only comment I can make regarding this is that there will be -- there are certain proceedings that can occur with the PUCO around this topic in the interim so we have time to work this out I think.

You know, as we get closer to that date there may be some discussion needed with, because it isn't specifically addressed, but at this point, as I said, I can't imagine that FERC would not have given us an answer at that point because of the ramifications, as I said, for AEP and its customers.

Q. Under the stipulation is one of the possibilities that even though you haven't, you know, even though you've had those auctions, that if you don't have corporate separation approval, you don't have pool termination approval, that come June 2015 you set aside the auction results and continue along and AEP Ohio continues along as the standard service offer supplier?

A. At this point I wouldn't want to limit the possibilities. It's a little far out there and I haven't, you know, but there are a lot of possibilities. I'm sure we can come up with a

solution working with the Commission and other parties if we're in that position.

Q. Do you agree that the standard service offer base generation rate, the nonfuel portion, is not cost based?

A. Yes. It's not based on any recent cost-of-service study.

Q. So there's no particular capacity cost that's being recovered through the standard service offer rates.

A. Or you could say you can't specifically identify the capacity portion of that.

Q. Okay. In order for you to determine whether AEP Ohio is fully recovering the embedded costs of its generating units and earning a reasonable return through its SSO rates do you have to offset from those costs all the capacity sales and the energy sales and the ancillary services revenues that are related to those units?

A. I don't see the connection in determining whether you're recovering those costs. To me it might be an easier analysis, though, if you're earning a reasonable return, ROE, you're covering your costs in my opinion now.

With respect to looking at AEP Ohio it's not just getting retail revenues, it's getting wholesale revenues, it's getting T and D revenues, generation revenues and all, but that's what you could do if you don't have a full cost of service by function for retail, you can make a judgment, if you're earning an adequate return, you're probably recovering all of your costs either through the wholesale sales pool, for example, or, you know, sales to Wheeling Power which is an affiliate wholesale deal or the retail customer.

Q. So you look at all of those revenue sources to determine --

A. Yeah, you look at all revenues and all expenses.

Q. With regard to the full embedded capacity costs referenced in your testimony, you rely on Witness Pearce for the calculation of those costs, correct?

A. And when you say "full capacity costs," you're speaking of I think it was about 355 on a combined basis? Yes, I'm relying on Witness Pearce.

Q. Did you have any involvement in his calculation of those costs?

A. I reviewed them, yes.

Q. And what was the purpose of your review?

A. Mr. Pearce reports to me and so I tend -- he wants to get my opinion so he'll have me review them. You know, we had discussions around them.

Q. Did you have discussions regarding the appropriate revenue offsets that Mr. Pearce included in his calculation?

A. Repeat that. I'm sorry.

Q. Did you have discussions regarding the appropriate revenue offsets, for example, offsets for capacity sales, energy sales, other revenue sources, that Mr. Pearce included in his calculations?

A. We had discussions around forming a rate methodology. We're not recommending energy offsets, for example, but certainly we have capacity offsets, for example, you know, the pool capacity credits that are coming in and so forth. So when you said "appropriate," we're not supporting the energy offsets, but we did, Mr. Pearce did calculate an energy offset if the Commission thought that were appropriate and we did have discussions around that as well.

Q. Is it your position that the energy

offsets do not contribute to the cost recovery and the fair return that's earned on the asset?

A. I'm not sure that's my position based on your earlier question which was around, you know, when you look at an income statement and you're earning a return, you're looking at all the factors involved. In this particular instance we're carving out what is the appropriate capacity cost for a CRES provider. So I think they're two distinct type of analysis or judgments. I wouldn't say one is necessarily connected to the other.

Q. So when you say you're carving out the appropriate cost to be charged to a CRES provider, why are you not taking in consideration the revenue from the energy sales?

MR. NOURSE: I object just to the extent you're asking him questions about Pearce's testimony and he's already said he's relying on Mr. Pearce.

You can answer.

MR. LANG: He also said he supervises Mr. Pearce.

MR. NOURSE: Doesn't mean he's addressing the matters in his testimony. Separate witness.

Q. To the extent that you know.

A. Well, again, Mr. Pearce is the expert on the calculation. Just because you're providing a wholesale capacity charge to a CRES provider doesn't mean that they're entitled to all your other profits and costs likewise. What you're trying to identify is the proper capacity charge, and that's what we've done in our formula rate calculation.

So they're not, again, they're not a party to our income statement, they're not taking all our risks and everything that we're subjected to. They've got a very limited role. And, of course, we believe that the RAA permits a cost-based calculation for capacity.

That being said, as I mention in my testimony, we recognize that this is an issue that other parties have raised and we think that, you know, that's why we think that the compromise number is a fair number to all the parties involved in the stipulation. Obviously, I haven't been real happy with it, the 255 I think is light from my perspective, but that's the nature of negotiations.

Q. Now, you refer in your testimony to a, I think it's a classic middle ground compromise is what you believe the stipulation is, correct?

A. Yes. I believe when you look at the overall package, I think all the parties came to the table with something to give in the stipulation, and certainly we're talking about the 255, while I may think that we didn't get a very good deal on that, of course it's, you know, the 255 is after the sharing as well so you have to look at the blended result.

I may not think that we got a deal, a particularly good deal on that, you know. When you look at the overall stipulation, yeah, you may have given up more than you want there, but you may have gotten something else that compensates it. So I look at it from the total package perspective.

Q. Would you agree that the 255 per megawatt-day is fairly close to AEP Ohio's net cost of capacity?

A. I don't have anything to base that on, you know, it's just a number in the stipulation, the 255. Though, you know, I am familiar with other benchmarks that we could start talking about like what is net CONE for '15-16 in RPM. It's $342, for example.

Did I say "'14-'15"? It's '14-'15, the CONE price. So I can put that in perspective and I

know, you know, what the pool charges for capacity. I know, for example, that, you know, in our formula rates with wholesale customers, in this instance they'd be paying 355. It's a bundled product that they're buying, they're buying both energy and capacity.

But I know that those customers haven't complained, in fact, a lot of those customers, that are using these formula rates like in Virginia have come back to the company. They were buying from the market, signed up for a cost based formula rate, which includes a number very comparable to the 355. Each formula is a little different, but you're not going to get far from that on a cost basis.

MR. NOURSE: Could we define "net CONE" for the record?

MR. LANG: If you want to, Steve.

A. Yes, net CONE is -- "CONE" stands for cost of new entry, and net CONE is that capacity cost offset by some energy sales or margins. And it's a defined term in PJM I believe, net CONE. But the --

MR. NOURSE: That's fine. I just wanted, especially the CONE acronym is all I was really getting at. Thank you.

MR. LANG: Yes. The C-O-N-E.

Q. If you take Mr. Pearce's number, the 355, and net against that the margin for the sale of energy into PJM, that gets you fairly close to the 255 per megawatt-day, doesn't it?

A. No. I think Mr. Pearce had an energy offset that was a good deal less than that. It's more complex than that.

Q. But he only has a partial energy offset, correct?

A. He has an appropriate energy offset. If the Commission were to say that we had to have an energy offset, our position, of course, our final position is that there shouldn't be any energy offset. Obviously, 255 is a comprised number. But I wouldn't put any great stake on that number. There's a reason -- and by the way, The Brattle Group came out with a report that they're required do for PJM and they recognize one of the problems with the current net CONE calculation in the RPM market is that energy and ancillary services offsets have been overstated and they're recommending that, you know, that's causing problems setting the capacity prices too low.

So this is a very debatable issue, again. And we don't have to debate, you know, our position against the other parties, but that being said -- that's why we recognize that the 255 was something we could agree to in the context of an overall stipulation, but to say that, you know, if you had applied the correct energy offset or imply that, I can't agree with that statement.

Q. Do you agree that Mr. Pearce does not net 100 percent of the margin from the sale of energy against his $355 price?

A. You'd have to tell me what sale of energy you're talking about. There's a lot of sales of energy out of these units. Are you talking about pool? Are you talking about just the retail portion? Are you talking about retail and all wholesale? I don't know what your premise is. But he's looked at each of the components around the energy offset that he thinks is appropriate and picked those that make sense if the Commission were to say we had to have an energy offset.

So I can't admit that he didn't do fully what would get the appropriate number. From a cost of service standpoint I think his number is very

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supported.

Q. Why would it make sense to not include revenue from energy sales?

A. I guess why would it make sense when this is a sale to a CRES provider? They're supplying their own energy. We should be retaining those sales of our own energy, the margins on those energy sales. So what we're developing in our forming a rate is a charge for the capacity.

Q. And so in that --

A. And, by the way, I just wanted to add one other thing, in the RAA schedule, I guess it's schedule D we talked about earlier, when it said "defined capacity costs," it didn't define capacity costs as having a revenue offset. Costs to me is costs. It's not talking about the revenue side of a transaction with an energy offset.

So I think we have a proper basis in that schedule for what we've done. Again, you know, what I'm here supporting in my testimony is the 255 and, you know, so I don't want to sit here and re-litigate our filed position, I don't want to do that Tuesday. What I'm saying is that the 255 is a very reasonable compromise I think from the other parties'

perspective.

And why can I say the other parties' perspective? Obviously we've reached agreement with the vast majority of the CRES providers, you know, all Howard Petricoff's groups, so that's a good test of whether that's a reasonable charge I believe.

Q. I like how you say all of Howard's groups.

A. Yeah. I couldn't remember them all, but I know he represents quite a number.

Q. No one can. I think Howard has trouble.

A. Could I get some water?

Q. Sure. Go ahead.

A. Excuse me.

Q. So as you describe it there's two different capacity costs for, one being for CRES providers, one being the capacity costs recovered through the standard service offer, correct?

A. No. If you look at capacity costs -- I don't know, we can't say they're the same, but capacity costs would be based on the same set of assets, and capacity costs is capacity costs. It's not energy. So capacity costs are going to be very similar I would think.

Q. But you're certainly recovering, for standard service offer customers you're recovering a portion of your fixed costs through energy sales, aren't you?

A. Generally, our rates were set on, a good portion of them is going to be cost based with the fuel cost, so we're not necessarily making any margins on, say, the fuel cost part of it. It's dollar-for-dollar recovery. And that's the majority of the energy transaction. So I don't know what margin we're producing there.

Q. So in your understanding energy sales are not contributing at all to the recovery of generating unit fixed costs?

A. I can't say they're not recovering at all. I was giving an example for the retail customer and, you know, their energy costs generally would just recover the cost because the fuel is probably the biggest component when you think about the total rate charged, and that's cost based. We do have off-system sales, as you're aware, and we do share margins among the pool members with off-system sales. But I wouldn't see where CRES providers are entitled to that.

Q. And that was my question. You're kind of putting CRESs, you know, putting CRESs off to the side. The off-system sales from those units are contributing to your cost recovery of the fixed costs and so there's, you know, you're not fully recovering your fixed costs from your standard service offer customers alone, there's contribution to recovery of those costs from other sources including off-system sales.

A. Yeah. I don't want to oversimplify it, but yeah, there would be some. I can't say there's not any recovery of fixed costs from energy sales. I would expect there would be.

Q. And that's -- so for standard service offer customers you're recovering fixed costs through the standard service offer charge and off-system sales for CRES providers, you know, because they're in a different position --

A. They are. Sorry to jump in.

Q. Your position is for a CRES provider, then, it's Mr. Pearce's number that gets the cost recovery for them, right?

A. Well, yeah. What he developed is a cost for capacity. We don't have to support their

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profits. For example, they may get charged a cost for capacity of a hundred dollars say in the RPM market. They can choose to pass that -- and they may have a retail contract with a customer, you know, they can recover margin on that, they just set a price, if they're able to contract with that customer.

So they're certainly entitled to their own profits. They also have the energy to compete on. So, you know, I don't see any obligation on the part of AEP Ohio to subsidize in any manner the CRES providers. They can make their profits based on their costs and what they elect to pass through to their customers or not.

Q. At the top of page 8 of your testimony you have a calculation of financial impacts of RPM-based pricing. Are you familiar with that calculation, how that calculation was performed?

A. I've seen a workpaper. Unfortunately, I don't have the workpaper with me.

MR. NOURSE: We provided it, but I don't know if I have it with me either.

Q. Do you know what the RPM-based pricing was compared to to derive the financial impact

numbers?

A. I would sure like to have the workpaper in front of me. The fact of the matter is that, of course, I submitted Mr. Munczinski's testimony and did not develop those particular numbers.

Q. Okay.

A. I did review it, it looked reasonable to me in the context of what we're saying here, but I don't have it in front of me, so I'd prefer to be looking at it.

Q. So you reviewed it as part of substituting this --

A. Right.

Q. -- substituting your testimony and you just don't remember as we're sitting here this morning?

A. Right.

Q. Okay. That's fine.

MR. NOURSE: Jim, if you want to take a break, we could get it, or maybe you already have it, but either way.

MR. LANG: No. It's not that important this morning.

MR. NOURSE: Okay.

Q. Do you agree that shopping under the stipulation will be constrained to those customers who have access to the RPM-priced capacity?

A. I don't like the word "constrained." I think shopping is going to occur based on, you know, their cost versus what they can -- or our rates versus what they can get from CRES providers, but I don't think I'd say that it would be constrained. That's not a term I would use.

Q. Are you aware that Mr. Munczinski used the word "constrained"?

A. I think I saw that.

Q. And that was in the September 7th investor call that Mr. Munczinski participated in; is that your understanding?

A. That's what I recall, yes.

Q. How did you come by your knowledge of his statements in that investor call?

A. I think I was reviewing a data request that perhaps FirstEnergy submitted.

Q. So were you, you know, did you have any personal involvement in that September 7th call?

A. No, I did not. And, by the way, I don't want to necessarily criticize Rich's use of the word

"constrained," I mean, I just probably wouldn't use that same word myself. And I don't know what his meaning attached to it.

But the way I look at it is if, you know, we're subsidizing the CRES providers, that's my opinion obviously, you may disagree, with a lower price, in upcoming years it's close to zero for capacity, you're going to have more shopping because they're going to have more headroom. And if you then get a price that I'll say is closer to what they should be paying, their headroom is going to shrink, you're probably going to have more limited shopping.

To put this in perspective, this needs a perspective because you'll recall that AEP, we haven't had any shopping. Why? Because our rates were too low. And so it's just the fact that, you know, as the market prices dropped, now we're exposed to some shopping. Our rates are still very competitive obviously, we don't have, you know, not a great deal of exposure. But if you undercharge the CRES providers for your own capacity, you're kind of shooting yourself in the foot, then certainly that's going to mean there's going to be more shopping.

So that's the context that I look at it.

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It's just an economic analysis of, yeah, if you now have the CRES providers paying what I'll consider a more proper capacity price, then I would expect that some of the shopping that was somewhat providing a subsidy would disappear.

And I suspect that Mr. Munczinski meant the same thing in that statement, but I can't speak for him.

Q. So the issue of headroom really depends on the combination between what the energy prices are and what the capacity price is?

A. That may not be all of it, but that would be probably one definition. I would think that if a CRES provider didn't have his own capacity, you know, that would probably be what would drive those numbers.

Now, some CRES providers I would assume would have their own capacity, so they may have a whole other set of economics they're looking at.

Q. CRES providers don't have their own capacity in the AEP zone until June 2015, correct?

A. I'm not sure about that, but I suspect -- what I'm saying is you could have an organization that their marketing group has access to, I'll use

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the example of FirstEnergy, right, they have their generation separate. So it has its costs and so forth. And if they're standing behind their marketing group, you know, those particular costs can also influence headroom, margin, you know, in their business decision, as opposed to a CRES provider that's just a marketer and really doesn't have the assets standing behind them.

Alls I'm saying is I'm not as familiar with headroom from all angles, but I would accept that the sum of the energy and capacity is at, at least one measure of it as compared to the revenue they're getting from the market, a market based contract.

Q. When Mr. Munczinski is on these investor calls, do you provide support to him or does he have someone else that supplies support to him, you know, so that, you know, I always expect there's some behind-the-scenes person that's providing the factual information to folks like Mr. Munczinski and Mr. Hamrock when they're on these calls. Are you one of those people?

MR. NOURSE: I object for relevance. If you know, you can answer.

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A. Well, there would be quite a number of people supporting because usually you're dealing with, you know, financial information and so you've got accountants, you've got -- if you're talking about forecast information or analysis, you've got people certainly running forecast numbers and so forth for them.

So there's a team of people that would support them. You know, if he needs a number, he isn't always in a position to calculate something himself so he's going to go to whoever has the appropriate knowledge and data to support what he wants to present.

Q. Did you have any conversations with him specifically about his statements with regard to shopping on the September 7th investor call?

A. No.

Q. Do you have an opinion as to whether the statements he made on the September 7th investor call were truthful?

MR. NOURSE: Objection. Are you asking -- it assumes he's read the transcript or knows what all the statements you're talking about. It's a vague question.

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Q. Well, you said you had reviewed -- what have you reviewed with regard to statements? Is it only the request for admissions?

A. I believe so.

Q. Okay. So you haven't reviewed the transcript itself?

A. No.

Q. With regard to the statement that you did review, do you have an opinion as to whether the statement was truthful?

A. I would think that Mr. Munczinski would make a truthful statement. The only thing is, again, I explained what I thought he might mean by a particular word. You can take that, you know, to a lot of statements people make and he would have to explain for himself, you know, why he would think that's a truthful statement.

I didn't see anything I took issue with if that's your question to me.

Q. We might be there. Just checking my notes.

MR. LANG: I think that's all I have for you this morning. And we don't have to ask anyone on the phone whether they have anything else.

THE WITNESS: Even if they're there.

MR. LANG: Even if they're there we can't hear them.

MR. NOURSE: Okay. He would like to review the transcript.

(The deposition concluded at 11:48 a.m.)

State of Ohio :
: SS:
County of __________________ :

I, Philip J. Nelson, do hereby certify that I have read the foregoing transcript of my deposition given on Friday, October 7, 2011; that together with the correction page attached hereto noting changes in form or substance, if any, it is true and correct.

____
Philip J. Nelson

I do hereby certify that the foregoing transcript of the deposition of Philip J. Nelson was submitted to the witness for reading and signing; that after he had stated to the undersigned Notary Public that he had read and examined his deposition, he 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 Philip J. Nelson 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 7th day of October, 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-3903)

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State of Ohio :
: SS:
County of Franklin :

I, Philip J. Nelson, do hereby certify that I have read the foregoing transcript of my deposition given on Friday, October 7, 2011; that together with the correction page attached hereto noting changes in form or substance, if any, it is true and correct.

Philip J. Nelson

I do hereby certify that the foregoing transcript of the deposition of Philip J. Nelson was submitted to the witness for reading and signing; that after he had stated to the undersigned Notary Public that he had read and examined his deposition, he signed the same in my presence on the 10th day of October, 2011.

Notary Public

My commission expires STEVEN T. NOURSE, Attorney At Law Notary Public, State of Ohio My commission has no expiration date Section 147.03 R.C.

Errata to the Deposition of Philip J. Nelson taken October 7, 2011

Page	Line	Change From:	To:	Reason
13	9	"a"	"at"	Typo
14	4	"That the"	"At this"	Clarity
25	11	"10^{th}"	"2010"	Typo
27	1	"22"	"27"	Typo
71	8	"that plant"	"OVEC"	Clarity
101	8	"forming a"	"formula"	Typo