

BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

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2
3 In the Matter of the :
Application of Ohio Power :
4 Company and Columbus :
Southern Power Company :
5 for Authority to Merge and: Case No. 10-2376-EL-UNC
Related Approvals. :
6 :
In the Matter of the :
7 Application of Columbus :
Southern Power Company :
8 and Ohio Power Company :
for Authority to Establish:
9 a Standard Service Offer : Case No. 11-346-EL-SSO
Pursuant to §4928.143, : Case No. 11-348-EL-SSO
10 Ohio Rev. Code, in the :
Form of an Electric :
11 Security Plan. :
12 In the Matter of the :
Application of Columbus :
13 Southern Power Company : Case No. 11-349-EL-AAM
and Ohio Power Company : Case No. 11-350-EL-AAM
14 for Approval of Certain :
Accounting Authority. :
15 :
In the Matter of the :
16 Application of Columbus :
Southern Power Company to : Case No. 10-343-EL-ATA
17 Amend its Emergency :
Curtailment Service :
18 Riders. :
:
19 In the Matter of the :
Application of Ohio Power :
20 Company to Amend its : Case No. 10-344-EL-ATA
Emergency Curtailment :
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:
22 In the Matter of the :
Commission Review of the :
23 Capacity Charges of Ohio : Case No. 10-2929-EL-UNC
Power Company and Columbus:
24 Southern Power Company. :
25

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

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

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10 PROCEEDINGS

11 before Ms. Greta See and Mr. Jonathan Tauber,
 12 Attorney Examiners, at the Public Utilities
 13 Commission of Ohio, 180 East Broad Street, Room 11-A,
 14 Columbus, Ohio, called at 10 a.m. on Monday,
 15 October 11, 2011.

16 - - -

17 VOLUME V

18 - - -

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1 Tuesday Morning Session,
2 October 11, 2011.

3 - - -

4 EXAMINER TAUBER: Let's go on the record.
5 We're going to take brief appearances this morning
6 since we're starting another week, just to have
7 tracked on the record who's here, so we'll start with
8 the companies and work our way around again.

9 MR. NOURSE: Thank you, your Honor. On
10 behalf of Columbus Southern Power Company and Ohio
11 Power Company Steven T. Nourse, Matthew J.
12 Satterwhite, Daniel R. Conway.

13 MR. SMALZ: Yes, your Honor. On behalf
14 of the Appalachian Peace and Justice Network, Michael
15 R. Smalz and Joseph E. Maskovyak of the Ohio Poverty
16 Law Center.

17 MS. GRADY: Thank you, your Honor. On
18 behalf of the residential customers of the Ohio Power
19 Company and Columbus Southern Power Company, Janine
20 L. Migden-Ostrander, Consumers' Counsel, Maureen R.
21 Grady.

22 MR. HAYDEN: Good morning, your Honors.
23 On behalf of FES, Mark Hayden, Jim Lang, Trevor
24 Alexander, Laura McBride, and David Kutik.

25 MR. DARR: On behalf of IEU-Ohio, Sam

1 Randazzo, Frank Darr, and Joe Oliker.

2 MS. HAND: On behalf of Ormet Primary
3 Aluminum Corporation, Emma Hand and Doug Bonner.

4 MR. K. BOEHM: On behalf of the Ohio
5 Energy Group, Kurt Boehm and Mike Kurtz.

6 MS. McALISTER: On behalf of the OMA
7 Energy Group, Lisa McAlister and Matt Warnock.

8 MR. BEELEER: On behalf of the staff of
9 the Public Utilities Commission, Ohio Attorney
10 General Mike DeWine, Assistant Attorneys General
11 Warner Margard, John Jones, and Steve Beeler.

12 EXAMINER TAUBER: Are there any other
13 parties?

14 MS. KALEPS-CLARK: Yes. On behalf of
15 Exelon, Constellation, P3, Compete Coalition, RESA,
16 and Direct Energy, Howard M. Petricoff, and Lija
17 Kaleps-Clark. And on behalf of CTA, Lija
18 Kaleps-Clark and Benita Kahn.

19 MR. SINENENG: Good morning, your Honor.
20 On behalf of Duke Energy Retail Sales, Phillip
21 Sineneng and Terrence A. Mebane from the law firm of
22 Thompson Hine.

23 EXAMINER TAUBER: Are there any other
24 parties we missed at all this morning?

25 Okay, we have one initial matter to

1 address and that's the joint motion to consolidate
2 for expedited treatment in Case No. 11-5333-EL-UNC.
3 At this point in time we're going to deny the motion
4 to consolidate and the reason for that is we feel
5 there needs to be additional review with that case
6 before we actually address that.

7 So, however, at this time we will take
8 administrative notice just of the filing in Case
9 No. 11-5333-EL-UNC, and in that docket we will
10 establish a schedule and provide details on that
11 accordingly.

12 MR. NOURSE: Thank you, your Honor.

13 EXAMINER TAUBER: So at this point in
14 time we'll start with Witness Claytor this morning.

15 MS. McALISTER: Thank you, your Honor.
16 The OMA Energy Group calls Peggy Claytor to the
17 stand.

18 Your Honors, I provided copies of
19 Miss Claytor's testimony on the Bench.

20 EXAMINER TAUBER: Thank you.

21 Please raise your right hand.

22 (Witness sworn.)

23 EXAMINER TAUBER: Thank you. You may be
24 seated.

25 Ms. McAlister.

1 MS. McALISTER: Thank you, your Honors.

2 - - -

3 PEGGY CLAYTOR

4 being first duly sworn, as prescribed by law, was
5 examined and testified as follows:

6 DIRECT EXAMINATION

7 By Ms. McAlister:

8 Q. Could you please state your name and
9 business address for the record?

10 A. Yes. My name is Peggy Claytor. I am
11 with the Timken Company headquartered at 1835 Dueber
12 Avenue Southwest, Canton, Ohio.

13 Q. And on whose behalf are you providing
14 testimony today?

15 A. I'm providing testimony on behalf of the
16 Timken Company in support of the position that the
17 OMA Energy Group and the Ohio Energy Group took in
18 support of the stipulation and recommendation in this
19 case.

20 Q. Miss Claytor, did you prepare the
21 testimony that was filed on September 13th, 2011, in
22 this proceeding?

23 A. I did.

24 MS. McALISTER: Your Honor, at this time
25 I'd like to have marked as OMAEG Exhibit 1, which is

1 the prefiled direct testimony of Miss Claytor.

2 (EXHIBIT MARKED FOR IDENTIFICATION.)

3 Q. Ms. Claytor, do you have a copy of what's
4 just been marked as OMAEG Exhibit 1 with you here
5 today?

6 A. Yes, I do.

7 Q. And do you have any corrections or
8 additions to make to that exhibit?

9 A. No.

10 Q. If I were to ask you the same questions
11 today as are in that exhibit, would your answers be
12 the same?

13 A. Yes, they would.

14 Q. And are they true and correct to the best
15 of your knowledge and belief?

16 A. Yes.

17 MS. McALISTER: Thank you, your Honor.
18 At this time I would move for the admission of OMAEG
19 Exhibit 1 into the record subject to
20 cross-examination, and Miss Claytor is available for
21 cross-examination.

22 EXAMINER TAUBER: Thank you.

23 Mr. Smalz?

24 MR. SMALZ: We have no questions of this
25 witness, your Honor.

1 EXAMINER TAUBER: Ms. Grady?

2 MS. GRADY: No questions, your Honor.

3 EXAMINER TAUBER: Mr. Hayden?

4 MR. HAYDEN: No questions.

5 EXAMINER TAUBER: Mr. Darr?

6 MR. DARR: Briefly, your Honor.

7 - - -

8 CROSS-EXAMINATION

9 By Mr. Darr:

10 Q. As you indicated in your direct
11 testimony, you are here on behalf of Timken but
12 supporting the OMAEG and OEG position, correct?

13 A. That is correct.

14 Q. Now, with regard to OEG are you aware
15 that that group has not intervened in the 11-348 Ohio
16 Power Company SSO case?

17 A. I am not familiar with -- you can't talk
18 to me in terms of numbers, sir, you have to tell me
19 exactly what that means.

20 Q. Specifically it's the case involving the
21 standard service offer with regard to Ohio Power
22 Company. Are you aware that they have not -- that
23 OEG has not intervened in that case?

24 A. No.

25 Q. Are you aware that they have not

1 intervened in the deferred fuel case related to the
2 phase-in recovery rider?

3 A. No.

4 Q. With regard to the OMA Energy Group, are
5 you aware that they have not intervened in the merger
6 case?

7 A. No.

8 Q. Are you aware that they have not
9 intervened in the curtailment service rider cases?

10 A. No.

11 Q. Are you aware that they have not
12 intervened in the capacity case?

13 A. No.

14 Q. And are you aware that they have not
15 intervened in the deferred fuel cases?

16 A. No.

17 Q. With regard to the comparison of an ESP
18 as proposed in this stipulation and the alternative
19 of an MRO, have you made any calculations as to
20 whether or not the MRO is superior or inferior to the
21 ESP proposed?

22 A. It is a qualitative analysis certainly on
23 our part at this juncture. A quantitative one is, as
24 I understand it, impossible particularly until FERC
25 rules on the capacity issue, pricing issue. So this

1 is a qualitative judgment, if you will, based upon
2 our experience in trying to secure competitive
3 electricity in the market. It has not proven
4 favorable for us. So from our perspective the
5 package in total provides us with price certainty, it
6 provides us with what will be, if everything remains
7 intact, a competitive electric rate which is good for
8 us in terms of both economic growth and job
9 retention.

10 So for us it is our judgment, sir, that
11 the ESP as a package in the aggregate is better than
12 the MRO, but it is a judgment call, sir.

13 Q. And you said I believe in your answer
14 that it's a qualitative judgment call at this point.

15 A. That is correct.

16 Q. Now, with regard to the capacity issue,
17 you said that the, in your answer just now, that you
18 would be relying on some sort of result of the FERC
19 cases; is that correct?

20 A. We would prefer not to wait for that
21 outcome because litigation is uncertain.

22 Q. I'm not -- I understand that. But wasn't
23 your answer that you were waiting on the outcome of
24 the FERC cases?

25 A. What I indicated was that it would be

1 impossible to do a total quantitative analysis absent
2 resolution of the FERC capacity pricing issue. Maybe
3 we were saying things in different manners.

4 Q. You are aware that the stipulation
5 provides what is proposed to be a resolution of those
6 cases.

7 A. I am.

8 Q. And based on that resolution did you or
9 someone on your behalf attempt to do a quantitative
10 analysis of the comparison of the MRO to the proposed
11 ESP?

12 A. I believe you will have testimony from
13 OEG's witness, Expert Witness Steve Baron, that
14 indicated he did not do a quantitative analysis, that
15 it was impossible at this juncture, that what he did
16 was a qualitative analysis.

17 Q. And is it fair to say that Timken or
18 someone at Timken under your direction did not do
19 that as well? Is that correct?

20 A. That is correct, sir.

21 Q. Now, at the time that you provided your
22 support for this proposed ESP, is it fair to say that
23 you were unaware that the Commission would issue its
24 decision in the remand case?

25 A. Yes. We knew that that remand case

1 decision was pending.

2 Q. And at that point you did not have the
3 results of that remand case; is that correct?

4 A. That's correct. But having that decision
5 at this point does not change our support for the
6 proposed stipulation.

7 Q. In your testimony you indicate that a
8 settlement that only benefits a certain class of
9 customers without accruing to the benefit of others
10 would not be reasonable or in the public interest; is
11 that correct? I believe that's in your testimony at
12 page 5, lines 15 through 17.

13 A. That is correct.

14 Q. And with regard to the analysis or
15 discussion that you provided to the Commission in
16 your testimony you focus specifically on the load
17 factor provision and I believe the credit that's
18 given to the GS-2 customer, is that correct as well?

19 A. Well, actually the focus of my testimony
20 is on the load factor provision and the interruptible
21 credit. There are, however, provisions in the
22 settlement that accrue to the benefit of smaller
23 customers such as shopping credits, \$10 per
24 megawatt-hour shopping credit for them to help reduce
25 or make the market more accessible and affordable.

1 So there are provisions for smaller
2 customers, but the focus of my testimony is on the
3 load factor provision and the interruptible credit.

4 Q. And that's primarily directed at the GS-3
5 and GS-4 customer, correct?

6 A. That is correct.

7 Q. And the point of the load factor
8 provision is to, and I'm going to simplify your
9 testimony a little bit, is to design or undo the
10 effects of the proposed rate design contained in the
11 proposed ESP, correct?

12 A. It is to further mitigate what the MTR
13 failed to do sufficiently. It relies on tried and
14 true regulatory practices to allocate costs based
15 upon cost causation. Low-load factor customers are
16 less efficient in their use of generating assets, and
17 as such, when you allocate fixed generating costs on
18 a variable energy use basis, you cause shift from
19 low-load factor to high-load factor customers as a
20 consequence, that would not be a fair outcome, and so
21 the load factor provision seems to address that
22 disparity.

23 Q. Going back to my original question, and
24 that is to effectively minimize, mitigate, undo, you
25 choose the word, the effects of the proposed rate

1 design, correct?

2 A. It is to seek a fair and balanced
3 resolution.

4 Q. Because the, if I take it and complete
5 the statement, tell me if this is right or wrong,
6 because if you don't do that, the proposed rate
7 design is less fair or unfair?

8 A. Yes.

9 Q. And with regard to the credit that's
10 proposed here for the GS-2 customers, that was
11 designed to make -- to provide additional headroom
12 for those GS-2 customers to shop, correct?

13 A. That is correct.

14 Q. Now, is it correct that OMAEG did not
15 have information from AEP Ohio that the RPM capacity
16 set-aside allegation described in Appendix C of the
17 stipulation had been fully awarded for any of the
18 customer classes when it signed the stipulation?

19 A. That is correct.

20 Q. And is it correct that OMAEG did not have
21 information that the megawatt-hours awarded for the
22 commercial class as described under Appendix C of the
23 stipulation exceeded the pro rata allegation of the
24 RPM set-aside of 3,303,579 megawatt-hours as of
25 September 7th, 2011?

1 A. That is correct, but we are hopeful that
2 as they reallocate between the classes, certainly the
3 residential shopping class is far from fully
4 subscribed, hopefully that reallocation process will
5 open up some channels for GS-2, GS-3 customers, GS-4
6 customers to be awarded some capacity.

7 Q. And at this point the only way that would
8 happen is if it was taken from the residential class
9 allocation, correct?

10 A. That, if memory serves me correctly, and
11 I have not looked at that allocation and subscription
12 level closely, I just looked at it in passing, but
13 that seems to be the one where there is the least
14 activity in shopping.

15 Q. So the answer to my question is based on
16 everything you know right now that would be correct.

17 A. Correct.

18 Q. In your initial testimony filed in July
19 of 2011 you endorse the notion that there should be
20 the dedication of certain facilities to customers as
21 long as they were least cost. Do you recall that?

22 A. Yes, I do.

23 Q. And at this point your understanding is
24 that the result of the proposed stipulation, if it is
25 accepted, would be the separation of generation

1 facilities from AEP Ohio as we currently know it,
2 correct?

3 A. That is correct. I believe there is a
4 further provision that would allow for a 500-megawatt
5 coal-fired plant to be refurbished, rebuilt as a
6 gas-fired shale/clay unit and there's also a solar
7 project as well that would fall under this ESP.

8 Q. And those pursuant to the GRR, if they
9 were approved, would be approved as plants that would
10 be part of the AEP Ohio, the distribution company,
11 correct?

12 A. That is my understanding.

13 Q. And you inserted a caveat or a condition
14 on retaining plant as long as it was least cost,
15 correct?

16 A. Absolutely. Yes.

17 Q. Is there anything in the stipulation that
18 you're aware of with regard to the GRR that would
19 require those plants to be least cost?

20 A. I think it is inherent in the PUCO
21 approval process. I can't fathom that the PUCO would
22 approve a project, a plant, that was not least cost
23 to be added into rate base or into prices.

24 Q. How familiar are you with the pricing
25 structures for solar plants?

1 A. That is by I think legislative fiat that
2 we are in that particular position.

3 Q. So you're not talking about least cost
4 for reliability purposes. You're talking about least
5 cost for satisfying other state mandates?

6 A. It's a state mandate at this time.
7 Certainly I would anticipate as this new
8 administration takes another look at energy policy in
9 Ohio, those kinds of mandates will certainly be
10 revisited. I can't say they will be revised, but I
11 think they will be evaluated and the economics will
12 be carefully reviewed. I don't think that that
13 absolves us of any financial responsibility for the
14 solar project that's referred to in the ESP, but
15 certainly the need for economic generation regardless
16 of its fuel source is essential.

17 Q. I appreciate that. But I'm asking -- my
18 question was whether or not you were using least cost
19 in terms of reliability or least cost in terms of
20 satisfying alternative energy requirements.

21 A. When we say "least cost," we are talking
22 about predominantly the cost of, you know, per
23 kilowatt-hour that comes off that facility.
24 Certainly reliability becomes a factor. Capacity,
25 the capacity rating for a unit, and for solar it's

1 not good, that affects the effected cost per
2 kilowatt-hour the customers see.

3 Q. So your concern is that electric price is
4 the lowest price?

5 A. Price and reliability are inextricably
6 linked for companies like Timken.

7 Q. And that's independent of satisfaction of
8 alternative or renewable energy requirements,
9 correct?

10 A. That's correct.

11 Q. Is it fair to say that you were also
12 concerned and supported testimony with regard to
13 assuring that AEP Ohio, and I'm using the term
14 generically as to both companies, would not exceed a
15 ceiling on return on equity?

16 A. Yes.

17 Q. And is there anything in the current
18 proposed stipulation that would explicitly cap return
19 on equity?

20 A. There is not an explicit cap on return on
21 equity. There is a provision that addresses the
22 significantly excessive earnings test, that has been
23 reduced from what was approved in the last SEET case
24 from, it was over 17 percent, I believe 17.6 percent,
25 it reduces that threshold to 13.5. While that is not

1 a cap on return on equity, it certainly lowers the
2 threshold for which a second look is taken on AEP's
3 earnings.

4 Q. And are you aware that that cap that you
5 referred to only applies to the so-called four-year
6 review?

7 A. Yes.

8 Q. And are you aware that that four-year
9 review is only prospective?

10 A. Yes.

11 MR. DARR: I have nothing further. Thank
12 you.

13 EXAMINER TAUBER: Ms. Hand?

14 MS. HAND: Just a couple. I do have one
15 exhibit, if I may approach to distribute it.

16 EXAMINER TAUBER: You may.

17 MS. HAND: What I've placed before the
18 witness I'd like to have marked as Exhibit No. ORM
19 13, and it is the OMA Energy Group's responses to
20 Ormet Primary Aluminum Corporation's Interrogatories
21 and Requests for Production of Documents and Requests
22 for Admissions, the First Set.

23 (EXHIBIT MARKED FOR IDENTIFICATION.)

24 - - -

25

CROSS-EXAMINATION

1
2 By Ms. Hand:

3 Q. Miss Claytor, have you had an opportunity
4 to review the document?

5 A. I have.

6 Q. Were the responses to these, each of the
7 questions contained in this document, prepared by you
8 or under your direction?

9 A. They were prepared by counsel and
10 reviewed with me prior to submittal to obtain my
11 approval and concurrence.

12 Q. So you do agree with the answers to each
13 of these questions.

14 A. Yes.

15 Q. If I asked you the same questions today,
16 your answers would be the same?

17 A. Yes.

18 Q. Thank you.

19 I just have one other question for you.
20 With regard to the 250-megawatt limitation on the
21 load factor provision in the stipulation, do you know
22 what criteria were used to determine that
23 250 megawatts would be the appropriate threshold for
24 that limitation?

25 A. I was not in the room when that was

1 negotiated.

2 Q. So that would just be that you were
3 not -- don't know what the criteria were, then.

4 A. No.

5 MS. HAND: Okay. That's all I have.
6 Thank you.

7 EXAMINER TAUBER: Thanks.

8 Are there any other parties that wish to
9 examine the witness?

10 (No response.)

11 EXAMINER TAUBER: Ms. McAlister, would
12 you like redirect?

13 MS. McALISTER: I suspect not, but could
14 I have one moment?

15 EXAMINER TAUBER: Yes. Let's go off the
16 record.

17 (Off the record.)

18 EXAMINER TAUBER: Let's go back on the
19 record.

20 MS. McALISTER: We have no redirect, your
21 Honor.

22 EXAMINER TAUBER: Thank you.

23 You may be excused. Thank you.

24 THE WITNESS: Thank you.

25 MS. McALISTER: Your Honor, at this time

1 I'd like to renew my motion to admit OMA Energy Group
2 Exhibit 1 into the record.

3 EXAMINER TAUBER: Are there any
4 objections to OMA Exhibit 1?

5 (No response.)

6 EXAMINER TAUBER: Hearing none, OMA
7 Exhibit 1 shall be admitted into the record.

8 (EXHIBIT ADMITTED INTO EVIDENCE.)

9 MS. HAND: Your Honor, I would also like
10 to move the admission of Exhibit ORM 13.

11 EXAMINER TAUBER: Are there any
12 objections to ORM Exhibit 13?

13 EXAMINER SEE: For clarification these
14 are being marked Ormet Exhibit.

15 MS. HAND: Okay.

16 EXAMINER TAUBER: Hearing none, Ormet
17 Exhibit 13 shall be admitted into the record.

18 (EXHIBIT ADMITTED INTO EVIDENCE.)

19 EXAMINER TAUBER: Mr. Nourse.

20 MR. NOURSE: The companies would call
21 Chantale LaCasse to the stand.

22 EXAMINER TAUBER: Please raise your right
23 hand.

24 (Witness sworn.)

25 EXAMINER TAUBER: Thank you. Be seated.

1 Hearing sworn.

2

- - -

3

CHANTALE LACASSE

4

being first duly sworn, as prescribed by law, was
5 examined and testified as follows:

6

DIRECT EXAMINATION

7

By Mr. Nourse:

8

Q. Good morning, Dr. LaCasse.

9

A. Good morning.

10

Q. Would you state and spell your full name

11

for the record.

12

A. My name is Chantale LaCasse,

13

C-H-A-N-T-A-L-E L-A-C-A-S-S-E.

14

Q. By whom are you employed and in what

15

capacity?

16

A. I'm a senior vice president with NERA

17

Economic Consulting.

18

MR. NOURSE: Your Honor, I'd like to mark

19

Dr. LaCasse's prefiled testimony as AEP Exhibit No.

20

6.

21

(EXHIBIT MARKED FOR IDENTIFICATION.)

22

Q. Dr. LaCasse, do you have the document we

23

just marked as Exhibit No. 6?

24

A. I do.

25

Q. Is this your testimony prepared by you or

1 under your direction?

2 A. Yes, it is.

3 Q. Do you have any corrections, updates, or
4 additions you'd like to make to your written
5 testimony?

6 A. I have two small corrections.

7 Q. Okay. Could you please walk us through
8 those.

9 A. On page 9 at line 18, the end of that
10 sentence should read "parameter that should be kept."
11 The word "be" is missing from that sentence.

12 And the second and last correction is on
13 page 17, line 18 as well, the word "stakeholder," and
14 the "A" and the "T" are inverted.

15 Q. I'm sorry, what line was that second
16 change on again?

17 A. Line 18.

18 Q. Ah. Okay.

19 Any additional corrections or updates?

20 A. That's all, thank you.

21 Q. Okay. With those changes if I were to
22 ask you all the questions contained in your
23 testimony, would your answers be the same today?

24 A. Yes, they would.

25 MR. NOURSE: Thank you, your Honor. The

1 companies move for admission of Exhibit No. 6 subject
2 to cross-examination.

3 EXAMINER TAUBER: Mr. Smalz.

4 MR. SMALZ: No questions, your Honor.

5 EXAMINER TAUBER: Ms. Grady?

6 MS. GRADY: No questions, your Honor.

7 EXAMINER TAUBER: Mr. Hayden?

8 MR. HAYDEN: No questions.

9 EXAMINER TAUBER: Mr. Darr?

10 MR. DARR: Briefly again, your Honor.

11 - - -

12 CROSS-EXAMINATION

13 By Mr. Darr:

14 Q. Welcome back to Ohio, Dr. LaCasse.

15 A. Thank you, sir.

16 Q. You had previously testified regarding
17 the use of competitive bidding to procure supply for
18 SSO customers, correct?

19 A. Correct.

20 Q. And, in fact, in your prior testimony
21 it's my understanding that you have stated that a
22 competitive procurement process is used to arrive at
23 a market determination of costs associated with
24 providing full-requirements service and all related
25 risks. Is that also correct?

1 MR. NOURSE: Excuse me. Do you have a
2 specific reference for that quote you just read?

3 MR. DARR: Sure, direct testimony page 8,
4 lines 5 through 7 from the ESP case, ESP-1 case.

5 MR. NOURSE: Go ahead.

6 A. I do not have a copy of that testimony
7 with me.

8 Q. Would that help refresh your
9 recollection?

10 A. That would, please.

11 MR. DARR: Actually it's remand direct
12 testimony, Steve.

13 Q. In any case, to help speed this up I
14 believe it's page 8, lines 5 through 7, if you could
15 take a look at that.

16 A. Yes, I see that.

17 Q. Does that assist you in refreshing your
18 recollection?

19 A. Yes.

20 Q. And is it true, then, that you believe
21 that a competitive procurement process can be used or
22 is used to arrive at a market determination of the
23 costs associated with providing full-requirements
24 service and all related risks?

25 A. That's correct, a competitive procurement

1 process for a given company or zone would arrive at a
2 market determination of the costs associated with
3 providing full-requirements service for that company
4 or zone.

5 Q. And is that still your view today?

6 A. Yes.

7 Q. Further, is it still your view today that
8 you expect that the clearing prices for auctions to
9 date in Ohio reflect the bidder's assessment with all
10 risks associated with providing SSO supply including
11 shopping-related risks since winning suppliers are
12 required to meet a percentage of SSO load that
13 fluctuates with shopping?

14 A. Yes. I would expect that the clearing
15 price for auctions for a given company would reflect
16 the bidder's assessments of the risks that's
17 associated with providing SSO supply for that company
18 including shopping-related risk.

19 Q. And that remains your belief today,
20 correct?

21 A. Yes.

22 Q. And is it also your belief today that the
23 competitive aspect of this procurement process,
24 meaning competitive bidding, means that the winning
25 bidders tend to be those that are the most efficient

1 in managing POLR risks?

2 A. Yes.

3 Q. Dr. LaCasse, throughout your testimony
4 you note that the bidding process will need to be
5 developed and agreed to, correct?

6 A. Yes. I know that there are details of
7 the competitive bidding process that would be
8 addressed through a stakeholder process.

9 Q. For example, there's no demonstration of
10 the relationship between the bidding process and any
11 retail rate design that might emerge out of that
12 bidding process, correct?

13 A. I'm not familiar with all of the
14 testimony that may have been entered regarding rate
15 design, but there is no -- there would still need to
16 be details regarding how the price arrived in the
17 competitive bidding process would be translated into
18 rates.

19 Q. And it's fair to say that the proposed
20 stipulation does not do that at this point, correct?

21 A. I believe that there are still details
22 that would need to be added, yes.

23 Q. And there is no discussion in the
24 proposed stipulation as to how to deal with the
25 unavoidable charges, correct?

1 A. I'm not sure.

2 Q. Are you aware of anything in the proposed
3 stipulation that deals with financial projections of
4 the bidding process's implementation?

5 A. No, I'm not aware of any.

6 Q. Are you aware of anything in the proposed
7 stipulation that provides a description of customer
8 loads other than an estimate that there would be
9 1 percent tranches used?

10 A. I believe that the stipulation also
11 provides for the EDU to give information regarding
12 those loads in advance of the competitive bidding
13 process.

14 Q. And is it fair to say that the details of
15 that would need to be dealt with as well?

16 A. Yes. And I would think that that would
17 be a common process for the data to be provided to
18 potential bidders to be discussed and to be decided
19 in advance of that bidding process and for those
20 details to profit from the input from stakeholders.

21 Q. So essentially this is all going to be
22 pushed off to the stakeholder process, correct?

23 A. Again, the stipulation does specify that
24 there will be information that will be provided in
25 this regard and the exact details would be worked

1 through in the stakeholder process.

2 Q. Now, in the rules with regard to
3 competitive bidding applied to an MRO, first of all,
4 have you had an opportunity to review those rules?

5 A. Can you repeat the question?

6 Q. Sure. There is a rule in Ohio that deals
7 with competitive bidding in the context of an MRO.
8 Have you had an opportunity to review those
9 competitive bidding rules?

10 MR. NOURSE: Your Honor, I object. I
11 think it goes beyond the scope of her testimony.

12 MR. DARR: If I may, your Honor, we don't
13 have a whole lot of groundwork under an ESP under
14 the -- except the FirstEnergy model, and I'm
15 inquiring as to the kinds of things that would have
16 to be dealt with in this process, and I'm just trying
17 to understand what her understanding is of what the
18 Commission has required in a competitive bidding
19 process.

20 EXAMINER TAUBER: Objection's overruled.
21 Please continue, Mr. Darr.

22 MR. DARR: Thank you.

23 Q. (By Mr. Darr) I'll repeat my question.
24 Are you familiar with the competitive bidding rules
25 that are contained in the Commission rules with

1 regard to MRO competitive bids?

2 A. What I am familiar with is that there are
3 certain objectives under Ohio law for a competitive
4 bidding process under an MRO including that that
5 competitive process be open, fair, and transparent,
6 there be a clear product definition, that it provide
7 for an independent third party to design and
8 administer the bid, that it provide for standardized
9 bid evaluation criteria, and that it not prohibit the
10 participation from any one generation supplier.

11 Q. And I understand those are all statutory
12 requirements, I understand, that you reviewed. Have
13 you reviewed the competitive bid rules contained in
14 the MRO administrative rules?

15 A. No.

16 Q. Is it fair to say that there are no bid
17 evaluation criteria contained in the proposed
18 stipulation -- or proposed, yeah, in the proposed ESP
19 stipulation?

20 A. I think there are a number of elements
21 that are part of the bid evaluation including that
22 the stipulation proposes that the bid process be the
23 same type as used by the FirstEnergy companies; that
24 there be, for example, a standard SSO supply
25 agreement which would mean that the bid evaluation

1 could be standardized given that all bidders would be
2 using the same supply agreement. That's it, thank
3 you.

4 Q. Is there any explicit -- anything
5 explicit in terms of bid evaluation criteria
6 contained in the stipulation?

7 A. In my view the fact that it points to the
8 FirstEnergy auction and that there's a standard SSO
9 supply agreement means that the bid evaluation
10 criteria is on a price basis.

11 Q. Where would I find that in the
12 stipulation other than what you imply from those two
13 criteria that you just mentioned?

14 A. Again, those two elements taken together,
15 if there is the same type of auction as has been used
16 by the FirstEnergy companies, that means that it is a
17 type of auction where ultimately the evaluation is on
18 a price-only basis and the stipulation also provides
19 for standard SSO supply agreement which means that
20 that price-only evaluation is made possible.

21 Q. And I'm going to find that in the SSO
22 stipulation where, ma'am?

23 Let me rephrase the question. That's
24 your interpretation of the stipulation, correct?

25 A. That's my interpretation that I don't see

1 how else the bid evaluation could be done given the
2 elements that are present in the stipulation.

3 Q. Is there anything in the stipulation with
4 regard to the treatment of aggregation?

5 Let me rephrase that. With regard to the
6 competitive bidding process is there anything in the
7 stipulation that deals with aggregation?

8 MR. NOURSE: I object. I don't
9 understand the question, it's vague.

10 MR. DARR: Again, your Honor, I'm looking
11 at the competitive bid process rules for an MRO and
12 they specifically require a requirement that deals
13 with or addresses the aggregation process. And I'm
14 asking does this document -- how does this document,
15 if it does at all, address the aggregation process.
16 And she either knows or she doesn't know. It's a
17 "yes" or "no" question.

18 MR. NOURSE: Your Honor, if he's reading
19 from a rule, he hasn't shown the witness. She
20 already stated she hasn't reviewed those rules.

21 So if we want to talk about rules and
22 language from rules, maybe she should be permitted to
23 look at what you're reading.

24 MR. DARR: If I may, your Honor. The
25 point of my question is is it in there or is it not.

1 Whether she read the rule or not is not relevant to
2 that question.

3 MR. NOURSE: We don't understand how
4 you're explaining what you're saying the rule says.
5 I object to the question. It's --

6 EXAMINER TAUBER: If you could just
7 clarify your question, Mr. Darr, a little bit and
8 then we'll allow the witness to answer it.

9 Q. (By Mr. Darr) Is there anything in the
10 stipulation that deals with community aggregation as
11 it applies to -- as is applied to the competitive
12 bidding process?

13 A. The stipulation specifies that each
14 tranche for which suppliers would be responsible
15 would be 1 percent of the SSO load and any
16 aggregation, any customer aggregation would be
17 excluded from that SSO load.

18 Q. And where would I find that in the
19 stipulation?

20 A. The 1 percent of the SSO load is one of
21 the elements that has been agreed as part of the
22 stipulation.

23 Q. 1 percent is a part of the tranche,
24 correct?

25 A. That's right.

1 MR. DARR: Nothing further, your Honor.

2 Thank you.

3 EXAMINER TAUBER: Ms. Hand?

4 MS. HAND: No questions, your Honor.

5 EXAMINER TAUBER: Mr. Nourse? Would you
6 like a few minutes for redirect?

7 MR. NOURSE: Yes, your Honor, thank you.

8 EXAMINER TAUBER: Let's go off the
9 record.

10 (Off the record.)

11 EXAMINER TAUBER: Let's go back on the
12 record.

13 Mr. Nourse.

14 MR. NOURSE: Thank you, your Honor.

15 - - -

16 REDIRECT EXAMINATION

17 By Mr. Nourse:

18 Q. Dr. LaCasse, Mr. Darr had asked you a
19 series of questions relating to your June 6th direct
20 testimony in 08-917 docket. Do you recall those
21 questions?

22 A. Yes, I do.

23 Q. In particular he had you read and had
24 questions about a portion of your answer on page 8 of
25 the testimony, correct?

1 A. That's correct.

2 Q. And I'd like to ask you about the context
3 of that full answer. Could you read the question
4 into the record that was starting at the bottom of
5 page 7.

6 A. The question was: "How do EDUs without
7 generation assets manage the shopping-related risks
8 of their SSO customers?"

9 And the answer begins with: A common
10 method used by EDUs without generation assets to
11 manage costs and risks associated with POLR
12 obligation is to transfer these risks to procure
13 supply for the SSO customers using a competitive
14 bidding process for full requirement contracts. And
15 then it's under such contracts that winning bidders
16 agree to bear the various POLR risks including
17 shopping-related risk, and then in that context a
18 competitive procurement process is used to arrive at
19 a market determination of the costs that are
20 associated with providing full-requirements service
21 and related risks.

22 Q. Okay. And would this answer apply in the
23 context of an EDU that does have generation assets
24 and be a fixed resource requirement entity?

25 A. An EDU that has generation assets would

1 not be using the same kind of competitive procurement
2 process and would not need to arrive at a
3 determination of the costs.

4 MR. NOURSE: Thank you. That's all I
5 have, your Honor.

6 EXAMINER TAUBER: Mr. Darr?

7 MR. DARR: No recross, your Honor.

8 EXAMINER TAUBER: Are there any other
9 parties with questions on recross?

10 (No response.)

11 EXAMINER TAUBER: Dr. LaCasse, you may be
12 excused. Thank you.

13 THE WITNESS: Thank you.

14 MR. NOURSE: Your Honor, I'd renew my
15 motion for admission of AEP Exhibit No. 6.

16 EXAMINER TAUBER: Any objections to AEP
17 Exhibit No. 6 which is the direct testimony of
18 Dr. LaCasse?

19 (No response.)

20 EXAMINER TAUBER: Hearing none, AEP
21 Exhibit No. 6 shall be admitted.

22 (EXHIBIT ADMITTED INTO EVIDENCE.)

23 MR. NOURSE: Ready for the next witness?

24 EXAMINER TAUBER: Sure.

25 MR. NOURSE: Okay. The companies call

1 Philip J. Nelson.

2 EXAMINER TAUBER: Please raise your right
3 hand.

4 (Witness sworn.)

5 EXAMINER TAUBER: Thank you.

6 - - -

7 PHILIP J. NELSON

8 being first duly sworn, as prescribed by law, was
9 examined and testified as follows:

10 DIRECT EXAMINATION

11 By Mr. Nourse:

12 Q. Good morning, Mr. Nelson.

13 A. Good morning.

14 Q. Can you state and spell your full name
15 for the record, please.

16 A. Philip James Nelson, P-H-I-L-I-P
17 J-A-M-E-S N-E-L-S-O-N.

18 Q. Thank you. By whom are you employed and
19 in what capacity?

20 A. Employed by American Electric Power
21 Service Corporation, I'm Managing Director of
22 Regulatory Pricing and Analysis.

23 MR. NOURSE: Your Honor, I'd like to mark
24 at this time the testimony of Philip J. Nelson as AEP
25 Exhibit No. 7 and provide a copy to the Bench, the

1 reporter.

2 (EXHIBIT MARKED FOR IDENTIFICATION.)

3 MR. NOURSE: And, your Honor, I wonder if
4 you want to deal with the motion to substitute this
5 testimony for that which was previously filed. I
6 believe you deferred ruling. Should we do that now
7 or after he's finished?

8 EXAMINER TAUBER: That motion that was
9 under abeyance, we'll grant the motion to substitute
10 testimony at this time.

11 MR. NOURSE: Thank you, your Honor. So
12 that testimony I just marked was the testimony that
13 we requested to have substituted for the prior
14 testimony of Richard E. Munczinski.

15 Q. (By Mr. Nourse) Mr. Nelson, do you have
16 the document we just marked as Company Exhibit 7?

17 A. I do.

18 Q. And is this your testimony that you're
19 prepared to adopt this morning?

20 A. It is.

21 Q. And do you have any corrections,
22 additions, or changes you'd like to discuss?

23 A. Yes.

24 EXAMINER TAUBER: Before you go into
25 that, Mr. Nourse, could we just get one more copy for

1 the Bench if you have one.

2 MR. NOURSE: One second. Let me see if
3 we can come up with one.

4 EXAMINER TAUBER: We're okay, Mr. Nourse.

5 Q. Mr. Nelson, do you have corrections or
6 revisions you'd like to make this morning?

7 A. Yes, I do. It's on page 8, first
8 correction. There's a series of numbers beginning on
9 line 4 of page 8 that continue through line 6, page 8
10 that I'll be replacing.

11 Q. Okay.

12 A. On line 4, replace the "485" with "464."
13 The next number is "771," that should be replaced
14 with "761." The "971" should be replaced with "968."
15 Then on line 5 the "242" should be replaced with
16 "232." On line 6 the "386" should be replaced with
17 "380." And finally on line 6 as well the "486"
18 should be replaced with "484."

19 I have one other correction that's on --

20 Q. Before you move on could we make sure
21 everybody's okay with those numbers.

22 MR. NOURSE: Everybody got them?

23 Q. Okay. Thank you, Mr. Nelson. Do you
24 have another change?

25 A. Yes. On page 26, on line 6, "Exhibit

1 REM-1" should now read "Exhibit PJN-1."

2 Q. Thank you. And, Mr. Nelson, just for
3 clarification, we've just distributed to the parties
4 a new or revised workpaper. Do you have that
5 workpaper with you?

6 A. I do.

7 Q. And does this workpaper update and
8 support the numbers that you had just updated on,
9 what page that was?

10 A. It does.

11 Q. Page 8, okay.

12 So with those changes, updates,
13 Mr. Nelson, if I were to ask you all the questions
14 contained in your written testimony this morning,
15 would your answers be the same?

16 A. They would.

17 MR. NOURSE: Thank you, your Honor. I'd
18 move for admission of AEP Exhibit No. 7 subject to
19 cross-examination.

20 EXAMINER TAUBER: Thank you.

21 Mr. Smalz?

22 - - -

23 CROSS-EXAMINATION

24 By Mr. Smalz:

25 Q. Good morning, Mr. Nelson.

1 A. Good morning.

2 Q. Turning to page 14 of your testimony, the
3 sentence beginning on line 18, actually specifically
4 on line 19 where it is stated "... the set-aside of
5 RPM-priced capacity shall be initially allocated on a
6 pro rata basis among the residential, commercial and
7 the industrial classes based upon projected
8 kilowatt-hour consumption for a period of
9 approximately 4 months after the filing of the
10 stipulation."

11 On page 14 of Mr. Nelson's testimony.

12 Q. Mr. Nelson, is the ultimate allocation of
13 the RPM set-aside likely to be the same as the
14 initial pro rata basis for allocation?

15 A. Those questions are better asked of
16 Company Witness Allen.

17 Q. You have no opinion one way or the other?

18 A. I don't.

19 Q. Turning to page 22 of your testimony and
20 the bullet point beginning on line 16 where you
21 discuss the pool termination/modification rider, you
22 note that there's an initial rate of zero. Is it
23 AEP Ohio's expectation that eventually the rate will
24 be something other than zero?

25 A. At this point I don't know that we have

1 an expectation. Obviously, the threshold would have
2 to be met before we come in for a filing, a threshold
3 is about 50 million as I recall, so I would say at
4 this point I really don't have an expectation one way
5 or the other.

6 Q. And, to your knowledge, has AEP Ohio done
7 any projections or analysis as to the likelihood of
8 that \$50 million threshold being exceeded?

9 A. Not at this time because we really need
10 to find out what replaced the pool, and of course
11 that would be subject of the FERC filing and
12 negotiations with various stakeholders and various
13 state commissions. So we really don't know at this
14 point what may replace the pool, so there's not a lot
15 of point at this time in modeling it though, you
16 know, we will seek to do that obviously as we go
17 forward. And this provision of the stipulation
18 requires us to come back in before the Commission and
19 make a filing, so that's about where we are at the
20 moment.

21 Q. I see. And so, Mr. Nelson, has AEP Ohio
22 done any analysis as to the potential maximum amount
23 of the PMR rider, with the maximum exposure, the
24 maximum value?

25 A. We haven't done any real sophisticated

1 analysis. It would have to be, in my opinion it's
2 going to be maxed out at some point because we're
3 really talking about replacement of AEP Ohio's
4 capacity receipts, so it would have a cap. However,
5 I would expect that we'd be able to mitigate the loss
6 of capacity revenues through additional sales to
7 affiliates perhaps and nonaffiliates and sales into
8 market, but we can't really put a number to it at
9 this point.

10 Q. I see.

11 MR. SMALZ: No further questions, your
12 Honor.

13 EXAMINER TAUBER: Thank you.

14 Ms. Grady?

15 MS. GRADY: Thank you, your Honor.

16 - - -

17 CROSS-EXAMINATION

18 By Ms. Grady:

19 Q. Good morning, Mr. Nelson.

20 A. Good morning.

21 Q. Now, you discuss, do you not, Mr. Nelson,
22 a little bit about the RPM-based rate set-aside in
23 your testimony starting at page 12?

24 A. Yes, I do.

25 Q. Now, is it your understanding that the

1 allotments by class have already been done for this
2 year with respect to 2012 RPM set-asides?

3 A. Again, that would probably be a better
4 question for Mr. Allen. I'm not real familiar with
5 that, the class set-asides.

6 Q. So you wouldn't know whether the
7 set-asides had already been done for 2012.

8 A. No. That's not an area that I cover in
9 any detail.

10 Q. Would you be aware, Mr. Nelson, of what
11 happens in 2013 related to the allocation of the
12 energy allotments at the RPM price?

13 A. No. Again, I'm not the witness to answer
14 that.

15 Q. Do you have an understanding of whether
16 the cap for 2012 includes customers who have already
17 shopped?

18 A. Again, I wouldn't want to put out my
19 thoughts because if they're in conflict with another
20 witness of the company that knows much more about
21 this, I'd rely on them anyway.

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

24 EXAMINER TAUBER: Thank you.

25 Mr. Lang.

1 MR. LANG: Thank you, your Honor.

2 - - -

3 CROSS-EXAMINATION

4 By Mr. Lang:

5 Q. Good morning, Mr. Nelson.

6 A. Good morning.

7 Q. Mr. Nelson, you are adopting the
8 testimony that was originally drafted by
9 Mr. Munczinski, correct?

10 A. That's correct.

11 Q. And Mr. Munczinski is your boss at
12 AEP Ohio?

13 A. He's a service corp employee as an I.

14 Q. So he's your boss at AEP Service
15 Corporation.

16 A. That's correct.

17 Q. And he is senior vice president of
18 regulatory services for AEP Service Corporation; is
19 that correct?

20 A. That sounds correct.

21 Q. It's true that you did not have a role in
22 the preparation of his testimony.

23 A. No, I don't recall a role in that.

24 Q. And is it correct that he became
25 unavailable to testify today because of a family

1 medical issue?

2 A. That's correct.

3 Q. So he's unable to testify today.

4 A. That's correct.

5 MR. NOURSE: Your Honor, I object to the
6 term "unavailable" as it's used in the civil rules.
7 Mr. Nelson was substituted as a witness and he is
8 adopting the testimony, so that motion I believe was
9 already granted. We're not dealing with an
10 unavailable witness that's not appearing, your Honor.

11 MR. LANG: Your Honors, I think there was
12 a question, there was an answer, and I'm planning on
13 moving on.

14 EXAMINER TAUBER: The objection is noted.
15 Go ahead.

16 Q. (By Mr. Lang) Mr. Nelson, I'd like to --

17 A. Well, I hadn't quite finished my answer.
18 I started to say something, but the discussion
19 happened. I don't know that he's unavailable; I
20 wanted to clarify that. He was, you know, the
21 medical issue resulted in my submitting this
22 testimony.

23 EXAMINER TAUBER: Thank you.

24 Q. I'd like to take you to page 11 of the
25 stipulation, paragraph IV.1.q which deals with

1 corporate separation provisions. Mr. Nelson, do you
2 agree that the Commission's order approving the
3 stipulation will serve as the Commission's approval
4 of full legal corporate separation?

5 A. Yes, on a practical basis we would hope
6 that the approval of the stipulation would also serve
7 as the Commission's approval of full corporate
8 separation, however, there is the other filing that
9 we made which, you know, the Commission will look at,
10 I assume, and set a schedule, we would hope that that
11 ruling would come out about the same time as their
12 approval of the stipulation.

13 Q. And it's your opinion that the
14 Commission's order approving the stipulation, to the
15 extent that order is issued, would also include
16 approval of the transfer of generating assets except
17 for any future GRR assets.

18 A. Yes. That would be the intention, that
19 they would go ahead and approve of transfer of those
20 assets. Of course, there is also a FERC filing that
21 needs to be -- also deals with the transfer of
22 assets.

23 Q. And that was my next question. So the
24 transfer of the assets won't occur until after FERC
25 approval of the corporate separation and pool

1 termination; is that correct?

2 A. I think you threw in the pool termination
3 issue which we haven't discussed as of yet.

4 THE WITNESS: Could I have the question
5 read back, please?

6 (Record read.)

7 A. We need, I believe we need FERC approval
8 to do the corporate separation and the transfer of
9 assets, and I would expect that the pool termination
10 would be concurrent with that approval.

11 Q. Now, in this stipulation provision on
12 page 11 there's a reference to full legal corporate
13 separation will be implemented as soon as reasonably
14 possible after other necessary approvals are
15 obtained. What are the other necessary approvals?

16 A. Well, I think one of them is the FERC
17 approval. I don't know if that, you know, just
18 reading this section, I didn't see the FERC approval
19 mentioned there. There may be some other approvals
20 needed, permits, things like that that are
21 administrative type matters. I'm not aware of all
22 the approvals of those sorts that are needed, but
23 primarily you're looking at the approval of this
24 Commission as well as the approval of FERC to
25 accomplish the corporate separation.

1 Q. In terms of regulatory approvals, you're
2 not aware of any other regulatory approvals required
3 other than the approval of this Commission and FERC;
4 is that right?

5 A. I believe that's correct. I'm not an
6 attorney, obviously, and there may be some other
7 approvals needed, but I don't believe so, from other
8 regulatory bodies, at this time.

9 Q. Now, also in the stipulation there's a
10 reference to AEP Ohio providing notice to PJM in
11 March of 2012 that it intends to participate in the
12 2015-'16 base residual auction. That reference to
13 the base residual auction, that's the RPM capacity
14 auction, right?

15 A. Yes.

16 Q. And AEP Ohio's commitment to provide
17 notice to PJM this coming spring is not contingent
18 upon Commission approval of the compliance filing
19 made in Case No. 11-5333; is that correct?

20 A. It certainly is contingent upon approval
21 of the corporate separation plan and the stipulation.

22 Q. So it's not contingent upon that, the
23 compliance filing which, as the Hearing Examiner said
24 this morning, will be put on its own schedule,
25 correct?

1 A. I would think it would be. I mean, we
2 have to have the approval of this Commission for
3 corporate separation and I would fully expect the
4 Commission to have ruled on that additional case in
5 that time frame so that we can make the election as
6 you've mentioned here. So I would fully expect that
7 we need both of those things done in the sense that
8 if it's just an administrative matter, that's one
9 thing, if it's unclear that we have approval for full
10 corporate separation as envisioned by the
11 stipulation, that would be a problem and we'd need
12 that before making the selection.

13 Q. So is it AEP Ohio's position that in
14 order to provide notice to PJM in March of 2012 as
15 provided in the stipulation, AEP Ohio needs two
16 orders from the Commission, it needs the order
17 approving the stipulation and full legal corporate
18 separation as provided in the stipulation, and in
19 addition to that AEP Ohio also requires approval of
20 the filing, the compliance filing, made in case
21 11-5333?

22 A. I'm not an attorney, but I would expect
23 that they -- we would like to have both those orders
24 before we make that election, yes.

25 Q. Well, let me ask it a different way just

1 so that we're clear on what AEP Ohio's position is.
2 If AEP Ohio does not have an order from the
3 Commission approving the compliance filing in Case
4 No. 11-5333 by March of 2012, is it AEP Ohio's
5 position that it will not give notice to PJM that it
6 will participate in the base residual auction for
7 2015-'16?

8 A. Again, I'm not an attorney, but I think
9 that the concept is that if there's any doubt that
10 the Commission is going to go forward with the
11 corporate separation, the approval of corporate
12 separation, as laid out in this stipulation and we
13 didn't have an order, I think that would be a problem
14 and we probably wouldn't go ahead with that election
15 if there was any doubt that they weren't going to
16 ultimately approve corporate separation.

17 Q. If the Commission approves, as the
18 stipulation language says, full legal corporate
19 separation in its order in this case, what doubt
20 would you have?

21 MR. NOURSE: Your Honor, I object. He's
22 asked this about three times at least and
23 Mr. Nelson's explained his best understanding. He's
24 really asking about an undefined order and an
25 undefined second order or lack of second order. So I

1 don't think Mr. Nelson can clarify this any further.
2 He's answered it three times already.

3 MR. LANG: That was a new question, your
4 Honor.

5 EXAMINER TAUBER: Your objection is
6 overruled. Please ask the question again, Mr. Lang.

7 MR. LANG: Could I have it read?

8 (Record read.)

9 A. I'm not sure I'd have a doubt. It would
10 depend upon, you know, how the other case developed
11 perhaps, but I would assume that if the Commission
12 went ahead and approved the stipulation, their
13 intention was to approve corporate separation as has
14 been laid out. So...

15 Q. Do you agree that providing notice to PJM
16 in March of 2012 is not contingent upon completing
17 pool termination?

18 A. That's correct.

19 Q. And giving notice to PJM in March of 2012
20 is not contingent upon completing corporate
21 separation.

22 A. That's correct.

23 Q. So based on those answers, if the
24 Commission approves the stipulation as filed in this
25 case, your understanding is that AEP Ohio will

1 participate in the RPM capacity auction that begins
2 in planning year 2015-'16.

3 MR. NOURSE: I object, your Honor. Not
4 only is it repetitive, but he's asking for a
5 hypothetical without explaining the key parameters of
6 whether or not orders exist in the other case, the
7 5333 case; if there is an order, what does it say.

8 MR. LANG: And, your Honors, it would be
9 nice to hear an objection that doesn't coach the
10 witness.

11 MR. NOURSE: Well, I'm objecting to the
12 question.

13 EXAMINER TAUBER: Your objection is
14 overruled.

15 Please continue, Mr. Lang.

16 Q. (By Mr. Lang) Based on your previous
17 answers, if the Commission approves the stipulation
18 in this case, approves it without modification so you
19 get what you asked for, is it your understanding that
20 AEP Ohio will participate in the RPM capacity auction
21 beginning in planning year 2015-'16?

22 A. That would be my expectation, that we
23 would proceed with that if they approved the
24 stipulation in full and it's clear that corporate
25 separation is approved by this Commission and we

1 would move forward with the auction election.

2 Q. And by participate in that, in that
3 auction, that means that AEP Ohio's load will be put
4 into the auction; is that right?

5 A. Yes. We would be a participant in the
6 RPM auction in the years specified in the
7 stipulation. We would make that election to be an
8 RPM participant.

9 Q. Which AEP Ohio units would be bid into
10 the auction is at this point an open question; is
11 that right?

12 A. Yes.

13 Q. And that open question will be resolved,
14 AEP hopes, in the FERC proceedings; is that right?

15 A. Yes. It could be. What could happen, of
16 course, is we may end up committing some of the
17 AEP Ohio resources to other members of the current
18 pool, that's a for example. And we would probably
19 make a proposed FERC filing and what we would
20 propose, and at this time I really don't know if, in
21 fact, those units will be committed, there will be a
22 contract to other members of the pool, for example,
23 or some other treatment, and so it's a little
24 uncertain at this time. That will be clarified a bit
25 when we make our filing.

1 Obviously, there will be negotiations
2 after we make our FERC filing.

3 Q. Well, in fact, with regard to the future
4 proceedings at FERC AEP Ohio will be having
5 discussions with the stakeholders who are anticipated
6 to participate in those proceedings, correct?

7 A. Yes. We envision meetings with various
8 stakeholders including, of course, this Commission,
9 the other state commissions, and potentially other
10 stakeholders in those states.

11 Q. And with regard to pool termination,
12 you've already started that process, right?

13 A. Yes, we've had some conversations.

14 Q. You've had conversations with one or more
15 stakeholders including other state utility
16 commissions.

17 A. Yes, we have.

18 Q. And you've also had discussions with
19 representatives of industrial groups.

20 A. Yes.

21 Q. Now, one or more of those stakeholders
22 could make a claim on AEP Ohio generating assets or
23 capacity as part of those FERC proceedings, correct?

24 A. I can't say whether they will make a
25 claim. I don't know if they have a legitimate claim

1 on those assets, but they may have some -- they may
2 make a claim, we wouldn't agree that they do have a
3 claim on those assets.

4 Q. And at this point we don't know what
5 claims may be made by those stakeholders in that
6 process, correct?

7 A. We don't know that specifically. I'm not
8 sure they will make any claims. Obviously, what we
9 want to do is work with all the parties and the state
10 jurisdictions, commissions, and so forth and get a
11 resolution that works for the company and works for
12 all the operating companies within the East as well
13 as stakeholders in those states.

14 Q. Mr. Nelson, you agree, do you not, that
15 an order from this Commission requiring the transfer
16 of assets to AEP Genco would be beneficial in the
17 FERC proceedings?

18 A. Yes, it would.

19 Q. You also agree it would be best for this
20 Commission to be prescriptive as to the terms of
21 corporate separation so that the FERC understands
22 Ohio's position.

23 A. I don't know that they need to be
24 prescriptive.

25 Q. With regard to the pool termination, each

1 member of the pool gave notice in, when was it,
2 December of 2010?

3 A. That's correct.

4 Q. And that notice given in December of 2010
5 was to terminate the interconnection agreement
6 between the parties which is generally referred to as
7 the pool agreement; is that right?

8 A. That's correct.

9 Q. So, obviously, pool termination was not
10 prompted by the stipulation that we're here for
11 today.

12 A. No, it wasn't. We envisioned pool
13 termination occurring without the stipulation.

14 Q. And AEP Ohio and the other members of the
15 pool have their various business reasons for giving
16 notice of the pool termination in December of 2010.

17 A. Yes.

18 Q. The termination notice is effective on
19 January 1, 2014, for thereafter; is that right?

20 A. That's correct. It's not less than three
21 years' notice from the, I think the preceding
22 calendar year. I can read the exact language. But
23 effectively it is January 1st, 2014, or later.

24 Q. Do you agree that there are benefits of
25 aligning the termination date with the PJM planning

1 year that starts June 1?

2 A. There would potentially be some benefits
3 around aligning with the PJM planning year, though
4 I'm not sure those benefits are overwhelming in any
5 sense, but there would be some benefits in doing
6 that.

7 Q. But it would be AEP Ohio's preference to
8 terminate the pool effective June 1, 2014, or
9 May 30th, 2014, assuming you have FERC approval by
10 then.

11 A. Well, absent the stipulation that was our
12 original kind of schedule and plan. The stipulation,
13 I think, requires us to move expeditiously so we may
14 try to accomplish those things in advance of that.

15 Q. So if you receive FERC approval in 2013,
16 is it your plan to terminate the pool prior to
17 January 1, 2014?

18 A. Well, coupled with everything else that
19 needs to be done including the corporate separation,
20 and if the whole package is approved, we would move
21 forward with terminating the pool and executing
22 corporate separation in advance, perhaps, of the
23 January 1st, 2014, date.

24 Q. Stakeholder discussions that you've had
25 to date with regard to pool termination have included

1 discussions with the Virginia and West Virginia
2 Utility Commissions and also the Indiana Utility
3 Commission; is that right?

4 A. Those are the states that I personally
5 met with. I think we've also, as AEP, have talked
6 with the Ohio Commission and we have had discussions
7 with Kentucky as well I believe. But the ones you
8 mentioned, Indiana, West Virginia, and Virginia, were
9 the three that I personally met with representatives
10 of.

11 Q. And in those discussions the impact of
12 pool termination on rates is a major concern in each
13 jurisdiction, correct?

14 A. It is.

15 Q. And meeting reserve requirements in those
16 different states is also a concern, correct?

17 A. Yes. Integrated resource planning and
18 all that goes with it would be a concern of the state
19 commissions.

20 Q. That would be particularly true in
21 Virginia and West Virginia because Appalachian Power
22 is short on both capacity and energy, correct?

23 A. Yes. Particularly with respect to those
24 jurisdictions, I don't want to dismiss the other
25 jurisdictions, they may have concerns as well, but I

1 think since they are -- Appalachian Power is a very
2 large company that's in a short position and covers
3 those two states that certainly we've heard a lot
4 from them on this topic.

5 Q. Now, the goal in this process is to have
6 the corporate separation and pool termination occur
7 at the same time, correct?

8 A. I think that would be a reasonable goal
9 and our expectation.

10 Q. And part of that plan is to have the
11 merged Ohio Power -- just to back up, the merger of
12 Columbus Southern and Ohio Power you expect will
13 occur well in advance of the corporate separation and
14 pool termination, correct?

15 A. Yes. I would expect that to occur
16 shortly after approval of the stipulation by the
17 Commission, hopefully it will be this year.

18 EXAMINER SEE: Mr. Nelson, you trailed
19 off in your response so I'm going to need you to
20 slide the mic a little closer. Thank you.

21 THE WITNESS: Would you like me to repeat
22 the --

23 EXAMINER SEE: No.

24 THE WITNESS: Okay.

25 Q. That sounds good. So the corporate

1 separation plan is to have the merged Ohio Power
2 transfer its generating assets to a new entity called
3 AEP Genco.

4 A. Well, that's a placeholder name, we don't
5 know the actual name yet but, yes, that's the
6 concept.

7 Q. You may have a fancier name but for
8 purposes of your testimony today we're referring to
9 that new entity as AEP Genco.

10 A. That's correct.

11 Q. Do we know yet in which state AEP Genco
12 will be incorporated?

13 A. I don't.

14 Q. Ohio Power would transfer its assets to
15 AEP Genco at the net book value as reflected on FERC
16 Form 1; is that correct?

17 A. Yes. We would envision it would be at
18 book value.

19 Q. And depending upon the outcome of the
20 FERC proceedings regarding corporate separation and
21 pool termination there could be a subsequent transfer
22 from AEP Genco to another AEP affiliate or to a third
23 party, correct?

24 THE WITNESS: Could I have that question
25 repeated?

1 (Record read.)

2 A. Well, I would think that it would --
3 transfer, if you're saying that's also a sale, that
4 would be fine. But once we've separated the
5 generation out, then there are those possibilities
6 that we could then, for example, transfer a plant,
7 say, to Appalachian Power Company to shore up their
8 reserve margin, et cetera. So that could happen
9 subsequent to the initial transfer from AEP Ohio to
10 the AEP Genco.

11 Q. And that is one of the issues to be
12 addressed in the FERC proceedings, is rebalancing of
13 the assets between the members of the AEP pool.

14 A. Yes. I think in our filing we would try
15 to address that, if we have a plan to offer contracts
16 in replacement of the existing pool or have a plan
17 that would transfer assets or sell assets to an
18 affiliate, we would file that with the corporate
19 separation filing. It may not be concurrent, but I
20 would think it would occur about the same time.

21 Q. Is it also possible as part of those
22 proceedings that the parties could agree to transfer
23 assets directly, generation assets directly from Ohio
24 Power to one of the other AEP affiliates such as
25 Appalachian Power or Kentucky Power?

1 A. And I assume you're calling AEP Ohio is
2 the existing AEP Ohio with the bundled company, and
3 your question is would we envision transferring
4 directly from that entity to the, say, Appalachian or
5 Kentucky Power.

6 Q. Right. And to clarify, since we were
7 using the terms before, from the merged Ohio Power to
8 Kentucky Power or Appalachian Power.

9 A. I wouldn't envision that would be the
10 actual structural step. It could happen, I guess,
11 but I would think the first step would be to transfer
12 the generating assets to the AEP Genco and then there
13 might be subsequent transfers out of that, out of the
14 Genco to affiliates, for example. I believe that the
15 first step would be to transfer all the assets into
16 the Genco.

17 Q. Now, several of the assets to be
18 transferred to AEP Genco are co-owned by other
19 entities, correct?

20 A. Yes, they are.

21 Q. An example is Amos Unit 3 which is
22 co-owned with Appalachian Power, correct?

23 A. Yes.

24 Q. There's also co-ownership of units or in
25 some cases of plant facilities involving the Sporn

1 facility and the Cardinal facility; is that correct?

2 A. Yes. Sporn, for example, has five units
3 and I think three of them are owned by Ohio Power,
4 two by Appalachian Power Company. And so it's a
5 jointly-owned plant, the units are individually owned
6 in that instance.

7 With respect to Cardinal, AEP Ohio would
8 own Cardinal Unit 1, Buckeye Power owns Cardinal
9 Units 2 and 3, and then, again, there would be some
10 common facilities that might be involved with that
11 situation.

12 Q. And you also mentioned in your deposition
13 co-ownership with the CCD partners. Can you explain
14 what that is?

15 A. Yes. That's a long-standing joint
16 ownership that CSP had with I think it was Cincinnati
17 Gas & Electric at the time and Dayton Power & Light,
18 and that involves the Beckjord units, Zimmer, and
19 Stuart units, I believe.

20 Q. Now, with regard to each co-ownership
21 situation your understanding is that AEP -- that Ohio
22 Power, the merged Ohio Power, will transfer those
23 assets to AEP Genco, correct?

24 A. Yes. Since AEP Ohio, the merged company,
25 would have ownership of those units, joint ownership

1 just like they have in the other units we've been
2 talking about or the fully owned units, they would
3 transfer those jointly-owned units as well to this
4 AEP Genco.

5 Q. Now, in that situation where you have
6 units that are co-owned by AEP Genco and another
7 regulated utility either in Ohio or another state,
8 how will capital investment decisions be made for
9 those generating units?

10 A. Could you repeat the question? I want to
11 get your premise first.

12 MR. LANG: Maria, can you help me out?

13 (Record read.)

14 A. I'm not sure what you mean by "capital
15 investment decisions." Could you clarify a bit?

16 Q. For example, if there's a -- let's take,
17 as an example, a unit that needs a major
18 environmental upgrade, so a unit may need to spend,
19 you know, the plant may need \$400 million of capital
20 investment for an environmental upgrade. Taking as
21 that example, you have AEP Genco co-owning a plant
22 with, say, Appalachian Power, which is a regulated
23 utility in another state, how are those decisions
24 going to be made between those co-owners?

25 MR. NOURSE: Your Honor, I just object

1 for relevance. We're getting pretty far afield here.

2 EXAMINER TAUBER: Your objection's
3 overruled.

4 A. How would those decision be made? With a
5 lot of discussion most likely. I think you used the
6 affiliate example with Amos 3, right? So there would
7 be discussions that would occur between joint owners
8 of plants, that's pretty typical, and that occurs, of
9 course, with joint owners that are nonaffiliates as
10 well.

11 But there usually is an operating
12 agreement for a particular unit and it's typical that
13 one entity or another would tend to make initial
14 decisions around that based on the operating
15 agreement of that unit. Of course, it would be made
16 probably at the, if some of this stuff is significant
17 enough, it would be made at the board of directors
18 level or some company board level.

19 Q. Now, at this point in time we don't know
20 sitting here today which plants or units, if any,
21 will be transferred as a result of the FERC
22 proceedings, correct?

23 A. No. We'll put out a plan when we make
24 our FERC filing, so that hasn't been determined yet.
25 We do know that there's, as you talked about before,

1 you know, Appalachian Power Company is a short
2 company in the pool, they've been buying a lot of
3 power from AEP Ohio for some years under that, so we
4 know they do have a deficit that they'll need to
5 replace.

6 And I would expect that, you know, we
7 would look at that deficit and propose a solution
8 which may involve a contract or an asset sale, unit
9 power type sale, there's a lot of options, but one of
10 the things we'll need to do, of course, is to discuss
11 this prior to the FERC filing with the other
12 jurisdictions. But we would address that in the FERC
13 filing, and we haven't yet made those decisions.

14 Q. Now, the first step that you described,
15 the transfer from Ohio Power to the AEP Genco, would
16 be a transfer using the net book value of that asset,
17 correct?

18 A. Well, I don't want to get hung up too
19 much on net book value. The transfer will be a book
20 which has a meaning to accountants and so forth, but
21 generally that's a good description, net book value.
22 We just keep it on a general basis. But it's what
23 the assets are reported at in the books of the
24 company. And when you say "net book," I assume
25 you're talking about accumulated depreciation and so

1 forth and that would generally be the concept, yes.
2 But I don't want to put too much weight on "net book"
3 value. It's going to be a book value transfer, yes.

4 Q. If there's a transfer of units from AEP
5 Genco to another AEP affiliate, that transfer, your
6 understanding is, would also occur at book, correct?

7 A. I would envision it at book, yes, at this
8 time. But, again, we haven't, you know, someone
9 besides me may have a say in that. But I would
10 envision book value would be the transfer.

11 Q. If there's a transfer from AEP Genco to
12 an unaffiliated company, let's take Exelon as an
13 example wants to buy one of the units, that transfer
14 would not be at book, correct?

15 MR. NOURSE: Your Honor, I object again
16 for relevance. These further transfer examples go
17 beyond what is being asked for in this case and the
18 separate application which is asking for a transfer
19 to AEP Genco only. So I don't think any of these
20 future hypothetical examples are relevant.

21 EXAMINER TAUBER: Mr. Lang.

22 MR. LANG: Your Honor, it goes both to
23 the circumstances of the corporate separation and
24 pool modification proceedings at FERC which this
25 witness is talking about, and specifically goes to

1 the issue of the value and the impact on Ohio
2 customers of these plants being transferred from the
3 utility to the competitive entity and the situation
4 in which the utility is left and the competitive
5 entity is left after that transfer as a result of
6 corporate separation.

7 EXAMINER TAUBER: Mr. Lang, I think
8 you're getting a little bit off course. The
9 objection is sustained. If you could continue,
10 please.

11 Q. With regard to the assets that in your
12 testimony it says will be transferred to AEP Genco,
13 you do not have -- AEP Ohio does not have any recent
14 appraisals for any of those units, correct?

15 A. I'm not aware of anything they have,
16 appraisals, I'm not aware of.

17 Q. And you also don't have a completed study
18 or review for any of the units that estimates market
19 value, correct?

20 A. I'm not aware of a completed review that
21 estimates market value. Of course, you know, there's
22 a lot of analysis done at AEP and market value is
23 dependent upon a lot of assumptions and so forth, but
24 has anyone done that sort of analysis? Perhaps, but
25 I'm not aware that there's a completed evaluation in

1 terms of a market value for plants.

2 Q. Well, isn't it true you've asked for it
3 but you don't have it yet?

4 A. I think we would look at those type of
5 things, yes, in the process of corporate separation.
6 I would assume that we would go ahead and look at
7 those type of issues. I think it's prudent business
8 practice to do some analysis like that.

9 Q. Your answer was that you would look at
10 it. My question to you was you have asked for those
11 market value estimates already, they just haven't
12 been completed yet, correct?

13 A. Yes. We've -- as part of corporate
14 separation, we're looking at that.

15 Q. Now, AEP Ohio has not filed any market
16 value estimates, appraisals, valuations in this
17 proceeding or in the compliance proceeding in Case
18 No. 11-5333, correct?

19 A. No. I'm not aware of any market values
20 filed in those proceedings, this proceeding or that
21 proceeding.

22 Q. And it is not AEP Ohio's intent at this
23 time to file any market value information for these
24 generating assets in either proceeding, correct?

25 A. I don't -- I can't answer that myself,

1 but I wouldn't think we would. I don't see the
2 relevance. We believe the transfer would occur at
3 book.

4 Q. And, in fact, in the 11-5333 filing
5 you've asked for a waiver from the Commission rule
6 requiring filing of market information, correct?

7 A. I think it might have been written a
8 little differently, that we were asking for a waiver
9 and we're going to do the transfer at book. I don't
10 have the filing in front of me, but if you do, I
11 could take a look at it.

12 Q. Well, that was -- one second.

13 In your Exhibit PJN-1 at page 4, so in
14 your testimony in this proceeding, you state that
15 you're seeking a waiver to the extent necessary of
16 the Commission's rule requiring filing of market
17 value information; is that right?

18 A. Yes, we're seeking -- well, we're seeking
19 waiver of Administrative Code Rule
20 4901:1-37-09(C) (1).

21 Q. And are you familiar with what that rule
22 says?

23 A. No, not specifically to the question
24 you're asking.

25 Q. Now, your testimonial addresses the pool

1 modification rider that is included in the
2 stipulation, correct?

3 A. It does.

4 Q. And this rider authorizes AEP Ohio to
5 pursue cost recovery of the impact of pool
6 modification if the impact is more than \$50 million
7 prior to May 31, 2015; is that correct?

8 A. Yes. The stipulation says if full impact
9 of the modification/termination on AEP Ohio during
10 the ESP term is greater than 50 million prior to
11 May 31st, 2015, the company may pursue cost recovery
12 for the entire impact over the ESP term in a separate
13 rider.

14 Q. So this is clear, if the impact is, say,
15 \$60 million, if AEP Ohio determines that the impact
16 is \$60 million, then in that case AEP Ohio may seek
17 cost recovery of \$10 million or 60 million.

18 A. The stipulation would say that we can
19 seek recovery of the full 60 million. However, of
20 course, that's subject to a future filing and debate.

21 Q. So once the threshold is reached, then
22 the full amount starting at dollar 1 is what becomes
23 an issue.

24 A. Yes.

25 Q. Your understanding is that there is not a

1 deadline in this language in the stipulation that
2 you've just been referencing for filing the
3 application for cost recovery that's related to the
4 pool modification rider, correct?

5 A. I don't see any deadline for the filing
6 of that application, no.

7 Q. So for this pool modification rider to
8 have some -- to be implemented, the first step is
9 that AEP --

10 A. Well, let me qualify that because it says
11 during the term of the ESP, the ESP term. By a
12 separate RDR application during the ESP term.

13 Q. So the application would have to be filed
14 prior to May 31, 2016; is that correct?

15 A. Yes, I believe that's the ESP term.

16 Q. So the first step in this process would
17 be AEP Ohio making the determination that the impact
18 is greater than \$50 million, right?

19 A. Yes.

20 Q. And then if AEP Ohio makes that
21 determination, AEP Ohio would seek recovery of all
22 pool modification costs incurred through the end of
23 the ESP term which is May 31, 2016.

24 A. Well, I don't want to get too far into
25 what we may file that far in the future. I don't

1 think the stipulation lays those details out. We
2 will come in with a filing which will be subject to
3 Commission review and decision. So I don't want to
4 get into specifically terms of something we may file
5 in the future.

6 There are some terms laid out in the
7 stipulation, but I think they're pretty clear.

8 Q. Now, with regard to what may happen with
9 regard to this pool modification rider, you don't
10 have any documents at this point in time that discuss
11 or estimate the potential impact of the pool
12 modification on AEP Ohio, correct?

13 A. That's correct. We really don't know the
14 effect of the pool termination rider until we go
15 through the FERC process and, of course, get this
16 case resolved.

17 Q. The current AEP Ohio pool capacity
18 revenue on an annual basis is between 350 and
19 400 million dollars; is that correct?

20 A. Well, it depends on what period you're
21 looking at. You know, it varies, but I'd say, you
22 know, that range is probably reasonable. It has been
23 higher than 400 million in the past, it's been lower
24 than 350 million, but that's -- it does vary because
25 of circumstances like changes in MLR, changes in

1 investment, investment rate and so forth. So it can
2 vary a bit. But generally that's a, I haven't looked
3 at it recently, that might be an appropriate range.

4 Q. So that's the pool capacity revenue on an
5 annual basis.

6 A. Well, since we haven't really put a
7 number in front of us with a specific calculation,
8 but I would say it is a 12-month figure, whether
9 you're saying it's an annualized number, the most
10 recent pool capacity for one month annualized
11 multiplied by 12 or a 12-month ended figure, you
12 know, we haven't defined that. But if your question
13 is and does that represent 12 months' worth of pool
14 capacity charges in general, that's fair.

15 Q. Now, with that explanation is it fair to
16 say that the impact of pool modification on AEP Ohio
17 as addressed in the -- as may be addressed in the
18 future under the pool modification rider could be
19 greater than \$500 million?

20 A. From my experience I wouldn't expect
21 that, no. I wouldn't expect it. Again, we haven't
22 made the filing. We'd have to look at what occurs in
23 the period, but I wouldn't expect that.

24 Q. Now, you say you wouldn't expect that,
25 but you don't have any estimates of what it may be at

1 this point, correct?

2 A. Let me back up because I may have
3 misunderstood your previous question. Were you
4 talking about the pool capacity receipts of Ohio
5 Power Company, AEP Ohio?

6 Q. Well, that is a good clarification. The
7 impact on the pool capacity receipts, with that
8 clarification, of AEP Ohio resulting from pool
9 modification, would you agree that that could be
10 north of 500 million?

11 A. I wouldn't envision pool capacity
12 receipts -- the first thing that happens is you've
13 got a short company, CSP, merged with a long company,
14 Ohio Power Company, and we've never exceeded -- Ohio
15 Power alone, which would have pool capacity receipts
16 has never exceeded or come close to that sort of
17 number.

18 Then you also have the fact that you're
19 merging a short company and a long company so that
20 tends to bring the net receipts down just for that
21 happenstance.

22 I wouldn't expect that pool capacity
23 receipts in the future would be in that sort of
24 range. Now, you know, I can't guarantee that, but
25 that wouldn't be my expectation. We might talk more

1 in the range you were talking earlier, might be in
2 some 300 to 400 million, it might be the capacity
3 receipts.

4 Now, of course, the pool termination
5 rider is not really seeking a recovery of the lost
6 receipts, it's seeking lost receipts versus what you
7 may replace that with. So that's the part of the
8 calculation that we wouldn't know at this point
9 because that's dependent upon, you know, what is
10 ultimately decided with respect to modification of
11 the pool. If we were able to, for example, sign up
12 more wholesale sales, affiliate and nonaffiliate,
13 that would offset that number.

14 So there's various ways to offset that
15 number, what we're talking about is a net number, so
16 that's the number that at this point we really
17 couldn't estimate for the fact, as I mentioned, that
18 we don't know what is going to in fact replace the
19 pool going forward because that depends on a lot of
20 discussion, our filings, litigation perhaps, and
21 hopefully a quick resolution of the issues.

22 Q. Let me ask a question about the
23 calculation and assume -- assume the pool termination
24 occurs for purposes of this question on June 1 of
25 2013. Is the impact of the modification in that case

1 looking at the entire period from June 1, 2013,
2 through June 1, 2016?

3 A. Again, we haven't prepared the filing,
4 but in a test year concept I think we'd look at the
5 annual effect of that and we would pick a test year,
6 a test period to look at determining what, you know,
7 the pool revenues were in that test period compared
8 to what we ended up with in terms of the
9 modification, net those numbers, and then it would be
10 an annual number that we would seek recovery of.

11 But, again, that's a general description.
12 That's general type ratemaking. You usually develop
13 annual rates, those rates would tend to stay in
14 through the term of the ESP; that's my concept. But,
15 again, there's a lot of unknowns at this point so I
16 don't want to prejudice any filing.

17 Q. That's what I'm trying to understand is
18 the stipulation language says "the entire impact
19 during the ESP term." And then in my example you
20 would have three years remaining in the ESP term, but
21 is your answer that you're not looking at the impact
22 over that three-year term, you're looking at the
23 impact over a 12-month period?

24 A. Yeah, generally in ratemaking you usually
25 talk about annual effects, so, you know, if you get

1 an annual increase in revenue of \$50 million in a
2 rate case, you usually don't say, well, I'm going to
3 get 50 million for the next 30 years and do that math
4 multiplication. So I tend to look at it in terms of
5 annual impact, if that answers your question.

6 Q. That certainly could make a substantial
7 difference on the interpretation of this provision if
8 the annual impact is, say, \$200 million but you have
9 three years, you're talking about, you know, does
10 this rider -- is the issue in this rider going to
11 involve \$200 million or is it going to involve
12 \$600 million.

13 A. Again, the stipulation doesn't address
14 all these issues, they're the subject of a filing, if
15 in fact we need to make a filing. You know, there's
16 some possibility, obviously, that we don't meet that
17 threshold or we decide not to make a filing, so it's
18 very subjective at this point whether there will be
19 any additional charges under this provision of the
20 stipulation.

21 And we're getting into too much of a
22 hypothetical mode. I don't want, as I said, we
23 haven't done any analysis. I don't know what our
24 filing would look like at this point. So we do have
25 the stipulation and it means what it means, you can

1 read the language. I don't want to get into the next
2 filing which is down the road and, again, we don't
3 even know there is going to be a filing at this
4 point.

5 Q. And, Mr. Nelson, with all due respect I'm
6 reading the language. I'm just trying to understand
7 the language. So with regard to my example of, you
8 know, whether it's 200 million or 600 million, is
9 your answer simply that that's not in the language of
10 the stipulation, that's something to be decided in
11 that follow-on proceeding?

12 A. I think how we collect it in our filing
13 will determine that next proceeding and, of course, I
14 expect it to be litigated. So at this time, again, I
15 don't know if there's going to be any filing that the
16 company makes.

17 MR. LANG: At this point, your Honor, I'd
18 like to mark the actual pool agreement as an exhibit
19 for Mr. Nelson. May I approach?

20 EXAMINER TAUBER: You may.

21 MR. LANG: Mark this as -- I ask to have
22 this marked as FES Exhibit 11.

23 (EXHIBIT MARKED FOR IDENTIFICATION.)

24 Q. Now, Mr. Nelson, are you familiar with
25 the document that has been marked as FES No. 11?

1 A. Yes, I am.

2 Q. This is the interconnection agreement
3 between the five utilities that are members of the
4 AEP-East Pool; is that correct?

5 A. That's correct.

6 Q. Which was, and from the first page it
7 looks like it was originally approved in 1951 and
8 last modified in 1980.

9 A. That's correct.

10 Q. Now, under this agreement, the pool
11 agreement, compensation between pool members is
12 determined based on something called the member load
13 ratio; is that right?

14 A. I wouldn't say that that's a factor in
15 all compensation. Obviously, energy charges among
16 the members aren't defined by the MLR. It does have
17 some -- it's a big provision of the pool, but it
18 doesn't affect all settlements.

19 Q. You say it doesn't affect energy. By
20 excluding that does it mean it affects capacity?

21 A. The MLR would have an effect on the
22 capacity payments and receipts of the pool members.

23 Q. With regard to the pool agreement as it
24 exists today do you agree that retail shopping that
25 is currently occurring in AEP Ohio does not affect

1 the member load ratio?

2 A. We had an operating company, operating
3 committee meeting I should say, that determined that
4 for this period in the interim before it would be
5 terminated that the customer shopping for MLR
6 purposes for allocation of, for example, capacity
7 charges would not affect the peaks of the member
8 companies, and so in a sense that -- whether you had
9 shopping or not through retail shopping or not you
10 wouldn't adjust, that would have no impact on the MLR
11 as used in this agreement.

12 That was a determination that the
13 operating committee had to make because of the
14 circumstances. The pool did not envision, for
15 example, customer shopping when it was developed.

16 Q. So the answer to my question is that
17 retail shopping in Ohio does not affect the MLR. The
18 answer is no, it does not affect the MLR.

19 A. Yes. Based on the operating committee's
20 determination during this interim period.

21 Q. And that determination was because Ohio
22 Power still has the obligation to supply capacity to
23 its customers as an FRR utility, correct?

24 A. Yes. The whole AEP-East is FRR and as a
25 subset of that AEP Ohio is an FRR entity and has that

1 obligation to supply capacity for their customers
2 whether they shopped or not. That was the basis for
3 that determination of how you treat customer shopping
4 for purposes of the MLR.

5 Q. If the operating committee had decided
6 that shopping customers reduced the peak load used to
7 calculate Ohio Power's member load ratio, the MLR,
8 then Ohio Power would have had additional excess
9 capacity in the pool, correct?

10 A. All other things being equal that would
11 be a fact.

12 Q. And that would have caused Ohio Power's
13 capacity receipts from the other members to increase,
14 correct?

15 A. Again, all other things being equal.
16 There was also an MLR of any capacity sales, so if,
17 for example, you determine that this, the CRES was a
18 wholesale sale that was treated as an MLR
19 transaction, you know, it depends on the price that
20 that occurs at. So it's hard to say absolutely that
21 that's a fact.

22 If you changed only one variable and said
23 it affects the MLR and, you know, reduced Ohio
24 Power's or CSP's MLR, then it would have an impact on
25 the other companies. But it's hard to say, you know,

1 without knowing what the operating company might have
2 done in the alternative.

3 Q. I'd like to ask you about another
4 exhibit.

5 MR. LANG: If I may approach again.

6 THE WITNESS: Did I say "operating
7 company"? I meant operating committee. I'm sorry.

8 MR. LANG: I ask this to be marked as FES
9 No. 12, please.

10 (EXHIBIT MARKED FOR IDENTIFICATION.)

11 Q. Mr. Nelson, FES No. 12 is an AEP Ohio
12 response to interrogatory, a very long name,
13 STIP-FES-INT-25-030; is that correct?

14 A. Yes.

15 Q. And it shows at the bottom that this was
16 prepared by you, correct?

17 A. Yes.

18 Q. Is the response provided, was it accurate
19 at the time provided?

20 A. Yes.

21 Q. And is it your belief that, as we sit
22 here today, it continues to be accurate?

23 A. It continues to be accurate. Again, it
24 would expose -- you don't know the final
25 determination of these things, but the exposure

1 obviously is there for financial risk and regulatory
2 risk.

3 Q. Understood. Now, with regard to the
4 possibility that AEP Ohio would conduct an auction
5 for SSO load prior to corporate separation and pool
6 termination, is it fair to say that you have not run
7 a thorough analysis of the impact that that would
8 have on pool members?

9 THE WITNESS: Could I have that question
10 repeated?

11 (Record read.)

12 A. That's correct, I would need to run a
13 thorough analysis of that. I don't think it would
14 make any sense in the context of the pool agreement,
15 so no, I wouldn't waste my time running that
16 analysis.

17 Q. If that were to occur, you would agree
18 that the operating committee of the pool would have
19 to be convened in order to determine how capacity and
20 energy compensation among the pool members would be
21 addressed.

22 A. It would be probably wise to have the
23 operating committee meet if we were going to go down
24 that path. I don't expect that anybody would
25 envision, you know, in that group envision that the

1 pool would survive this sort of event.

2 Q. And it's your understanding if there were
3 an auction of the SSO load prior to pool termination,
4 that would result in -- that would result in AEP Ohio
5 not being responsible for any of the capacity or
6 energy that's part of that auction; is that fair to
7 say?

8 MR. NOURSE: Could I have the question
9 read back, please?

10 (Record read.)

11 A. I don't quite understand the question.
12 Could you rephrase that, please?

13 Q. If there is an auction of the SSO load,
14 AEP Ohio's SSO load, prior to termination of the pool
15 agreement, isn't it your understanding that that
16 would have substantial impacts on the pool agreement
17 because AEP Ohio would not be responsible for any of
18 the capacity or energy?

19 A. Well, I'll leave out the last part. It
20 would have substantial impact on the pool and, as I
21 said before, from a practical standpoint I couldn't
22 see the pool continuing under those circumstances. I
23 don't need to get into the latter part of your
24 question.

25 It's just a fact that from a practical

1 standpoint the pool would never have envisioned that
2 one of the members -- remember, this is a generation
3 pool and, you know, to say that something like this,
4 auctioning all your SSO load, would not have an
5 impact or potential impact on all the members, I
6 wouldn't think that, you know, we'd need, as I said
7 before, to do any sort of analysis, whatever. It
8 just would not be envisioned by the pool and would be
9 counter to the pool. So I would think that the pool
10 would have to terminate with that circumstance.

11 Q. So as you said, the part of my question
12 that you're leaving out, the responsibility for the
13 energy capacity, that's something that you do not
14 know how that would be addressed under the pool.

15 A. Yes. You'd have to read a lot between
16 the lines. Again, it's counter to the intention of
17 the pool. Of course, you know, even before the
18 stipulation we were envisioning that the pool would
19 terminate at some point, we've given notice and so
20 forth, but this would be a circumstance obviously
21 that would kind of put the nail in the coffin of the
22 pool.

23 Q. If I could direct you to page 24 of your
24 testimony, lines 12 and 13 on page 24, it's actually
25 the sentence starting on line 11, "conducting an

1 auction prior to corporate separation would create a
2 financial exposure for AEP Ohio."

3 Is the financial exposure you reference
4 the result of a standard service offer auction
5 displacing revenues from current SSO generation
6 rates?

7 THE WITNESS: Could I have that question
8 read back, please?

9 (Record read.)

10 A. Yes, that's what I'm addressing here,
11 conducting an auction prior to corporate separation
12 would create a financial exposure for AEP Ohio by
13 wholly displacing the cost recovery for those
14 generation assets that currently exists through an
15 SSO generation rates.

16 Q. When you're making this statement are you
17 assuming that the AEP Ohio generation function would
18 not be able to bid or would not bid its generation
19 into the auction?

20 A. I don't know that I made that particular
21 assumption.

22 Q. If AEP generation were bid into the
23 auction that you're describing here on page 24, then
24 there would not be -- there would not be 100 percent
25 displacement of revenues, correct?

1 A. That's a fair statement. If you can
2 participate in it and get some revenue, you could
3 replace it. Again, we're talking financial exposure,
4 we're not saying it's -- we haven't quantified that
5 in a sense that it's an exposure, we don't know what
6 the amount would be.

7 Q. So the -- by exposure, the financial risk
8 is that you would be dependent upon market prices
9 which could be lower or higher than the current --
10 than the current SSO generation rates, correct?

11 A. Yes, they could be lower or higher and
12 that's -- than the exposure, financial exposure we're
13 talking about here.

14 Q. Now, another concern that you have with
15 regard to conducting an SSO auction prior to
16 corporate separation is that that could potentially
17 present code of conduct issues; is that right?

18 A. I would think that it would potentially
19 have some effect on the code of conduct. There may
20 be some certain restrictions and so forth, but I
21 don't know specifically whether it would present code
22 of conduct issues. But, obviously, it is much
23 cleaner to have the generation away from the EDU for
24 purposes of auction, I believe. Just a perception, I
25 think, might be a problem there.

1 Q. So your preference is to achieve
2 corporate separation prior to the SSO auction so that
3 you can ensure that there aren't restrictions on the
4 participation of AEP Ohio's generation in those
5 auctions.

6 A. Yes. We wouldn't like to be restricted.
7 We'd like to participate in those auctions as an
8 independent entity, I would think.

9 Q. Now, currently under the pool AEP
10 dispatches on a system basis, correct?

11 A. Well, the pool before PJM did dispatch on
12 a system basis. The word "dispatch" is a little
13 problematic in the days of PJM. We bid our units
14 into PJM, and I think they actually in a sense do the
15 dispatch. But we do bid the units in as a fleet.

16 Q. So with the clarification that it's PJM
17 doing the dispatching not the pool anymore, the
18 dispatch is done on a system basis.

19 A. I'm struggling a little bit with "system
20 basis." I'm not sure what that means with what I
21 envision. We have a process for bidding our units
22 into PJM, they will be picked up or not, but, you
23 know, there is one group that would perform that
24 function within AEP.

25 Q. At page 16 of the stipulation there are

1 provisions regarding AEP Ohio's auctioning of its SSO
2 load. I want to ask you a couple questions about
3 that. Do you agree that if the FERC proceedings are
4 not completed in 2013, AEP Ohio will conduct the
5 first auction for 20 tranches of SSO load in December
6 of 2013?

7 A. Just a little clarification. It says if
8 completion of full corporate -- full legal corporate
9 separation and dissolution or amendment of the pool
10 cannot be implemented prior to the first scheduled
11 auction, under paragraph IV.1.r above, i.e., before
12 September of 2013. I don't think you were specific
13 in the '13. Then we would push back the auction
14 until December 1st of 2013.

15 Q. So you have -- so you're in a situation
16 under that provision that you just referenced where
17 the FERC proceedings with regard to corporate
18 separation/pool termination are still pending at FERC
19 and in that circumstance AEP Ohio is committing in
20 the stipulation to go ahead and have that first
21 auction of 20 tranches, correct?

22 A. Yes, by December 1st, 2013.

23 Q. And then the stipulation further provides
24 and is it your understanding that if the FERC
25 proceedings are still dragging on through 2014 and

1 are not completed in 2014, that AEP Ohio would
2 nevertheless go ahead and conduct that second auction
3 of 20 tranches for SSO load in December of 2014?

4 A. That's my understanding.

5 Q. And then if the FERC proceedings are
6 still dragging along, as sometimes FERC proceedings
7 do, the final auction of 60 tranches would be
8 conducted in April of 2015, correct?

9 A. Are you presupposing that we have the
10 FERC order at that point or not?

11 Q. I'm supposing -- I'm assuming at that
12 point that the FERC proceedings are still pending.
13 So if the FERC proceedings are still pending, does
14 AEP Ohio then conduct the last auction for 60
15 tranches in April of 2015?

16 A. No. The stipulation doesn't address
17 that. I don't think we'd go ahead with that last
18 auction. However, I would say that I would fully
19 expect that the FERC would have ruled on this
20 proceeding by that time. I think it would be
21 recognized that this is a very important proceeding
22 both to AEP and to the Public Utilities Commission of
23 Ohio and I don't envision not getting an answer by
24 that time.

25 Q. Oh, on the stipulation right above, page

1 17 right above the paragraph lowercase u, the two
2 lines above there where it says "and amend the
3 2015-2016 auction plan to auction the next the
4 then-remaining 60 tranches in April of 2015," your
5 understanding is that that's not a commitment to
6 conduct that auction if the FERC proceedings are
7 still pending at that time.

8 A. I'm sorry, where were you again?

9 Q. Middle of page 17 right above the
10 lowercase u in the parenthetical.

11 THE WITNESS: Could I have that question
12 read back, please?

13 (Record read.)

14 A. I think if we had the FERC ruling before
15 April of '15, we'd go ahead with those remaining.
16 But I think if you're suggesting that the FERC order
17 has not occurred at all before those next 60
18 tranches, then I don't believe there's a commitment
19 there.

20 Q. And based on that answer is it fair to
21 say that if there is not a FERC decision in these
22 proceedings by June of 2015, that AEP Ohio will not
23 be supplying the SSO load using the auction results?

24 A. At least for this last 60 tranches. I
25 don't think we have any further commitment beyond

1 what we just discussed previously. We conducted
2 auctions for the 20, the 20, and we would have
3 committed to that.

4 Q. And that's, the commitment to conduct
5 those auctions at these time periods, once those
6 auctions are conducted then your understanding is
7 come June of 2015, even if the FERC proceeding is
8 still pending, that 40 tranches of load is going to
9 be supplied through the, is going to be supplied by
10 the winning auction bidders.

11 A. I think that's a risk that AEP I think
12 takes with respect to that 40 percent.

13 Q. Okay. So the answer would be yes?

14 A. Yes.

15 Q. The standard service offer base
16 generation rate that's provided for in the
17 stipulation, I don't want to ask you about the base
18 generation rate that is the nonfuel portion, putting
19 the FAC off to the side, that standard service offer
20 base generation rate is not cost based, correct?

21 A. It's not based on a recent
22 cost-of-service study, no.

23 Q. So you cannot specifically identify the
24 capacity portion of the standard service offer base
25 generation rate, correct?

1 A. No, I can't specifically identify the
2 capacity portion of that.

3 Q. With regard to recovering your capacity
4 costs, you would look to your return on equity to
5 determine whether you're covering your generation
6 costs including your fixed costs of capacity,
7 correct?

8 A. Well, looking at return and equity would
9 tell you whether you're recovering all your costs
10 including fixed costs or capacity costs. It wouldn't
11 necessarily tell you where you're getting it from for
12 example, you know, you may have wholesale sales,
13 sales to pool, as well as retail sales, so -- and you
14 also have the fact that right now AEP Ohio's a
15 bundled company, so you have, you know, T and D
16 business and so forth.

17 But you might get an indication when you
18 look at all these things together and you looked at
19 the total ROE of AEP Ohio that, if you had a
20 reasonable return, you conclude that you are
21 recovering all your costs.

22 Q. So through those multiple revenue flows
23 it's that -- it's those multiple revenue flows that
24 contribute to recovery of AEP Ohio's fixed generation
25 costs, correct?

1 A. Well --

2 Q. And I guess I should clarify. Recovery
3 of the fixed generation costs of providing SSO
4 service.

5 MR. NOURSE: Could I get the question
6 reread?

7 (Record read.)

8 A. Well, you know, the test we just talked
9 about is just a, you know, an income statement test
10 and it gives you an idea of whether you're recovering
11 all the costs. I can't go much beyond that. If you
12 want to determine specifically whether you're
13 recovering your capacity costs from SSO customers,
14 you'd probably want to do a cost-of-service study to
15 see if that particular segment is earning a proper
16 return.

17 Q. Now, you're recovering a portion of your
18 fixed costs of serving SSO customers from energy
19 sales, but you can't -- you don't know what the
20 margin is that contributes to that cost recovery,
21 correct?

22 A. I'm not sure I understand your premise.
23 Where did we get to energy sales recovery?

24 Q. Well, isn't it true that you recover a
25 portion of your fixed costs of serving SSO customers

1 from energy sales?

2 A. Energy sales are a revenue stream. Now,
3 whether, you know, they have a margin associated with
4 them, making sure they go to the return, if they're
5 obviously just recovering your costs they are not
6 going to contribute to your return, but I wouldn't
7 necessarily assign those things against another cost,
8 I would just say that they're providing some return
9 in your income statement because you have a margin on
10 those sales.

11 Q. So do you expect that there is recovery
12 of fixed costs from energy sales including off-system
13 sales?

14 A. To the extent that energy, you know, you
15 get a margin on the sale, it recovers costs and
16 produces a return, again, if you want to look at it
17 from an income statement standpoint, yeah, it
18 provides a return component. Yeah, I would expect
19 some contribution from things like off-system sales,
20 we normally make those -- getting a little long in
21 the answer?

22 I would normally expect a return on
23 off-system sales. We make those sales when they
24 exceeded the cost of making off-system sales. So
25 they would recover or provide you a return.

1 Q. So the answer was "yes," with the
2 explanation.

3 A. Or maybe the explanation first.

4 Q. Okay. And then the answer of "yes." All
5 right.

6 Now --

7 MR. NOURSE: Your Honor, could I just
8 interrupt to inquire as to do a time check here
9 whether it's a good time for a break.

10 MR. LANG: I do have probably another
11 half hour to go. It might be a good time to take a
12 lunch break since we're running late.

13 EXAMINER TAUBER: Let's go off the
14 record.

15 (Discussion off the record.)

16 EXAMINER TAUBER: Let's go back on the
17 record. At this time we'll take a recess for lunch
18 and we'll reconvene at 2 o'clock. Let's go off the
19 record.

20 (Thereupon, at 12:40 p.m., a lunch recess
21 was taken.)

22 - - -

23

24

25

1 Tuesday Afternoon Session,
2 October 11, 2011.

3 - - -

4 EXAMINER TAUBER: Let's go back on the
5 record.

6 Mr. Lang.

7 MR. LANG: Thank you, your Honor.

8 - - -

9 PHILIP J. NELSON

10 being previously duly sworn, as prescribed by law,
11 was examined and testified further as follows:

12 CROSS-EXAMINATION (Continued)

13 By Mr. Lang:

14 Q. Mr. Nelson, new topic, capacity pricing.
15 For as long as CRES providers have been purchasing
16 capacity from AEP Ohio, AEP Ohio has priced that
17 capacity at the RPM market price, correct?

18 A. Yes. According to the RAA in schedule D
19 we've priced it at the RPM rate. Of course, we made
20 a filing in 2010 to change the pricing to a
21 cost-based charge and, of course, that's the subject
22 of a FERC filing as well as the 2929 case before this
23 Commission.

24 Q. The filing that changed to a full
25 embedded cost rate was in November of 2010; is that

1 right?

2 A. That's what I believe, yes.

3 Q. And then in December of 2010 the Public
4 Utilities Commission of Ohio set the state
5 compensation mechanism at the RPM price, correct?

6 A. On an interim basis, yes.

7 Q. And is it your understanding that the
8 Public Utilities Commission of Ohio's establishment
9 of the state compensation mechanism has an end date?

10 A. It may have had an end date. It was
11 maybe done under the prior ESP, 2009 through 2011.
12 That's a possibility, because I think they envision
13 getting an order out this year on that case, so
14 hopefully it will have an end date. We need a
15 resolution in that case. But there would be a
16 question in my mind whether that was just under the
17 previous ESP and if it was, then it might have had an
18 end date of the end of this year.

19 Q. So it might have an end date. By your
20 answer are you unsure as to whether it does or does
21 not?

22 A. I'd say I'm unsure.

23 Q. As of today AEP Ohio is charging the RPM
24 price for capacity to CRES providers, correct?

25 A. Yes, it is.

1 Q. Now, with regard to the calculation of
2 full embedded capacity costs, that's a calculation
3 that was performed by Witness Pearce?

4 A. That's correct.

5 Q. And to the extent that you reference
6 those costs in your testimony, you were relying on
7 Witness Pearce's calculation, correct?

8 A. I'm relying on Witness Pearce's
9 calculation for the detail, the full detail of the
10 calculation, though I did review his calculation and
11 have a general understanding of cost of service
12 ratemaking and formula rates. Mr. Pearce works for
13 me so I did look at those things and, you know,
14 reviewed it with him, discussed it, and of course we
15 believe, the company believes, that's an appropriate
16 calculation for a cost-based rate that's permitted
17 under the PJM tariff.

18 Q. That's the company's, as you put in your
19 testimony, that's the company's litigation position.

20 A. That's correct.

21 Q. The stipulation includes a \$255 per
22 megawatt-day capacity price. With regard to that
23 price, to your knowledge, that price is a negotiated
24 number that is not based on AEP Ohio's cost of
25 capacity, correct?

1 A. That's correct. It was a negotiated
2 number, and it was obviously our position that, you
3 know, the number should have been higher, but
4 recognizing that this case was going to be litigated
5 and I think all the parties came to the table and
6 determined that would be a fair and reasonable rate
7 to resolve this case.

8 And to kind of put this in perspective
9 to, you know, what we end up with, if you look at
10 Company Witness Pearce's page 11, he's got kind of
11 the blended rate, that is the rates using the 255
12 blended with the provision that allows the RPM rate
13 up to a certain percentage each year, and when I
14 looked at the average of that rate over the full
15 term, it was about \$200 a megawatt-day.

16 So I think in terms of looking at the
17 settlement, it's a very reasonable rate from I think
18 all the -- all perspectives. Certainly the company
19 came down quite a bit from their cost-based rate,
20 which we obviously feel that we're entitled to, but
21 we knew there is litigation risk.

22 Another way to look at this blended rate
23 of 200 is to look at when the Commission established
24 the interim rate --

25 Q. Mr. Nelson, I'm sorry to interrupt,

1 but --

2 MR. LANG: Your Honors, if I could move
3 to strike after the first "and," I think it was the
4 first "and" of his answer. He answered the question
5 and he's been talking about I think several other
6 issues since then.

7 MR. NOURSE: Your Honor, I think the
8 question was asking whether the 255 per megawatt-day
9 was a negotiated number, and I think Mr. Nelson is
10 explaining why it's a reasonable result as a
11 negotiated number.

12 EXAMINER TAUBER: We'll allow it to
13 provide the Commission context and they can take the
14 weight accordingly.

15 Also, if you could just try to be a
16 little bit clearer in tying it to the question as
17 well.

18 THE WITNESS: Okay.

19 EXAMINER TAUBER: That would work.

20 MR. LANG: And, your Honor, my half hour
21 was based on shorter answers, actually responsive
22 answers.

23 EXAMINER TAUBER: Fair enough, we'll
24 tackle it as it comes.

25 MR. LANG: Thank you.

1 A. Yes, I was trying to put the negotiated
2 rate in perspective and obviously I mentioned in my
3 testimony it was a negotiated rate. We came off our
4 position and just to put it, as I said, in context,
5 when the Commission approved the interim rate, RPM
6 rate, the charge to CRES providers was about \$220 at
7 that point in time. So this blended rate is \$200,
8 that's below that rate, so when you look at this from
9 all perspectives, I think it shows that the
10 negotiation resulted in a reasonable rate from all
11 the litigating parties' perspective.

12 Q. Is that rate based on AEP Ohio's net cost
13 of capacity?

14 A. The 255?

15 Q. Yes.

16 A. No. As I said, it was a negotiated rate.
17 Our cost of capacity --

18 Q. You don't need to go through the whole
19 thing again, I think we got it the first time around.

20 A. No, I was just going to say the
21 cost-based rate is in Mr. Pearce's testimony.

22 Q. All right. At the top of page 8 of your
23 testimony you have a series of numbers that you
24 corrected when you got on the stand this morning. Is
25 it fair to say that prior to reviewing these numbers

1 sometime after Friday morning you did not -- you did
2 not develop the analysis and did not prepare the
3 numbers prior to that time?

4 A. These numbers were in Mr. Munczinski's
5 testimony and I reviewed the workpaper and when I --
6 in the course of reviewing the workpaper I discovered
7 that a number was incorrect on the workpaper so we've
8 recalculated those numbers and filed it -- provided
9 the corrected workpaper as well as these corrections.

10 Q. What was the number that was incorrect on
11 Mr. Munczinski's workpaper?

12 A. There was I believe the number primarily
13 for Ohio Power -- I think the CSP number was slightly
14 off, in terms of the annual production fixed cost
15 that's used in the workpaper. The Ohio Power number
16 changed pretty significantly. It was supposed to be
17 picked up from Witness Pearce's Schedule 4, I
18 believe. Give me just a second.

19 Yeah, I think it was KDP-4. I don't have
20 that, his exhibits in front of me, but I believe it
21 was KDP-4 so we corrected that number.

22 Q. The capacity costs for Columbus Southern
23 and Ohio Power, those numbers did not change?

24 A. I'm sorry. Change from what?

25 Q. From Mr. Munczinski's workpaper to the

1 workpaper you just handed out this morning.

2 A. No. What I was explaining was the
3 workpaper, the original workpaper, had an incorrect
4 number from Mr. Pearce's testimony. Mr. Pearce's
5 testimony as filed is correct, he picked up the
6 correct number in that.

7 Q. Okay. I was asking that the, for
8 example, the full embedded capacity cost number for
9 Ohio Power is \$379.23 per megawatt-day. Did that --
10 did that change from the first workpaper to the
11 second?

12 A. No. I don't believe that number changed.
13 I'm not sure which workpaper you're talking about.
14 My workpaper I wouldn't have used that 327 number.
15 What I picked up is the annual production fixed cost
16 in terms of total dollars. But I think, to your
17 question, what I have in my workpaper would also be
18 what drives the number in Mr. Pearce's testimony.

19 Q. With regard to your calculation on page 8
20 that shows financial impact, if there's 100 percent
21 shopping, that calculation for Ohio Power is based on
22 a capacity price of \$379.23 per megawatt-day; is that
23 correct?

24 A. Yes.

25 Q. And the analysis assumes all customers

1 shopped during 2011, 2012, and 2013, correct?

2 A. Yeah. And to put this question and
3 answer in context, at the top of 8 it says "What
4 financial concerns drove AEP Ohio to seek a
5 cost-based capacity charge?" And, of course, this
6 was in the context of our filing back in November of
7 2010.

8 Q. So the financial impact for those years
9 is comparing the difference between Ohio Power
10 receiving the RPM market price for capacity for all
11 shopping customers instead of \$379.23 per
12 megawatt-day; is that correct?

13 A. Yeah. It's the difference, a weighting
14 of the RPM price over the full embedded cost price
15 times the annual production fixed costs.

16 Q. And then you run through the same
17 calculation and assuming 50 percent shopping using
18 the same capacity price comparison, correct?

19 A. That's correct.

20 Q. Since the inception of Ohio Power's
21 membership in PJM is it correct that Ohio Power has
22 never received \$379.23 per megawatt-day for capacity
23 from shopping customers?

24 A. If you're speaking to what they're billed
25 under the PJM tariff, that is correct.

1 Q. You also discuss the reliability
2 assurance agreement in your testimony, and that it's
3 fair, and I believe you are generally familiar with
4 the reliability assurance agreement or the RAA.

5 A. Yes. Could you give me a reference,
6 please, on the testimony?

7 Q. I'm not to a specific reference yet, but
8 we might get there.

9 A. Okay.

10 Q. Now, with regard to the reliability
11 assurance agreement, you don't know whether you've
12 read the entire agreement, correct?

13 A. I don't recall whether I did. I think
14 it's well in excess of a hundred pages, I suspect I
15 might have skipped that.

16 Q. And you don't consider yourself an expert
17 on all the terms of the RAA, correct?

18 A. No, I do not. Mr. Pearce, our Company
19 Witness Pearce, would be much more familiar with that
20 provision of the PJM tariff.

21 Q. And you were not involved in negotiations
22 of the RAA.

23 A. No, I was not.

24 Q. At pages 4 through 6 of your testimony
25 you have discussion of the interaction between AEP

1 and FERC related to the RAA. That testimony is not
2 based on your firsthand knowledge, correct?

3 A. Yeah, that testimony is based on
4 conversations with Dana Horton who's filed testimony
5 for the company in the 2929 case and directly
6 participated in those negotiations.

7 Q. So because you did not and Mr. Munczinski
8 did not participate in those negotiations, the
9 information at pages 4 through 6 comes from Dana
10 Horton, correct?

11 A. That's at least where I get my
12 information. Now, Mr. Pearce I also talked to about
13 this stuff. And, of course, all this stuff is
14 putting in context why we made our filing in November
15 of 2010, you know, further on we get to the fact
16 that, you know, just presenting why we made our
17 decisions and why we think it's appropriate. Of
18 course, the stipulation resolves this issue.

19 Q. So at page 5 of your testimony at lines
20 18 and 19, when you refer to stakeholder
21 negotiations, those are not negotiations that you
22 were personally involved in, correct?

23 A. That's correct.

24 Q. Now, the RAA, as I believe you discuss in
25 your testimony, has three options for pricing

1 capacity that switches to an alternative retail LSE
2 is the term used in the RAA. Is that correct?

3 A. I'm not sure about the last part of that.
4 You said switched to alternative -- could you repeat
5 the question?

6 Q. Yes. Well, let me ask, are you familiar
7 with the term "alternative retail LSE" that is used
8 in the reliability assurance agreement?

9 A. I don't have the reliability assurance
10 agreement in front of me.

11 Q. Are you familiar with the term?

12 A. Alternative -- it doesn't ring a bell.
13 You could define it for me if you'd like.

14 Q. With regard to those three options for
15 pricing capacity, if there isn't a state compensation
16 mechanism or a cost-based rate, then the default is
17 the RPM price, correct?

18 A. Well, I'd say if there is no properly
19 designed retail state mechanism, then the default
20 would be the PJM RPM price or, if, you know, we chose
21 to make a filing as an FRR entity for a cost based
22 rate, that would also come into play.

23 Q. So my question is if you don't have a
24 state compensation mechanism, and you don't have a
25 cost-based rate, then under the RAA, the default is

1 the PJM price, right?

2 A. PJM RPM price, yes.

3 Q. Now, you agree, and I think it's
4 AEP Ohio's position in this case, and in some of the
5 other filings related to capacity pricing, that the
6 Public Utilities Commission of Ohio can establish a
7 state compensation mechanism for retail shopping
8 customers to pay AEP Ohio for its FRR capacity. Is
9 that right?

10 THE WITNESS: Could I have that question
11 reread?

12 (Record read.)

13 A. Well, if you're saying that the
14 Commission can set a retail rate, a capacity rate
15 charge directly to a retail customer and not
16 establish a charge to a CRES, that would fit under
17 the first option which is a properly designed retail
18 rate.

19 Of course, in this situation what we have
20 is a wholesale transaction with a CRES provider and
21 our position is that's exclusive jurisdiction of the
22 FERC.

23 Q. All right. And so the position is that
24 the Public Utilities Commission of Ohio lacks
25 jurisdiction to set the retail compensation mechanism

1 if they're setting a price for capacity charged to
2 CRES providers, correct?

3 A. Yes, because that's a sale for resale, in
4 our opinion.

5 Q. Now, with regard to the language of the
6 reliability assurance agreement, when it references a
7 cost based option pricing capacity, the language
8 doesn't say that it should be based on AEP Ohio's
9 full embedded cost of capacity, correct?

10 A. No. And, in my opinion, it wouldn't need
11 to. When you're dealing with regulatory agencies
12 like the FERC, if it's undefined, costs I think from
13 common usage would imply a fully embedded cost
14 calculation, for example, cost-based formula rates
15 with wholesale customers certainly imply that.

16 So since it doesn't specifically define
17 cost, I would default to that definition. I think
18 that would be typical of most people involved in
19 regulatory proceedings.

20 Q. And that's certainly what AEP Ohio's
21 interpretation is of the word "cost" as it's used in
22 the reliability assurance agreement, correct?

23 A. That's correct. And, you know, to put
24 this in proper perspective, AEP was the only FRR
25 entity in PJM. At the time we would have played a

1 large role in the development of this particular
2 language, so I'm sure when "cost" appeared there we
3 understood exactly what "cost" meant.

4 Q. And that would be in proceedings that you
5 did not participate in, correct?

6 A. That would be in proceedings that I did
7 not participate in.

8 Q. All right. Now, with regard to the PJM
9 RPM auction design, is it fair to say that you have
10 some familiarity with the auction design?

11 A. Some familiarity. You know, it's quite
12 a -- yeah, it has a lot of components to that design.
13 Yes, generally familiar but, again, Mr. Pearce would
14 be the better one to ask any detailed questions on
15 it.

16 Q. With regard to your knowledge, you are
17 not familiar with how PJM requires suppliers to offer
18 supplies into the RPM auction, correct?

19 A. Could you be more specific?

20 Q. You are not familiar with the auction
21 rules related to how suppliers can bid units into the
22 auction, correct?

23 A. Yes. I wasn't very familiar with it. I
24 did follow up on one area that I think you
25 anticipated I might follow up on Tuesday, but no, I

1 wouldn't say at the time you took my deposition I was
2 very familiar with it. And at this point I did
3 follow up on the one particular question you asked in
4 the deposition, but beyond that no, I'm not an expert
5 on all those rules.

6 Q. So the familiarity you would have gained
7 would have come since just this past Friday morning
8 at your deposition.

9 A. I would say the specific answer to your
10 question in the deposition would have come, you know,
11 I've realized -- I wanted to make sure that my answer
12 was correct, and I think it was correct because I
13 said I really didn't know, so...

14 Q. Now, let me ask, is it true that you are
15 not familiar with PJM rules governing suppliers
16 offering supplies into the auction at their to-go
17 costs?

18 A. Well, I did check on to-go costs. It's
19 not a defined term in PJM. It's not in their
20 glossary. I haven't seen it appear in any documents
21 in PJM. I did ask some people to look into that, but
22 there's no definition of to-go costs.

23 Q. So to the extent that that is a term that
24 relates to the RPM auction process, that is not a
25 term with which you are familiar.

1 A. To-go costs, you know, if it's a
2 characterization of some other costs like avoidable
3 cost rate, you know, that's a better question for me.
4 Avoidable cost rate I have some knowledge of. So,
5 again, I don't know what you meant by to-go costs.

6 Q. Is it fair to say that AEP Ohio does not
7 know whether all of its generating units will be bid
8 into the 2015-'16 PJM based residual auction?

9 A. That's a fair statement at this point
10 because, you know, if your generating units are under
11 contract, you're not required to bid those into the
12 auction. So we haven't determined yet what contracts
13 might exist for these units and so until we make that
14 determination and make our filing, we can't determine
15 whether we bid all those units into the RPM auction
16 at this time.

17 Q. You mentioned until a determination is
18 made with regard to contracts, what is the time frame
19 of making that determination?

20 A. Well, I think attached to the stipulation
21 as a rough time frame for the FERC filings to be made
22 after we have a final order from this Commission and
23 I think that was 90 days from the date we got the
24 final order in this proceeding. At that point we
25 would have a plan filed to probably address the needs

1 of the other operating companies or member companies
2 of the pool, and there we might at that point know
3 that we're proposing a contract, you know, from AEP
4 Genco to, for example, an Appalachian Power Company.

5 But we have a process to go through
6 before we make that determination and part of the
7 process, of course, is meeting with all the state
8 parties and determine, you know, and preview this,
9 discuss with them, you know, see if they have any
10 input into the final decision. But at some point
11 we'll make a filing that would set out what we
12 propose in terms of primarily replacing and/or
13 modifying the AEP power pool.

14 Q. So is it correct to say that all
15 decisions with regard to transfer of generating
16 assets will have to be made prior to the deadline in
17 the spring of 2012 for bidding those units into the
18 RPM auction?

19 A. No, I don't believe so.

20 Q. With regard to whether there are any
21 restrictions on bidding AEP Ohio's generating units
22 into that base residual auction at full embedded
23 cost, is it fair to say you are not aware of any such
24 restrictions?

25 A. No. I'm aware of a restriction, and that

1 is it's avoided cost that you can bid them into.
2 That's kind of a cap on existing generation. I think
3 for a new build you could probably bid in at full
4 embedded cost.

5 Q. So this would be the information gained
6 since Friday?

7 A. Yes, it would.

8 Q. And the AEP Ohio generating units would
9 be considered existing units, not new-build units,
10 for purposes of the auction; is that your
11 understanding?

12 A. That's my understanding. You're talking
13 about the ones that we have in place today --

14 Q. Correct.

15 A. -- and are producing power today. They
16 would be considered existing, yes.

17 Q. Now, you also reference in your testimony
18 and I would say more so in your attached exhibit the
19 compliance filing that relates to corporate
20 separation and the compliance filing that's
21 referenced in the exhibit, is it your understanding
22 that that is the -- that's the application that's
23 been filed in Case No. 11-5333?

24 A. Yes.

25 Q. Okay. When will those revisions to the

1 corporate separation plan go into effect?

2 A. That might be better asked of an
3 attorney, but I would assume once they approve the
4 modifications to the plan that we filed on
5 September 30th of the case number you just cited.

6 Q. Well, that plan was filed on behalf of
7 the --

8 A. Let me add, though, that the revisions
9 were related to the stipulation, they also relate to
10 the idea that we'd have the merger of CSP and Ohio
11 Power Company. So they wouldn't make sense in the
12 absence of those things occurring. So you asked I
13 think when it would be effective. It would be
14 effective after corporate separation and after the
15 merger of CSP and Ohio Power.

16 Q. Okay. And perhaps my question probably
17 was a little too vague. So the events that have to
18 occur in order for that corporate separation plan to
19 become effective is approval of the stipulation,
20 approval of corporate separation, and does it also
21 require approval of pool termination?

22 A. I wouldn't say pool termination is
23 directly tied to that. There might be an indirect
24 tie. But, again, you're getting into a little bit
25 more of the legal meaning of that. But, you know,

1 this obviously is dealing with corporate separation,
2 so perhaps we can cut it off at that and not have to
3 deal with the pool issue.

4 Q. So certainly approval of the stipulation
5 and approval of corporate separation through the FERC
6 process.

7 A. Yes. With the added caveat that, as we
8 talked about before, you know, there might be a step
9 one to the corporate separation plan which is
10 dropping down the Ohio -- AEP Ohio generating assets
11 into a separate Genco and that would -- that's dealt
12 with in the compliance filing.

13 The merger is dealt with in the
14 compliance filing. And, of course, the stipulation
15 addresses both these issues. But, you know, we've
16 talked about potential for other things happening in
17 the FERC filing and the other operating companies and
18 I don't think it necessarily would be dependent on
19 those other things happening if the first two events
20 occurred.

21 Q. Is it fair to say that you have not
22 participated to a great extent in drafting the
23 modifications to the corporate separation plan?

24 A. That would be a fair statement.

25 Q. As part of the filing in this case, the

1 ESP case, the stipulation case, however you want to
2 refer to it, has AEP Ohio developed policies and
3 procedures for assuring that the regulated
4 distribution utility following corporate separation
5 does not provide an advantage to a competitive
6 affiliate when interacting with customers?

7 A. Yes. We have -- we have in place those
8 policies today and, of course, the Commission has
9 audited our corporate separation plan. It was a
10 functional corporate separation plan. And we have
11 those policies in place today. We think that, you
12 know, the structural separation of our generating
13 assets from our T and D should not hinder that, in
14 fact, I think there would be a clearer line of sight
15 in separation -- or, you know, any potential code of
16 conduct issues, I should say.

17 Q. So by "clear line of sight" are you
18 suggesting that completing the corporate separation,
19 moving from functional to a complete corporate
20 separation will assist AEP Ohio in assuring that
21 there is the separation between the distribution
22 utility and the competitive affiliate?

23 A. Hopefully we can make that assurance
24 today that we don't have issues, and I think the
25 Commission's audit showed that we didn't. It does

1 make it, from an audit perspective, perhaps a little
2 easier, in one sense you have two separate companies
3 now, the generation is separate from the T and D
4 business, and, you know, so that I think provides
5 some added value.

6 Q. Do those existing policies and procedures
7 also ensure that competitive information is not
8 shared between employees of AEP Genco and the
9 regulated utility?

10 A. Yes, we have those type of policies in
11 today and will continue those.

12 Q. As part of corporate separation, in
13 addition to what was filed in the separate compliance
14 docket, are there revisions to those policies and
15 procedures that will have to be made in order to
16 reflect the full corporate separation?

17 A. Mr. Lang, I assume you're talking about
18 internal policies.

19 Q. Correct.

20 A. Okay. You know, I can't answer that
21 specifically. Obviously, we would review our
22 policies once corporate separation happened, review
23 it for completeness and make sure it meets the
24 requirements of the Commission. I'm not sure that we
25 would necessarily require any changes to internal

1 policies. I would think that, you know, in a general
2 sense we're complying with all the rules and I would
3 expect that we just continue that.

4 There are, obviously, changes because
5 you've created a new entity within AEP and, you know,
6 we'd probably want to at least define whether that
7 entity, you know, what role they play in the
8 corporation, what the rules are with respect to that
9 separate corporate entity. But I wouldn't see any
10 major revisions. I mean, it would just be continuing
11 a policy that we have today. We know we have to
12 comply with code of conduct and there certainly is
13 not going to be any hurdle to AEP to keep complying
14 with those type of requirements.

15 Q. Mr. Nelson, in your response you had
16 referred to a Commission audit. Can you tell us what
17 you're referring to?

18 A. The last filing, I think, of our
19 corporate separation plan was I believe in 2009, and
20 the Commission staff would have audited that plan and
21 made sure that we were complying with all the
22 requirements.

23 I didn't bring up our September 30th
24 filing with me because it hasn't been consolidated in
25 this case, but I think that's set out in -- that type

1 of information I believe is in the
2 September 30th filing.

3 Q. So the audit that occurred was in the
4 last corporate separation docket that was an audit of
5 the policies and procedures using the functional
6 separation.

7 A. That's my recollection.

8 MR. LANG: No further questions.

9 EXAMINER SEE: Mr. Darr?

10 MR. DARR: Thank you, ma'am.

11 - - -

12 CROSS-EXAMINATION

13 By Mr. Darr:

14 Q. Mr. Nelson, your position is Managing
15 Director of Regulatory Pricing and Analysis; is that
16 correct?

17 A. That's correct.

18 Q. With regard to -- before I ask this next
19 question do you have a copy of the stipulation in
20 front of you?

21 A. Yes.

22 Q. And could you turn to page 6? I'm
23 looking at Section IV.d. In Section IV.d it states
24 that "The Company agrees to only pursue approval of
25 the Turning Point project and the MR 6 project under

1 the GRR during the term of the ESP." Do you see
2 that?

3 A. Yes, I do.

4 Q. Now, the MR6 project is related to the
5 closure of Muskingum River 5, correct?

6 A. I guess in some sense it could be related
7 to that. Obviously, it's a new generating facility.
8 It's one of a series of units at Muskingum River.
9 Unit 6 I think is what we designate it for this
10 purpose.

11 Q. Are you in a position to tell us whether
12 or not the closure costs associated with MR5, if
13 there are any, would be recoverable through the
14 provision in Section IV.d on page 6 of the
15 stipulation for the recovery of costs associated with
16 the MR6 project?

17 MR. NOURSE: Your Honor, I'd just object
18 to the scope of testimony. I think Mr. Allen was the
19 GRR witness.

20 MR. DARR: Can I respond, your Honor?

21 EXAMINER SEE: Yes.

22 MR. DARR: We've had a number of
23 objections where the company has attempted to
24 restrict the examination, more importantly the
25 cross-examination, to what's contained in the

1 testimony of that particular witness. Certainly the
2 Rules of Evidence in this state very specifically
3 provide that the scope of examination is any relevant
4 matter, I'd point the hearing examiners to
5 Rule 611(B).

6 I don't think this is a proper objection
7 and I think it's time that we allow the witnesses to
8 answer these questions without being interrupted by
9 another objection.

10 MR. NOURSE: Your Honor, we presented a
11 witness on this subject, and IEU had an opportunity
12 to ask those questions, therefore, that was the basis
13 for my objection.

14 MR. DARR: Again, your Honor --

15 EXAMINER SEE: Thank you.

16 MR. DARR: -- it's not a proper
17 objection.

18 EXAMINER SEE: Thank you. And the
19 objection is overruled. Please answer the question,
20 Mr. Nelson.

21 THE WITNESS: Could I have it reread,
22 please?

23 EXAMINER SEE: Certainly.

24 (Record read.)

25 A. No, I'm not in that position.

1 Q. Are you aware that AEPSC, AEP Service
2 Company, on behalf of AEP Ohio has sold excess PJM
3 capacity through bilateral transactions for delivery
4 years during the proposed ESP?

5 A. I had a little trouble hearing.

6 (Record read.)

7 A. I'm not aware of any specific instances,
8 but I would expect that that could occur. And I
9 don't know whether it would be AEP Ohio. It would
10 probably be the agent acting on behalf of all the --
11 you're talking about the East member companies.

12 Q. No, I'm specifically referring to sales
13 on behalf of AEP Ohio, are you aware of any of those
14 transactions?

15 A. Mr. Darr, do you consider an MLR'ing of a
16 sale of that to be on behalf of? I'm trying to get
17 to typically if we sold, just to back up a minute, if
18 we made sale in PJM say in capacity or energy, those
19 sales would be MLR'd and they would be shared among
20 the pool members including AEP Ohio.

21 Q. No, I'm speaking --

22 A. CSP and Ohio Power.

23 Q. I'm sorry to interrupt, but I'm
24 specifically referring to bilateral contracts.

25 A. Again, nothing specific comes to mind.

1 It's possible.

2 Q. Mr. Nelson, is it true that Ohio Power
3 and Columbus Southern previously obtained FERC
4 approval to proceeding with corporate separation
5 required by Ohio law in 2002 or 2003?

6 A. I believe we did receive FERC approval.
7 We did not receive SEC approval, so we did not
8 execute that.

9 Q. And with that prior FERC approval, that
10 would have authorized OP and CSP to withdraw from the
11 AEP system pool agreements; is that also correct?

12 A. Yes. There was a lot to the filing. I
13 don't recall all the details. But we did create a
14 pool without the Ohio companies in it. That was a
15 three-company pool at that time.

16 Q. And is it also correct that the structure
17 of that arrangement would have placed the generation
18 with Ohio Power and CSP and transferred the
19 distribution and transmission assets to a separate
20 entity?

21 A. Now you're really testing my memory here,
22 but as I recall there was a corporate separation plan
23 filed with the Commission and it may have been that
24 structure that we kept the -- we dropped down the
25 T and D company, but I can't -- I'm not positive.

1 Q. That's fine. As best you can recall.

2 A. As best I can recall that sounds right.

3 Q. And with regard to the previously
4 approved corporate separation proposal, is it true
5 that OP and CSP elected not to exercise that
6 corporate separation?

7 A. I'm not sure if it would have just been
8 the election of Ohio Power and CSP. I think that's
9 the way you phrased your -- AEP, I'd make it a little
10 broader, AEP chose not to execute that.

11 Well, I can't say that because we never
12 got, as I mentioned, SEC approval to do it, and that
13 was required.

14 Q. Have you discussed or has -- let me
15 rephrase that.

16 Has Ohio Power or Columbus Southern
17 Power, if you know, discussed as part of the
18 corporate separation whether their distribution or
19 transmission assets would require some sort of change
20 of ownership? Strike that. Let me try this again.

21 The transition will require a change of
22 ownership on the generation assets, correct?

23 A. The corporate separation plan that we
24 filed on September 30th would create a new entity
25 which owns the generation assets of AEP Ohio.

1 Q. Are those assets currently pledged to
2 holders of your debt securities?

3 A. If you're talking about like first
4 mortgage bonds, is that your question?

5 Q. Are they secured? Are those assets
6 secured?

7 A. That's getting a little far afield from
8 my knowledge, but I would -- my answer is I don't
9 think we have any first mortgage bonds. I don't
10 think they're tied to particular assets. You know,
11 the one -- well, yeah, I don't think they're tied to
12 particular assets as I recall. But, again --

13 Q. Do you know whether or not they're
14 pledged as collateral security to holders of debt
15 securities issued by Ohio Power or Columbus Southern?

16 A. I don't know.

17 Q. Do you know whether or not...

18 Are you aware of any estimate at this
19 point of what the pool termination costs are going to
20 be?

21 A. And I'm assuming, Mr. Darr, that you mean
22 the pool termination costs with respect to the rider;
23 is that your question?

24 Q. Yes.

25 A. As I mentioned before, we really don't

1 have an estimate at this time because we don't know
2 what may replace it.

3 Q. Now, that particular provision of the
4 stipulation talks about the impact. Is there any
5 definition of what "impact" means?

6 A. I think that there's a general definition
7 and that is that it's a net impact, that you look at,
8 you know, we would hope, for example, that if we lose
9 the capacity payments made to AEP Ohio from the other
10 pool members, that we're able to go out and replace
11 that lost revenue by, you know, as I mentioned, maybe
12 another affiliate contract, maybe by sales to third
13 parties.

14 So that concept is there that you would
15 look to offsetting that lost revenue and, of course,
16 AEP Ohio, we'd do everything in our power to replace
17 that revenue, hopefully the market rebounds, other
18 things that can replace that revenue. So I hope that
19 I'm answering your question.

20 Q. You are. But I guess the question that I
21 need to follow up with that is are there any other
22 things that we don't know about from your answer just
23 now that might be included in that so-called impact?

24 A. I'd answer it this way: I might not know
25 of other things because of the fact that we, you

1 know, haven't looked at this filing yet. This filing
2 will be the subject of a future filing with the PUCO
3 and at that time we'll lay out specifically what our
4 proposal is.

5 But in general, you know, what we're
6 trying to do is just recover our lost revenue from
7 the pool. Now, obviously, if it, you know, doesn't
8 exceed the \$50 million, we wouldn't be coming in,
9 but, you know, so we'd try to be fair in recognizing
10 any potential offsets to that lost pool capacity
11 revenue.

12 Q. You made a number of statements
13 concerning the cost or embedded cost basis of your
14 capacity and you have indicated, I believe, that you
15 believe that -- at least the company's initial filing
16 was to seek to recover that cost so as to avoid any
17 cross-subsidy or any loss associated with CRES
18 providers having that available to -- having that
19 capacity available to them. Is that an accurate
20 description of the company's position?

21 A. That question was almost as long as one
22 of my answers. Could you --

23 Q. I'm not sure that's possible, Mr. Nelson,
24 but I don't know whether to take that as a compliment
25 or not. Let me try it again.

1 A. Okay.

2 Q. Is it the company's position that at
3 least with regard to the 2929 filing that the
4 embedded cost number was an attempt to assure the
5 company that it would be able to recover its full
6 costs of providing to CRES providers capacity?

7 A. I guess I'd have to put our filing in the
8 perspective I would say it was, obviously, a filing
9 made to recover our rights under the PJM tariff to
10 implement a cost-based charge to CRES providers as a
11 sale for resale and we obviously recognized that, you
12 know, the RPM rate had been rather high, you know, we
13 didn't have a lot of switching, and that's obviously
14 because our rates were very low. We didn't have
15 switching, we had very few, so we didn't have a lot
16 of billing to CRES providers to begin with.

17 And, of course, RPM rates were higher, as
18 I mentioned, just recently when the Commission looked
19 at the interim rate, the rate charged to CRES
20 providers was \$220.

21 And, you know, just referring to
22 Mr. Pearce's testimony, and it's in his KDP-5, in the
23 year 2012-2013 the charge drops down to \$20.
24 Obviously, we have a fiduciary responsibility with a
25 proper tariff at FERC that would allow us to charge

1 our embedded costs to go out and exercise that right
2 and that's what we've done, so I don't want to say
3 that I'd agree with the way you framed the question;
4 that's the way I envisioned our filing, and I'll stop
5 there.

6 Q. If I could parse that a little bit, the
7 bottom line is it was an attempt to recognize that
8 you had a different cost structure than what you were
9 recovering through RPM, correct?

10 A. It recognized that we were an FRR entity
11 and we were required to supply all the capacity in
12 our zone and that we had -- and obviously one of the
13 goals of the business is to recover the cost, so we
14 would certainly make a filing to recover our cost of
15 providing that capacity. I think it's as simple as
16 that.

17 Q. Now, if you were to offer that capacity,
18 you would be constrained in the RPM market by some
19 number called net CONE, correct?

20 A. I can say that there is a constraint in
21 the RPM market as I understand it, which I think is
22 one-and-a-half times net CONE currently and, you
23 know, for example, that could be, and that's again
24 referring to KDP-5, and the last year that this would
25 occur is the auction year '14-'15, I think that comes

1 out to \$627 a megawatt-day.

2 Q. So not much of a --

3 A. I think that would be the max as I
4 understand it that would be allowed in the RPM
5 auction.

6 Q. Now, there have been some concerns about
7 whether or not the net CONE number is correct; is
8 that fair to say?

9 A. Yeah. There's been a lot of arguments on
10 all these things including the RPM auction price and
11 really whether it sent the proper signal, whether it
12 was just a short-term price, and so there's a lot of
13 issues around that.

14 Net CONE, there's probably been some
15 issues around that too. I know more recently the
16 Brattle Group does a kind of a report for PJM and
17 looks at the design of the RPM market, and I
18 certainly am not familiar with all the things in that
19 report, it's quite a lengthy report, but I know one
20 of the concerns was around that CONE, that the
21 limitation of 1.5 times net CONE might be setting it
22 too low because of the issue around the proper energy
23 and ancillary offset.

24 The concern was that this energy offset
25 was being overstated which would reduce the

1 one-and-a-half times net CONE cap, and I think he
2 recommended a .5 adder to gross CONE as I recall.

3 Q. And would you take the Brattle Group's
4 analysis of PJM as being authoritative as the current
5 state of the PJM market?

6 A. I think --

7 Q. Which is I think a July 29th report.

8 A. Yeah, and I may have just seen -- was
9 there a -- I think the report I saw was maybe
10 August 18th, but I'm not positive of that, and it may
11 not have been the full report. It may have been if
12 there was an executive summary. I remember it was in
13 PowerPoint form.

14 I believe the Brattle Group, and I'm,
15 again, I'm not the real expert on this, Mr. Pearce
16 might be more helpful, but I believe they were
17 solicited by PJM to look into that and, you know,
18 they made their recommendations, conclusions, and so
19 forth. But they certainly have some I guess sway on
20 the issue of whether it's performing, the market is
21 performing.

22 Q. So it would be authoritative?

23 A. Yeah. I think if authoritative meant it
24 would have some standing, I would agree.

25 Q. Have you identified for the Commission

1 the provisions in 4928.143(B), which I know you're
2 familiar with because we discussed this during the
3 remand case, on which the company is seeking to
4 recover costs associated with the pool termination
5 rider?

6 MR. NOURSE: I'm sorry. Could I have the
7 question read, please?

8 (Record read.)

9 MR. NOURSE: I would object to the extent
10 it's asking -- calling for a legal conclusion, your
11 Honor.

12 MR. DARR: I'm not asking for a legal
13 conclusion, your Honor. I'm asking just for his
14 understanding.

15 MR. NOURSE: Thank you.

16 EXAMINER SEE: With that clarification,
17 Mr. Nelson, you can answer the question to the best
18 of your ability.

19 THE WITNESS: Could you repeat that
20 again?

21 (Record read.)

22 A. Well, we haven't sought any recovery at
23 this point, we haven't made a filing, so it would be
24 premature to have that discussion with the
25 Commission. But to shorten the answer, no, I haven't

1 had any conversation around that provision with
2 respect to the pool termination rider.

3 MR. NOURSE: Your Honor, could I just
4 interject just so the record's clear. I think there
5 were several references to net CONE, I'm not sure
6 that was ever indicated as being cost of new entry.

7 That is what you were referring to,
8 correct, Mr. Darr?

9 MR. DARR: Yes, net cost of new entry.

10 MR. NOURSE: Thank you.

11 Q. Do you know how many pool agreements
12 there are currently that AEP has with its members?

13 A. Well, pool agreement isn't the actual
14 name of the agreement, so some things may be referred
15 to as a pool agreement. The one to me when I hear
16 "pool agreement," it's the East interconnection
17 agreement.

18 Q. Is there one for transmission?

19 A. Yes, there is.

20 Q. Is there one for --

21 A. Well, there is -- let me back up a
22 minute.

23 We had a transmission equalization
24 agreement and that has been replaced with a
25 transmission agreement. I'm not as up to speed on

1 that particular --

2 Q. Is there one for emissions allowances?

3 A. There is the interim allowance agreement
4 which could be, you know, referred to as a pooling
5 agreement with respect to SO2 allowances.

6 Q. Well, besides what we've referred to as
7 the pool agreement, the exhibit that we were talking
8 about earlier today, that you were talking earlier
9 today with Mr. Lang, will it be necessary to modify
10 or terminate any of these other two?

11 A. I think our plan is to terminate the
12 interim allowance agreement.

13 Q. And will that be required to go through
14 the FERC review process as well?

15 A. I don't think it will be as contentious,
16 it's the termination of a contract. We'd have to
17 make a filing with FERC I think 60 days in advance of
18 the termination unless we request some sort of waiver
19 to have it terminate earlier. But I think it could
20 very well be part of the overall discussions around
21 terminating the generation pool, yes.

22 Q. Okay. So the "yes" at the end was the
23 yes to my --

24 A. Yeah. The only thing that I could add is
25 that we may do that independent of the power pool

1 termination. We could make a separate filing for
2 that.

3 MR. DARR: That's all I have. Thank you.

4 EXAMINER SEE: Ms. Hand?

5 MS. HAND: No, your Honor, thank you.

6 EXAMINER SEE: Counsel for any of the
7 other parties?

8 (No response.)

9 EXAMINER SEE: Redirect for Mr. Nelson,
10 Mr. Nourse?

11 MR. NOURSE: Could we just have a couple
12 minutes, your Honor?

13 EXAMINER SEE: Sure. Five minutes?

14 MR. NOURSE: Thank you, that's plenty.

15 EXAMINER SEE: We'll go off the record
16 and reconvene at 3:15.

17 (Recess taken.)

18 EXAMINER SEE: Let's go back on the
19 record.

20 Mr. Nourse, redirect?

21 MR. NOURSE: Thank you. Your Honor.

22 - - -

23 REDIRECT EXAMINATION

24 By Mr. Nourse:

25 Q. Mr. Nelson, earlier Mr. Lang had asked

1 you a question about AEP Ohio's position that the
2 capacity charge matter was a sale for resale or
3 wholesale charge issue that's within the jurisdiction
4 of the FERC. Do you recall that?

5 A. Yes.

6 Q. And do you also recall that the
7 Commission and other parties did assert that that
8 matter was not within the exclusive jurisdiction of
9 FERC as part of those proceedings?

10 A. I do recall that.

11 Q. And is it your understanding that the
12 stipulation enters into a compromise position on that
13 issue whereby the Commission would establish a new
14 interim rate under the state compensation
15 mechanism --

16 MR. DARR: Objection, your Honor.
17 Leading.

18 Q. -- that would apply until the
19 auction-based SSO kicks in?

20 MR. DARR: May I renew my -- I apologize
21 for stepping on your question or actually your
22 statement. Objection, leading, your Honor.

23 EXAMINER SEE: The objection is
24 overruled. Can you answer the question, Mr. Nelson?

25 THE WITNESS: Could you read me the

1 question, please?

2 (Record read.)

3 A. That is my understanding.

4 Q. Thank you.

5 Earlier, Mr. Lang also asked you some
6 questions about your testimony on page 24, the
7 reference on line 8 to "substantial impacts." Do you
8 see that reference?

9 A. I do.

10 Q. And do you recall the questions that
11 Mr. Lang asked you about what that means for
12 AEP Ohio?

13 A. Yes, I do.

14 Q. And I also see the reference in line 9
15 refers to impacts on other AEP East operating
16 companies. Do you see that reference?

17 A. I do.

18 Q. And can you explain briefly what the
19 financial and substantial impacts would be there for
20 other AEP East operating companies in that context?

21 A. Yes.

22 MR. LANG: Your Honor, I'm sorry, but I
23 don't believe this is within the scope of redirect.

24 MR. NOURSE: Your Honor, he was asked
25 about the impacts and narrow questions about AEP Ohio

1 when the full sentence in the context of the
2 statement also includes a reference to "and the other
3 AEP East operating companies." And that's what I'm
4 asking him to explain, the full context of his
5 statement in testimony.

6 MR. DARR: I join the objection. Your
7 Honor, I think Mr. Nourse's statement pretty much
8 defined what the scope of the cross-examination was.

9 EXAMINER SEE: And your objections are
10 noted and overruled. I will allow the witness to
11 answer the question.

12 THE WITNESS: I'm sorry.

13 (Record read.)

14 A. Yes. Of course, the pool agreement we
15 like to refer to as a zero sum game, so if there's an
16 effect on one company, it's reflected on the others.
17 And any change in the pool agreement that has an
18 impact on AEP Ohio will likely have an impact on the
19 other states. And this just says that, you know, we
20 have to be real careful when we make a change to the
21 pool agreement that we consider all the operating
22 companies and not just one.

23 MR. NOURSE: Thank you, your Honor.
24 That's all the questions I have on redirect.

25 EXAMINER SEE: Recross? Mr. Smalz?

1 MR. SMALZ: None, your Honor.

2 EXAMINER SEE: Ms. Grady?

3 MS. GRADY: No, your Honor.

4 EXAMINER SEE: Mr. Lang?

5 MR. LANG: No, your Honor.

6 EXAMINER SEE: Mr. Darr?

7 MR. DARR: No, ma'am.

8 EXAMINER SEE: Okay. Ms. Hand?

9 MS. HAND: No, thank you.

10 EXAMINER SEE: Thank you, Mr. Nelson.

11 MR. NOURSE: Thank you, your Honor. I'd
12 renew my motion for admission of AEP Exhibit No. 7.

13 EXAMINER SEE: Are there any objections
14 to AEP Ohio Exhibit 7?

15 (No response.)

16 EXAMINER SEE: Hearing none, AEP Ohio
17 Exhibit 7 shall be admitted into the record.

18 (EXHIBIT ADMITTED INTO EVIDENCE.)

19 EXAMINER SEE: FES.

20 MR. LANG: Your Honor, FES moves FES
21 No. 11 and No. 12.

22 EXAMINER SEE: Are there any objections
23 to the admission of FES Exhibits 11 and 12?

24 MR. NOURSE: No, your Honor.

25 EXAMINER SEE: FES Exhibits 11 and 12 are

1 admitted into the record.

2 (EXHIBITS ADMITTED INTO EVIDENCE.)

3 EXAMINER SEE: Let's go off the record
4 for just a minute.

5 (Discussion off the record.)

6 EXAMINER SEE: Let's go back on the
7 record.

8 Mr. Conway.

9 MR. CONWAY: Thank you, your Honor. At
10 this time the companies call Mr. Joseph Hamrock.

11 EXAMINER TAUBER: Please raise your right
12 hand.

13 (Witness sworn.)

14 EXAMINER TAUBER: Thank you.

15 MR. CONWAY: Your Honors, at this time
16 the company would mark for identification
17 Mr. Hamrock's direct testimony as AEP Ohio Exhibit
18 No. 8 and I would note, your Honors, that this
19 iteration of Mr. Hamrock's direct testimony has been
20 revised to reflect the impacts on the company's
21 position of the company's interpretation of the
22 October 3rd remand order as well as the attorney
23 examiners' instructions to present the effect of the
24 remand order as if it removed the full POLR cost from
25 the presentation. Of course, the company's

1 interpretation is that the order requires an
2 incremental removal of POLR costs from the
3 presentation.

4 And so with those revisions incorporated
5 into Mr. Hamrock's testimony which were then
6 circulated to the parties, we now have Mr. Hamrock's
7 revised testimony which is a composite of the two
8 views of the impact of the remand order, and having
9 marked the testimony as AEP Exhibit No. 8 I'm
10 prepared to go forward with the direct examination.

11 EXAMINER SEE: Okay.

12 - - -

13 JOSEPH HAMROCK

14 being first duly sworn, as prescribed by law, was
15 examined and testified as follows:

16 DIRECT EXAMINATION

17 By Mr. Conway:

18 Q. Mr. Hamrock, could you just please state
19 your full name for the record, please?

20 A. Joseph Hamrock.

21 Q. By whom are you employed, and what is
22 your position?

23 A. I'm employed by American Electric Power
24 Service Corporation as President and Chief Operating
25 Officer of AEP Ohio.

1 Q. And did you prepare or have prepared
2 under your supervision the composite of direct
3 testimony which I previously described which has now
4 been marked as AEP Ohio Exhibit No. 8?

5 A. Yes.

6 Q. And, Mr. Hamrock, do you have any
7 corrections or modifications to make to your
8 testimony which has been marked as AEP Ohio Exhibit
9 No. 8?

10 A. Yes. I have one correction on page 5 of
11 my testimony, line 22 at the end of the line, a
12 reference to "Sierra Club" should be struck, removed
13 from the testimony. I believe that's the only
14 reference to Sierra Club as a signatory party.

15 Q. Mr. Hamrock, if I were to ask you the
16 questions contained in your direct testimony which
17 has been marked as AEP Ohio Exhibit No. 8 today,
18 would your answers be the same as they appear in a
19 document with the correction that you just made?

20 A. Yes.

21 Q. And are those answers true and correct to
22 the best of your knowledge and belief?

23 A. Yes.

24 MR. CONWAY: Your Honors, at this time I
25 would move for the admission of AEP Ohio Exhibit

1 No. 8 into the record and Mr. Hamrock is available
2 for examination.

3 EXAMINER SEE: Okay.

4 EXAMINER TAUBER: Mr. Randazzo.

5 MR. RANDAZZO: Thank you.

6 - - -

7 CROSS-EXAMINATION

8 By Mr. Randazzo:

9 Q. Good afternoon, Mr. Hamrock.

10 A. Good afternoon, Mr. Randazzo.

11 Q. Let's start with your testimony at
12 page 1.

13 A. A fine place to start.

14 Q. Line 6. You are President and Chief
15 Operating Officer of AEP Ohio, correct?

16 A. That's correct.

17 Q. And for purposes of your testimony where
18 you use "AEP Ohio" you're referring to Columbus
19 Southern and Ohio Power Company, correct?

20 A. That's correct.

21 Q. Okay. Now, Columbus & Southern and Ohio
22 Power Company are the electric distribution utilities
23 in Ohio, correct?

24 A. That's correct.

25 Q. AEP Ohio is not a legal entity, correct?

1 A. That's correct.

2 Q. Now, as President and Chief Operating
3 Officer of AEP Ohio you indicate that you were
4 responsible for the day-to-day operations of AEP
5 Ohio, and that's on page 1, again, line 13, correct?

6 A. That's correct.

7 Q. And would it be appropriate to say that
8 the day-to-day operations of AEP Ohio, again using
9 AEP Ohio as sort of a shorthand reference for
10 Columbus Southern and Ohio Power, would it be fair to
11 say that the day-to-day operations of AEP Ohio refer
12 to the distribution side of the business?

13 A. The day-to-day operations refer to the
14 distribution, customer services side of the business,
15 as well as the generation operations in the current
16 model through a matrix reporting relationship with
17 the leader of the Ohio generation business.

18 Q. Okay. And is it true that Ohio Power and
19 Columbus Southern have handed over the management of
20 the generation resources to the commercial operations
21 group inside AEP?

22 A. I don't know what you mean by "handed
23 over," but there certainly is a role played by the
24 commercial operations group in the day-to-day
25 operations of the Ohio generation business.

1 Q. Okay. And do you have authority with
2 regard to how that generation -- those generation
3 resources, the resources of Ohio Power and Columbus &
4 Southern, are utilized?

5 A. Through a complex matrix management
6 reporting relationship I do have some authority over
7 the generation function as it currently exists.

8 Q. What is that authority as it currently
9 exists?

10 A. Reviewing capital requisition, reviewing
11 long-range planning related to business, less
12 involvement in the day-to-day bidding and operations
13 of the commercial operational --

14 Q. Okay. And the bidding that you referred
15 to in your prior answer refers to the reference to
16 the process by which those generating assets
17 participate in PJM markets or the bilateral markets
18 that may be available, correct?

19 A. Any markets; that's correct, yes.

20 Q. Okay. Now, is the nature of your
21 authority such that you would have -- you would have
22 the final say with regard to things like electing to
23 be an FRR participant in PJM?

24 A. I wouldn't say that I would have the
25 final say, but I would certainly have input into that

1 kind of a decision.

2 Q. And where would that authority reside
3 within the AEP structure, the authority to make the
4 determination to elect the FRR option?

5 A. Again, AEP has a complex matrix style
6 management organization. I can't say that there's a
7 single point of responsibility for such a decision,
8 especially that kind of a decision because it affects
9 the entire East system pool of generation, not a
10 single operating.

11 Q. Well, to the clear, I wasn't asking about
12 the entire East, and when you're referring to AEP
13 East, you're referring to all of the operating
14 companies that were, what some of us call AEP
15 classic, the Ohio operating companies, Kentucky,
16 West Virginia, Virginia, Michigan, Tennessee,
17 correct?

18 A. If I use the term AEP East, that's what I
19 mean, yes.

20 Q. Okay. So with regard to the
21 determination of electing FRR status within the PJM
22 market model, for Columbus & Southern and Ohio Power,
23 where would that authority reside?

24 A. Again, AEP Ohio operates inside a complex
25 matrix management and there's no single point of

1 decision-making for such a decision because an FRR
2 election would have implications for other members of
3 the AEP East system pool potentially.

4 Q. All right. Now, there's been some
5 mention of the filing of the corporate separation
6 plan or proposal. Are you aware that that has been
7 filed in Case 11-5333-EL-UNC?

8 A. Yes, I am.

9 Q. And you spent some time talking about the
10 signatory parties to the stipulation that was filed
11 in this case on September the 7th. Would I be
12 correct that Buckeye Power has intervened in Case
13 No. 11-5333-EL-UNC?

14 A. I don't know.

15 Q. You don't know? Do you know who Buckeye
16 Power is?

17 A. I do.

18 Q. And would it be fair to say that that is
19 the generation cooperative associated with all the
20 rural electric cooperatives in the state of Ohio?

21 A. I think that's a fair description, yes.

22 Q. And you are aware that Buckeye Power,
23 Incorporated, did not sign on to the stipulation that
24 was filed in this proceeding on September 7th; is
25 that correct?

1 A. Yes.

2 Q. Now, isn't it true that there is
3 currently in existence a company by the name of AEP
4 Generation Company?

5 A. Yes.

6 Q. And what does that company do?

7 A. What do they do in terms of their
8 operational role?

9 Q. Sure.

10 A. They provide -- the best of my
11 understanding they provide generating resources
12 outside of the operating company ownership structure.

13 Q. Okay. Let me ask you a few questions
14 about your testimony beginning at page 4 where you
15 discuss the signatory parties. Now, you will agree
16 with me that both the stipulation and the front page
17 of your testimony lists ten different cases, correct?

18 A. Yes.

19 Q. And let's start with the merger case
20 which is the first one listed on your testimony, the
21 10-2376 case. How many of the signatory parties on
22 the stipulation have intervened in the merger case?

23 A. I don't recall the specific number of
24 intervenors in that case or any of the cases.

25 Q. Okay. That's going to save quite a bit

1 of time.

2 A. I figured that's where you were going.

3 Q. Yeah. So you're not aware of which of
4 the signatory parties actually elected to participate
5 in which of the cases.

6 A. I've seen that, I'm just not -- I don't
7 recall that level of detail.

8 Q. Okay. Do you regard AEP Retail as a
9 knowledgeable party for purposes of your testimony?

10 A. Sure.

11 Q. And is it true that AEP Retail is
12 presently soliciting customers in AEP Ohio's service
13 area as well as Duke's service territory and DP&L's
14 service territory?

15 A. I know that AEP Retail has offers in
16 AEP Ohio's territory. I can't speak to what they may
17 be doing outside of AEP Ohio's territory.

18 Q. Okay. Now, you have listed on page 5 a
19 number of CRES suppliers. Can you tell me which of
20 those CRES suppliers are actively soliciting retail
21 customers in AEP Ohio's service territory?

22 A. I have not reviewed this list relative to
23 the active suppliers in our territory.

24 Q. Do you know if any of them are actively
25 pursuing aggregation within AEP Ohio's service

1 territory?

2 A. I do understand that AEP Retail has
3 actively pursued some aggregation. I don't know
4 about any of the other providers on that list
5 relative to aggregation.

6 Q. Now, has Columbus & Southern and Ohio
7 Power previously advocated here in Ohio in favor of
8 using a competitive bidding process to set the
9 generation price for SSO service?

10 A. Previously, as in during this ESP period?

11 Q. Prior to this ESP.

12 A. Prior to this. Not to my knowledge.

13 MR. RANDAZZO: Your Honors, I'd like to
14 have marked for identification purposes comments of
15 Columbus Southern Power Company and Ohio Power
16 Company as well as reply comments of Columbus
17 Southern Power Company and Ohio Power Company. The
18 former I would like to have marked as IEU Exhibit I
19 think we're on 7.

20 EXAMINER SEE: Can the Bench get a copy
21 first?

22 MR. RANDAZZO: Yes, I'll hand them out,
23 obviously. But I'd like to have those two documents
24 marked as IEU Exhibit 7A and 7B respectively.

25 EXAMINER SEE: The comments you're asking

1 to mark as 7A?

2 MR. RANDAZZO: 7A and 7B, the initial
3 comments would be 7A and the reply comments would be
4 7B.

5 (EXHIBITS MARKED FOR IDENTIFICATION.)

6 EXAMINER TAUBER: Go ahead.

7 Q. Mr. Hamrock, do you have before you what
8 has been marked for identification purposes as IEU
9 Exhibits 7A and 7B?

10 A. Yes.

11 Q. And for purposes of preparing your
12 testimony for this proceeding did you inquire to
13 determine the types of proposals that Columbus &
14 Southern and Ohio Power had made previously for
15 purposes of establishing the generation service price
16 for standard service offer?

17 A. Previously in any case such as this case?

18 Q. Within the last five years.

19 A. No, I did not.

20 Q. Will you accept, subject to check, that
21 Exhibit 7A and 7B are comments that were filed in
22 Case Nos. 07-796-EL-ATA, 07-797-EL-AAM by Columbus
23 Southern and Ohio Power Company?

24 A. Yes.

25 Q. Now, would you turn to page 2.

1 A. Of which document?

2 Q. Of 7A. Good question.

3 A. Is 7A the -- 7B is the reply comments?

4 Q. 7B is the reply comments. 7A is the
5 initial comments.

6 A. Okay, page 2.

7 Q. Page 2. And would I be correct that in
8 these comments it was Columbus & Southern's and Ohio
9 Power's position that the Commission should adopt a
10 statewide competitive bidding process to establish
11 the default price for generation supply? And if you
12 look at the second full paragraph there on page 2.

13 A. The comment certainly refers to adoption
14 of a state-wide CBP meaning competitive bidding
15 process.

16 Q. And would you take a look at the case
17 caption for both 7A and 7B.

18 A. Yes, I see that.

19 Q. And would you agree that the comments
20 were filed in a case involving a proposal by Ohio
21 Edison, Cleveland Electric Illuminating Company, and
22 Toledo Edison seeking approval of a competitive
23 bidding process for standard service offer electric
24 generation supply?

25 A. Yes.

1 Q. And if you would turn to page 3, 7A,
2 Exhibit 7A, that is, am I correct that AEP Ohio
3 indicated that it generally endorsed FirstEnergy's
4 proposed competitive bidding process?

5 A. That does appear to be the spirit of the
6 statement there.

7 Q. Now, take your time and look through
8 Exhibits 7A and 7B and see if there's anyplace where
9 you can find in those documents an indication that
10 prior to proceeding with a competitive bidding
11 process Columbus & Southern and Ohio Power would need
12 to engage in corporate separation or termination of
13 existing pool agreements.

14 A. Without a thorough review it appears that
15 this document -- these documents are related to the
16 FirstEnergy competitive bidding process for SSO
17 service, and it's after FirstEnergy had separated its
18 generation from its distribution business.

19 Q. Would you turn to page 2 of 7A, the first
20 full paragraph. Do you see the second sentence in
21 that first full paragraph?

22 A. Beginning with "AEP Ohio"?

23 Q. Yes.

24 A. Yes.

25 Q. Am I correct there that AEP Ohio was

1 representing that it thought the competitive bidding
2 process as proposed by FirstEnergy should be adopted
3 by the Commission for all electric distribution
4 utilities?

5 A. That is what the statement states, but I
6 don't know the full context of that statement --

7 Q. Okay.

8 A. -- in this proceeding.

9 Q. All right. Now, would you turn to page 5
10 of 7A, in the first full paragraph on page 5, and
11 would you review that paragraph, please. And let me
12 know when you're finished.

13 A. Okay. I have reviewed that paragraph.

14 Q. Is it correct that in these comments that
15 were filed by AEP Ohio, AEP Ohio represented to the
16 Commission that it had the ability to pull its
17 generation assets out of the FRR option but must do
18 so at least 60 days prior to the auction?

19 A. It appears to be referring to a 60-day
20 deadline for the auction three years into the future.

21 Q. Right. Now, would you turn to page 4 of
22 7B. Before you do that, turn to page 3, please.

23 A. Of 7?

24 Q. Of 7B, yes.

25 A. B?

1 Q. Do you believe that it would be
2 disingenuous to claim that RTO markets have failed
3 the purposes of Senate Bill 3 to produce a more
4 competitive wholesale market?

5 MR. CONWAY: You referred to page 3,
6 Mr. Randazzo.

7 MR. RANDAZZO: Yeah.

8 MR. CONWAY: What is it you're referring
9 to on page 3?

10 MR. RANDAZZO: I'd like him to answer my
11 question and then we'll explore page 3, thank you.

12 MR. CONWAY: Why don't we read page 3
13 first and then we'll let him answer the question.

14 MR. RANDAZZO: Mr. Hamrock knows if he
15 needs time I'm happy to give it to him, counsel.

16 MR. CONWAY: Well, I would request the
17 witness be given an opportunity then to read the
18 document and then respond to Mr. Randazzo's question.

19 MR. RANDAZZO: Your Honor, I didn't know
20 that I was interfering with that. If Mr. Hamrock
21 needs time to read the document, I'd encourage him to
22 do so.

23 EXAMINER TAUBER: Mr. Hamrock, are you
24 okay to answer the question?

25 THE WITNESS: I'm reviewing page 3 before

1 I do.

2 EXAMINER TAUBER: Okay.

3 A. I see a statement that it's disingenuous
4 to claim that RTO markets have failed the purposes of
5 SB 3 to produce a more competitive wholesale market,
6 so I trust that that was an accurate reflection of
7 AEP Ohio's views at the time.

8 Q. Do you think it still would be
9 disingenuous to assert that claim?

10 A. I don't have a full understanding of the
11 context of that claim in this document so I really
12 cannot answer that question.

13 Q. Turn to page 4 of 7B, please. At the top
14 of the page these reply comments indicate that
15 virtually all of the generation produced and
16 delivered today by EDUs in Ohio is cleared through
17 the PJM and Midwest ISO markets.

18 If you know, is that statement true
19 today?

20 A. I believe it's true, but I can't say that
21 with 100 percent confidence.

22 Q. In the second full paragraph am I correct
23 that in these reply comments AEP Ohio represented to
24 the Commission that the regional transmission
25 organizations provide access to economically priced

1 generation within their footprints to retail and
2 wholesale customers?

3 A. If you'll give me a moment to review that
4 paragraph.

5 Q. Sure.

6 A. That was certainly AEP Ohio's view at the
7 time.

8 Q. And turn to page 5. Am I correct that
9 for purposes of the comments that AEP provided to the
10 Commission they believe that retail switching
11 develops when retail customers are given appropriate
12 price signals reflective of wholesale market prices?

13 A. I don't know that I see a statement
14 that's that specific.

15 Q. How about the bold caption on page 5.

16 A. Oh, thank you. Yes. Skipped right over
17 that.

18 Yeah, it does say "Retail switching
19 develops when retail customers are given appropriate
20 price signals reflective of wholesale market prices,"
21 that's correct.

22 Q. Do you subscribe to that statement? Do
23 you believe that statement is accurate today?

24 A. I believe that's part of the story.
25 That's part of the -- one of the factors that would

1 drive retail switching. This is very specific to
2 retail switching, switching to competitive suppliers.

3 Q. And would you turn to page 9 of 7B,
4 again, focusing on the bold paragraph. And would you
5 agree that in these comments AEP Ohio advised the
6 Commission that the track record of energy auctions
7 conducted in Ohio and other states shows the market's
8 ability to support large scale procurements?

9 A. That's what it says. That is what the
10 statement says.

11 Q. Do you believe that statement is accurate
12 today?

13 A. Again, this is a four-year-old document.
14 The world is certainly different today than it might
15 have been then. I believe it reflected our views
16 then. Whether it's still accurate today would
17 require a more thorough analysis of the environment
18 today.

19 Q. Okay. And you have not done that
20 analysis; is that correct?

21 A. Relative to large scale procurements, no,
22 no specific analysis relative to large scale
23 procurements as is the case in this statement.

24 Q. Okay. With regard to page 12, again, 7B,
25 IEU Exhibit 7B, and again focused on the bold caption

1 to the section, am I correct that AEP Ohio previously
2 advised the Public Utilities Commission of Ohio that
3 the RTO, or regional transmission organization, model
4 enables wholesale power transactions to occur from
5 sources within or outside an RTO market and it is not
6 constrained to the incumbent utility's generating
7 assets?

8 A. Yes, this appears to be speaking very
9 generally about how RTO models function.

10 Q. And if you know, is that statement true
11 today?

12 A. I don't know. Again, this is a
13 four-year-old comment and the world was certainly
14 dynamic and changing.

15 Q. Okay. Has AEP Ohio used a competitive
16 bidding process or request for proposals process to
17 identify pricing for retail customers served by
18 AEP Ohio?

19 A. In the case of purchased power for
20 renewables, yes.

21 Q. How about generation supply in general to
22 retail customers served by AEP Ohio?

23 A. For standard service offer?

24 Q. Yes, sir.

25 A. Procurement through RFPs?

1 Q. Yes, sir.

2 A. Not to my knowledge.

3 Q. Would you turn to page 13 of what has
4 been marked for identification purposes as Exhibit
5 IEU 7B. And would you read the first full paragraph
6 there that begins with "With respect to AEP Ohio"?

7 A. Yes. This refers to the RFP to serve the
8 former Monongahela Power customers.

9 Q. Okay. Does that refresh your
10 recollection that AEP Ohio used the request for
11 proposals process to source generation supply or
12 identify pricing for providing SSO service to the
13 retail customers formerly served by Monongahela Power
14 in Ohio?

15 A. It does, in the context of an acquisition
16 it does, yes.

17 Q. Right. And does that paragraph describe
18 the successful RFP process that was pursued by
19 AEP Ohio for that purpose?

20 A. It does, it describes the process, the
21 number of bidders, some of the results of the auction
22 or the RFP.

23 Q. So beyond a competitive bidding process
24 it is possible to use a request for proposal process
25 to secure generation supply or establish prices for

1 standard service offer generation supply, correct?

2 A. Sure, under certain circumstances.

3 Q. Would you turn to page 15 of what has
4 been marked for identification purposes as IEU
5 Exhibit 7B. And is it true that in these comments
6 AEP Ohio advised the Commission, Public Utilities
7 Commission of Ohio, that the then-current slow
8 development of baseload generation was not caused by
9 a fault in the market or some other failure of
10 competition?

11 A. That is what the statement says, yes.

12 Q. And is it also true at the end of that
13 paragraph there that AEP Ohio advised the Commission
14 that the move toward deregulation spurred needed
15 investment and also shielded ratepayers from much of
16 the risk by allowing investors to enter the market to
17 take on that risk?

18 A. That appears to be referring to
19 investments that were made earlier in that decade,
20 yes.

21 Q. Investments in generation, correct?

22 A. Investments in generation. Specifically
23 referring to peaking capacity, I believe.

24 Q. Has AEP Ohio or an agent acting on behalf
25 of AEP Ohio bid into auctions for purposes of

1 satisfying the generation supply requirements of
2 retail customers?

3 A. Such as the FirstEnergy standard service
4 offer auctions?

5 Q. FirstEnergy or Ameren, either one.

6 A. The answer is yes. I'm not familiar with
7 the Ameren.

8 Q. You're not familiar with Ameren?

9 A. I'm not familiar with the Ameren auction
10 that you're referring to.

11 Q. But you are familiar with FirstEnergy?

12 A. Yes.

13 Q. And was that done by AEP Ohio directly or
14 was it done through an agent acting on behalf of
15 AEP Ohio? Bidding into the FirstEnergy auction, that
16 is.

17 A. An agent as in an affiliate?

18 Q. AEP Service Corporation, for example.

19 A. Yes, AEP Service Corporation, right.
20 That's my understanding is AEP Service Corp.

21 Q. And were you involved in the
22 decision-making process by which AEP Service
23 Corporation bid into the FirstEnergy auctions?

24 A. No, I was not directly involved.

25 Q. How many -- who would be involved in

1 making that decision within --

2 A. That's the commercial operations group
3 that we referred to earlier.

4 Q. So the commercial operations folks have
5 the ability to do that unilaterally in the sense of
6 not seeking your advice or consent?

7 A. It's a part of their function; yes.

8 Q. Right. And how many FirstEnergy auctions
9 did AEP Service Corporation bid into? Do you know?

10 A. How many annual auctions?

11 Q. Annual, rate stabilization plan auctions,
12 ESP auctions.

13 A. I don't know.

14 Q. You don't know?

15 A. I'm not sure.

16 Q. Do you know how many times AEP Service
17 Corporation was a winning bidder in FirstEnergy
18 auctions?

19 A. I do not.

20 Q. But it was at least once, right?

21 A. Once for sure, yeah. I believe more than
22 once, yes.

23 Q. Mr. Hamrock, are you aware of how many
24 pool agreements there are within the AEP system?

25 A. I don't know the specific number. It was

1 discussed with Witness Nelson briefly, I know of at
2 least those three, and different pool agreements for
3 the West operating companies.

4 Q. When the stipulation refers to
5 termination of pool agreements, do you know which
6 pool agreements the stipulation is referring to?

7 A. The system interconnection agreement.

8 Q. Just the system interconnection
9 agreement?

10 A. Well, that's what the stipulation
11 specifically refers to. In certain sections, though,
12 other pool agreements may need to be modified as
13 well.

14 Q. Okay. When did Ohio Power and Columbus
15 Southern agree to join PJM?

16 A. My recollection is 2004. We joined in
17 2004, to my recollection. I don't know when we
18 agreed. Probably back at the merger with Central and
19 Southwest.

20 Q. Would you accept, subject to check, that
21 there was a memorandum of understanding entered into
22 with PJM in May of 2002?

23 A. 2002?

24 Q. Yes.

25 A. Sure.

1 Q. Is it true that the placement of AEP's
2 transmission assets in one or more regional
3 transmission organizations was a condition attached
4 to the merger approval by the Federal Energy
5 Regulatory Commission in conjunction with the merger
6 between AEP and Central and Southwest?

7 A. That's my understanding, yes.

8 Q. When Ohio Power and Columbus & Southern
9 joined PJM, what was the structure of PJM's capacity
10 market?

11 A. I believe that predates the RPM market,
12 but I don't know what the structure was at the time.

13 Q. Do you know when RPM started?

14 A. My recollection is around 2007.

15 Q. Would you accept, subject to check, June
16 of 2007?

17 A. Sure.

18 Q. Why do regional transmission
19 organizations impose capacity obligations?

20 A. To assure reliability of supply would be
21 one reason.

22 Q. By the way, if we could go back to IEU
23 Exhibit 7A and 7B for just a second, would you agree
24 that the comments and reply comments were filed after
25 PJM had started RPM?

1 A. Based on the date stamp and your
2 recollection that it started in June of 2007, yes,
3 this is a September docket.

4 Q. Do the capacity obligations that are
5 established by regional transmission organizations
6 attach to all load-serving entities?

7 A. Could you repeat the question, I'm sorry?

8 Q. Sure. Do the capacity obligations
9 established by retail transmission organizations
10 attach to all load-serving entities?

11 A. Attach to.

12 Q. Yeah. Are all load-serving entities
13 obligated to comply with the capacity obligations
14 established by regional transmission organizations in
15 PJM's footprint?

16 A. I believe that's the case, yes.

17 Q. Do you know what a load-serving entity
18 is?

19 A. Yes.

20 Q. As defined by PJM?

21 A. An EDU in our case is a load-serving
22 entity.

23 Q. And a CRES would be a load-serving entity
24 as well?

25 A. An alternative retail load-serving

1 entity, yes.

2 Q. Okay. And when did -- when AEP moved its
3 transmission assets, AEP East moved its transmission
4 assets to PJM, when did it elect the fixed resource
5 requirement or FRR?

6 A. I don't know, but I believe it was at the
7 beginning. The initial election was FRR.

8 Q. And was that decision made just for
9 AEP Ohio, or was it made for all the AEP East
10 operating companies?

11 A. The latter, all of the AEP East operating
12 companies are FRR entities.

13 Q. And who made that decision? Who made the
14 decision to elect the fixed resource requirement
15 within AEP?

16 A. The person? Are you asking the person?
17 I don't know.

18 Q. Were you involved in the decisions or
19 analysis associated with electing the FRR option?

20 A. No, I was not in this role at the time,
21 not in my current role at the time.

22 Q. Did AEP Service Corporation make the
23 election on behalf of the operating companies?

24 A. I don't know.

25 Q. Is it true that the FRR mechanism is an

1 alternative method of participating in PJM's capacity
2 market?

3 A. That sounds like a fair characterization
4 of FRR.

5 Q. And when Columbus Southern and Ohio
6 Power -- strike that.

7 We talked earlier about the timing of the
8 participation in PJM with regard to the capacity
9 market and the commencement of RPM as being around
10 June of 2007. Do you recall that?

11 A. Yes.

12 Q. Okay. When the PJM RPM market commenced,
13 is it true that Columbus & Southern and Ohio Power
14 began receiving capacity compensation from Ohio
15 competitive retail electric service providers based
16 on the RPM clearing price?

17 A. I don't know, but I expect that would
18 have been the case at the time, yes.

19 Q. Will you accept that, subject to check?

20 A. Sure. There was a small amount of
21 customer switching at the time and there would have
22 been some kind of capacity compensation mechanism.

23 Q. And as I understand the stipulation filed
24 on September the 7th in these proceedings, it is
25 asking the PUCO to replace the current RPM-based

1 capacity compensation system with a compensation
2 system tied to \$255 per megawatt-day for all supply
3 above the shopping caps; is that correct?

4 MR. CONWAY: Excuse me. Can I have that
5 question reread?

6 MR. RANDAZZO: I can restate it if it's
7 easier.

8 EXAMINER SEE: Okay.

9 Q. Am I correct that the stipulation filed
10 on 9/7/11 seeks authority from the PUCO to replace
11 the current RPM-based capacity compensation system
12 with a compensation system tied to \$255 per
13 megawatt-day for all CRES supply above the shopping
14 caps?

15 MR. CONWAY: I'll object to the question.
16 It mischaracterizes the stipulation.

17 EXAMINER SEE: And I'll allow the witness
18 to answer the question.

19 A. No. The RPM -- the current RPM
20 compensation mechanism is a matter of litigation in
21 the 10-2929 case and the stipulation proposes a
22 settlement in that case, proposes to the Commission a
23 settlement in that case that has a two-tier pricing
24 mechanism for competitive retail electric suppliers.
25 The \$255 per megawatt-day is one tier, and then there

1 is a set-aside of capacity available to competitive
2 suppliers as well that is RPM based, but there are no
3 shopping caps per se.

4 Q. Well, whether you call them shopping caps
5 or percentages applied to the volume of sales by CRES
6 suppliers, the stipulation would allow the current
7 RPM-based capacity compensation system to be retained
8 so long as the kilowatt-hours were below the
9 percentage limitations expressed in the stipulation,
10 and above those percentage limitations apply a charge
11 of \$255 per megawatt-day; is that correct?

12 A. There are two pricing tiers for capacity
13 provided to competitive suppliers, \$255 per
14 megawatt-day and a set-aside, a three-step set-aside,
15 2012, '13, and '14, with each -- its own set-aside of
16 allegation rates and, in fact, we're seeing shopping
17 deals struck at \$255 per megawatt-day so that
18 set-aside does not appear to be functioning as a cap
19 of any sort.

20 Q. We've known each other a long time, you
21 can say whatever you want to say in response to my
22 question, I'll follow up as necessary, but my
23 statement that the RPM compensation system is
24 retained for a portion of CRES supply is accurate,
25 correct?

1 A. A growing portion each year for the
2 transition years in the plan, that's correct.

3 Q. Right. And for the portion that is not
4 subject to RPM pricing to establish the charge for
5 capacity, the settlement or the stipulation would
6 impose a capacity charge of \$255 per megawatt-day,
7 right?

8 A. A negotiated rate of \$255 per
9 megawatt-day for all other competitive supply.

10 Q. Right. And if the stipulation is not
11 approved, would I also be correct that the RPM-based
12 compensation system would remain in place?

13 A. Pending the outcome of the 10-2929 case,
14 that is correct. That's my understanding.

15 Q. And in your testimony you note that you
16 previously testified in the proceedings before this
17 Commission that produced the current ESPs for
18 Columbus Southern and Ohio Power, Case Nos. 08-917
19 and 08-918, correct?

20 A. That's correct.

21 Q. And in Case Nos. 08-917 and 08-918
22 Columbus Southern and Ohio Power relied upon their
23 Witness Craig Baker to conduct the MRO versus ESP
24 test, correct?

25 A. That's my recollection.

1 Q. And in Case Nos. 08-917 and 08-918
2 Columbus & Southern and Ohio Power relied upon the
3 results of competitive bidding procedures or auctions
4 in other states to support its position regarding the
5 competitive benchmark price, correct?

6 A. I don't recall that level of detail about
7 Mr. Baker's presentation of the MRO test.

8 Q. Would you like to look at Mr. Baker's
9 testimony, or are you willing to accept that, subject
10 to check?

11 A. I'm willing to accept, subject to check.

12 Q. And it's on page 6 and 9 of Mr. Baker's
13 testimony.

14 And in Case Nos. 08-917 and 08-918
15 Columbus & Southern and Ohio Power calculated the
16 competitive benchmark price by including, among other
17 things, a component for capacity, correct?

18 A. I believe that's correct, yes.

19 Q. And for purposes of assigning a price and
20 cost to the capacity component included in the
21 calculation of a competitive benchmark price is it
22 true that Columbus & Southern and Ohio Power relied
23 upon the results of the RPM auction conducted by PJM?

24 A. That is my recollection, yes.

25 Q. Now, Mr. Hamrock, we're making more

1 progress than my next question may imply, but at page
2 2 --

3 A. Of my testimony?

4 Q. Of your testimony, that's correct.

5 A. We're going backwards here.

6 Q. -- you state that you testified in the
7 significantly excessive earnings test or SEET case
8 10-1261-EL-UNC, correct?

9 A. Correct.

10 Q. Well, we'll need to come back to that, I
11 apologize.

12 Let me try it this way, am I correct that
13 in the testimony that you filed in the SEET
14 proceeding that you included a discussion of the
15 business and financial risks presented by Senate Bill
16 221 in general for electric distribution utilities
17 and, more specifically, for Columbus Southern and
18 Ohio Power?

19 A. Yes.

20 Q. And am I correct that in the SEET
21 proceeding that I just mentioned you testified that
22 electric utilities such as Columbus Southern and Ohio
23 Power that own generation assets bear additional
24 risks as compared to utilities that do not own
25 generation assets?

1 A. That's my recollection, yes.

2 Q. And am I also correct in that proceeding
3 that you testified that generation-owning utilities
4 in Ohio are no longer guaranteed recovery of their
5 substantial capital intensive assets?

6 A. Yes. That's my recollection.

7 Q. And am I correct that in the SEET
8 proceeding you also testified that your observations
9 about business and financial risks were especially
10 true for Columbus Southern and Ohio Power because
11 they were operating under an electric security plan?

12 A. I don't recall that statement, but I'll
13 accept it, subject to check.

14 Q. Okay. And that would be page 19, lines
15 15 through 17.

16 And given -- did you also testify in that
17 SEET proceeding that given -- that that higher degree
18 of risk for Ohio Power and Columbus Southern was in
19 part related to the ESP approval standard that can be
20 applied as the lower of market or cost?

21 A. That makes sense, yes.

22 Q. Now, Mr. Hamrock, would you regard
23 something like the approval standard for an ESP under
24 Senate Bill 221 and its potential application to have
25 the status of an important regulatory principle or

1 practice?

2 THE WITNESS: Could you reread the
3 question for me, please.

4 Q. Sure. I can restate it.

5 A. Okay. Thank you.

6 Q. I'm organized. Mr. Hamrock, would you
7 regard something like the approval standard for an
8 ESP under Senate Bill 221 and its potential
9 application to have the status of an important
10 regulatory principle or practice?

11 A. The approval standard meaning the MRO
12 test?

13 Q. No. The approval standard that we just
14 discussed that you testified to in the SEET
15 proceeding in which you said that the approval
16 standard can be applied as the lower of market or
17 cost.

18 A. Yeah, I don't know that I would tie that
19 characterization of the approval standard to the
20 definition of an important regulatory principle.

21 Q. Well, let me ask you this, since you
22 testified in the SEET proceeding, Case No. 10-1261,
23 has the approval standard for an ESP under Senate
24 Bill 221 changed, if you know?

25 A. No, it has not. I simply referred to

1 that was my characterization of it. It's not meant
2 to be a legal representation of the approval
3 standard.

4 Q. And in your testimony in the SEET
5 proceeding am I also correct that you provided a
6 detailed list of the unique business and financial
7 risks that an electric distribution utility has under
8 Senate Bill 221?

9 A. Yes, I do recall having an exhibit to
10 that effect.

11 Q. And am I also correct that the list is
12 contained on the last page of your testimony in that
13 case? Would you like to see the testimony?

14 A. The SEET testimony?

15 Q. Yes, sir.

16 A. That's my recollection.

17 Q. And as part of your listing of the Senate
18 Bill 221 related business and financial risks, you
19 identified several things included the fact that
20 customers in Ohio have the right to obtain
21 competitive retail electric services from a
22 competitive supplier, right?

23 A. Yes.

24 Q. And you also identified that Ohio law
25 promotes governmental aggregation through things like

1 bypassability of charges, correct?

2 A. I don't recall that, but that does sound
3 fair.

4 Q. Will you accept that your testimony --

5 A. Yes.

6 Q. -- included that, subject to check?

7 And one of the other things that you
8 identified as a Senate Bill 221 related business and
9 financial risk for electric distribution utilities
10 was that Senate Bill 221 did not provide them with
11 the ability to obtain future stranded cost recovery
12 for historical generating assets.

13 A. Yes. And all of that is in the context
14 of the unique risks that an EDU that owns generation
15 faces under an ESP in this particular environment
16 with major capital investments required, with long
17 planning horizons and relatively short regulatory
18 visibility as well as market visibility.

19 Q. I believe you were in the room earlier
20 when Mr. Darr asked Mr. Nelson some questions about
21 whether the stipulation that's been filed in this
22 proceeding on September 7 permits the unamortized
23 investment in closure costs associated with Muskingum
24 River 5 to be recovered as part of the Muskingum
25 River 6 cost. Do you recall those questions?

1 A. I do recall a question to that effect,
2 yes.

3 Q. Does the stipulation in your mind permit
4 such unamortized investment and closure costs to be
5 recovered as part of the Muskingum River 6 costs or
6 in any other way?

7 A. No. The stipulation simply seeks
8 authorization for the GRR rider, future filings
9 relative to Muskingum River 5 and Muskingum River 6
10 would present any such argument or any such proposal.

11 Q. Okay. So as I understand it, then, you
12 believe that the stipulation would allow you to at
13 least request recovery of Muskingum River 5 closure
14 and unamortized investment costs as part of the
15 application related to Muskingum River 6; is that
16 correct?

17 A. I don't know that the rider or approval
18 of the stipulation would allow that. I believe the
19 statute would allow that.

20 Q. Okay. So one way or another you think
21 that that's still something that is pursuable, that
22 being the recovery of unamortized investment in
23 Muskingum River 5 as well as closure costs, you think
24 that is still pursuable as part of some future
25 application if the stipulation is approved, correct?

1 A. Yes. More generally, the approval of
2 retirement costs associated with dedicated resources
3 that the EDU might own.

4 Q. And beyond Muskingum River 5 would the
5 same be true with regard to other generating units
6 that are owned by Ohio Power or Columbus & Southern
7 that may be closed such as Sporn 5?

8 A. Is the question relative to the
9 stipulation or is it broader? The stipulation only
10 foreshadows Muskingum River 6, no other units.

11 Q. Okay. I understand that the stipulation
12 specifically mentions Muskingum River 6, but what I'm
13 interested in knowing is is it your view that
14 Columbus Southern and Ohio Power, AEP Ohio, still
15 have the opportunity to pursue the recovery of
16 unamortized investment in generating units that may
17 be closed and closure costs associated with those
18 generating units?

19 A. The stipulation and the GRR only applies
20 to MR5 in this case notwithstanding that we do still
21 reserve our right to seek retirement costs for other
22 units, yes.

23 Q. Okay. Now, and when you say "retirement
24 costs," we're talking, so everybody's on the same
25 page, you're talking about unamortized investment

1 remaining on the books?

2 A. That would be, in my view, a part of
3 retirement costs, yes.

4 Q. Right. And the other part of retirement
5 costs would be costs associated with closing down the
6 unit sometimes referred to as salvage?

7 A. Salvage, inventory salvage. And we still
8 have pending the Sporn 5 case, as an example.

9 Q. So your view is that the stipulation does
10 not resolve issues associated with your Sporn 5
11 application; is that correct?

12 A. It does not. That's correct.

13 Q. Now, just returning to your SEET
14 testimony that we discussed earlier, is it fair to
15 say that for purposes of the testimony that you've
16 offered in this proceeding you knew that Senate Bill
17 221 promotes government aggregation through things
18 like bypassability of charges when you were
19 negotiating and when you signed the settlement filed
20 in these proceedings on September the 7th, 2011; is
21 that correct?

22 A. I don't know about bypassability of
23 charges, I'm not sure what you're referring to there,
24 but as a general matter I understand that Senate Bill
25 221 promotes a lot of different objectives including

1 governmental aggregation.

2 Q. All right. One of the -- let me back up
3 just a second.

4 One of the provisions in the stipulation
5 is that the phase-in recovery rider would apply to
6 both Ohio Power and Columbus & Southern customers,
7 correct?

8 A. That's correct.

9 Q. And the balance to be recovered from that
10 phase-in recovery rider is related to a phase-in
11 deferral that was authorized for Ohio Power, correct?

12 A. That's correct.

13 Q. Now, are you aware of any limitations on
14 the ability of a nonbypassable phase-in recover rider
15 to be imposed on community aggregation groups?

16 A. I am not.

17 Q. Let me ask you to assume that -- strike
18 that.

19 Now, page 7 of your testimony, in the
20 answer that begins on line 18, the second sentence.
21 Are you with me?

22 A. Yes.

23 Q. It begins with "Below." You say there "I
24 specifically support the Stipulation's recommendation
25 that the ESP, as modified." Can you tell me what ESP

1 you're referring to there? Is that the one that was
2 in the application of Columbus & Southern and Ohio
3 Power?

4 A. I believe it's referred to in the
5 parenthetical reference immediately following that
6 phrase, 11-346-EL-SSO and 11-348-EL-SSO.

7 Q. So in line 20 there where you're using
8 the abbreviation "ESP" for electric security plan the
9 reference there is to the electric security plan
10 contained in the application. Is that correct?

11 A. Correct.

12 Q. And in several places in the stipulation
13 am I correct that there are references back to that
14 original application that was filed in January of
15 2011?

16 MR. CONWAY: I'm sorry. Could I have
17 that question reread, please?

18 MR. RANDAZZO: I'll restate it.

19 Q. Mr. Hamrock, am I correct that in the
20 stipulation that was filed in these proceedings on
21 September the 7th there are references to
22 modifications of that electric security plan
23 application filed in January?

24 A. Modification of the application?

25 Q. Yes.

1 A. That's not my understanding. It's a
2 settlement of the ESP and the settlement of the terms
3 of the ESP, but I don't know that I would view it as
4 a modification of the application.

5 Q. Okay. Would you turn to -- do you have
6 the stipulation in front of you?

7 A. I do.

8 Q. Would you turn to page 8, paragraph n,
9 lowercase n.

10 A. Regarding the DIR?

11 Q. That's correct, sir.

12 A. Yes.

13 Q. And the second sentence begins "the
14 proposed DIR will be modified." What is the proposed
15 DIR referring to there?

16 A. The distribution investment rider that
17 was a part of or is a part of the SSO application.

18 Q. Okay. So at page 8 the words that say
19 "the proposed DIR will be modified," the proposed DIR
20 that is being modified by the stipulation is the one
21 that was contained in the application filed back in
22 January.

23 A. In the ESP application, yes.

24 Q. In the ESP application.

25 A. Or the SSO application. Yes, that's

1 correct.

2 Q. Okay. Now, if you would turn to page 4
3 of the stipulation, lowercase b, first line,
4 "proposed rate re-design." Do you see those words?

5 A. Yes, I do.

6 Q. Is that referring to the rate redesign
7 that was proposed in the ESP application?

8 A. Yes. This is, b is part of 1 which is
9 the electric security plan and it's captioned above
10 that as the two SSO cases.

11 Q. Right. So here you're proposing to
12 modify a provision that was in a proposal -- that was
13 in the ESP application filed in January; is that
14 correct?

15 A. Again, as a matter of settling the case,
16 the provisions of that, of that filing were changed
17 through negotiation, yes.

18 Q. Right. Page 11 of the stipulation,
19 paragraph o, lowercase, and that says "Continue
20 Enhanced Service Reliability Rider (ESR) as
21 proposed."

22 A. Right.

23 Q. That would have been as proposed in the
24 ESP application?

25 A. That is correct. That is 1.0 -- or

1 IV.1.o and 1 is all related to the electric security
2 plan filing.

3 Q. And page 8, sorry to jump around here but
4 page 8, paragraph lowercase l, was the alternative
5 rider something that was proposed in the original
6 application, in the ESP application?

7 A. That's my recollection, yes.

8 Q. How about the green portfolio recovery
9 rider?

10 A. Yes, that was also a part of the original
11 application.

12 Q. And how about the PEV tariff --

13 A. Yes.

14 Q. -- was that part of the original
15 application?

16 A. Yes. Everything in section 1 refers to
17 elements of the original application.

18 Q. Right. So there are certain elements of
19 the stipulation that's been filed in these
20 proceedings on September 7th that work off of the
21 original ESP application; is that correct?

22 A. That's correct.

23 Q. In your testimony at page 2, line 5, you
24 indicate that your employment with AEP Service
25 Corporation began in 1986. Correct?

1 A. That's correct.

2 Q. How many different business models has
3 AEP pursued since you began your employment in 1986?

4 A. I don't know what the definition -- what
5 your definition of a business model might be, so --

6 Q. Well, let's start with energy trading.
7 Did AEP pursue an energy trading business model
8 beginning in 1997?

9 A. Yes.

10 Q. And did it discontinue the energy trading
11 model?

12 A. Not entirely, but the version I believe
13 you might be referring to has changed since then.

14 Q. All right. And the change took place on
15 the heels of the Enron, we'll just call them
16 problems; is that correct?

17 A. I'll go with that, yeah.

18 Q. And what business model did AEP adopt
19 following the Enron problems?

20 A. The way you characterize it in the
21 question it seems to imply an abrupt change in an
22 overall business model and I would say our business
23 model is continuously adapting to market and
24 regulatory conditions and the overall business
25 environment.

1 Q. And -- thank you. That shorthanded the
2 discussion we were going to have otherwise. Like
3 most businesses, Mr. Hamrock, AEP is in the process
4 of continuously adjusting its business model based
5 upon circumstances?

6 A. Sure.

7 Q. And --

8 A. Based on customer needs, expectations.

9 Q. Changes in law.

10 A. Yes.

11 Q. That sort of thing.

12 Now, are you aware that Ohio's original
13 restructuring legislation, sometimes referred to as
14 Senate Bill 3, provided for a transition period?

15 A. I recall that there was a transition
16 period, yes.

17 Q. And do you know how long that transition
18 period was?

19 A. I don't.

20 Q. Do you know when Columbus & Southern and
21 Ohio Power agreed to end their transition period?

22 A. Do you include in that definition the
23 rate stabilization plan period?

24 Q. No.

25 A. Okay, so that would have been -- when did

1 we agree or when did it end? What was the question?

2 Q. As part of the electric transition plan
3 proceedings, did Columbus Southern and Ohio Power
4 agree to end their transition plan or transition
5 periods by the end of 2008 and 2007 respectively?

6 A. I don't know. I wasn't involved at that
7 point.

8 Q. Do you know what transition costs are as
9 the term is used for purposes of Senate Bill 3?

10 A. No, I don't recall a definition of
11 transition costs.

12 Q. Do you know if Columbus & Southern and
13 Ohio Power submitted a claim for transition costs
14 under the process provided by Senate Bill 3?

15 A. I do not know.

16 Q. Do you know if Columbus & Southern and
17 Ohio Power were awarded transition costs by the
18 Commission as part of the implementation of Senate
19 Bill 3?

20 A. I do not know.

21 Q. Did you ask, prior to preparing your
22 testimony in this proceeding, whether or not there
23 had previously been a transition period and whether
24 or not Columbus Southern and Ohio Power had received
25 compensation for transition costs under Senate Bill

1 3?

2 A. I did not, and I didn't see that as a
3 particularly relevant question.

4 Q. Do you know if Senate Bill 3 contained
5 shopping percentage goals that were to be obtained
6 during the transition period?

7 A. I don't know.

8 Q. Am I correct that prior to 2003 Columbus
9 & Southern and Ohio Power sought and obtained
10 regulatory approval to legally separate transmission
11 and distribution assets from their generation assets?

12 A. Yes, and I heard Witness Nelson's
13 response to that question earlier.

14 Q. And am I also correct that Columbus
15 Southern and Ohio Power previously received authority
16 from the Federal Energy Regulatory Commission to
17 withdraw from the AEP pool agreements?

18 A. Simultaneously with that corporate
19 separation?

20 Q. Yes, sir.

21 A. That is my recollection, yes.

22 MR. RANDAZZO: I believe I'm done, your
23 Honors, ahead of schedule.

24 EXAMINER SEE: Okay.

25 MR. RANDAZZO: I would ask that what have

1 been marked for identification purposes as IEU
2 Exhibit 7A and 7B be admitted.

3 EXAMINER SEE: So noted.

4 MR. RANDAZZO: And I would ask that they
5 be admitted before I end my cross-examination of
6 Mr. Hamrock so that if I need to do any additional
7 questioning of Mr. Hamrock on these documents, I'd
8 have the opportunity to do that.

9 EXAMINER SEE: Mr. Conway, were you
10 responding to that?

11 MR. CONWAY: Your Honor, my first
12 response was going to be that typically we wait until
13 the end of cross-examination to rule on the admission
14 of cross-examination exhibits.

15 My second comment is that these are
16 documents with the Commission, I think the
17 conventional way to treat them would be to take
18 administrative notice of them. I don't know that
19 they're appropriate for admission into the record as
20 evidence. Of course, we don't have any objection to
21 taking them as evidence.

22 EXAMINER SEE: I'm sorry. I missed that
23 last part.

24 MR. CONWAY: So we don't have any
25 objection to taking administrative notice of the two

1 documents which would be a conventional way I think
2 to treat them, but we would, if we're going to have a
3 discussion of whether or not they're admitted right
4 now instead of waiting until the end, I'd say we
5 would object to the admission of the documents as
6 evidence.

7 EXAMINER SEE: I see no reason to treat
8 these documents special in this case.

9 MR. RANDAZZO: Your Honor, we'd be fine
10 with taking administrative notice of the documents if
11 that's Mr. Conway's solution to this. I had them
12 marked simply as a convenience to the Bench and the
13 parties so that people didn't have to go searching
14 through the files of the Commission. This is a very
15 extensive docket and it took me a while to find them,
16 although I did remember them.

17 EXAMINER SEE: Okay.

18 MR. RANDAZZO: So we'd be fine with
19 administrative notice provided we have the
20 opportunity to refer to them for briefing purposes.

21 EXAMINER SEE: And we'll take
22 administrative notice of what was previously marked
23 as IEU Exhibit 7A and 7B.

24 FES indicated that they had
25 cross-examination for Mr. Hamrock.

1 MR. LANG: Yes, your Honor.

2 EXAMINER SEE: Mr. Lang, you'll be
3 conducting cross-examination?

4 MR. LANG: Yes, your Honor.

5 EXAMINER SEE: Proceed.

6 - - -

7 CROSS-EXAMINATION

8 By Mr. Lang:

9 Q. Mr. Hamrock, with regard to the
10 quantitative benefits you describe in your testimony,
11 is it fair to say that you rely upon Witnesses Thomas
12 and Allen for their calculations of those
13 quantitative benefits?

14 A. Yes. Witness Thomas performs the MRO
15 price test, and Witness Allen quantifies those
16 benefits on a net-present-value basis as well as
17 other quantifiable benefits of the settlement.

18 Q. Other than the work shown in their
19 testimony, you did not assign specific monetary
20 values to any other parameters of the electric
21 security plan, correct?

22 A. That's correct. I don't refer to any
23 other quantified benefits in my testimony.

24 Q. And it's fair to say if their analyses
25 are incorrect and they have underestimated the costs

1 of the ESP or overestimated the benefits, then your
2 overall opinion that ESP is more favorable could
3 change, correct?

4 A. There would have to be a fairly
5 significant change in their quantification of the
6 benefits to arrive at that conclusion.

7 Q. But you would certainly agree that if
8 that change occurs, then your final opinion with
9 regard to the ESP being more favorable in the
10 aggregate would have to be revised, correct?

11 A. Under what seems like an extreme or a
12 highly unlikely scenario that might be possible.
13 Yes.

14 Q. Now, with regard to Ms. Thomas, you
15 relied upon her determination of the correct way to
16 perform the price comparison, correct?

17 A. That's correct.

18 Q. And you are aware that Ms. Thomas's ESP
19 versus MRO price comparison did not include the last
20 year of the ESP term, correct?

21 A. That's correct. I'm aware of that.

22 Q. You did not discuss with her why she did
23 not include the last year of the ESP term, correct?

24 A. I've heard her discussion of that, but I
25 did not direct her to perform the test that way.

1 Q. That was a decision made by her that you
2 accepted.

3 A. Yes.

4 Q. You are also aware that she uses a blend
5 of RPM pricing and the stipulation's \$255 megawatt-
6 day price as the blended capacity price for the
7 market component of the MRO price in her analysis,
8 correct?

9 A. Yes. That's an appropriate way to value
10 capacity under the MRO side of the price test given
11 the elements of the settlement.

12 Q. Well, and it's true that you relied upon
13 her determination that that was appropriate, correct?

14 A. That's correct.

15 Q. If she used all RPM pricing instead of
16 RPM and 255, you do not know what the result would be
17 of her price comparison, correct?

18 A. That's correct.

19 Q. With regard to the fuel cost that she
20 used in her price comparison, is it fair to say that
21 you do not know what the specific fuel costs were
22 that she used?

23 A. I believe she used the most recently
24 available fuel cost, but I don't know all the
25 specific underlying components of that, if that's

1 your question.

2 Q. The specific fuel cost that she used,
3 again, was not something that you specifically
4 discussed with Ms. Thomas.

5 A. That's correct.

6 Q. If she included AEP's projected fuel
7 costs in her comparison, again, you do not know what
8 the result would be?

9 A. That's correct. Nor do I know what the
10 result would be if she used other cost factors on a
11 projected basis.

12 Q. With regard to the overall pricing
13 elements that Ms. Thomas used, you relied upon her
14 determination as to what should or should not be
15 included in the ESP versus MRO comparison.

16 A. That's correct.

17 Q. You also relied on Ms. Thomas's decision
18 as she went through this process and prepared several
19 different MRO versus ESP comparisons, you relied on
20 her decision to sometimes include a POLR charge in
21 the generation service price and sometimes not.

22 A. Sometimes as in? I'm not familiar with
23 that change in including or not including the POLR
24 cost. What are you referring to?

25 Q. Well, are you familiar as to whether --

1 in her original January calculation whether she did
2 or did not include a POLR charge?

3 A. Okay. I thought you were referring to
4 the remand POLR. So that clarification helps me.

5 No, I don't recall any distinction there.

6 Q. Now, with regard to Mr. Allen's
7 calculations of benefits, you also relied upon his
8 calculation of the, what you referred to as
9 discounted capacity pricing of \$856 million, correct?

10 A. That's correct.

11 Q. You are not familiar with how he
12 calculated that number.

13 A. I trust his calculation, and I did not
14 review the underlying calculations.

15 Q. Are you aware that his calculation
16 assumes that the Commission would have authorized
17 AEP Ohio to charge CRES providers \$355 per
18 megawatt-day for capacity?

19 A. I don't know if it's fair to say that he
20 assumed anything that the Commission might do. He
21 simply shows the value of that discounted capacity
22 relative to AEP Ohio's cost of capacity and the
23 benefit of providing that capacity at those
24 discounted rates on a net-present-value basis.

25 Q. Are you aware that that value of that

1 calculated discount is a discount off the \$355 per
2 megawatt-day for AEP Ohio?

3 A. Yes.

4 Q. Have you ever negotiated contracts for
5 AEP?

6 A. I have. What kind of contracts do you
7 mean? Any kind?

8 Q. General question.

9 A. Yes. I have negotiated contracts, yes.

10 Q. Have you ever told the other side in
11 negotiations that they have to come to the table with
12 a better offer or more productive offer in order for
13 the negotiations to be productive?

14 A. I may have, yes.

15 Q. And I assume when you do that, that
16 you're trying to get a better offer from the other
17 side.

18 A. Generally that would be the case.

19 Q. It wouldn't be an example where you would
20 be telling the other side that you're terminating
21 negotiations.

22 A. It might be to find whether the other
23 side would walk away. Yes, it might be.

24 Q. Is the \$24 million in revenue generated
25 from the market transition rider in 2012 included in

1 Ms. Thomas's price comparison?

2 A. I don't believe that the MTR is included
3 in Witness Thomas's MRO price test, but I do believe
4 Witness Allen includes it in his calculation of the
5 net present value of the MRO price test. So it's
6 ultimately included in the MRO test as a result of
7 Witness Allen's conclusion.

8 Q. Does that explain why in your testimony
9 it shows Ms. Thomas having a positive value for the
10 ESP versus MRO comparison but Mr. Allen has a
11 negative value?

12 A. That may be part of the explanation, as
13 well as the weighting of the different periods and
14 the discount rate that Witness Allen applies to that
15 calculation.

16 Q. Do you agree that you could have a
17 revenue neutral market transition rider as part of an
18 MRO?

19 A. I suppose it's possible.

20 Q. What is the status of securitization of
21 the fuel deferrals from the first ESP?

22 A. The status?

23 Q. Yes.

24 A. It's anticipated in the settlement and is
25 something that if the settlement's approved, we would

1 endeavor to do.

2 Q. Is it AEP Ohio's objective to securitize
3 that regulatory asset during 2012?

4 A. We would hope to complete that during
5 2012, yes.

6 Q. If AEP Ohio satisfied its standard
7 service obligation using an MRO instead of an ESP,
8 AEP Ohio would still seek to securitize the fuel
9 deferrals, correct?

10 A. It's impossible for me to know what we
11 might do under an MRO scenario. It's a hypothetical
12 scenario and it's a completely different plan than
13 what we have presented in this stipulation.

14 MR. DARR: Excuse me, your Honor. I'm
15 having trouble hearing Mr. Hamrock.

16 THE WITNESS: I'm sorry. Let me move the
17 mic closer.

18 MR. DARR: Thank you.

19 Q. Do you agree that securitization of the
20 fuel deferrals from the first ESP case is not
21 dependent upon the stipulated ESP going forward that
22 we're discussing here today?

23 A. If you're asking is it only possible as a
24 result of the settlement -- is that the implication
25 of your question?

1 Q. Sure. It is not dependent upon the
2 stipulation.

3 A. It's not entirely dependent upon it,
4 correct.

5 Q. What the stipulation provides is support
6 from the stipulating parties for that securitization
7 plan, correct?

8 A. That's correct.

9 Q. Now, the remand order -- do you
10 understand when I refer to the remand order what that
11 means?

12 A. Yes.

13 Q. The remand order resulted in a reduction
14 in the amount of the fuel deferrals, correct?

15 A. It is proposed in a way -- the remand
16 order does suggest that the first thing we do is to
17 reduce the fuel deferrals as a means of reducing the
18 revenues associated with the remand order.

19 Q. Do you know what the impact is of the
20 remand order on the amount of the fuel deferrals?

21 A. I don't recall. Since the fuel deferrals
22 are an Ohio Power deferral, it's a portion of the
23 ultimate remand effect, but it's not the entire
24 effect, and I don't recall the total balance.

25 Q. So the entire deferred amount that we're

1 talking about is a regulatory asset of Ohio Power?

2 A. That's correct.

3 Q. Okay. If the merger and the stipulation
4 are approved, then existing Columbus Southern
5 customers, or Columbus Southern customers -- Columbus
6 Southern customers that become merger customers will
7 pay part of the cost of Ohio Power's regulatory
8 asset, those regulatory assets of the fuel deferral,
9 correct?

10 A. That's correct.

11 Q. Now, the commitments made in the
12 stipulation are made by AEP Ohio meaning Columbus
13 Southern and Ohio Power, correct?

14 A. Yes.

15 Q. The commitments are not made by the AEP
16 corporate entity generally, correct?

17 A. There are commitments that the AEP
18 corporate entity would have to execute on that are
19 driven by the settlement ultimately.

20 Q. So execution of the stipulation is
21 dependent not only upon AEP Ohio performance, but
22 also performance by other AEP Ohio -- I'm sorry, by
23 other AEP entities.

24 A. Yeah. I'm specifically thinking of the
25 pool modifications that affect affiliates of AEP

1 Ohio.

2 Q. Now, is it fair to say based on your
3 testimony that your responsibility is leading
4 AEP Ohio in achieving goals that are specific to the
5 Ohio operations?

6 A. Yes.

7 Q. Is it possible for other AEP operating
8 companies, for example Appalachian Power, to have
9 objectives that conflict with the AEP Ohio objectives
10 that you're responsible for?

11 A. That's possible, but all of us as
12 affiliates and members of the AEP corporate family
13 all have ultimately the objectives that best serve
14 the AEP shareholder in mind.

15 Q. Now, you refer to the RPM pricing to be
16 provided under the stipulation as a benefit of the
17 stipulation. Is the -- the RPM pricing is determined
18 by a capacity market, correct?

19 A. Yes.

20 Q. And it's the PJM's RPM price that
21 AEP Ohio uses today to price capacity used by CRES
22 providers, correct?

23 A. For a customer shopping today from a CRES
24 prior to this settlement? Yes, that is the case.

25 Q. And in fact the Public Utilities

1 Commission of Ohio has never authorized AEP Ohio to
2 charge anything other than the RPM price to CRES
3 providers for capacity, correct?

4 A. Not yet. This is a matter of pending
5 litigation in the 10-2929 case.

6 Q. And the state compensation mechanism as
7 of today is the RPM price, correct?

8 A. That's correct.

9 Q. Under the stipulation the state
10 compensation mechanism will switch for a 41-month
11 period from RPM pricing to the two-tiered pricing
12 that you discussed with Mr. Randazzo, correct?

13 A. That's correct.

14 Q. Now, on average the \$255 per megawatt-day
15 price is about four times higher than market during
16 the 41-month period; is that correct? Do you know?

17 A. I haven't done that analysis to determine
18 what those ratios might be.

19 Q. And during that 41-month period only the
20 set-aside capacity is what is priced at market,
21 correct?

22 A. Priced at RPM.

23 Q. And RPM being the market price, correct?

24 A. Being a market price, yes.

25 Q. So as set forth in the ESP as defined by

1 the stipulation AEP Ohio from 2012 until June 1,
2 2015, is going to have three different capacity
3 prices, correct?

4 A. I know of two different capacity prices.

5 Q. So there's the \$255 per megawatt-day
6 price would be one, yes?

7 A. Correct.

8 Q. And the RPM price for other shopping
9 customers who don't have access to the 255, that
10 would be the second, right?

11 A. That's correct.

12 Q. And a third would also be the capacity
13 price that's embedded in the standard service offer
14 rate, correct?

15 A. Well, there's no explicit capacity
16 component of that price, but I suppose it's fair to
17 say that, you know, there's a price for SSO
18 customers.

19 Q. I think Mr. Roush said one time it's like
20 prego, it's in there. You would agree with that?

21 A. He's the expert. Yes.

22 Q. All right. And you don't know how the
23 embedded standard service offer price compares to the
24 other two capacity prices; is that fair?

25 A. That's fair.

1 Q. With regard to the capacity cost, you
2 rely on Witness Pearce for your belief as to what
3 AEP Ohio's costs are to own generating resources to
4 provide capacity to serve the retail load.

5 A. I think those are the facts that he
6 presents, that's correct.

7 Q. Again, you are not familiar with how
8 Mr. Pearce calculates those costs.

9 A. That's not my area of expertise, I would
10 rely on his expert judgment.

11 Q. You are also not familiar with what costs
12 are authorized by PJM for recovery through capacity
13 pricing; is that fair?

14 A. In what context?

15 Q. In any context. Any costs authorized by
16 PJM.

17 A. That's such a broad question, I'm not
18 sure I understand what you're referring to. Other
19 than RPM, is that what you're speaking to?

20 MR. CONWAY: I object to the form, your
21 Honor.

22 EXAMINER SEE: If you can rephrase your
23 question, Mr. Lang.

24 Q. Is it fair to say, Mr. Hamrock, that you
25 are not familiar with the -- with whether the costs

1 as determined by Mr. Pearce would be authorized for
2 recovery by -- under the rules of PJM?

3 A. Again, I rely on his expertise to present
4 a fact-based presentation of our costs. How that
5 relates to PJM rules, I'm not sure.

6 Q. Now, the \$255 capacity price that's in
7 the stipulation, your understanding is that that was
8 a price that was determined through negotiations.

9 A. That's a negotiated rate, that's correct.

10 Q. You are not aware of any calculation that
11 underlies that price.

12 A. That's correct.

13 Q. Is it fair to say that you have not given
14 specific consideration to the impact of the
15 stipulation on governmental aggregation in AEP Ohio's
16 service territory?

17 A. As a matter of negotiating the settlement
18 there was no special consideration given to
19 governmental aggregation either in support of or not
20 in support of governmental aggregation on my behalf.

21 Q. Do you know whether municipalities that
22 have governmental aggregation on the ballot this
23 November will be able to reserve any of the RPM
24 set-aside capacity prior to December 31, 2011?

25 A. I don't know of any reason that they

1 wouldn't be able to, so -- and I don't know that they
2 would be able to. That's a matter of their unique
3 contracts and their -- the provisions they've made
4 with their potential suppliers.

5 Q. Do you agree that governmental
6 aggregation was not considered by AEP Ohio when
7 designing the rules for the RPM set-aside capacity?

8 A. I think I've answered that. It was not
9 considered either as a special provision or in any
10 way to either support or block, if you will, just
11 another form of customer shopping. There was nothing
12 in the rules that was designed to specifically
13 address aggregation.

14 Q. Now, currently AEP Ohio contributes
15 \$5 million annually to Partnership with Ohio; is that
16 right?

17 A. Under the current ESP that is correct.

18 Q. Under the stipulation under consideration
19 here that contribution would be reduced to \$3 million
20 annually, correct?

21 A. That's correct.

22 Q. And that contribution also is contingent
23 on achieving a return on equity of at least
24 10 percent for the prior calendar year.

25 A. That's correct.

1 Q. So for 2012 the return on equity and
2 whether that contribution is made depends upon the
3 return on equity for 2011.

4 A. That is correct.

5 Q. As we sit here today you do not know
6 whether the 2011 return on equity will be sufficient
7 to fund the Partnership with Ohio contribution in
8 2012.

9 A. I don't know with absolute confidence,
10 but I expect that it will be sufficient to trigger
11 funding for the 2012 Partnership with Ohio.

12 Q. Is there an analysis that you've reviewed
13 of the 2011 -- of the forecasted 2011 return on
14 equity that allows you to offer that opinion?

15 A. I review our earnings on a quarterly
16 basis and am relying upon my knowledge of our current
17 earnings trajectory. I would expect that the PWO
18 would be funded in 2012.

19 Q. The return on equity threshold that is
20 the requirement for the Partnership with Ohio
21 contribution, is that the same return on equity
22 contribution as is used as part of the SEET process?

23 A. No. It's different. The SEET has some
24 special provisions. This is an all-in per books
25 return on equity for the company.

1 Q. With regard to the return on equity for
2 2013, 2014, and 2015, is it fair to say that for
3 those time periods you do not know whether the return
4 on equity for the -- of the future merged company
5 will exceed 10 percent?

6 A. Again, I don't know with absolute
7 confidence, but I would expect that we would be in a
8 position to fund those PWO and the Ohio Growth Fund,
9 the other shareholder-funded mechanism, in each of
10 those years and in 2016. The plan goes to 2016,
11 through mid-2016.

12 Q. Now, the Partnership with Ohio, that's
13 investment in, I believe you call it in your
14 testimony low-income support.

15 A. Correct.

16 Q. AEP Ohio could also make that type of
17 investment under a market rate option, correct?

18 A. Without knowing the specific provisions
19 of a market rate offer it's impossible to know
20 whether we could make the same type of commitments
21 that we've made under the settlement agreement.

22 Q. Under an MRO you certainly could commit
23 to making that contribution if your return on equity
24 exceeds 10 percent.

25 MR. CONWAY: Objection. It's irrelevant.

1 We can speculate, the company can do many things,
2 theoretically, that aren't on the table here. What
3 developed is a stipulation. The stipulation doesn't
4 provide for these kind of benefits in the MRO option
5 and so the line of examination is not pertinent.

6 MR. LANG: The line of examination is
7 directly pertinent because it goes to the issue of
8 the comparison of the ESP and the MRO; if something's
9 on one side, whether it's on the other side.

10 MR. CONWAY: It's not on the other side.

11 MR. LANG: And I'm asking him. It
12 certainly could be on the other side.

13 EXAMINER SEE: The objection is
14 sustained.

15 Q. (By Mr. Lang) AEP Ohio has not run any
16 projections or financial analyses to attempt to
17 estimate the impact of an MRO on AEP Ohio; is that
18 correct?

19 A. We have not made any detailed projections
20 of an MRO in the sense that you describe it,
21 financial outcome.

22 Q. Under an MRO as compared to an ESP all
23 distribution-related riders and distribution issues
24 would be addressed or would have to be addressed
25 through AEP Ohio's distribution rate case, correct?

1 A. My understanding of the MRO, that would
2 be the only opportunity available to us is a
3 distribution rate case. Some of the ratemaking
4 provisions available under an ESP would not be
5 available under an MRO such as a DIR.

6 Q. So having a DIR recovering distribution
7 costs over and above the costs approved through a
8 rate case, a distribution rate case, is something
9 that would not be available through an MRO; is that
10 correct?

11 A. The distribution rate case would be the
12 alternative form of seeking those same kinds of
13 recoveries for distribution investments under an MRO.

14 Q. Now, you say in your testimony the
15 stipulation essentially fixes the generation rate
16 with a variation in that rate primarily through the
17 FAC, the fuel adjustment clause.

18 A. That's correct.

19 Q. Now, the base generation rate itself, the
20 nonfuel portion, is not fixed for the period of the
21 ESP, it has automatic increases in each year,
22 correct?

23 A. That's correct.

24 Q. Now, in addition to the FAC which can
25 vary from year to year you're also aware that the GRR

1 would be one more piece associated with the
2 variability of the standard service offer rate,
3 correct?

4 A. Yes. The reference to fixing the
5 generation rate is relative to the original filing
6 that had a number of riders including nonbypassable
7 riders such as the POLR rider, the environmental
8 investment cost recovery rider, the facilities
9 closure rider, the NERC rider, the carbon capture and
10 sequestration rider, all of which provided from a
11 customer standpoint some uncertainty about future
12 rates. Whereas the settlement provides for a fixed
13 base generation rate and none of those provisions are
14 available to the company under the settlement
15 arrangement.

16 The GRR is the subject of future
17 regulatory filings, it is not authorized for any
18 recovery under approval of the stipulation.

19 Q. So as compared to all of the riders you
20 listed that were in the original application, other
21 than the FAC and the GRR you are not aware of any
22 other riders in the settlement proposal that would
23 contribute to the variability of the standard service
24 offer rate; is that fair?

25 A. That's correct.

1 Q. Now, with regard to the comparability of
2 the base generation rate and the fuel adjustment
3 clause and the impact of that on customers, your
4 understanding is that their, you know, the magnitude
5 of their impact on the SSO rate is fairly comparable.

6 A. Could you repeat that for me?

7 Q. Do you agree that the base generation
8 rate and the FAC are comparable in terms of the order
9 of magnitude impact on the SSO rate?

10 A. That's a fair statement, yeah.

11 Q. So for the base generation rate and the
12 FAC combined revenues for 2012 is approximately
13 \$2.5 billion; is that fair?

14 A. I don't recall the total of the combined
15 rate mechanisms applied to the expected SSO load, so
16 I can't agree to that number.

17 Q. All right. So if you don't know the
18 total number, then is it fair to say that you do not
19 know what part of that number is the FAC and what
20 part is the base generation?

21 A. If that number is a correct number, I
22 would expect that it would be close to the same
23 value, same ballpark, if you will.

24 Q. Now, your position is that you cannot
25 predict what fuel costs will be in 2013 or 2014,

1 correct?

2 A. I cannot accurately predict what fuel
3 costs might be, that's correct.

4 Q. It's fair to say that we could see
5 increases in the FAC during the first three years of
6 the ESP of more than 10 percent.

7 A. I don't know if that's a fair statement
8 or not. I believe it may have been Witness Thomas
9 who explained it as the SSO load decreases moving
10 down the economic dispatch order so it's conceivable
11 that fuel costs might even go down as a result of
12 lower cost units being available to the nonshopping
13 load. So I'm not sure if it's a plus 10, minus 10, I
14 don't have a reasonable estimate of what that result
15 might be.

16 Q. Okay. So you don't have an analysis that
17 would provide you with a reasonable estimate of where
18 fuel costs may move over the term of the ESP.

19 A. No, I do not.

20 Q. That's fair.

21 As a result of the variability of the
22 fuel adjustment clause and potentially other
23 generation-related riders you also cannot predict
24 what the SSO charge for generation service will be in
25 2013, 2014, or the first five months of 2015,

1 correct?

2 A. That's correct.

3 Q. Now, this discussion in your testimony
4 about the -- about AEP Ohio's commitment to fleet
5 transformation, which -- and that commitment to fleet
6 transformation for the most part is a transformation
7 from coal to natural gas; is that fair?

8 A. And renewables, but yes, in general a
9 shift away from coal.

10 Q. And that's a business objective of AEP
11 that is not dependent upon the stipulation and the
12 settlement in this case, correct?

13 A. Not entirely dependent upon but can
14 certainly be advanced by approval of the stipulation.

15 Q. Nick or Nicholas Akins, who is he with
16 regard to AEP?

17 A. He's the current president of AEP, the
18 parent company.

19 Q. He made a presentation recently to the
20 Bank of America Merrill Lynch Power and Gas Leaders
21 Conference that was on September 20th. Are you
22 familiar with that presentation?

23 A. I don't recall. I don't recall seeing
24 that presentation, no.

25 Q. You don't have to be familiar with all

1 presentations of Nick Akins?

2 A. I probably should be, but...

3 Q. Now --

4 A. I missed that one.

5 Q. Putting that presentation aside would you
6 agree that one of AEP's business objectives, the
7 overarching, the AEP corporate entity, one of AEP's
8 business objectives is to make a shale gas clay and
9 the transformational capabilities of that?

10 A. Yes. We see that as a significant
11 opportunity for Ohio because of the discovery of the
12 Utica shale and the opportunity to see those
13 resources bring economic development to our region,
14 the region that we serve as well as many other parts
15 of Ohio.

16 Q. And part of AEP's plan announced prior to
17 the settlement is to retire the smaller older
18 coal-fired generation, correct?

19 A. Yes. Back in June of this year we
20 announced our initial draft of a compliance plan
21 related to U.S. EPA rulemaking and that included a
22 number of unit retirements within the AEP Ohio fleet.

23 Q. That's approximately 6,000 megawatts of
24 retirements?

25 A. 6,000 is the total AEP number. The

1 AEP Ohio number is maybe a third of that, a little
2 more than a third of that.

3 Q. And the total AEP replacement number is
4 about 1,500 megawatts?

5 A. I don't recall that value.

6 Q. And the replacement generation will be
7 primarily natural gas facilities and, as I think you
8 mentioned earlier, renewable to the extent mandated
9 with renewable cost recovery, correct?

10 A. Correct.

11 Q. Now, you mention in your testimony the
12 Muskingum River 5 unit sometimes referred to as the
13 MR5 unit.

14 A. Yes.

15 Q. AEP Ohio has not committed through the
16 stipulation to retire the Muskingum River 5 unit,
17 correct?

18 A. That's correct.

19 Q. And AEP Ohio has not committed through
20 the stipulation to build the Muskingum River 6 unit,
21 correct?

22 A. That's correct. We've committed to come
23 back and present a plan to the Commission for --
24 which we would expect to include retirement of
25 Muskingum River 5 and replacement with a new gas unit

1 referred to as MR6 or Muskingum River 6.

2 Q. So even with Commission approval of the
3 stipulation the MR6 unit might not be constructed.

4 A. That's correct. It depends on that
5 future analysis and the future regulatory
6 proceedings.

7 Q. And it depends on whether there's
8 favorable economics for constructing the MR6 unit.

9 A. Correct.

10 Q. Now, if you could look at page 17 of your
11 testimony, at lines 6 and 7 you state that "AEP Ohio
12 will file a plan with the Commission by the end of
13 2012 for retiring MR5 and constructing MR6." Now,
14 it's also possible that AEP Ohio would not file that
15 plan by the end of 2012 if AEP Ohio decides that the
16 economics don't justify it, correct?

17 A. It's a remote possibility, but we fully
18 expect to file a plan for MR5 and in all likelihood
19 MR6.

20 Q. So by remote possibility, again, if the
21 economics do not justify it, then I would assume
22 AEP Ohio, you know, is it fair to say that AEP Ohio
23 is not going to waste its time filing a plan if the
24 economics do not justify it?

25 A. Yeah. We have not completed the

1 engineering analysis. We are currently looking at
2 the alternatives. This anticipates an alternative
3 that reuses as much of the Muskingum River 5
4 infrastructure as possible to support the
5 construction of Muskingum River 6, we believe that
6 would be both prudent and economic to do that but we
7 have not completed that analysis.

8 Q. The MR6 plant will be supplied
9 exclusively using the long-term shale gas contracts
10 referenced in the stipulation?

11 A. If those contracts are deemed prudent and
12 competitive, yes, that would be our intent.

13 Q. Do you know what the expected term will
14 be of those contracts?

15 A. I do not, although I've heard that there
16 are shale producers who are interested and willing to
17 consider terms as long as 15 years, so there seems to
18 be some interest in developing long-term contracts
19 from the supplier side.

20 Q. Is it fair to say that AEP Ohio will
21 enter into long-term contracts for shale gas supply
22 depending on those contracts being economically
23 justified and prudent?

24 A. Yes, that's a fair statement.

25 Q. And if those contracts are economically

1 justified and prudent, and the gas is needed by
2 AEP Ohio, AEP Ohio would enter into those contracts
3 regardless of whether this stipulation is approved,
4 correct?

5 A. Not necessarily. Today we do most of our
6 gas procurement on the spot market on a very
7 short-term basis. The whole theory here, the whole
8 intent is to try to create a demand for Ohio shale to
9 accelerate the development of job creation in Ohio
10 and investment in Ohio by bringing long-term
11 contracts to the table. So we would not necessarily
12 have done that were it not for the opportunities
13 afforded through the settlement.

14 Q. So you're currently purchasing gas on the
15 spot market for the most part?

16 A. That's my understanding, yes.

17 Q. So are long-term contracts for shale gas
18 less economically viable and less prudent than
19 purchasing gas on the spot market?

20 A. That remains to be seen with the shale
21 gas opportunity, such a new opportunity, we're really
22 at the beginning of the emergence of that
23 marketplace.

24 Q. Now, you describe the GRR, the generation
25 resource rider, as a path to cost based generating

1 pricing. With regard to MR6, if MR6 is included in
2 the GRR, that cost based generating pricing would
3 include the cost of the natural gas.

4 A. Right.

5 Q. And under the stipulation the natural gas
6 cost of MR6 will be recovered through the GRR for the
7 life of the MR6 plant.

8 A. Or through -- yes, or through some
9 modified version of the current FAC mechanism. It
10 might be some combination of GRR for the fixed cost
11 recovery and an FAC component or something that
12 operates like an FAC for the gas supply contracts.

13 Q. And in either case is the cost recovery
14 tied to the life of the MR6 unit?

15 A. Yes.

16 Q. An the MR6 unit has a life of, is it fair
17 to say that MR6 would have a life of 40 years?

18 A. That remains to be seen, but a new
19 combined cycle I would expect to be in the 30 to 40
20 year range.

21 Q. So whatever happens to the price of gas
22 during that 30 to 40 year period will flow through
23 dollar for dollar to the retail customer bill; is
24 that correct?

25 A. That would be our expectation, yes.

1 Q. Will the MR5 unit be retired before or
2 after corporate separation?

3 A. In all likelihood after corporate
4 separation.

5 Q. Do you know when the determination might
6 be made or what the time frame would be for
7 determining whether that retirement would be before
8 or after corporate separation?

9 A. I don't know when, but I see it as a
10 function of that future regulatory proceeding related
11 to the MR5/MR6 units and so that determination would
12 drive the MR5 retirement schedule.

13 Q. In that proceeding to have costs included
14 in the GRR AEP will have to demonstrate need for the
15 generating assets; is that correct?

16 A. That's correct.

17 Q. And that includes anticipating the load
18 forecast for a planning horizon?

19 A. That's correct.

20 Q. You have to anticipate that the supply
21 included the market-based supply and the availability
22 of resources in PJM as part of that analysis?

23 A. I don't know all of the parameters that
24 need to be conveyed through that determination of
25 need, but I would expect a look at the market

1 capacity and energy available in the market, the
2 price of that capacity or expected price of that
3 capacity, and considering this plan as an alternative
4 or in some regard an offset to those resources or a
5 hedge against market volatility.

6 Q. And so you're determining whether the
7 facility is needed and prudent in that context as
8 you've just described it.

9 A. I would expect that all to be a part of
10 that determination.

11 Q. Now, you're familiar with Mr. Nelson's
12 prefiled testimony from July 1 that itemized the
13 costs of the Turning Point Solar Project and had a
14 timeline for the Turning Point Solar Project.

15 A. I recall that testimony, yes.

16 Q. That testimony is still consistent with
17 AEP Ohio's plans for developing the Turning Point
18 project?

19 A. It is subject to approval of the GRR
20 under the settlement.

21 Q. But certainly the goal of AEP Ohio is to
22 have the first phase of Turning Point operating in
23 2013?

24 A. That would be our goal, to stay the
25 course that was laid out in the original filing to

1 the extent possible.

2 Q. Now, AEP has also committed to investing
3 \$20 million in the Turning Point project, correct?

4 A. That's correct.

5 Q. And that commitment dates back to the
6 rebuttal testimony that you filed in Columbus
7 Southern's 2009 SEET proceeding, correct?

8 A. That's my recollection.

9 Q. In that testimony you said that Columbus
10 Southern is committed to support the development of
11 the Turning Point project by making the \$20 million
12 equity investment, correct?

13 A. Correct.

14 Q. And as a result of that testimony the
15 Commission ordered Columbus Southern to make that
16 \$20 million investment in Turning Point or a similar
17 project before the end of 2012, correct?

18 A. That's my recollection of the SEET order,
19 yes.

20 Q. The Commission's order in the SEET
21 proceeding, to your understanding, was not contingent
22 upon Columbus Southern obtaining guaranteed cost
23 recovery of that equity investment through a
24 nonbypassable surcharge, correct?

25 A. I don't recall any discussion of the

1 recovery mechanism in the SEET order. It's always
2 been clear that that was the underpinning of the
3 Turning Point project. If that doesn't play out,
4 we'd certainly look for an alternative means of
5 investing the 20 million, finding a similar project.

6 Q. Now, your understanding is that the
7 \$20 million equity investment in Turning Point, if
8 that equity investment will be made in Turning Point,
9 that is contingent upon the Commission approving cost
10 recovery for Turning Point through a nonbypassable
11 surcharge, correct?

12 A. That's correct.

13 Q. Now, at page 17 of your testimony you
14 also describe the commitment regarding the 350
15 megawatts generation resources. With regard to those
16 generation resources, those are assets that may be
17 owned by AEP Ohio or by a third party, correct?

18 A. That's correct.

19 Q. Following corporate separation the
20 AEP Ohio assets would be owned by AEP Genco.

21 A. The AEP Ohio assets relative to this
22 provision?

23 Q. Relative to this provision.

24 A. Not necessarily. I think that remains to
25 be seen. There are a number of different potential

1 structures that might make sense. It could be that
2 the EDU, AEP Ohio, owns an asset and provides
3 financing or construction services for an asset that
4 one of our customers might site and there could be a
5 contractual arrangement there. It might also be
6 another asset that was recovered through a GRR type
7 mechanism or through the advanced energy provisions
8 under Senate Bill 221.

9 So there are a number of different
10 scenarios that might emerge and I don't think it's
11 necessarily a foregone conclusion that those assets
12 would be a part of the AEP Genco, the placeholder
13 name.

14 Q. Yeah, and that's what I was trying to
15 understand is that one of the possibilities, one of
16 the scenarios is that some of this 350 megawatts
17 would be owned by the distribution utility and would
18 not be transferred out of the distribution utility to
19 AEP Genco. Is that your understanding?

20 A. That's a scenario that's conceivable,
21 yes.

22 Q. And by the appropriate rider that would
23 be -- that you would seek approval from the
24 Commission for that appropriate rider that's
25 referenced in the stipulation, one of the

1 possibilities is a GRR type rider.

2 A. That's correct.

3 Q. So AEP would have a second nonbypassable
4 GRR for these assets and would recover the cost of
5 those assets during the term of the ESP; is that --

6 A. I think of it as the same GRR type
7 mechanism.

8 Q. So some of these assets may be included
9 in the one GRR that's referenced in the stipulation.

10 A. I believe that's a possibility, yes.
11 Again, all subject to future regulatory filings and
12 development of these projects.

13 Q. Now, is it also possible that the costs
14 of those assets could be recovered through the
15 alternative energy rider?

16 A. Yes. I believe I said that in the
17 previous answer.

18 Q. And if the assets are owned by a third
19 party, then cost recovery would likely be through
20 either the FAC or the alternative energy rider?

21 A. If it's a purchased power type
22 arrangement or some purchase of associated RECs,
23 yeah, that's correct.

24 Q. And it's -- with regard to the
25 350 megawatts it's AEP Ohio's objective to have all

1 of those 350 megawatts count towards satisfying its
2 renewable energy benchmarks.

3 A. Or advanced energy. If they're
4 qualifying resources, yes.

5 Q. On page 9 of your testimony you reference
6 five meetings --

7 A. Did you say 9?

8 Q. Page 9, yeah.

9 A. Okay.

10 MR. CONWAY: Your Honor, might I inquire
11 of the witness, he's been up for about two-and-a-half
12 hours now, would he like to take a short break, which
13 I suppose is also contingent upon how much longer
14 Mr. Lang has?

15 MR. LANG: I have actually not that much
16 longer. I have questions about, you know, page 9 and
17 10 of the testimony.

18 EXAMINER SEE: And is that all you have
19 for this witness, Mr. Lang, cross-examination?

20 MR. LANG: Yes, your Honor.

21 MR. CONWAY: I would leave it to the
22 witness, then, to give us some guidance on whether
23 you.

24 THE WITNESS: I'm fine. I drank a whole
25 bottle of water.

1 EXAMINER SEE: Go ahead.

2 MR. LANG: Thank you, your Honor.

3 Q. (By Mr. Lang) On page 9 and it's a
4 sentence starting on line 5, on lines 6 and 7 you
5 reference that the parties met five times between
6 August 3rd and August 30th. Now, you believe that
7 the first of those five meetings occurred on
8 August 3rd; is that correct?

9 A. Yes. That's my recollection and the
10 recollection of the team that helped prepare the
11 testimony.

12 Q. You do not know on what dates the other
13 four meetings occurred, correct?

14 A. I don't recall, that's correct.

15 Q. And you do not know if the last meeting
16 was on August 30th.

17 A. I do not recall the date of the last
18 meeting of all of the parties.

19 Q. You do not know how many meetings
20 occurred after August 30th, correct?

21 A. How many meetings -- individual meetings?
22 I know there were a number of meetings, but I don't
23 recall how many.

24 Q. After August 30th AEP Ohio sent at least
25 one invitation to attend meetings to discuss the

1 draft stipulation, correct?

2 A. That's my recollection. My recollection
3 is that August 30th was the date of a joint motion to
4 continue negotiating that was opposed by some of the
5 parties and so things changed after that date.

6 Q. So the invitations sent after
7 August 30th were not extended to all of the parties,
8 correct?

9 A. That's correct.

10 Q. And on page 10 when you refer to multiple
11 proposals and counterproposals at the very top of the
12 page, AEP Ohio did not share the multiple proposals
13 and counterproposals with all of the parties that had
14 intervened in the case, correct?

15 A. During that period, that's referring to
16 the period after August 30th, we continued to iterate
17 through proposals with the parties who had chosen to
18 continue negotiating, and those who had opposed the
19 motion to continue sent very clear signals that the
20 settlement talks were not constructive, were not
21 productive, and were not leading to an outcome that
22 they supported.

23 Q. So any party that opposed the motion to
24 continue the hearing date on August 30th, AEP Ohio
25 shut those parties out of the negotiations, correct?

1 A. I believe they shut themselves out of the
2 negotiations at that point.

3 Q. Other than the opposition to continuing
4 the hearing date what did FES do to shut itself out
5 of the negotiations?

6 A. The clear signal relative to not
7 supporting the motion to continue was that the
8 negotiations were not productive, they weren't
9 leading to -- that AEP had not put any proposals on
10 the table that seemed to be leading to reasonable
11 settlement, and that FES was interested in pursuing
12 litigation versus going to the hearing at that point.
13 So that seemed to me to be a very, very clear signal
14 of no interest in further negotiations at that point.

15 Q. And that understanding is based on the
16 filing that FES made on August 30th; is that correct?

17 A. That and other conversations that the
18 teams had had, yes.

19 Q. Well, is it based on any other
20 conversations that you had?

21 A. Not that I personally had, no.

22 Q. Is it fair to say that those other
23 conversations that would also be part of your belief
24 that FES chose to stop participating in the
25 settlement are based on FES's communications with

1 AEP Ohio's legal counsel?

2 A. I think that's a fair statement, yes.

3 Q. With regard to any of those
4 communications between FES and AEP's legal counsel
5 you do not recall whether you reviewed any of those
6 communications prior to preparing your testimony,
7 correct?

8 A. That's a fair statement, yes.

9 Q. And you certainly did not see any
10 communication from FES that said "We choose to stop
11 participating in settlement negotiations," correct?

12 A. I believe I've answered my basis for my
13 view that FES had indicated they weren't interested
14 in continuing settlement negotiations.

15 Q. You answered your basis. So the answer
16 is yes, you did not see any communication from FES
17 that said "We choose to stop participating in
18 settlement negotiations."

19 A. I may have. I don't recall all the
20 communications that I may have seen.

21 Q. At page 9 toward the bottom, lines 21 and
22 22, your testimony says that AEP Ohio continued to
23 reach out to parties that were not negotiating. I'm
24 sorry, that were not participating. Does this
25 statement refer to the time period between

1 August 30th and September 7th?

2 A. It clearly refers to the time period
3 after August 30th.

4 Q. During that time period you do not recall
5 any communications that you had with FirstEnergy
6 Solutions, correct?

7 A. Yeah, I think I answered that previously.
8 I don't recall, but I may have seen or been a party
9 to individual communications. I don't recall them at
10 this time.

11 Q. And you don't know whether AEP Ohio, any
12 part of AEP Ohio, reached out to FES between
13 August 30th and the evening of September 6th,
14 correct?

15 A. I don't recall the specific dates of all
16 of the discussions between AEP and FirstEnergy
17 Solutions.

18 Q. You don't have any knowledge of any
19 communications between AEP Ohio and FirstEnergy
20 Solutions between August 30th and September 6th; is
21 that correct?

22 A. There was a lot of conversation going on
23 with a lot of parties during that time, I just don't
24 recall the individual conversations that may or may
25 not have occurred with FirstEnergy Solutions during

1 that time period.

2 Q. So the answer is correct, you don't --

3 A. I don't recall. Yeah.

4 Q. You also do not know whether AEP Ohio
5 gave FES any notice between August 30th and
6 September 6th that new stipulation terms were being
7 discussed during that period, correct?

8 A. I don't know if we gave any specific
9 notice, though I think all the parties including
10 those who were no longer in the settlement
11 discussions during that period subsequent to
12 August 30 clearly understood that settlement
13 discussions were still continuing.

14 Q. So, again, you don't know what AEP Ohio
15 did during that time period.

16 A. I don't have specific recollection of any
17 particular communication with FES during that time
18 period.

19 Q. Back on page 10 at line 3 of your
20 testimony you say the stipulation was sent to all
21 parties the day before being finalized. And to be
22 perhaps more accurate, it was sent to all parties the
23 night before, correct?

24 A. That's correct. My recollection is that
25 we had notified all the parties to expect to see a

1 term sheet later that day and that it was sent later
2 in the evening. I don't know the exact time, but it
3 was after business hours on that day.

4 Q. And what was sent on the evening of
5 September 6th was intended to be the final
6 stipulation and recommendation document; is that
7 correct?

8 A. I would characterize it as the near final
9 leaving open an opportunity for additional
10 discussions.

11 MR. LANG: Your Honors, I'd like to mark
12 as an exhibit what was sent out on the evening of
13 September 6th, which will be FES Exhibit No. 13.

14 MR. CONWAY: Your Honor, at this point
15 I'd like to make the observation that if what's being
16 passed out is a settlement offer document, that it's
17 confidential, there's not -- we're -- what was sent
18 around the night of September 6th as part of the
19 settlement discussions which took place under a veil
20 of confidentiality and so I think it should not be
21 just thrown into the record. I think -- into the
22 public record. I think it needs to be maintained as
23 confidential, the attachment.

24 The first page is an e-mail, that's okay
25 to include in the public record, but the attachment

1 is the offer of -- said the near final offer of
2 settlement that Mr. Hamrock just mentioned and it's
3 legended as a confidential draft for settlement
4 purposes.

5 EXAMINER SEE: True.

6 Mr. Lang, did you want to respond to
7 that?

8 MR. LANG: Yes, your Honor. I think
9 actually the objection is a little premature until we
10 find out from Mr. Hamrock whether it is what it is,
11 but with regard to the attachment to the e-mail,
12 Mr. Hamrock has identified it as the near final
13 stipulation. It was sent to all parties including
14 this one was actually sent to FES.

15 FES as the recipient of this document
16 doesn't have any issue with including it in the
17 record and if AEP has confidentiality issues, then,
18 number one, AEP has not identified any basis for the
19 confidentiality, but it's certainly a document that
20 was widely circulated and to the extent that there is
21 a confidentiality with regard to FES, FES happily
22 waives that confidentiality so that this document can
23 be addressed today.

24 If the concern is, and, you know, there
25 are issues with regard to Evidence Rule 408 with

1 regard to settlement offers, Evidence Rule 408, even
2 though I haven't heard this discussed, you know, I
3 haven't heard an actual basis for maintaining this
4 document confidentially, but if we're talking about
5 Evidence Rule 408, this document is not going to be
6 introduced for purposes of, you know, demonstrating
7 that there was some kind of an offer, that there was
8 some kind of admission of liability.

9 The document is simply going to be
10 introduced for the purpose of showing what is in
11 Mr. Hamrock's testimony which is that the day before
12 the stipulation was finalized AEP Ohio sent the
13 stipulation to all parties and requested a final
14 counteroffer or solicitation for additional
15 discussions.

16 I intend to establish that what is
17 specifically addressed in his testimony is this
18 document, that this is the document that was sent,
19 and to make -- so that the Commission understands
20 what was sent, when it was sent, and the form in
21 which it was sent, and what was missing from this
22 document. I think it's very important for the
23 Commission to include this in the record.

24 MR. CONWAY: Your Honor, we don't have an
25 objection to the e-mail being included in the record.

1 The document itself is a confidential settlement
2 offer and we don't have -- we don't have an issue
3 with discussing that it was sent to the parties, but
4 we do have an issue with it being divulged publicly
5 and, in fact, this is a subject of an ongoing
6 Commission review right now in the context of this
7 case. So, I mean, I object to it being plastered
8 into the public record.

9 MR. LANG: And, your Honors, there is no
10 rule that prevents, even if it is a confidential
11 settlement offer there is no rule that prevents that
12 from being introduced into evidence other than Rule
13 408 which only prevents introduction of a settlement
14 offer to the extent that it's being -- that the party
15 is seeking to use that settlement offer for purposes
16 of establishing one party admits liability.

17 This doesn't have anything to do with
18 that. This is simply to establish for purposes of
19 the record what's in Mr. Hamrock's testimony, what he
20 is referring to as to what he sent out on the evening
21 of September 6th or what AEP Ohio sent out on the
22 evening of September 6th.

23 MR. CONWAY: And our objective is not to
24 preclude Mr. Lang or FES from making a record it
25 wants to make. Our objection is to revealing the

1 confidential settlement offer. I don't think it's
2 necessary to put it in the public record in order to
3 achieve his objective.

4 EXAMINER SEE: To whom has the exhibit
5 been distributed, Mr. Lang?

6 MR. LANG: It was emailed to everyone in
7 this room on September 6, your Honor.

8 EXAMINER SEE: I'm talking about in this
9 room at this point.

10 MR. LANG: In this room. To --

11 EXAMINER SEE: The Bench.

12 MR. LANG: To the group in front, to AEP,
13 and Mr. Hayden has the other copies.

14 EXAMINER SEE: Okay. Did you have any
15 other questions, cross-examination, for Mr. Hamrock
16 outside of this issue? I believe you indicated that
17 this was the last subject you had earlier; is that
18 correct?

19 MR. LANG: I have additional questions
20 about this one sentence in his testimony about, you
21 know, that relates generally to this document as to,
22 you know, what was sent, what was provided, and what
23 was not provided to the witnesses just to have him
24 explain what's in his testimony.

25 EXAMINER SEE: Okay. Given the hour and

1 the fact that Mr. Hamrock is going to be testifying
2 tomorrow morning, we'll address this issue including
3 the exhibit that you just asked to be marked first
4 thing in the morning.

5 MR. LANG: Thank you, your Honor.

6 EXAMINER SEE: Given our schedule for
7 tomorrow we will adjourn until 9 a.m.

8 Mr. Petricoff, you have --

9 MR. PETRICOFF: Yes, I want to talk about
10 the schedule for tomorrow. I was under the
11 impression from the earlier e-mails that we had that
12 Mr. Fein and Mr. Dominguez were going to go first
13 tomorrow. And they are both in town and ready to go.
14 And I was wondering if we could put them on first and
15 second tomorrow and then pick up the rest of the
16 day-certain witnesses.

17 EXAMINER SEE: There was some discussion
18 earlier that the order was Banks, Shanker, Lesser,
19 Dominguez, and then Fein following Mr. Hamrock. Can
20 the parties discuss that to determine who --

21 MR. HAYDEN: Your Honor, I'm not opposed
22 to having Mr. Banks and Mr. Shanker go after
23 Mr. Dominguez and Mr. Fein. I don't know if that
24 means Mr. Hamrock goes first.

25 MR. PETRICOFF: We certainly would not

1 object to Mr. Hamrock finishing. I think logically
2 that needs to be done.

3 EXAMINER SEE: Yeah, we wouldn't break up
4 Mr. Hamrock's testimony. I'm talking about after we
5 finish Mr. Hamrock tomorrow morning, then we would
6 start with the new witnesses that were originally
7 scheduled for tomorrow.

8 MR. PETRICOFF: I'd like to thank FES for
9 that courtesy.

10 EXAMINER SEE: Okay. So we'll have
11 Dominguez, Fein, Banks, Shanker, and then Lesser.
12 Okay. Long day. We'll go on the record at
13 9 o'clock. We're adjourned for today.

14 (Thereupon, the hearing was adjourned at
15 6:04 p.m.)

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CERTIFICATE

I do hereby certify that the foregoing is a true and correct transcript of the proceedings taken by me in this matter on Tuesday, October 11, 2011, and carefully compared with my original stenographic notes.

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

My commission expires June 19, 2016.

(MDJ-3905)

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Summary: Transcript Transcript of Columbus Southern Power Company and Ohio Power Company hearing held on 10/11/11 - Vol V electronically filed by Mrs. Jennifer Duffer on behalf of Armstrong & Okey, Inc. and Jones, Maria DiPaolo Mrs.