BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

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In the Matter of the :
Application of Columbus :
Southern Power Company :
and Ohio Power Company : Case No. 11-4571-EL-UNC
for Administration of the : Case No. 11-4572-EL-UNC
Significantly Excessive :
Earnings Test Under :
Section 4928.143(F), :
Revised Code, and Rule :
4901:1-35-10, Ohio :
Administrative Code. :

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PROCEEDINGS

before Ms. Greta See and Ms. Sarah J. Parrot, Attorney Examiners, at the Public Utilities Commission of Ohio, 180 East Broad Street, Room 11-D, Columbus, Ohio, called at 9:00 a.m. on Tuesday, December 6, 2011.

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On behalf of the Applicants.

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On behalf of the staff of the Public Utilities Commission of Ohio.

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On behalf of Ohio Energy Group, Inc.

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On behalf of Ohio Manufacturers Association.

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Tuesday Morning Session,
December 6, 2011.

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EXAMINER PARROT: Let's go on the record. The Public Utilities Commission of Ohio has called for hearing at this time and place Case numbers 11-4571-EL-UNC and 11-4572-EL-UNC, being in the matter of the application of Columbus Southern Power Company and Ohio Power Company for administration of the significantly excessive earnings test under section 4928-143(F) Revised Code, and Rule 4901:1-35-10, Ohio Administrative Code.

My name is Sarah Parrot and with me today is Greta See. We are the Attorney Examiners assigned by the Commission to hear these cases and at this time let's get started with appearances of the parties beginning with the companies.

MR. NOURSE: Thank you, your Honor. On behalf of Columbus Southern Power Company and Ohio Power Company, Steven T. Nourse and Daniel R. Conway.

EXAMINER PARROT: Thank you.

On behalf of the staff of the PUCO.

MR. McNAMEE: On behalf of the staff of the Public Utilities Commission of Ohio, Mike DeWine, Attorney General of the State of Ohio, I am Thomas W.

McNamee, Assistant Attorney General. The address is 180 East Broad Street, Columbus, Ohio.

EXAMINER PARROT: On behalf of OCC.

MS. YOST: Thank you, your Honor. On behalf of OCC Melissa Yost, Kyle Kern, 10 West Broad Street Columbus, Ohio 43215, thank you.

EXAMINER PARROT: Thank you.

On behalf of OEG.

MR. KURTZ: For the Ohio Energy Group, Mike Kurtz, Boehm, Kurtz & Lowry, Cincinnati, Ohio.

EXAMINER PARROT: Thank you.

And on behalf of IEU-Ohio.

MR. DARR: Thank you, your Honor. On behalf of IEU-Ohio, Frank Darr and Matt Pritchard, 21 East State Street, Columbus, Ohio.

EXAMINER PARROT: Thank you.

On behalf of OPAE.

MS. MOONEY: On behalf of Ohio Partners for Affordable Energy, Colleen Mooney, 231 West Lima Street, Findlay, Ohio.

EXAMINER PARROT: And finally on behalf of OMA.

MS. McALISTER: Thank you, your Honor. On behalf of OMA Energy Group, Bricker & Eckler by Lisa McAlister, 100 South Third Street, Columbus, Ohio 43215.

EXAMINER PARROT: Thank you.

Mr. Nourse or Mr. Conway.

MR. NOURSE: Yes, are you ready for the first witness?

EXAMINER PARROT: We are ready if you are.

MR. NOURSE: The companies call Joseph Hamrock.

MR. DARR: One preliminary matter, your Honor, just we would renew on behalf of IEU the motion to dismiss that was filed last week. I understand the parities obviously haven't had an opportunity to respond to that but we would urge the Commission to act on that. Obviously, it would be a matter preliminary to taking any testimony at this time.

EXAMINER PARROT: The rules provide for a time frame and allow the parties to respond, and we have that usual time frame in play here in these cases and so the parties will have the opportunity to respond and the Commission will take that motion up --

MR. DARR: Thank you, your Honor.

EXAMINER PARROT: -- in its order.

MR. NOURSE: And the companies will respond. Thank you, your Honor.

EXAMINER PARROT: Mr. Hamrock, please raise your right hand.

(Witness sworn.)

EXAMINER PARROT: Thank you.

Please proceed.

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JOSEPH HAMROCK

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

DIRECT EXAMINATION

By Mr. Nourse:

Q. Good morning, Mr. Hamrock.

A. Good morning, Mr. Nourse.

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

A. I'm employed by American Electric Power Service Corporation as President and Chief Operating Officer of AEP Ohio.

Q. And did you prepare direct testimony to be filed in these cases?

A. I did.

MR. NOURSE: Your Honor, I would like to mark --

Q. Well, first of all, let me ask you, did you also cause revised testimony to be filed in this case?

A. I did.

MR. NOURSE: Okay. Your Honor, I'd like to mark revised testimony, revised direct testimony of Joseph Hamrock as AEP Ohio Exhibit No. 1.

Anyone else need a copy?

EXAMINER PARROT: So marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. And this exhibit reflects the revisions that were made. Do you have that with you?

A. I'm not sure I have that copy. I have the original direct.

Thank you.

Q. Okay, Mr. Hamrock, do you have the document that was just marked AEP Ohio Exhibit 1?

A. Yes, I do.

Q. And was this your revised testimony prepared by you or under your direction?

A. Yes.

Q. Do you have any changes, additions, or corrections you'd like to make this morning?

A. No, I do not.

Q. Mr. Hamrock, I note on page 3 of your testimony you indicate that you're sponsoring the AEP 2010 Form 10-K. Do you see that?

A. That's correct. Yes, I do.

Q. And you're also sponsoring the FERC, or Federal Energy Regulatory Commission, Form 1 for Columbus Southern Power and Ohio Power Company for 2010. Do you see that?

A. Yes, that's correct.

MR. NOURSE: I shouldn't have sat down.

Okay. Your Honor, I'd like to mark the following exhibits. Let's do the 10-K first. AEP 2010 Form 10-K as AEP Ohio Exhibit 1A. I've got a copy for the Bench and the reporter, and I believe the other parties already have this information.

And next is the 2010 FERC Form 1 for Ohio Power Company. I'd like to mark this AEP Ohio Exhibit 1B.

EXAMINER PARROT: So marked.

(EXHIBITS MARKED FOR IDENTIFICATION.)

MR. NOURSE: And finally the FERC Form 1 for Columbus Southern Power Company for 2010 as AEP Ohio Exhibit 1C.

EXAMINER PARROT: So marked.

MR. NOURSE: Thank you.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. (By Mr. Nourse) Mr. Hamrock, are you familiar with the documents we just marked as 1A, B, and C?

A. I am generally familiar with those documents.

Q. And those documents are required by the Commission's rules to be submitted in SEET cases; is that your understanding?

A. That's my understanding.

Q. Okay. So you are sponsoring these while you didn't directly prepare the information contained in the reports; is that correct?

A. That is correct.

Q. Okay. Thank you.

MR. NOURSE: Your Honor, I have no further direct questions and would tender the admission of AEP Ohio Exhibit 1, 1A, 1B, and 1C, subject to cross-examination.

EXAMINER PARROT: Thank you, Mr. Nourse.

Let's start on this end. OMA Energy Group?

MS. McALISTER: No questions, your Honor.

EXAMINER PARROT: OPAE?

MS. MOONEY: No questions, your Honor.

EXAMINER PARROT: IEU-Ohio?

MR. DARR: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Darr:

Q. Good morning, Mr. Hamrock.

A. Good morning, Mr. Darr.

Q. Turning to page 11 of your testimony you identify a number of different things that you believe the Commission should consider when determining whether the adjustments to -- are caused by the ESP result in significantly excessive earnings. And I believe that for purposes of calculating the cap you rely on Mr. Mitchell's testimony for that information; is that correct?

A. That is correct.

Q. Now, with regard to these changes, you included an amount for the provider of last resort charges that were included in the prior -- or, in the ESP that was effective in 2010, correct?

A. That's correct. That is one of the rate adjustments that produced earnings. In the current ESP. I'm sorry.

Q. I apologize, I thought you had completed your answer.

Is there anything else you'd like to add to your answer?

A. No.

Q. The POLR charge itself was subject to a hearing over the summer that resulted in a decision that came out on October 3rd, 2011; is that correct?

A. The remand case?

Q. Yes.

A. Yes, that's correct.

Q. And as a result of that remand case the Commission determined that the company was no longer authorized to collect a POLR charge; is that also correct?

A. That was the ultimate outcome of the remand case back to June 1st of 2011.

Q. Am I also correct that the company filed alternative tariffs, one that would have recognized a charge, a POLR charge based on pre-ESP rates and one that removed all of the POLR charge?

A. Yes, that's correct.

Q. And --

A. The previously existing POLR charge was in place before the current ESP.

Q. And am I also correct that the Commission did not accept the set of tariffs that the companies filed that would have allowed the continuation of the pre-ESP POLR charge?

A. That's my recollection, yes.

Q. I'd like to move on to a different topic. With regard to Columbus Southern, Columbus Southern is engaged in a number of different lines of business besides providing service under the ESP; is that correct?

A. That's correct.

Q. This would include, for example, the collection of revenues for wholesale transactions such as off-system sales.

A. That's correct.

Q. And according to testimony that I believe Mr. Mitchell is sponsoring, there are wholesale transactions in addition to off-system sales that also are a source of either revenues or expenses; is that also correct?

A. That is correct.

Q. For example, there are Wheeling transactions that CSP may be engaged in.

A. Wheeling as in Wheeling Power?

Q. Yes.

A. Is that what you're referring to? I believe that's Ohio Power in that case, but CSP is involved in other affiliate transactions that would be considered wholesale transactions.

Q. And am I also correct, and this is going to seem obvious at this point because we've been down this road so many times, that these wholesale transactions are not regulated by the Public Utilities Commission of Ohio?

A. That's correct.

Q. These transactions are, in fact, regulated by the Federal Energy Regulatory Commission, or FERC.

A. That's our view, yes.

Q. There are also transactions that result in power costs for CSP that are set by a FERC transmission charge; is that also correct?

A. By the FERC OATT rate, for example?

Q. Yes.

A. Yes, that's correct.

Q. And there are also transactions, for example, with the Lawrenceburg generating station that are subject to a FERC-approved contract.

A. That's correct.

Q. Now, with regard to the OSS transactions that CSP or for that matter OP may be involved in, for every one of those transactions there is also a transmission component; is there not?

A. That depends on the nature of the transaction, but if you're referring to generation sales, supply sales, there's generally a transmission component associated with that, yes.

Q. AEP companies such as Ohio Power and CSP are also involved in various pooling arrangements?

A. That's correct.

Q. This would include arrangements with regard to emissions allowances and pooling of capacity for the various affiliate companies as well, correct?

A. Capacity and energy, yes.

Q. And each one of those transactions would be governed by FERC-related tariffs as well, correct?

A. That is correct.

MR. DARR: With the Bench's permission I'd like to have a multipage document marked as IEU Exhibit No. 1, please.

EXAMINER PARROT: So marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Mr. Hamrock, do you have in front of you what's been marked as IEU Exhibit No. 1?

A. Yes, I do.

Q. Could you identify that for us, please?

A. That's the first quarter 2011 earnings release presentation for American Electric Power.

Q. And are you familiar with this type of presentation as prepared by AEP?

A. Yes.

Q. And what is the purpose of these slides and the slides that -- excuse me. What is the purpose of the slides that are prepared that you see in IEU Exhibit No. 1?

A. Generally to provide data for investors to explain the earnings performance of the company for the period, in this case the first quarter of 2011.

Q. And generally would you agree that these documents are a true and fair representation of the company's understanding of its current financial status?

A. Certainly.

Q. Would you turn to page 14 of IEU Exhibit 1, please?

A. Yes.

Q. And I believe you're familiar with this because it shows up in just about every presentation that IEU makes to investors, correct?

A. That AEP makes to investors.

Q. Excuse me?
A. I think you said "IEU."
Q. Yes.
A. That may be true as well, though.
Q. I'm sorry?
A. That may be true as well.
Q. Darn near true. I think we probably could agree with that.
And, for the record, could you identify -- there's an item in the line under utility operations that says "Gross Margin." Can you define for us what "gross margin" means?
A. That's generally the revenues per, in this case gigawatt-hour available after cost-based revenues are accounted for, fuel and other variable costs.
Q. And specifically I think in your 10-K you define it as revenues less fuel including chemicals, emission allowances, and purchased power. Sound about right?
A. Yes.
Q. And if we look down through the various categories, the first one, which is labeled line 1, "East Regulated Integrated Utilities," can you define for us what that means?

A. That would be what we refer to as the AEP East companies with the exception of the Ohio companies, so it would be Appalachian Power, Kentucky Power, Indiana-Michigan Power, and Wheeling Power, and Kingsport Power.

Q. And then the Ohio companies would be CSP and OP, correct?

A. That's a combined presentation of Columbus Southern Power and Ohio Power Companies.

Q. The West Regulated Integrated Utilities, what would those be?

A. Public Service Oklahoma, SWEPCO, AEP-Texas.

Q. Texas Wires?

A. Yes, Texas Wires. Well, Texas Wires is separate from West, I'm sorry.

Q. What is Texas Wires?

A. That's the distribution companies in Texas. It no longer owns generation.

Q. And there's a separate line item for off-system sales. Do you see those as well?

A. I do.

Q. Would these be off-system sales for the whole AEP system?

A. Yes, that's my understanding.

Q. The item No. 6, Transmission Revenue 3rd Party, can you describe for us what that is?

A. My understanding is that's sale of AEP transmission capacity to other entities.

Q. And what about Other Operating Revenue?

A. That might be any other number of lines of business, the AEP barge line and rail facilities, for example, I believe would be accounted for under Other Operating Revenue.

Q. Now, if we move over to the item, the next column basically under Performance Driver, this is specifically where you calculate the gross margin per megawatt-hour, correct?

A. Per gigawatt-hour, yes.

Q. Per gigawatt-hour, yes.

A. You're right, it's per megawatt-hour. I'm sorry.

Q. We're both --

A. The rate is per megawatt-hour. The volumes are expressed in gigawatt-hours on this page.

Q. Thanks for clearing that up.

And for the Ohio companies it provides that the gross margin per megawatt-hour is $56.6, correct?

A. That's correct. That's the defined Ohio

Power-Columbus Southern Power gross margin number.

Q. And that would be for the year 2010.

A. That is the 2010 actuals, yes, that's correct.

Q. And then we could go through the other companies and basically you would be reporting the same information for those companies as well, correct?

A. That's correct.

MR. DARR: If I may, your Honor, I'd like to have marked a second document as IEU Exhibit No. 2.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Mr. Hamrock, do you have in front of you what's been marked as IEU Exhibit No. 2?

A. Yes, I do.

Q. Could you identify this for us, please?

A. This is a presentation made at the Credit Suisse 2011 Energy Summit on February 7th and 8th of 2011 regarding American Electric Power's financial performance.

Q. If we turn to page 3 it lists a person, Brian X. Tierney, EVP and CFO. Could you identify who that is, please?

A. Brian is the chief financial officer of

American Electric Power.

Q. And would this indicate to you that he was the presenter that day?

A. Yes.

Q. And would he have been acting on behalf of the company, specifically AEP, in making this presentation?

A. Yes.

Q. Would you turn again to page 14 of this document, and I direct your attention to the diagram on the left-hand side of the page which is captioned "2010 On-Going Earnings Contribution." Do you see that?

A. I do.

Q. And could you explain the import of this particular graph?

A. This graph simply shows the percentage of ongoing earnings that are attributable to each of the operating companies.

Q. And specifically Ohio Power, there's a 24 percent contribution; is that correct?

A. That's correct.

Q. And for Columbus Southern Power it's a 17 percent contribution?

A. That is correct.

Q. At the bottom of the page there's a box that says "Region" and "Number of Customers." Do you see that?

A. I do.

Q. And could you, for the record, explain what this box is meant to represent.

A. It simply shows one dimension of the size of each of the operating companies, that being the number of retail customers served.

Q. In the fourth item in that box it lists Ohio and Wheeling. Do you see that?

A. I do.

Q. I assume, and correct me if I'm wrong, that this would be all the Ohio Power customers, all of the Columbus Southern Power customers, and those associated with the Wheeling company; is that correct?

A. That's correct.

Q. For the record, do you know how many customers are associated with the Wheeling company?

A. It's in the neighborhood of 40- to 45,000 customers.

Q. So if we wanted to roughly estimate the Ohio portion of this, we'd simply subtract out that 40- or 45,000, correct?

A. That's correct.

MR. DARR: I'd like to have marked as IEU Exhibit No. 3 another multipage document.

EXAMINER PARROT: So marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Mr. Hamrock, do you have in front of you what's been marked as IEU Exhibit No. 3?

A. I do.

Q. And could you describe this for us, please?

A. It's -- appears to be an excerpt from the 2011 Fact Book from the EEI Financial Conference in Orlando, Florida. It includes pages 13, without looking at each page it appears to be pages 13 through 28 from that document.

Q. And could you describe for the record what the Fact Book is, please.

A. It's a reference dataset for investors that includes comprehensive data regarding AEP and all of its subsidiaries.

Q. And this is available on the website of the company?

A. I believe it is, yes.

Q. And from the company's point of view does this fairly and accurately represent the financial information that's presented herein?

A. Yes.

Q. Now, the pages that have been excerpted are for the AEP-East companies; is that correct?

A. That does appear to be correct, yes.

Q. And if we turn to page 17, the page marked page 17, we have here a picture of you and also a description of the Columbus Southern Power Company, correct?

A. That's correct.

Q. And if we turn to the next page, the page marked 18, we find in the box at the bottom a calculation of the average cost per kilowatt-hour residential of 11.32 cents, correct?

A. That's correct. That's what it represents.

Q. And if we turn to page 20, we have another picture of you and a description of the Ohio Power Company, correct?

A. Correct.

Q. And if we turn to the next page on this one, in a similar box that we saw on the prior page related to CSP we find another calculation of the average cost per kilowatt-hour of residential service of 9.7 cents, correct?

A. That's correct.

Q. Now, we can do this for each one of the AEP -- boy, I almost did it again -- AEP-East companies and, subject to check, page 24 we could see that Indiana and Michigan's residential rate is 8.2 cents per kilowatt-hour, correct?

A. It was during that period, that's correct.

Q. Very good. That correction's important, isn't it, because it changes from year to year?

A. Yes.

Q. And if we looked at Kentucky Power on page 27, we would see that the residential per kilowatt-hour rate was 8.64 cents for 2010, correct?

A. That's correct.

Q. And if we went back to page 15, we would see for Appalachian Power a rate of 9.31 cents per kilowatt-hour for 2010.

A. I'm sorry, what page was that?

Q. Page 15.

A. 15? Yes, that's correct.

Q. And the Appalachian, that would be a merged rate for the West Virginia and Virginia companies?

A. I'm not sure, but I suspect that would be the case.

Q. Before we move off of that exhibit, if you would, turn to page 22, what's been marked as page 22 on the handout.

A. Yes. Ohio Power data?

Q. Yes. And if we take a look at the box in the upper right quadrant, and it's labeled "Typical Bill Comparison," could you describe for us what that is, please?

A. This is the typical bill for a residential customer as of January 1st, 2011, and it shows each of the electric distribution utilities in the state of Ohio being investor-owned electric distribution utilities and a typical bill for a thousand kilowatt-hours as of January 1st, 2011.

Q. So, for example, a customer with that description, residential customer with that description, would have paid Ohio Power $100.96.

A. That's correct. That's the lowest of all of those listed.

Q. And a similar customer on the Dayton Power & Light system would be paying $123.43.

A. That's correct.

Q. In your testimony starting at around page 12 you list a number of factors that you believe are important for the Commission to consider with regard to the risk and a number of other factors that AEP faces under its current ESP.

And you also point at page 12 through 14 of the leadership that you believe AEP has provided. One of the items that you point to is its leadership in transmission; is that correct?

A. Yes. Just to clarify, though, the version I'm looking at that's on page 13. Yes, that question -- that section begins on page 13, yes. But that's correct, transmission leadership is one of the areas I point to.

Q. And that area specifically is governed by the FERC transmission tariffs that we talked about previously, correct?

A. In terms of rate set, yes. Certainly there's citing authority that Ohio has.

Q. You also point to alternative energy compliance as an area of leadership, and specifically with regard to your ESP that was in effect in 2010 you recovered your alternative energy compliance costs through a specific rider or riders; is that correct?

A. That is correct. We've implemented those programs in a way that promotes the programs for most investments in Ohio and it certainly does that. We engage in those programs in a way that's sustainable and aims to meet or exceed all of the standards.

Q. And it's your intention under the stipulation that was filed on September 7th in the proposed ESP to continue those riders either through the fuel adjustment clause or through an alternative energy rider, correct?

A. "Those riders," referring to renewables?

Q. Yes.

A. Or energy efficiency, yes, that's correct.

Q. And you also point to gridSMART as an area of leadership for the company as well, correct?

A. Yes.

Q. And you currently are collecting a rider with regard to gridSMART which you also propose to continue in the proposed ESP.

A. That's correct.

Q. You mentioned Turning Point at one point in this as well in terms of an alternative energy project, and in the stipulation that is proposed to be handled prospectively through a nonbypassable rider, correct?

A. That's correct. That's how it was always envisioned.

Q. You also mentioned the Wyandot project which I assume is the Paulding wind farm.

A. No. That's a solar project. That's a 10-megawatt solar project.

Q. Okay. Does the solar project as it currently stands, does that come through your purchased power arrangements as well?

A. It is a long-term purchased power agreement that flows today through the FAC clause.

Q. At one point in your testimony you also indicated that the company's not assured recovery of its existing generation assets. Do you recall that statement?

A. I do.

Q. That would be the case under prior regulation as well, would it not, whether we're talking about cost-based regulation or a SSO under the former Senate Bill 3 terms?

A. There are certainly different forms of regulatory risk under any regulatory regime. This statement is merely meant to reflect under Senate Bill 221 that risk is heightened.

Q. With regard to the environmental investments that you identify as well in your testimony, you were afforded under the ESP an opportunity to recover the incremental investments associated with the 2001 through 2008 environmental adds, correct?

A. That's correct. And that is one of the rate mechanisms that's included in the calculation of the earnings cap eligible for return to customers.

Q. The point is, though, that you have had an opportunity to earn a recovery of both on and of those investments, correct?

A. That's your point?

Q. My question.

A. Your question. Yes. Yes.

Q. And with regard to investments that the company has made since 2009, since the beginning of 2009, you have been able to recover those as well under the environmental investment cost recovery rider, correct?

A. Only the portion of the costs associated with that year. These are long-lived investments, major capital investments with long lives, and the risk is over the life of the investment, not just during that one year.

Q. Fairly taken. With regard to 2010, though, you had a recovery mechanism in place,

correct?

A. That's correct.

Q. You also identify migration risk as a risk the company faces. Is it fair to say that the company has received some compensation for the migration risk under the ESP that was in place in 2010?

A. Specifically the POLR mechanism? POLR rate?

Q. Well, did you not -- isn't the POLR designed to address -- as it was presented, wasn't the POLR designed to address migration risk?

A. The POLR rate was designed as a reflection of the risk profile related to customer migration, yes.

Q. And at the time the Commission had authorized a revenue stream of about $152 million a year for both companies to address that concern, correct?

A. That's correct.

Q. And I note that Ms. Thomas and I have been down this road once before, I can't remember if I've asked you this question. Do you recall what the company reported as the gross margin effect of migration for CSP in 2010?

A. I don't recall, although I do believe it was in one of the investor presentations.

Q. Do you have in front of you what Mr. Nourse asked to have marked as AEP Ohio Exhibit 1A, the 10-K?

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

Thank you.

Q. If you would, turn to page 161 of the back section, the section that deals with the individual affiliates. And take a look at the section under Customer Choice, the paragraph under "Customer Choice."

A. I see that.

Q. And I believe the company represented that it lost about 16 million in 2010, $16 million in generation-related gross margin in 2010; is that correct?

A. That's correct.

Q. And that's specific to Columbus Southern, correct?

A. Yeah, this is the Columbus Southern section of the 10-K.

Q. And you anticipated for 2011 $53 million changes in gross margin.

A. That's correct.

Q. Does it not also indicate that some of this loss of gross margin would be made up by off-system sales?

A. Yes.

Q. Now, there's nothing in this section that talks about Ohio Power, but if we turn back to page 22 of the front section and we take a look at the first paragraph under "Competition"; do you see that?

A. I do.

Q. Am I correct that the 10-K reports that OPCo's customer losses have been insignificant?

A. There is a statement in that paragraph that says "To date, Ohio Power Company's customer losses have been insignificant." Meaning customer switching.

Q. Now, as part of the concern about migration risk, is part of your testimony directed at what the company expects to happen going forward?

A. Again, providing generation service is a capital intensive business and those capital investments have long lives and certainly a forward-looking risk in that context.

Q. So it's fair to say that the effect of the stipulation is important in terms of the recovery, the stipulation that was entered into and filed on September 7th, 2011, is important to how we look at this capital contribution; is that fair?

A. It's certainly fair relative to future investments. I don't believe it's fair to consider that in terms of how we ran the business in 2010; we did not anticipate that stipulation.

Q. But you are asking the Commission to look at that forward set of issues when it assesses whether or not you're significantly earning, correct, or significantly excessively earning?

A. In the overall consideration of the 2010 earnings I believe it's important for the Commission to consider the risk profile of the business as well as the company's continuing significant capital investments.

Q. And part of that risk profile going forward is going to be the ability of customers to leave the system.

A. Sure.

Q. And in a way the stipulation -- one of the ways that the stipulation that was filed on September 7th, 2011, addresses that concern is by the way it handles capacity pricing; is it not?

A. That's correct, yes.

Q. And under the capacity pricing proposal in the stipulation CRES providers will be able to secure RPM-priced capacity at -- for a certain amount of the customer base with the remaining customer base being eligible for capacity priced at $255 per megawatt-hour, correct?

A. That is how the stipulation is structured, yes.

Q. And if we look at the effects of that, according to the company's statements made on September 7th, 2011, would it be fair to say that you expected that to have -- that capacity pricing approach to have some mitigating or, well, let's use the word "mitigating" effect on migration from AEP to a competitive provider?

A. Well, again, I believe as we talk about the 2010 significantly excessive earnings test anything related to the stipulation was unknown at that point in time. And as the Commission considers our investments made during that time and the risk we faced, I think it's not as relevant.

To answer your question, though, whether it mitigates or not is really a function of the competitive supplier's business model and certainly the cost of capacity is a factor that would affect that. Whether or not it affects the level of shopping is more a function of the competitor's -- or, the competitive retail electric supplier's business model.

Q. Well, am I correct that at least one representative of AEP, Mr. Munczinski, on a call to investors on September 7th, 2011, made the following statement: "So basically we should see no more shopping from the 20 percent, 30 percent, or 40 percent levels that are included in the stipulation"?

MR. NOURSE: I object to the selective quotation of an out-of-context statement.

MR. DARR: You certainly have an opportunity to redirect in his redirect to add anything else that he wants to add to that.

Relevance has been established by the fact that Mr. Hamrock has indicated that going forward part of the capital -- going forward capital decisions are relevant to this proceeding, so it appears relevant to this -- to inquiry.

EXAMINER PARROT: The objection is overruled.

MR. DARR: Thank you, your Honor.

Q. (By Mr. Darr) Can you answer the question, sir?

A. I am aware that Mr. Munczinski made that statement. The overall context of that statement and what he meant by that I cannot attest to.

Q. Mr. Hamrock, is it also correct that you have identified deferrals as a regulatory risk that the company faces and which the Commission should consider in assessing whether or not the companies have earned significantly excessive earnings?

A. That's correct.

Q. And am I correct that the company's proposing to recover those deferrals through a phase-in recovery rider and a distribution asset, deferred asset rider as well?

A. The fuel phase-ins had previously been approved for recovery through a phase-in recovery rider beginning in 2012. The distribution regulatory assets I believe you're also referring to are scheduled for recovery through another rider that recovers those assets and the return on those assets as well, that's correct.

MR. DARR: Thank you, Mr. Hamrock.

THE WITNESS: Thank you.

EXAMINER PARROT: Mr. Kurtz?

MR. KURTZ: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Kurtz:

Q. Good morning, Mr. Hamrock.

A. Good morning, Mr. Kurtz.

Q. Turn to page 6 of your testimony, please. Do you have that?

A. I do.

Q. If I ask -- just back up one second. Dr. Makhija determined that the mean ROE for the comparable group of companies as stated on page 5 of your testimony was 11.48 percent; is that correct?

A. That's correct.

Q. Okay. Then on page 6, line 12 through 14 you make a calculation as to what the threshold ROE would be for SEET purposes if you add 60 percent to Dr. Makhija's mean ROE; is that correct?

A. I don't see that line reference, but I do make that calculation, yes.

Q. I guess I'm seeing lines 12 through 14.

A. Yeah, in my version that's on line 20 through 22, page 6.

Q. Okay. I must have a different version. But you multiply the 11.48 percent mean ROE from Dr. Makhija by 1.6 to get approximately 18.4 percent as the threshold for SEET purposes?

A. That's correct.

Q. And 1.6 is the, I'll call it the gross-up factor the Commission applied in the prior SEET order.

A. That was established in the order related to the 2009 SEET case.

Q. Do you remember in the 2009 case there was discussion that the gross-up factor should be 1.5 but for various other reasons the Commission used 1.6?

A. I do remember that, and I believe those reasons still existed in 2010.

Q. If we do the math and multiply Dr. Makhija's mean average ROE of the comparable companies by 1.5, would you accept, subject to check, we would get 17.22 percent?

A. Yes.

Q. Okay. And the difference between -- so the difference between using a 50 percent gross-up factor versus 60 percent is approximately 1.1 percent ROE?

A. Right, 110 basis points or so.

Q. 110 basis points. Now, that translates into a revenue requirement effect for Columbus & Southern of approximately $20 million; is that

correct?

A. I'll accept that subject to check.

Q. Let me ask you to turn to page 8 of your testimony. Well, this is my page 8. Maybe you can find it. You are asked the question, it begins on the section "Adjustments to the SEET," "How are off-system sales net margins treated in the 2010 SEET?" Do you see that question?

A. I do.

Q. You begin your answer "Consistent with the Commission's order," you excluded off-system sales from the analysis.

A. That's correct.

Q. Okay. Do you have a copy of the Commission's 2009 SEET order?

A. Not with me on the -- not here.

Q. Let me read you a passage on page 29 of the Commission's order in Case No. 10-1261 regarding the off-system sales. It says "Where it can be shown that the electric utility received the return on its OSS, which, if included in the calculation, could unduly increase its ROE for purposes of SEET comparisons, OSS margins and the related equity and generation facilities should be excluded from the SEET calculation."

I read that. Would you like to see a copy of it?

A. It might be helpful.

Q. Okay.

MR. KURTZ: May I approach, your Honor?

EXAMINER PARROT: You may.

Q. My only question is would you agree that the Commission in its prior SEET order did not make a blanket determination that off-system sales should always be excluded but should be excluded where including the off-system sales could unduly increase the ROE of the utility?

MR. NOURSE: I object to the form. He's not asking for his opinion or understanding. He's asking a legal conclusion.

Q. I'm just asking for your opinion. When you said "Consistent with the Commission's order" in your testimony, how would you interpret this language where the Commission says off-system sales should be excluded where it could unduly increase the ROE of the utility?

A. I'm not qualified to offer a legal interpretation of the order. I think those words speak for themself. Although as I view it the order was clear in that off-system sales should be excluded from the earnings before applying the SEET test.

Q. Absolutely for 2009, but do you think, in your opinion, the Commission made a conclusion that that should always be the case or, based upon this language, is it more of a case-by-case analysis?

A. It's difficult for me to interpret unduly, the phrase "unduly influence the earnings," but it seems that off-system sales clearly influences the earnings of the company and always influences the earnings of the company. So I can't envision a case where that wouldn't be relevant.

Q. Well, let me give you an example. It depends on the relative profitability of off-system sales versus your native load sales, doesn't it?

For example, suppose Columbus & Southern sold 1 billion kilowatt-hours off-system and made $10. Basically no margin at all. In that case, excluding off-system sales when you take the numerator and the denominator would actually increase the utility's ROE. Because you're taking out a sector of the business provided no profit.

A. Seems to be an extreme scenario, but in general if it contributed to earnings, it's a separate part of the business that should not be considered under SEET.

Q. Well, under that hypothetical it would actually increase the utility's ROE if you took out a big part of the business that didn't provide any profit. When you do the numerator-denominator, the revenue and the capitalization adjustment, wouldn't you agree just hypothetically?

A. The capitalization based on the megawatt-hours ratio?

Q. Yes.

A. It could, yes.

Q. Okay. So you really do need to look at each individual situation to see the relative profitability of the off-system sales and how it would influence the utility's ROE, don't you?

A. I suppose the Commission has that discretion, although I believe it was clear, the intent was clear to exclude off-system sales.

Q. One last very little bit. On page 12 of the testimony I'm looking at under the heading "Capital Investments and Other Considerations" you're asked the question "What are some additional factors, besides the earned ROE calculations discussed above, that the Commission indicated it would consider in evaluating what is significantly excessive?" Do you see that question?

A. I do.

Q. Okay. Then you summarize the six different areas that you elaborate on in your testimony.

A. Yes.

Q. For 2010 can you identify which of these six areas that AEP did not receive compensation for performing those functions?

A. I believe that's probably a mixed bag that would require a pretty thorough analysis of the rates and the underlying investments, but clearly some question as to whether or not compensation was adequate for the significant capital investment.

We had riders in place for that, but as I had previously mentioned, these are long-lived assets and the returns over the life of those investments are clearly at risk.

When we make the decision to make those investments, or made the decision in 2010, it's not clear that there's a direct relationship between revenue and item 4, the performance and benchmark indicators such as reliability performance. Clearly no direct relationship between advancing state policy and revenue mechanisms or rate mechanisms.

Q. Let me ask you to reference very quickly, Mr. Hamrock, IEU Exhibit 2, page 20. Do you still have that in front of you?

A. What's the title page of Exhibit 2?

Q. It is the Credit Suisse.

A. Credit Suisse, okay, I have that. Page 20?

Q. Yes. These are the authorized ROEs for the various jurisdictions that AEP operates in. Do you see that in the third column?

A. Yes, I do.

Q. It looks like the authorized ROE for the sister utilities of Columbus & Southern are in the 10 to 10-1/2 percent range. Do you agree with that?

A. Yes.

Q. And what was the company's calculation of the actual earned ROE of Columbus & Southern in 2010? Do you recall what Mr. Mitchell calculated?

A. Yeah, that was in Mr. Mitchell's testimony. I don't want to do that from memory.

Q. Would you accept, let me see if I remember, 17.4 percent?

A. Yes. 17.5.

Q. Okay. And you understand that Mr. Kollen and Mr. Duann determined that in their opinion the actual ROE was higher, approximately 19.4 percent?

A. I am aware of that, yes.

Q. Okay. In any event, whether the Commission accepts Mr. Mitchell, Mr. Duann -- Dr. Duann, or Mr. Kollen, the earned ROE of Columbus & Southern were certainly higher than the authorized ROE for the affiliated sister utilities.

A. That's true, although this is a -- this page you're referring to is rate base and approved ROE and you're comparing it to CSP's earned ROE which is not necessarily related to a rate-based calculation nor directly related entirely to retail revenues.

Q. Okay. Thank you, Mr. Hamrock.

MR. KURTZ: No further questions, your Honor.

EXAMINER PARROT: OCC?

MS. YOST: Your Honors, may we go off the record for just a minute?

EXAMINER PARROT: Sure.

(Discussion off the record.)

EXAMINER PARROT: Let's go back on the record.

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CROSS-EXAMINATION

By Ms. Yost:

Q. Good morning, Mr. Hamrock.

A. Good morning.

Q. If I could have you turn to page 13 of your testimony.

A. 13?

Q. Yes, please. Under the heading "Capital Investments and Other Considerations."

A. Yes, I see that.

Q. Starting with line 13 you have a list of some other considerations in your testimony that the Commission has indicated are factors in which they may consider. One is the EDU's most recently authorized return on equity. Do you see that at lines 13 and 14?

A. I do.

Q. And you are aware that in the last SEET proceeding in the Commission's order that the Commission found that the -- that CSP's most recently authorized ROE was 12.46. Are you aware of that?

A. I recall that, although I also recall some discussion of the relevance of that authorized ROE.

Q. But you do recall that the Commission noted the 12.46 as the most recently authorized return on equity?

A. Yes.

Q. Thank you.

And under section 2, line 15, one of the factors is whether the ESP includes a fuel and power -- purchased power adjustment. And CSP has that type of adjustment, that type of mechanism, correct? It has a FAC is what they call it?

A. Certainly did in 2010, yes.

Q. Yes. And in regards to number 3, the capital commitments and future capital requirements, if I could have you -- which is listed on lines 17 and 18, and you speak more directly about it on page 21 of your testimony.

A. Yes.

Q. And you reference the projections and actual expenditures are illustrated on Exhibit JH-1 which is --

A. Yes.

Q. -- attached to your testimony.

A. Yes.

Q. Or will be attached.

A. Yes. I'm sorry to interrupt you. Yes.

Q. If I could have you take a look at that, please.

A. Yes.

Q. And my questions are going to be in regards to CSP only. In terms of the actual what is termed as the capital -- or, excuse me, the construction expenditures, the actual amount spent in 2009 total for CSP, what is that amount indicated on your Exhibit JH-1?

A. It appears to be 280,107,000. It's a little hard to read with the dark background. I think that's the number.

Q. And those are actual expenditures for 2009, correct?

A. That's correct.

Q. And then what are the actual expenditures for 2010?

A. For CSP the total actual expenditures were $194,870,000.

Q. So roughly $65 million less was spent in 2010 than 2009, is that correct, roughly?

A. I think it's 85 million. If I'm reading that 2009 number correctly.

Q. You're right. 85 million.

So 85 million was spent less in 2010 than in 2009 for CSP's capital expenditures, correct?

A. That's correct. And two notable contributors, the differences are the gridSMART spending which reflects in 2010 a credit from the Department of Energy grant funding so there was actually underlying spending by the company that was offset by the federal government funding.

And then the generation category, because of a difference in the environmental category in particular but also in the other generation.

Q. And do you recall testifying in the proceeding last year regarding 2009 earnings regarding the forecasted expenditures for 2010? Do you recall what that number was?

A. I don't recall the number specifically but I do recall that it was higher than what's reflected here as the actuals.

MS. YOST: Your Honor, may I approach the witness?

EXAMINER PARROT: You may.

Q. Mr. Hamrock, if you could please take a minute to look at what I'm handing you. Do you recognize that as an attachment to your testimony that was filed in Case No. 10-1261 filed on September 1st, 2010?

A. I do, yes.

Q. And does that document indicate what was forecasted to be the capital expenditures for 2010 for CSP, the total?

A. It does.

Q. And what's that amount, please?

A. It is $256,100,000.

Q. Thank you.

And is it your understanding that the Commission considered CSP's future capital -- future committed capital investments in its SEET analysis for the previous SEET case; is that your understanding that they did consider that?

A. Yes.

Q. And based on the forecasted amounts that were presented into evidence last year versus your Exhibit JH-1 that shows the actual amounts, do you know approximately what the difference is?

A. I don't have the number I just read into the record committed to memory, but it's on the order of $50 million.

MS. YOST: Could you read the number, please?

(Record read.)

Q. So whatever the difference is between $256,100,000 and the amount that is on your Exhibit

JH-1 which is $194,000,870, correct?

A. It would be around $60,000,000, from memory that's largely attributable to changes in capital investment relative to the forecast in the generation category and in the gridSMART category.

And an example of one of the changes or one of the reasons for changes in environmental is capital investments to expand landfills of power plants that are driven by the output of those plants, so those things change during the year and change the timing of investment, not the commitment to make those investments.

Q. And the 2011 forecasted amounts are forecasted to be even less than the actuals for 2010, correct?

A. Yes. The 2011 forecast for CSP is 186,912,000.

MS. YOST: Thank you. I have no further questions.

EXAMINER PARROT: Thank you.

Staff?

MR. McNAMEE: No questions, your Honor.

EXAMINER PARROT: Mr. Nourse?

MR. NOURSE: One moment, your Honor.

No redirect, your Honor. Thank you.

EXAMINER PARROT: Thank you, Mr. Nourse.

MR. NOURSE: I renew my motion for admission of Exhibits 1, 1A, 1B, and 1C.

EXAMINER PARROT: Are there any objections to the admission of AEP Ohio Exhibits 1, 1A, 1B, and 1C?

MR. McNAMEE: No, your Honor.

MR. DARR: To the extent we raised the motion to dismiss it would be applicable, but otherwise no, your Honor.

EXAMINER PARROT: Hearing none, other than as noted by Mr. Darr, AEP Ohio Exhibits 1, 1A, 1B, and 1C are admitted into the record.

(EXHIBITS ADMITTED INTO EVIDENCE.)

EXAMINER PARROT: Mr. Darr, do you care to move your exhibits?

MR. DARR: Yes, your Honor. IEU would move IEU Exhibits 1, 2, and 3 at this time, your Honor.

EXAMINER PARROT: Are there any objections to the admission of IEU-Ohio Exhibits 1, 2, or 3?

MR. NOURSE: No, your Honor.

MR. McNAMEE: No, your Honor.

EXAMINER PARROT: Hearing none, IEU-Ohio

Exhibits 1, 2, and 3 are admitted.

(EXHIBITS ADMITTED INTO EVIDENCE.)

EXAMINER PARROT: Thank you, Mr. Hamrock.

THE WITNESS: Thank you, your Honor.

EXAMINER PARROT: Mr. Nourse?

MR. NOURSE: Thank you, your Honor. The companies would call Thomas Mitchell.

(Witness sworn.)

EXAMINER PARROT: Please be seated.

THE WITNESS: Thank you.

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THOMAS E. MITCHELL

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

DIRECT EXAMINATION

By Mr. Nourse:

Q. Mr. Mitchell, by whom are you employed and in what capacity?

A. American Electric Power Service Corporation, and I'm manager of regulatory accounting services.

Q. Okay. And did you file testimony in this case or cause to be filed?

A. Yes, sir.

Q. And you also filed revised testimony?

A. Yes, sir.

Q. Okay.

MR. NOURSE: Your Honor, I'd like to mark Exhibit AEP Ohio No. 2, revised testimony of Thomas E. Mitchell.

EXAMINER PARROT: So marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

MR. NOURSE: I've got extra copies, in case anyone else needs it.

Q. (By Mr. Nourse) Okay, Mr. Mitchell, was this, the exhibit that was just marked AEP Ohio Exhibit No. 2, your revised testimony prepared by you or under your direction?

A. Yes, sir.

Q. Do you have changes, additions, or corrections you'd like to make at this time?

A. No.

Q. Okay. If I ask you these questions today, your answers would be the same; is that correct?

A. Yes, sir.

MR. NOURSE: Your Honor, I'd move for admission of AEP Ohio Exhibit No. 2 subject to cross-examination.

EXAMINER PARROT: Thank you, Mr. Nourse.

Ms. McAlister?

MS. McALISTER: No questions, your Honor.

EXAMINER PARROT: Ms. Mooney?

MS. MOONEY: No questions.

EXAMINER PARROT: Mr. Darr?

MR. DARR: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Darr:

Q. Good morning, Mr. Mitchell.

A. Good morning, sir.

Q. Do you have in front of you what's been previously marked as AEP Ohio 1C which is the FERC Form 1 of Columbus Southern?

A. No.

MR. DARR: Do you want to give him a copy or do you want me to?

MR. NOURSE: Columbus Southern?

MR. DARR: Yeah, I don't need both.

MR. NOURSE: I've got Columbus Southern. I ran out of Ohio Power's. I'm sorry. I take that in reverse. I may have both.

THE WITNESS: He's got it.

Q. (By Mr. Darr) If you would, sir, turn to page 123.4 of the exhibit previously marked as

AEP Ohio Exhibit 1C.

A. Which one is that? Is that Ohio?

Q. This would be CSP.

A. Thank you. 123.4 okay.

Q. Now, 123.4 is the beginning of a section described as Organization and Summary of Significant Accounting Policies in the document referred to as a FERC Form 1; is that correct?

A. My page 123.4 for CSP has the footnotes on it for including business segments.

MR. DARR: May I approach?

A. Am I on the wrong page?

EXAMINER PARROT: .4 rather than .40.

THE WITNESS: .4. That's what I have.

Q. There you go.

A. Thank you, sir. We're there now.

EXAMINER PARROT: Good.

Q. The first section starting on page 123.4 is labeled "Organization." Do you see that?

A. Yes.

Q. And am I correct that CSP has reported in this form that it engages in generation and purchase of electric power and subsequent sale, transmission, and distribution of that power to 749,000 retail customers? Correct?

A. Yes.

Q. This document also reports that CSP is engaged in pool operations; is that correct?

A. Sure.

Q. And it also reports on the sales for resale that CSP is engaged in as well.

A. Yes.

Q. Now, sales for resale includes more than off-system sales; does it not?

A. Yes.

Q. What other sorts of transactions are reported as sales for resale, if you recall?

A. Included in that category would be transactions to the affiliates in the pool, FERC transactions, some transmission and revenues would be in there as well.

Q. And if we look at page 123.5, we also learn in the second full paragraph that CSP company, CSPCo, shares in the revenues and expenses associated with risk management activities as described in the preceding paragraph. These risk management activities, could you describe those for us, please?

A. Basically trying to maximize the earnings from various power positions.

Q. And these revenues and expenses, how are those reported?

A. They're in the sales for resale category.

Q. And is that independent of off-system sales?

A. No.

Q. Okay. So that would be part of or is it --

A. It would be part of.

Q. -- does it overlap?

A. It would be part of in general.

Q. Now, if you would, please, turn to page 300.

A. Okay.

Q. Would you describe what is the information contained on page 300 of Exhibit 1 -- AEP Ohio Exhibit 1C?

A. It's showing the various 400 accounts prescribed by the FERC U.S. of A for revenues.

Q. And there we would find several categories of revenues, correct?

A. Yes.

Q. Some of the revenues are related specifically to retail operations, correct?

A. Yes.

Q. Some are related to the sales for resale that we were just discussing, correct?

A. Yes.

Q. And there's a third category called "Other," correct?

A. Yeah, there's miscellaneous ones down here and "Other" as well as there's a "456" and there's some other accounts as well would be in Other.

Q. And is it fair to say that these other categories include income that is not generated by the electric service plan? Or, excuse me, the electric security plan.

A. Yes. Some would be distribution as an example.

Q. I have a couple listed as Rent, correct?

A. Yes, sir.

Q. And as I understand it correctly, rent under the FERC accounts includes things like income derived from renting property to third parties for such things as maintaining wildlife centers.

A. Yeah, with the rental revenue would be pertinent to whatever the function is that's being rented, so it could be generation, transmission, or distribution.

Q. Or something completely unrelated to the electric business, correct?

A. It would be below the line, then. It wouldn't be on this particular page.

Q. So what you're saying is, is that the revenues reflected in the FERC Form 1 would be above-the-line revenues.

A. No, they're just on a different page. These are the operating revenues here. There's another page in the Form 1 that would have some nonoperating revenues.

Q. Specifically, though, these would be revenues that would not necessarily be a part of the revenues generated by your current ESP plan; is that fair?

A. Yes.

Q. And in the case of CSP in 2010, these other revenues amounted to about $42 million; is that correct?

A. Yes.

Q. Now, if we take the total operating revenue found on line 27 of page 300, that is what is reported as the operating revenues for calculation of net income on page 114; is that correct?

A. The operating revenues certainly contribute to the net income.

Q. Well, specifically if we look at page 114, line 2, it is the total revenues found on page 300.

A. Yes. We're both correct.

Q. And this was a starting point or the information that you used to calculate the CSP net income, correct?

A. I used the net income of CSP.

Q. Off of the FERC Form 1, correct?

A. I used the 10-K CSP net income.

Q. Are those different?

A. No.

Q. So we can fairly say that the FERC Form 1 information --

A. Yes.

Q. -- would be the same as the --

A. Right. The numbers tie.

Q. Now, with regard to the average total common shareholders' equity that you calculated, if we looked at page 112 of Exhibit 1C, AEP Ohio Exhibit 1C, we would be able to calculate an average total common shareholders' equity, correct? And we're looking at page 112, line 16.

A. Yes.

Q. And what you did here was that you took the average of the beginning and end-year amounts; is that correct?

A. I did take the average of the beginning and end.

Q. Now, for purposes of calculating the net income, I can go from the net income listed on line 78, page 170 -- or, excuse me, 117, adjust that for capital stock expense, page 118, line 10, and that should get me the net income for 2010, correct?

A. I haven't, as I indicated, used these particular pages. I used the 10-K so I would have to refresh back to my filed testimony to see if your calculations are similar.

Q. Would that, subject to check, would you agree with me?

A. I think you're headed in the right direction.

Q. I'll take that as a yes?

A. I haven't made your calculation.

Q. I understand that. But subject to check, if we take the net income listed on page 117 and subtract out the capital stock expense listed on page 118, 10, would that fairly represent the way you went about your calculation?

A. Yes.

Q. Thank you.
Do you have in front of you what's been marked as AEP Ohio Exhibit 1B which is the FERC Form 1 for 2010 of Ohio Power Company?
A. Yes, sir.
Q. Not surprisingly I have several questions that are very similar to what I just asked you concerning CSP. Again, could you turn to page 123.4.
A. Okay.
Q. And is it fair to say that this section of the FERC Form 1 similarly describes the various activities that Ohio Power's involved in that result in the generation of -- that result in revenue for the company?
A. Yes.
Q. And, again, Ohio Power, like CSP, is engaged in both wholesale and retail transactions, correct?
A. Yes.
Q. Ohio Power is a member of the AEP pool or pools also.
A. Yes.
Q. And AEP engages in transactions with neighboring utilities, power marketers, and is engaged in trading activities, correct?

A. Yes.

Q. And out of those trading activities it shares in the revenues and expenses under the various pool agreements.

A. Yes.

Q. And those various pool agreements that Ohio Power's involved in are also regulated by the FERC as they are with CSP, correct?

A. Yes.

Q. Now, if we went through the same process with regard to Ohio Power that we went through with CSP, we would find on page 300 revenues that are reported to the FERC that are generated by the electric operations of Ohio Power, correct?

A. Yes.

Q. And we would find there as well that there are retail sales for resale and other revenues produced by the electric operations, correct?

A. Yes.

Q. And going through the same process, the total revenues listed on page 300 would be the revenues that are used for the purpose of calculating net income of the company that we would find on page 117 of the FERC Form 1.

A. Yes.

Q. And for purposes of your determination of net income for Ohio Power, you made some adjustments to the net income number to subtract out preferred dividends; is that correct?

A. Absolutely.

Q. That's about as definitive a response I have ever gotten from an AEP witness. And I've been doing this a while.

And with regard to the average common equity -- total common equity you used the total equity position and made two adjustments, if I understand it correctly; is that correct?

A. Now, are you referring to the exclusion of the nonrecurring items --

Q. No, sir.

A. -- and things of that nature?

Q. What I'm looking at is the calculation of the average common equity that's used for your calculation of the return on earnings.

A. Again, I used --

Q. Return on equity, excuse me.

A. I used the values out of the 10-K.

Q. And specifically you made adjustments to remove the preferred stock from total equity and also made an adjustment for the effects of the merger of

Ohio Power and JMG Funding; is that correct?

A. I wouldn't refer to it as adjustments. Preferred stock is not a part of common equity. We're dealing with common equity here, so I wouldn't say that I made an adjustment, I just simply used the common equity.

And the JMG transaction was recorded as a part of equity, so I just simply picked up the equity on the books. So I wouldn't agree with your characterization of I made an adjustment.

Q. If we looked at the FERC Form 1, page 112, and now I'm specifically referring to AEP Ohio Exhibit 1B -- have you found that, Mr. Mitchell?

A. Yes, page 112.

Q. And if we look at line 16, there's an item listed as "Total Proprietary Capital." Do you see that?

A. Yes.

Q. And that total proprietary capital would be a combination of common stock and preferred stock as well as a number of other adjustments, correct?

A. These are not really adjustments. These are balances in the FERC format.

Q. And to correctly state under -- to correctly state the average common equity, if we were using the FERC Form 1 materials, you would have us remove or adjust out the preferred stock, correct?

A. My response would be I would not include preferred stock in the determination of common equity.

Q. So if the number on line 16 on page 112 of AEP Ohio Exhibit 1B includes the preferred, we would have to remove that, correct?

A. Yeah, if you follow this format, which is not what I did.

Q. I understand that. But if we were using this, we would remove that, correct?

A. Yes.

Q. And there would also need to be an adjustment, if I understand it, for the effect of the merger between OP and JMG Funding.

A. I am not familiar with that on this page.

Q. If that were included on that line, line 16 on page 112, or not included, we would need to make an adjustment, correct, to account for the funding -- to account for the merger of OP JMG Funding?

A. Again, I'm not prepared to go to your point. What I did was used the 10-K.

Q. Did you calculate a separate return on equity for the wholesale operations of Ohio Power?

A. No.

Q. Did you do a separate calculation of the return on equity for the wholesale operations of Columbus Southern?

A. No.

Q. I'd like to turn briefly to your calculation of the adjustment to equity to remove the effects of off-system sales. And if you would, turn to page 4 of TEM-1 which is attached to your testimony.

A. Yes, sir.

Q. In making the adjustment you made a calculation of the total production and other plant to calculate the denominator, correct?

A. Yes.

Q. And that denominator includes intangible plant, production plant, transmission plant, distribution plant, and general plant, correct?

A. You're speaking of the net plant total?

Q. Yes, sir.

A. Yes.

Q. In calculating -- I'm sorry?

A. Just total plant on the books.

Q. And did you use the 10-K or the FERC Form

1 for this?

A. I used the detail ledgers.

Q. So something that's not currently in evidence here but we would be able to tie that back to the FERC Form 1?

A. Probably.

Q. Well, that was less definitive.

For calculating the allocation that results in the 52.43 percent for 2010, average generation to total plant, am I correct that you took the totals, the average totals, for generation and total plant and divided total into average generation?

A. We, let me recharacterize an answer there for you. We simply took the total of the generation or production plant and divided by the total plant consistent with page 30 of the order in the previous case which was the methodology put forth by the staff, and we simply replicated that methodology to calculate this life-to-date calculation.

Q. Well, not to quibble or anything, but you took average gen and divided it by average total, correct?

A. Yes.

Q. There is no transmission plant included in the numerator of your calculation, correct?

A. That could possibly be as a step-up transformer in there, but I would say in general, absolutely not.

Q. There is no assignment of any general plant in that calculation either, is there?

A. No. It's a fairly small number.

Q. Whatever it is, it's not in there.

A. Right.

Q. And it would be fair to say that if you had included any general plant or any transmission plant, the allocation would have been higher than 52.43 percent for CSP, correct?

A. Yeah, I wouldn't necessarily agree with that, though. That would include them in there but, if someone did include them in there, which I wouldn't necessarily agree with, you would get a higher number.

Q. Mathematically that would be the result.

A. Yes.

Q. And that would be true, everything that we've just talked about with regard to Columbus Southern and the calculation that you made with regard to Columbus Southern, that would apply equally with the calculation that you made for Ohio Power,

correct?

A. Yes.

Q. You did make some modifications to the methodology used by the Commission in the last case to the calculation that results in the OSS removal, correct?

A. A very minor modification.

Q. So your reference previously to the replication of the Commission's approach in the prior order also includes some minor modifications that you indicated just a second ago.

A. Yeah. The only modification I made was a modification that was not advantageous to CSP. The calculation, had I done it identical to what the staff had done last time, would have produced approximately 17.48 percent for an ROE and the one I did was 17.54.

So it was actually to our disadvantage and simply took the relationship in megawatts that were sold divided by the total that were sold, megawatts-involved systems divided by the total instead of these other items that counsel has asked about that includes things other than off-system sales. So a little more granular and was to our disadvantage.

MR. DARR: Nothing further, your Honor.

EXAMINER PARROT: Thank you, Mr. Darr.

Mr. Kurtz.

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CROSS-EXAMINATION

By Mr. Kurtz:

Q. Good morning, Mr. Mitchell.

A. Good morning, Mr. Kurtz.

Q. If you would turn to page 5 of your testimony, please. I want to ask you about your interpretation of the Commission's prior SEET order similar to the discussion I had with Mr. Hamrock.

Page 5, line 14. I hope I have the right version. It says "In accordance with the PUCO order in Case No. 10-1261," you made adjustments to remove off-system sales net margins.

A. Yes, sir.

Q. Okay. Were you in the room when I read to Mr. Hamrock the part of the Commission's order where it says that off-system sales should be removed if they would unduly increase the ROE for SEET purposes?

A. Yes, I was here.

Q. So based upon your understanding of the order, not as an attorney but just as you're interpreting the order here, do you interpret this as a blanket statement that off-system sales should always be excluded or only in the case where including them would unduly increase the ROE for SEET?

A. Could I see that order?

Q. Yeah.

MR. KURTZ: May I approach, your Honor?

EXAMINER PARROT: You may.

A. Yes. And so your question is again?

Q. Based upon your understanding of the order did the Commission in its prior ruling make a blanket determination that SEET -- that off-system sales should always be excluded or only under circumstances where including off-system sales margins would unduly increase the ROE?

A. I think in general they made a blanket statement because in terms of a utility such as CSP it's reasonable that they have a fairly substantial level of off-system sales. So I think year in and year out there would be a fairly significant number and so it's in that regard I would say yes, it's a blanket.

Q. Let me give you some hypotheticals. Assume, like I did with Mr. Hamrock, that CSP had

1 billion kilowatt-hours of off-system sales and there were no profits. Zero margin.

Under your methodology would taking -- so under your methodology there would be no impact on the numerator, the net income, but there would be a reduction in the common equity in the denominator and so removing off-system sales in that circumstance would increase the ROE; would it not?

A. I haven't made that calculation.

Q. Can't you tell just by your understanding of your methodology in this testimony, if you had no profit but lots of volume, it would necessarily increase the ROE of the utility, mathematically; would it not?

A. You're saying that the base would be smaller.

Q. I'm saying that the capital -- the equity capital would be smaller but the net income would be the same. So you would have a higher return on equity.

A. I would just say that your theoretical doesn't make sense because conceptually we wouldn't be selling off-system sales for zero profit.

Q. I'm using --

A. We wouldn't generate it.

Q. You made $10. You made a very small margin. Mathematically it's the relative profitability, isn't it, of retail sales to off-system sales that determines whether including or excluding off-system sales would increase or decrease the ROE of the utility?

A. I'm sorry, I don't agree with that.

Q. Under your methodology if there is a large reduction to the equity capital in the denominator, because there's a large volume, but only a very small reduction in the net income, in the numerator, it could have the effect of increasing the ROE of the utility.

A. My response is anything can happen. What we're dealing with is reality and we had an increase in off-system sales in 2010 compared with '9. So I don't believe in theoretical constructs like that.

Q. Let's talk about reality. Do you have your exhibit, Exhibit 1, page 3, in front of you? Do you have that, Mr. Mitchell?

A. Yes, sir.

Q. Okay. This is the pretax and the after-tax margin on off-system sales for both utilities for 2010, correct?

A. Yes, sir.

Q. Let's focus on CSP, the pretax margin was 73.532 million and the after tax, 47.224 million, correct?

A. Yes.

Q. Okay. Now, we would not be able to find those numbers specifically on the Form 1 or in the 10-K; isn't that correct?

A. Yes.

Q. These off-system sales margins are the amount that CSP was allocated pursuant to the interconnection agreement, correct?

A. Yes.

Q. Okay. The interconnection agreement, or the pooling agreement, determines how off-system sales profits will be reallocated among the AEP-East affiliates, correct?

A. Yes.

Q. And the interconnection agreement or the pooling agreement allocates total profits from off-system sales to each of the affiliates based upon their member load ratio, correct?

A. Right.

Q. Okay. And it's the member load ratio -- let me back up.

Under the interconnection agreement the

generation from CSP or Appalachian or any of the affiliates is first allocated to native load. They have first call on their own generation for native load, correct?

A. The cheapest goes to native load.

Q. Second tier is the affiliates have a call on that energy at cost if it's cheaper than their own generation, correct?

A. Yes.

Q. And the third tier, whatever's left over in the AEP pool is sold off system, correct?

A. Correct.

Q. Okay. And the profit or the margin from those off-system sales are allocated to each of the affiliates based upon their member load ratio, correct?

A. Right. That's for the initial East pool, that's right.

Q. And it's allocated based upon member load ratio regardless of whose power plants the off-system sales actually came out of.

A. Absolutely true.

Q. Okay. Now, this pretax gross margin on off-system sales you have on Exhibit 3 is the member load ratio of Columbus & Southern of the total pool profits from off-system sales, correct?

A. Yes.

Q. When you determine gross margins, how are those -- how was that calculated?

A. They're the incremental revenues and the incremental out-of-pocket production cost of fuel and, as defined as you -- I think Counselor Darr talked about earlier, consumables.

Q. Fuel, variables, O&M, emission allowances would be the primary --

A. Yes. Yes. The out-of-pocket incremental costs though that occurred because you made the decision to make that transaction.

Q. Okay. Now, how about fixed costs? What fixed costs are included in your gross margins?

A. None.

Q. So the costs of the power plant itself was, none of that cost of the power plants that made the sales was allocated to off-system sales.

A. Right. It shouldn't be.

Q. Okay. None of the transmission that carried the power to make the off-system sales was allocated to the off-system sales, correct?

A. Right. Shouldn't be.

Q. Okay. What you did is you said that for purposes of your calculation I'm going to assign all the power plant costs and the transmission costs to the native load ratepayers of Columbus & Southern and assign none of those power plant costs to off-system sales.

A. We're not assigning any cost. We're simply calculating the incremental out-of-pocket profit from a marginal transaction with and without the transaction. The fixed costs are irrelevant. We're talking about marginal cost.

Q. Well, you are. Did the Commission define off-system sales in any of its -- is off-system sales defined in the statute?

A. I would say off-system sales calculations were accepted in the same format in the previous order.

Q. If you would have -- so you have made the assumption that these fixed costs should all be assigned native load but none of the power plant costs or the transmission costs should be assigned to off-system sales. That's what you've done, correct?

A. No.

Q. What fixed costs have you assigned to off-system sales?

A. There's no assignment that's necessary.

We're only looking at the incremental profit here.

Q. Well, so the answer is you've assigned none of the power plant costs and none of the transmission costs to off-system sales.

MR. NOURSE: Object. Asked and answered. Argumentative.

EXAMINER PARROT: Sustained.

Q. If you had -- if you had assumed that some fixed costs, power plants and transmission, should be assigned to off-system sales, then the profit on those sales would be reduced; would it not?

A. I wouldn't have made that assumption.

Q. If you had, wouldn't it reduce the profit margin?

A. I think you sponsor a witness that recommends that. I wouldn't agree with that.

Q. You would agree that you need a power plant to make a power sale, wouldn't you?

A. A physical sale?

Q. Yes.

A. Because you can make nonphysical sales. But if you're making a physical sale, you have to have a power plant.

Q. And you would agree to make a power sale you need transmission to carry the power to the buyer; isn't that true?

A. Yes.

Q. Now, I'd like to ask you some questions about the denominator in your calculation. Would you turn to page 5 of 5 of Exhibit 1. This is where you determined that off-system sales was, for Columbus & Southern, was 15.28 or 26 percent of the production and that was used in your equity allocation methodology on page 4 of 5.

A. Right.

Q. Now, for Columbus & Southern this is -- you've included Lawrenceburg 1 and 2 in your calculation; is that correct?

A. Yes.

Q. Lawrenceburg is not a power plant that's owned by Columbus & Southern; isn't that true?

A. It's not owned, but they get credit for it through the pool.

Q. It's a purchased power transaction, correct?

A. Right.

Q. So that would not appear -- so they purchased that through FERC account 555?

A. I'm not exactly sure of what account. It may be 555, but for purposes of the pool it's as if

they have that capacity.
Q. So for the numerator you took Columbus & Southern's member load ratio share of the total AEP profits, we've established that, correct?
A. Yeah, I subtracted that from the earnings per books.
Q. And for the denominator, for the removal of the equity you took the actual off-system sales made by CSP; is that what I understand this exhibit to be?
A. Yeah. The calculation is actually on page 4 where we're simply taking the 52 percent generation portion of equity times the 15 percent portion of that equity that related to off-system sales and that's how we came up with 114 which is the staff method in the prior case.
Q. Well, I understand all that. My question and my point is this: You used member load ratio for the numerator, for the net income, or gross margins --
A. Right.
Q. -- and you used the off-system sales actually made from CSP's units for your denominator calculation. Those are different methodologies, aren't they?

A. We're looking at the units that generated and we're saying of those units how many of them were involved in off-system sales. So it's a physical construct.

Q. Physical construct for your denominator, but the numerator is the member load ratio pool allocation.

A. Right. As I had indicated, if we had done it under the prior method, it would have been to our disadvantage.

Q. Now, I've calculated the gross margins from CSP's off-system sales under your methodology just simply taking the megawatt-hours on Exhibit 5 divided by the gross margins on Exhibit 3 and get a $34.21 margin on off-system sales for Columbus & Southern.

A. Again, as you indicated, these are the physical, physical megawatts that came out of an Ohio and CSP plant. So it's not necessarily what they got credit for in the pool.

Q. That's why when you do the same calculation for Ohio Power, you get a much different margin on off-system sales, correct?

A. Right.

Q. Do you think that for Ohio Power I get

$18.82 per megawatt-hour as a gross margin versus $34.21 for CSP? Do you want to do that calculation or will you accept those subject to check?

A. I'll accept those.

Q. Why are Columbus & Southern's off-system sales almost twice as profitable as Ohio Power's off-system sales?

A. Again, I think we're somehow adrift here. These megawatt-hours are the physical megawatt-hours that came out of the plants to create off-system sales. We're using that as a surrogate for the previous staff method, it's to our disadvantage, but if you take these and divide them by the dollars on the other side, you're going to get a little bit of a different number and that's what's caused the problem; it's an apple and an orange.

Q. Well, it's more than a little bit different. It's $18 per megawatt-hour gross margin on Ohio Power's off-system sales and $34 per megawatt-hour for Columbus & Southern.

I'll ask it again, see if you can answer it: Why are Columbus & Southern's off-system sales almost twice as profitable as Ohio Power's?

A. I guess I didn't make those calculations so I don't think I have a need to answer those calculations.

Q. Well, I used your numbers. If you take your megawatt-hours of off-system sales from Exhibit 5 divided by the gross margins on Exhibit -- page 3 of Exhibit 1, you get those dollars per megawatt-hour that I just cited.

A. Right. But we just agreed, I thought, that these megawatt-hours over here are a physical. They're not necessarily the ones they got credit for on the margins. It's just a method to allocate the denominator.

If we used the previous staff method, it would have been to our disadvantage, so it really doesn't matter.

Q. Does it indicate to you that there may be a problem with your methodology --

A. No.

Q. -- when the off-system sales for Columbus & Southern are almost twice as profitable as the off-system sales per megawatt-hour for Ohio Power?

A. The margin, if you look on page 3, CSP had a margin of 73, Ohio has a margin of 81, the MLRs are about the same. It looks right to me.

Q. If you look on page 5, you've got Ohio Power making 4.319 million megawatt-hours of off-system sales and Columbus & Southern making 2.149.

A. Yeah, these are the dispatch. These are the dispatched.

Q. These are the numbers --

A. And Ohio Power has cheaper units per se than does CSP. These are just dispatched.

Q. These are the numbers you used in your calculation for determining the equity adjustment; isn't that correct?

A. It is.

Q. So let me ask you again, these are your numbers, why inherently, intuitively should Ohio Power have off-system sales that are about half as profitable as Columbus & Southern? Doesn't that indicate to you there may be something wrong with your methodology?

A. No. Again, this is a physical. This is not the number of megawatt-hours they got credit for through the pool. It's just a physical flow of power on this page.

Q. Had you used the member load ratio for the denominator like you did for the numerator, then the off-system sales profits for each of the two utilities would have been exactly the same, wouldn't it?

A. Can you repeat that question?

Q. If you had to use member load ratio in the denominator for megawatt-hours, the volume, like you did in the numerator for gross margins, then the profit margin per megawatt-hour for each of the two utilities would be exactly the same.

A. I'm not sure.

MR. KURTZ: Thank you, your Honor. Those are all my questions.

EXAMINER PARROT: Thank you, Mr. Kurtz.

OCC?

MS. YOST: No questions, your Honor, thank you.

MR. McNAMEE: No questions, your Honor.

EXAMINER PARROT: Redirect, Mr. Nourse?

MR. NOURSE: Can we take a brief recess, your Honor?

EXAMINER PARROT: Let's take a five-minute break.

MR. NOURSE: Thank you.

(Recess taken.)

EXAMINER PARROT: Let's go back on the record.

Any redirect, Mr. Nourse?

MR. NOURSE: No, your Honor.

EXAMINER PARROT: All right. Thank you very much.

MR. NOURSE: Renew my motion for admission of AEP Exhibit No. 2.

EXAMINER PARROT: Are there any objections to the admission of AEP Ohio Exhibit 2?

MR. McNAMEE: No.

MR. DARR: Same objection, your Honor.

EXAMINER PARROT: Thank you, Mr. Darr.

Any others?

With that AEP Ohio Exhibit 2 is admitted.

(EXHIBIT ADMITTED INTO EVIDENCE.)

MR. NOURSE: Thank you.

EXAMINER PARROT: Thank you, Mr. Mitchell.

Mr. Conway.

MR. CONWAY: Thank you, your Honor. At this time the companies call Dr. Anil Makhija. While Dr. Makhija is taking the stand I would like to mark as AEP Ohio Exhibit No. 3 Dr. Makhija's prefiled direct testimony.

EXAMINER PARROT: So marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

EXAMINER PARROT: Dr. Makhija, please

raise your right hand.

(Witness sworn.)

EXAMINER PARROT: Thank you. Please be seated.

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ANIL K. MAKHIJA

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

DIRECT EXAMINATION

By Mr. Conway:

Q. Dr. Makhija, could you provide your full name for the record.

A. My full name is Anil Kumar Makhija.

Q. And by whom are you employed?

A. I'm employed by the Fisher College of Business at The Ohio State University.

Q. And what is your position at The Ohio State University?

A. I am a professor of finance and I hold distinguished professorship.

Q. Thank you, Dr. Makhija.

And, Dr. Makhija, did you prepare on behalf of AEP Ohio, Columbus Southern Power and Ohio Power Company, prefiled direct testimony which, if you heard, we've now marked as AEP Ohio Exhibit

No. 3?
        A.   Yes, I did.
        Q.   And, Dr. Makhija, do you have any additions or corrections to make to your prefiled direct testimony, AEP Ohio Exhibit No. 3, at this time?
        A.   No, I do not.
        Q.   And if I were to ask you the questions in your prefiled direct testimony, AEP Ohio Exhibit No. 3, would your answers be the same as they appear in that document?
        A.   Yes, they would.
        Q.   And is that testimony true and correct to the best of your knowledge and belief?
        A.   Yes, it is.
             MR. CONWAY: Your Honor, at this time Dr. Makhija is available for cross-examination and I would move for the admission of AEP Ohio Exhibit No. 3 into the record.
             EXAMINER PARROT: Thank you, Mr. Conway.
             Ms. McAlister?
             MS. McALISTER: No questions, your Honor.
             EXAMINER PARROT: Ms. Mooney?
             MS. MOONEY: No questions, your Honor.
             EXAMINER PARROT: Mr. Darr?

MR. DARR: Just briefly, your Honor.

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CROSS-EXAMINATION

By Mr. Darr:

Q. Dr. Makhija, with regard to your testimony you indicate that you have not attempted to isolate the individual -- the effects of individual provisions of the ESP as they effect ROE; is that correct?

A. That's correct.

Q. If you were to do so, are you proposing any particular way as to how the Commission could attempt to do that?

A. In my testimony I have only addressed the question of the threshold ROE based on comparables. I have not examined what the ROE is for CSP or for Ohio Power, and I'm not prepared to get into the issues of adjustments related to the ROEs.

MR. DARR: Very good. Thank you.

I have nothing further.

EXAMINER PARROT: Thank you, Mr. Darr.

Mr. Kurtz?

MR. KURTZ: No questions, your Honor.

EXAMINER PARROT: OCC.

MS. YOST: Yes, your Honor.

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CROSS-EXAMINATION

By Ms. Yost:

Q. Hello, Dr. Makhija.

A. Hello.

Q. On page 6 of your testimony you indicate that the procedure that's illustrated in your testimony today is the same procedure that's used in the 2009 SEET proceeding; is that correct?

A. Yes, I do.

Q. And were you aware that that procedure was found to be unrealistic and resulted in an indefensible result by the Commission in the 2009 opinion and order? Were you aware of that?

MR. NOURSE: I object.

EXAMINER PARROT: Grounds?

MR. NOURSE: I don't think that accurately reflects the decision.

Q. Are you aware that they did not adopt your approach that you advocated in the 2009 SEET proceeding? Are you aware of that?

A. Respectfully, I disagree with that for the following reasons: In 2009 I proposed a comparable --

MS. YOST: Your Honor, he's not answering the question asked. I just asked him if he was aware they did not adopt his procedure. It's a "yes" or a "no."

MR. CONWAY: I think she asked him whether he agreed with her proposition that they did not accept his recommendations, and he is explaining that he doesn't agree with the proposition and I think he's entitled to explain his response.

MS. YOST: If you could read back the last question, please.

(Record read.)

EXAMINER PARROT: Could you read the first part of the answer?

(Record read.)

EXAMINER PARROT: All right. Objection's overruled.

Please continue, Dr. Makhija.

A. In 2009 I proposed a comparable group --

MS. YOST: Your Honor. You overruled the objection? Could you instruct him to answer the question. He's going back to -- it's a "yes" or "no," are you aware.

EXAMINER PARROT: And I'm allowing him to complete his answer.

So please continue, Dr. Makhija.

THE WITNESS: Thank you.

In 2009 I proposed a comparable group with a mean ROE of 11.04 percent. The Commission, in fact, used an 11 percent which is virtually the recommendation I had made.

The Commission also noted in its opinion and order that I had appropriately used the methodology that uses the business risk and financial risk.

The only differential between my methodology and the methodology that provided in the opinion and order was the question of the adder. I have always proposed an adder within 95 percent confidence interval whereas the Commission chose a different adder.

If you cumulatively take all of that together, I would find it hard to characterize that the Commission walked away from a methodology in a serious way.

MS. YOST: No further questions, your Honor.

EXAMINER PARROT: Thank you, Ms. Yost.

Staff?

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CROSS-EXAMINATION

By Mr. McNamee:

Q. Morning.

A. Hi.

Q. It's good to see you again, Mr. Makhija.

A. Pleasure.

Q. Just to be clear here, the methodology that you're advocating here in your testimony is the same methodology that you testified to last year with inputs updated for the change in the period, correct?

A. Yes.

MR. McNAMEE: That's all I need. Thank you.

EXAMINER PARROT: Thank you.

Any redirect, Mr. Conway?

MR. CONWAY: No, your Honor.

EXAMINER PARROT: Thank you.

Are there any objections to the admission of AEP Ohio Exhibit 3?

MR. DARR: Same objection as I previously indicated, your Honor.

EXAMINER PARROT: Thank you, Mr. Darr.

With that, AEP Ohio Exhibit 3 is admitted into the record.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER PARROT: And thank you very much, Dr. Makhija.

THE WITNESS: Thank you.

EXAMINER PARROT: Let's go off the record.

(Discussion off the record.)

EXAMINER PARROT: Let's go back on the record.

OEG has our next witness.

MR. DARR: Your Honor, at this point does the company formally rest its case?

MR. NOURSE: Yes.

MR. DARR: I would renew our motion, then, on the basis that the company has failed to provide a case that comports with the statutory requirements. It's an extension of what we argued before but, as we demonstrated on the record this morning, the company relied on essentially the same total company information that we identified in the motion to dismiss, I believe that that does not comport with the statute.

MR. NOURSE: And, your Honor, we of course disagree with that. We did use the same approach as last year, in the 2009 proceeding, which was in that respect accepted by the Commission, and that's currently being defended by the Commission on appeal at the Supreme Court. I agree it's tied into their motion to dismiss which we'll be responding to soon as well.

EXAMINER PARROT: And as I mentioned in reference to the motion to dismiss that was filed earlier, the Commission will take the motion under advisement in its order.

Mr. Kollen, would you please raise your right hand.

(Witness sworn.)

EXAMINER PARROT: Thank you. Please be seated.

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LANE KOLLEN

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

DIRECT EXAMINATION

By Mr. Kurtz:

Q. Mr. Kollen, do you have in front of you a document entitled "Direct Testimony and Exhibits of Lane Kollen"?

A. Yes.

Q. Was this prepared by you or under your direct supervision?

A. Yes.

Q. If I were to ask you the same questions as those contained herein, would your answers be the same?

A. Yes.

MR. KURTZ: Your Honor, I ask that Mr. Kollen's direct testimony be marked as OEG Exhibit 1 and tender the witness for cross-examination.

EXAMINER PARROT: So marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

EXAMINER PARROT: Mr. Darr.

MR. DARR: Thank you, ma'am.

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CROSS-EXAMINATION

By Mr. Darr:

Q. Mr. Kollen, is it fair to say that you testified in the original ESP case that if the Commission adopted the application as proposed, that it would have the effect of resulting in excessively -- or, significantly excessive earnings for CSP?

A. I believe I did.

Q. And at that time you anticipated that the numbers could be as high as 20 percent earnings for

CSP, correct?

MR. CONWAY: Objection.

EXAMINER PARROT: Grounds?

MR. CONWAY: It's friendly cross. It's not adverse at all. So I object to it. It's not proper cross-examination.

MR. DARR: The basis for the direction that I'm going here will be obvious here in a second, your Honor.

EXAMINER PARROT: Okay. Please proceed.

Q. (By Mr. Darr) Is that correct, Mr. Kollen?

A. If I recall correctly, it is.

Q. Now, in making your calculations of the 20 percent last year and the numbers that you calculated today, is it fair to say that you used as your starting point the same total company numbers that Mr. Mitchell has provided to the Commission today and which he provided to the Commission last year?

A. Are you referring to the 1261 case? If so, the answer to that would be yes.

Q. I am referring to 1261. So your answer is yes?

A. Yes.

Q. Now, in regard to the calculation of the ROE that you made, you indicate that there are alternative ways of performing that calculation, correct?

A. Of performing a return on equity calculation, that's correct. Total company, jurisdictionalized, or, you know, some hybrid approach as the company has proposed.

Q. And the cost of service approach that you suggest in your testimony, could you describe for the record what you meant by that?

A. Yes. Essentially what that would do is, and this is in accordance with standard cost of service methodology, if you're going to jurisdictionalize costs, separate the retail from the wholesale, then you jurisdictionalize all of the costs, not just the variable costs.

So, for example, the fixed costs which the company in its computation assumed would be assigned or allocated entirely to the retail jurisdiction or the native load, under a normal cost of service methodology you would allocate a portion of those fixed costs to the wholesale load as well. So that, then, would be removed from the numerator of the return on equity calculation, which is a correct methodology if you do it right.

MR. CONWAY: Your Honor, I'm going to renew my objection because it's becoming obvious, even more obvious that, in fact, it is friendly cross and Mr. Darr is simply providing Mr. Kollen with an opportunity to reiterate his position through this examination. It has nothing to do with -- it has no adverse character at all and I object to it.

MR. DARR: Your Honor, if I may.

MR. CONWAY: And they chose not to present a witness and now they're trying to enlist Mr. Kollen to do what they chose not to do. It is improper.

MR. DARR: If I may, your Honor. The position of IEU in this case is that none of the parties, including OEG, has presented evidence on which the Commission can take action.

What I'm eliciting from Mr. Kollen at this point is what steps would be necessary to perform exactly the kind of calculation that we believe both Mr. Kollen and the companies and any other party should have provided if they were going to address the statutory requirements.

In that regard it is, in fact, adverse. He may not like the results of the examination, because they expose the -- the companies may not like it because it exposes the limitations on their approach but it makes it no less adverse.

MR. CONWAY: Your Honor, I don't like it because it's not adverse. It simply allows Mr. Kollen opportunities to reiterate his position that he's already included in his testimony and I object.

EXAMINER PARROT: I'm going to allow you to continue with the line of questions, Mr. Darr, but let's make sure that we are avoiding what Mr. Conway is saying and we're not just repeating the testimony --

MR. DARR: I appreciate that, your Honor.

EXAMINER PARROT: -- that's in Exhibit No. 1.

Q. (By Mr. Darr) The calculation, the process of using a cost-of-service approach, would that also affect the calculation of the denominator in any significant way?

A. Yes, it would.

Q. And how would that affect the calculation of the denominator?

A. Well, the numerator is net income and if you're going to then jurisdictionalize or allocate fixed costs, not only variable costs but fixed costs as well between two different jurisdictions, the native load on the one hand and the wholesale jurisdiction for off-system sales on the other hand, then you similarly have to make a calculation in the denominator for the common equity, and that typically follows a rate base approach.

Q. Okay. When you say "rate base," you're talking about the allocation among different activities used in the completion of a sale?

A. That would be the investment used in the completion of a sale. So, for example, you have an investment in power plant, you have investment in transmission lines, and those are the dollars that are reflected in the denominator of the return on equity. And so then you would allocate that as well between the native load and then the off-system sales.

Q. And would that also include allocations among the various types of plant used for different kinds of sales, for example, transmission versus production?

A. It could. Generally, those types of jurisdictional allocations are done on a fairly detailed basis.

Q. And have you performed that allocation with regard to the testimony that you're providing here today?

A. No. That was a criticism of the company's methodology that it failed to do so and was part of my argument that the Commission should not exclude off-system sales on the basis proposed by the company. Either all in or, if it's all out, meaning the off-system sales are out, then do it properly by allocating a portion of the fixed costs to the off-system sales.

MR. DARR: Thank you.

I have nothing further.

EXAMINER PARROT: Thank you, Mr. Darr.

Ms. Mooney.

MS. MOONEY: No questions.

EXAMINER PARROT: Mr. Conway?

MR. CONWAY: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Conway:

Q. Mr. Kollen, I just have a few lines of questions for you. Could you turn to page 16 of your testimony.

MR. CONWAY: May I approach the witness,

your Honor?

EXAMINER PARROT: You may.

Q. Mr. Kollen, I'm simply going to provide to you a copy of your Exhibit LK-2 so you have it with you at the same time you're looking at your narrative testimony.

MR. CONWAY: Your Honors, I don't know if you'd like an extra copy of LK-2 or not.

Q. At lines 3 through 10 of page 16 of your direct testimony, Mr. Kollen, you explain in that Q and A your position on what a SEET refund should be for CSP representing the 19.42 percent earned ROE that you calculated compared to a SEET ROE threshold of 18.37 percent; is that correct?

A. Yes.

Q. And you report in your testimony on page 16 that based on your position concerning the earned ROE for CSP, the refund on that basis, using those parameters, those ROE parameters, would be $19.478 million, and that's at line 8, correct?

A. Yes.

Q. And you explain that at lines 8 through 10 that each .10 percent difference the earned ROE is equivalent to $1.855 million refund on a revenue requirements basis, correct?

A. Yes.

Q. All right. And then there's a reference on page 10 to your Exhibit LK-2 as the basis for your narrative examination that you provided on page 16, right?

A. Yes.

Q. Could you turn to your Exhibit LK-2 for a moment, or could you look at the LK -- Exhibit LK-2, and the question I have for you is the computation to which you refer at line 10 of page 16, that is the computation that is displayed on your Exhibit LK-2 in that next-to-last column, correct?

A. Yes.

Q. And I have a few questions about your Exhibit LK-2, and if you wouldn't mind, I'll refer to the columns as 1, 2, 3, 4, and 5, column 1 being the description over to the far left and then the Reference column being column 2, and then the middle column, Corrected Calculation with OSS Margins, No. 3, and then fourth column being the Corrected Calculation Excluding OSS Margins, and then finally the As Filed by CSP column as column 5. Is that convention okay with you?

A. Yes.

Q. Okay. The bottom line, literally, of

your computations on Exhibit LK-2 in that fourth column is the $1,855,000 per .1 percent ROE value that you mention in your testimony, correct?

A. Yes.

Q. And the $1.855 million value per .10 percent of ROE is the result of grossing up for taxes the 1,206,000 figure that is shown on the third-to-last line of that fourth column, correct?

A. Yes.

Q. So that the calculation shown -- the calculations shown in that column 4 of your Exhibit LK-2, they support the position that you've described in the narrative form on page 16 at lines 3 to 10 which we previously discussed, right?

A. Yes.

Q. Now, again, looking at your Exhibit LK-2, Mr. Kollen, and again the fourth column, I see that there is a 16.78 percent value that is in the middle of that fourth column on the ROE that's entitled "Equity Exclusion Percentage." Do you see that?

A. Yes.

Q. And that 16.78 percent is the ratio of the $47,224,000 of OSS net margin income after tax divided by the 281,351,000 of net income for 2010; is that how you derived that 16.78 percent?

A. I believe that's correct.

Q. Okay. And the 281,351,000 is the FERC Form 1 income with the restructuring expenses added back in and the SEET refunds added back in and the Medicare part D added back in, right?

A. Yes.

Q. And maybe I'm repeating myself, but the fraction of the 281,351,000 that is represented by the $47,224,000 of OSS earnings is the 16.78 percent, correct?

A. Yes.

Q. And then in the next-to-the-last column, that fourth column on your Exhibit LK-2, my understanding is that you take the 16.78 percent equity exclusion percentage that you've calculated in the fashion we just discussed and you multiply it times the $1,448,664,000 average equity value that appears in the third row of the last three -- each of the last three columns of the exhibit, right?

A. Yes.

Q. And when you make that multiplication, the 16.78 percent times the 1,448,664,000, the result is the $243 million, excuse me, $243,154,000 figure that appears in the equity exclusion row of your fourth column, correct?

A. Yes.
Q. Okay. Now, just as a general proposition, Mr. Kollen, if I were to take any fraction and were to multiply the numerator of the fraction by the same value as I multiply the denominator of the fraction, the result will be that fraction again, right?
A. Yes, mathematically that's a truism.
Q. And that is what has happened in your ROE calculation on Exhibit LK-2, correct? The 19.42 percent. You start with 19.42 percent and then as the ROE percentage in column -- in the third column, you go through your corrections in column 4 and the ROE percentage that you're left with when you're done is also 19.42 percent, right?
A. Yes. And I explain that in my testimony --
Q. Okay.
A. -- that for this reason, because there's been no demonstration that there are different margins or that there should be different margins between the retail and the off-system sales. And if you assume that those margins are the same percentage, then the numerator and the denominator both should be reduced by the same percentage.

Q. So in this case what happened is you took the, in your view, uncorrected numerator and denominator and you multiplied each of them by 16.7 -- or, actually by the complement of 16.78 percent and you're left with 19.42 percent again, right?

A. If I follow your question, yes.

Q. And so, Mr. Kollen, with regard to the denominator, the 1.448,664 billion that you have reduced by the 243,154,000, that was the original number, the 1.448 billion number, that equity supports all the functions of CSP, correct? Generation, transmission, distribution.

A. Yes, that's correct.

Q. Okay. So, in effect, you have adjusted from the equity base the denominator a portion of the equity that finances distribution and transmission as well as generation, right?

A. I would agree with that and there's a very good reason for that, because what I was looking at is the relative margins for the retail versus the off-system sales. And there's been no demonstration that in reality those margins as a percentage of the return on common equity are any different. So you really have to do it this way in order to do it correctly.

Q. So you have to -- and your position is you must adjust out portions of the distribution as well as the transmission in order to accomplish that result, right?

A. Yes, that's correct.

Q. Okay. If you could go back to your testimony at pages 13 and 14, there's a Q and A that starts at the bottom of page 13 and extends over to cover the bulk of page 14. And I believe at this point lines 21 and 22, the question on page 13 and then the answer on page 14, lines 1 through 17, you discuss what you believe to be one of the errors in the way AEP Ohio calculated the common equity included in the denominator of year-end ROE for CSP, right?

A. Yes, one of several.

Q. Okay. And at lines 4 through 7 you say that this error in AEP's methodology has to do with the fact that common equity includes the cumulative net income and the retained earnings component of common equity from all prior years.

A. Yes, that's correct.

Q. So you recommend that if the Commission relies upon the methodology that Mr. Mitchell and

AEP Ohio have advanced for determining an OSS-related adjustment to the denominator of the earned ROE, it should add adjustments from prior years to the $114 million adjustment that Mr. Mitchell calculated in 2010, right?

A. I believe it was Mr. Cahaan. You're right, Mr. Mitchell computed for 2010.

Q. 2010.

A. Yes.

Q. And you're anticipating my next questions, which is Mr. Cahaan's calculation for 2009, and so --

A. I didn't really actually even answer your last question, but go ahead.

Q. Yes. Okay, so to answer my question, is that -- there should be an adjustment added for prior years to the $114 million for 2010 that Mr. Mitchell calculated.

A. Yes, that's correct, because common equity is cumulative, it has all of the cumulative earnings from all of the prior years, so that to the extent that there is a prior year impact of removing the off-system sales, in other words you've in a sense jurisdictionalized that to the retail jurisdiction or to the native load, then that isn't an effect that is limited only to the present year, but it carries forward from all of the prior years.

And that was the error that is reflected in Mr. Mitchell's calculation because he failed to reflect that carry-forward.

Q. And so you would add, for example, the 93.381 million that Mr. Cahaan had calculated for 2009 to the 114 million-plus that Mr. Mitchell calculated for 2010, right?

A. Yes. Because there is this cumulative effect reflected in the per books or the accounting books of common equity.

Q. And so that gets you to roughly 207 million as an adjustment if you add the 2009 value to the 2010 value, right?

A. Yes, it does.

Q. Okay. And then -- but your criticism is not simply that Mr. Mitchell failed to or omitted from including the 2009 adjustment to the 2010 adjustment, your criticism is that all the prior years' adjustments should be accumulated, should be added together, right?

A. I'm not sure the mutual exclusivity of the "or" part of your question. Could you repeat it.

Q. Well, let me try again.

A. Okay.

Q. Your view is that the 93 million that Mr. Cahaan calculated for 2009 should be added to the 114 million that Mr. Mitchell calculated for 2010.

A. Or whatever the correct number is for 2010.

Q. Right.

A. If the Commission essentially adopts Mr. Mitchell's methodology --

Q. But your criticism is that, at lines 4 to 7, is the fact that the common, in your view the common equity includes the cumulative net income from all prior years and that this adjustment should be made not just for 2009, but also for 2008, 2007, and on backward, right?

A. No. It should only be made back for as long as the Commission has determined that this is the methodology. I don't think we ought to go back before 2009. I mean, we could, and it would be a much more significant number, but I think it's fair to limit it to the period of time during which the ESP was in effect and the SEET earnings test was in effect.

Q. But your criticism is not limited to that demarcation point, is it? Your criticism --

A. In the physical word or narrative of my testimony I did not limit it to that, but as a practical matter, when I further described it, I limited it to only the 2009 through '10 period.

Now, for 2011, then we'd go back to the three-year period.

Q. And what do you expect in 2011 that the value will be? Will it be in the ballpark of what it was in 2009 and 2010?

A. I don't know. But assuming that it's positive --

Q. What do you think it was for 2008, ballpark?

A. I don't know. I didn't look at it. The SEET was in effect for 2009, '10, and '11.

Q. And if it's in the ballpark of the 93 million and 114 million, then what you would do is you'd come back and recommend that if Mr. Mitchell's approach is adopted in 2011, that the exclusion ought to be somewhere in the neighborhood of $300 million, right?

A. Well, I think that would be a mathematical fact. In other words, if we were going to accumulate all of the earnings and that's what common equity reflects, the accumulation of all of the earnings, then if we're going to separate out that accumulation of earnings between native load and the off-system sales, then it also needs to be cumulative.

Q. So let me see if I've got the criticism, I understand the criticism accurately. If we were here in -- if you had testified, I don't believe you did testify in the 2009 proceeding, but if you had and you had advanced this criticism that you are advocating or that you're advancing here, then you would have agreed with Mr. Cahaan's exclusion that 93 million is the appropriate amount, but then when we get to 2010, you would say that the appropriate amount is 93 million plus 114 million.

When we get to 2011, your testimony, based on this criticism, would be that the exclusion should be 93 plus 114 plus another hundred million if it's in the same ballpark. Right?

A. Well, first of all, I did testify in the 1261 proceeding.

Q. Did you?

A. I'm sorry you don't recall, but I did. And the answer to the other part of your question is yes, it would be cumulative.

Q. And you don't think that it's odd that your recommendation, this fallback recommendation if I might characterize it as such --

A. Well, I wouldn't really characterize it as a fallback recommendation, I would characterize it as a criticism of Mr. Mitchell's methodology.

Q. Okay. Fair enough. Fair enough. You don't regard it as an oddity of your criticism that it escalates from roughly $100 million as an exclusion in year 1 of the ESP to $300 million in year 3 of the ESP.

A. Under the hypothetical assumptions that you provided to me I do not think that that's odd at all because each year that common equity will grow. So, for example, in 2008 it may have been 1.1 billion, in 2009 1.2 billion, in 2010 1.4 billion. So that's because the earnings are cumulative each year.

And if part of those earnings are attributed to the off-system sales, then the exclusion of the off-system sales also should be cumulative.

Q. And so that the adjustment should go from an amount in year 1 of a three-year ESP that is essentially tripled by the end of the three-year ESP, the third year.

A. Well, if those are the hypothetical numbers, if you're including 2011, because we don't know that that's the point.

Q. Do you think that it's possible -- and let's also then compare it to what the adjustment is taken from. In Mr. Mitchell's recommendation it's about, it's roughly a $750 million equity related production plant value, right?

A. Under Mr. Mitchell's methodology, that's correct, which I disagree with, but that's correct.

Q. So under Mr. Mitchell's approach here, which is to what your criticism is directed, we would go from a situation where there's a roughly $100 million offset to a $750 million equity base in year 1 of the ESP to a situation where there's a $300 million offset to a $750 million equity base in year 3.

A. Well, I think your comparison is incorrect because, essentially, what you're computing is a reduction in the total company common equity that goes into the denominator and Mr. Mitchell's methodology does not put the 750 million into it but leaves the 1.4 billion in it and reduces that by the 114. So I think your point of comparison is incorrect.

Q. But your criticism is to Mr. Mitchell's methodology; is it not?

A. Yes, it is.

Q. And his methodology includes using the $750 million of equity related production plant only, right?

A. Under his methodology, that's correct.

Q. Okay. Did you consider whether or not the reconciliation of the results of your criticism might be that the $114 million value for 2010 and the $93 million value for 2009 were cumulative values themselves? That is, cumulative up to 2009, cumulative up to and through 2010?

A. They are not. I did consider that, and they are not. They are year-by-year amounts.

Q. Now, Columbus Southern Power will pass dividends up to its shareholder AEP on an annual basis generally speaking, right?

A. Columbus Southern does pass up dividends to the parent company, yes. How frequently that is is -- it varies.

Q. Okay. And how does your method account for the practice of, if not the fact of, you're not willing to accept it as a fact, but the practice of passing dividends up from the operating company, CSP, to the parent shareholder, AEP?

A. My criticism, my methodology, or I should say it is not my methodology, I'm criticizing Mr. Mitchell's methodology and explaining why it is wrong. But if we were to convert the criticism into a methodology, you would have to in some manner take into account the dividends passed up to the parents.

Q. Did your method --

A. It's not my method.

Q. Did your criticism, excuse me, I didn't mean to put words into your mouth, you're very careful not to let me do that.

A. I try.

Q. Does your criticism address that aspect?

A. I did not address it specifically. But as I said, if you were to take the criticism and convert it into a methodology, then you would have to do something with the dividend issue.

Q. And you have not done that in your analysis, which is your criticism.

A. Right. I have not done that in my criticism.

Q. Okay. And then how does your criticism, how does it handle or did you look at how it might handle contributions of capital from the shareholder, AEP, to the operating company, CSP?

A. That would be the same type of issue. In other words, if you want to convert the criticism into a methodology, then you would need to look at all aspects of the common equity account, whether it was contributions from the parent company or dividends back up.

Q. And your criticism did not extend itself to that aspect.

A. That's true. I was critiquing Mr. Mitchell's methodology which is fundamentally flawed and I was not attempting to create a replacement methodology that would improve it. I was simply critiquing his methodology.

Q. So the criticism, then, is a qualitative one and not a quantitative one, correct?

A. It's both. The quantitative is as I have indicated in my testimony, but then I would suggest to you that, and I agree with you, as a qualitative matter that would have manifestation and quantitative effect is that you would look at the net of the parent company contributions and/or the dividends up to the parent company.

Q. Neither of which you have taken account of in your criticism, right?

A. That's correct, because it's not necessary for the criticism to be valid.

Q. Okay.

A. I was not proposing an alternative methodology.

MR. CONWAY: Thank you, your Honor.

Thank you, Mr. Kollen.

THE WITNESS: You're most welcome.

MR. CONWAY: Your Honor, I'm concluded.

EXAMINER PARROT: OCC?

MS. YOST: No questions, your Honor.

EXAMINER PARROT: Staff?

MR. McNAMEE: No questions, your Honor.

EXAMINER PARROT: At this point we'll break for lunch and we'll allow Mr. Kurtz during that time to determine if he has any redirect for Mr. Kollen. Let's go off the record and we'll reconvene at 1:00 p.m.

(Luncheon recess taken.)

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Tuesday Afternoon Session,
December 6, 2011.

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EXAMINER PARROT: Let's go back on the record.

Mr. Kurtz, any redirect?

MR. KURTZ: Your Honor, no redirect.

EXAMINER PARROT: Thank you very much.

Are there any objections to the admission of OEG Exhibit 1?

MR. DARR: No objection, your Honor.

MR. CONWAY: No.

MR. McNAMEE: No.

EXAMINER PARROT: Hearing none, OEG Exhibit No. 1 is admitted into the record.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER PARROT: OCC.

MS. YOST: We are not calling any witnesses, thank you.

EXAMINER PARROT: All right. Very good. That leaves Mr. Buckley.

MR. McNAMEE: Yes, at this time staff would call Joseph P. Buckley.

EXAMINER PARROT: Please raise your right hand.

(Witness sworn.)

EXAMINER PARROT: Please be seated.

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JOSEPH P. BUCKLEY

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

DIRECT EXAMINATION

By Mr. McNamee:

Q. Mr. Buckley, could you state and spell your name for the record, please?

A. Joseph P. Buckley, B-u-c-k-l-e-y.

Q. By whom are you employed, and in what capacity?

A. The Public Utilities Commission of Ohio, I'm a Utility Rate Specialist 3.

Q. What is your business address?

A. 180 East Broad Street, Columbus, Ohio 43215.

MR. McNAMEE: Your Honor, at this time I'd ask to have marked for identification several exhibits, the first of which I would ask to have marked as Staff Exhibit 1 a document filed in this case October 24th denominated Prefiled Testimony of Joseph P. Buckley.

EXAMINER PARROT: So marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

MR. McNAMEE: Second, as Staff Exhibit No. 2, I'd have a document filed in this docket also on October 24 of this year and the cover sheet of that is a letter from me. Can I have that marked?

EXAMINER PARROT: So marked.

MR. McNAMEE: So marked, thank you.

(EXHIBIT MARKED FOR IDENTIFICATION.)

MR. McNAMEE: And as Staff Exhibit 3 a document filed November 8th of this year denominated Updated Prefiled Testimony of Joseph P. Buckley.

EXAMINER PARROT: So marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. (By Mr. McNamee) Mr. Buckley, do you have what have just been marked for identification as Staff Exhibits 1, 2, and 3 in front of you?

A. Yes, I do.

Q. Can you tell me what those documents are?

A. It's my prefiled testimony, updated exhibits, and changes to my prefiled testimony.

Q. Okay. Were these various documents prepared by you or under your direction?

A. Yes, they were.

Q. Okay. Are the contents of them true to the best of your knowledge and belief?

A. Yes.

Q. Do you have any additions or corrections that you need to make at this time to any of these three documents?

A. Not at this time.

Q. Okay.

MR. McNAMEE: The witness is available for cross.

EXAMINER PARROT: Thank you.

Mr. Darr.

MR. DARR: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Darr:

Q. Mr. Buckley, did you make any independent evaluation or determination of the amount of off-system sales that should be included or excluded from the calculation of the return on equity?

A. I adopted the company's recommendations.

Q. So the answer to my question is that you didn't make any independent --

A. No.

Q. Would you agree that off-system sales includes a component of both generation and transmission?

A. I don't believe in my testimony that I spoke to off-system sales and I'm not at all familiar with them.

Q. Based on your review of the company's calculations, would you agree with me that the companies use what has been described previously as total company numbers, that is revenues based on total company retail and wholesale transactions?

A. I'm not sure what you're referring to.

Q. In calculating the net income would you agree with me that the companies used as their starting point the total revenues as stated on FERC Form 1 for both CSP and Ohio Power?

A. Yes.

Q. And based on what you have reviewed and what you heard this morning would you also agree that this includes both retail, wholesale, and some nonutility revenues?

A. Yes.

Q. Now, with regard to the methodology that the companies use and which you have adopted, part of that includes a calculation of the change necessary for off-system sales, correct?

A. Correct.

Q. And you understand that -- you make a statement in your testimony, and I believe it's at page 3, lines 7 through -- at or near lines 7 through 15, that the calculation used by the company is in conformance with that previously approved by the Commission. Am I correctly summarizing that?

A. Correct.

Q. You understand that the companies attempted a new way, a new method for calculating the off-system sales.

A. From what I understood there was a minor change.

Q. You understood that there was some change.

A. A minor change, yes.

Q. Okay.

MR. DARR: Nothing further, your Honor.

EXAMINER PARROT: Ms. Mooney?

MS. MOONEY: I have no questions.

EXAMINER PARROT: Mr. Conway? Mr. Nourse?

MR. NOURSE: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Nourse:

Q. Good afternoon, Mr. Buckley.

A. Hello.

Q. Your testimony on page 4, you talk about the threshold value, ROE threshold value of 15.29 percent.

A. Yes.

Q. Do you see that?

By the way, when I refer to your testimony and exhibits, I'm just referring to the revised testimony which I believe was Staff Exhibit 3? At least for your exhibits. And I don't believe -- and I'm referring to your revised testimony where you made individual changes to the numbers, et cetera. So hopefully it's the latest testimony.

Okay. So on page 4 you refer to the 15.29 there. Do you see that?

A. Correct.

Q. Now, you agree that the Commission has established several other factors that can be considered and should be considered in establishing a final threshold ROE. Do you agree with that?

A. Yes.

Q. Okay. And, in fact, you reference on page 4 of your testimony that the Commission included considerations of other factors in adjusting from 1.5, or a 50 percent adder, to 1.6, or a 60 percent adder; is that correct?

A. Yes, the Commission did that.

Q. Okay. And in this case the staff has not considered those additional factors or the other factors in presenting testimony, correct?

A. We'll leave that up to the Commission.

Q. So the 15.29 percent ROE threshold is not really the ROE threshold that the staff is recommending for purposes of a refund, correct?

A. We did not take a stance on any additional adder, so that's the baseline number.

Q. It's the baseline number, it's not the final number; is that accurate?

A. The Commission will set the final number.

Q. Okay. But not only the Commission will set the final number, you agree, don't you, that the Commission would consider additional factors the staff did not consider in your testimony prior to making a decision?

A. I would assume the Commission can have a multitude of factors that they'll look at in deciding a final number.

Q. Okay. But is staff recommending a refund based on use of the 15.9 percent ROE threshold -- 15.29, if I misspoke?

A. That would be the baseline.

Q. And just help me understand what you mean by "baseline."

A. The Commission could move that number either up or down depending on what they feel -- how the company performed in the past year. I assume there's a multitude of factors they could look at in adjusting that number.

Q. Okay. Do you have the 2009 decision handy, the opinion and order in Case No. 10-1261?

A. Yeah, it might take me a while to get to it but I have it up here.

Q. Okay. When you find the opinion and order, if you could turn to page 25. And actually let's start with page 24 when you get there.

A. Yes.

Q. Okay. And on page 24 you see a sentence right in the middle of the page that says "Whether any differential between the ROE of an electric utility and that of comparable companies is significant necessarily depends on factors related to the individual electric utility under review."

A. Yes, I see that.

Q. Do you see that?

A. Yeah.

Q. Okay. And so when the Commission said that the differential necessarily depends on these other factors, that suggests, does it not, that the Commission will consider those factors prior to establishing a final ROE threshold or ordering any refund?

MR. McNAMEE: Object.

MR. DARR: Objection.

Q. Is that your understanding of the order, Mr. Buckley?

A. Yes.

MR. DARR: There's an objection pending, your Honor.

MR. NOURSE: I'm sorry. I was rephrasing, I thought -- go ahead.

MR. McNAMEE: His opinion about what the Commission meant really is of no moment here. It is irrelevant.

MR. NOURSE: Your Honor --

EXAMINER PARROT: Mr. Darr, did you wish to add anything to that?

MR. DARR: It's also asking for a legal conclusion. I'd also ask that the question and answer that was asked and answered during the pending objection be stricken.

MR. NOURSE: Your Honor, if I could respond. I think I'm -- you know, I think it's obvious I'm clearly trying to get Mr. Buckley's -- a clarification of his testimony and his recommendation relative to the, I'm trying to remember the term he used, but the preliminary ROE threshold versus the final, and what he meant by that in his testimony and his understanding, not a legal conclusion.

EXAMINER PARROT: I'm going to grant the motion to strike the response.

Mr. Nourse, you made an offer to rephrase. Would you care to do that?

MR. NOURSE: Sure.

Q. (By Mr. Nourse) Mr. Buckley, is it your understanding that that sentence I read to you on page 24 indicates that the Commission will review those other factors prior to establishing a final ROE threshold to be used in a SEET proceeding?

MR. DARR: Same objection, your Honor, is asks for a legal conclusion.

EXAMINER PARROT: Mr. Buckley, I'm going

to allow you to answer the question if you know.

A. Yes.

Q. Thank you.

Mr. Buckley, could you turn to page 25 of the opinion and order we were just looking at, and there's a short paragraph in the middle of the page, the last sentence reads "On a going-forward basis the Commission expects to refine the quantitative analysis associated with these factors through future SEET proceedings." Do you see that?

A. I do.

Q. And would your -- what would your understanding of that sentence be?

A. I don't have a real clear understanding of what they want going forward with that sentence.

Q. Okay. But you would agree that in your testimony you did not further any quantitative analysis associated with the other factors being referred to; is that accurate?

A. That's true.

Q. Okay. Now, Mr. Buckley, I'd like to ask you some questions about the SPDR index group that you use for your comparable group in your testimony.

A. Yes.

Q. And I guess I'll refer to that as the

SPDR index and I think it's also referred to as the XLU or the SPDR Select Sector Fund utility, and you'll know what I mean when I refer to the "SPDR index"?

A. I will.

Q. Okay, thank you.

Now, can you describe for me what you believe the SPDR index captures relative to business and financial risks?

A. It was my hope that the SPDR would take out the difficult task of creating comparable groups, that someone, an independent party would create this comparable group and that we would just adopt that. They have different goals in selecting their group than we would in establishing baseline ROE, and in proceedings like this it seems like a lot of talk is centered around the comparable group and I wanted to try to simplify that and avoid that.

Q. Okay. Is the SPDR group formed or changed based on a comparison to business and financial risks of Columbus Southern Power, for example?

A. They don't look at Columbus Southern Power in creating the companies grouped in the SPDR, no.

Q. Now, is the SPDR index a subset of large capital firms in the S&P 500? Is that accurate?
A. Yes.
Q. Is Columbus Southern Power a large capital firm, a large capitalization firm?
A. It's not a publicly traded company like AEP is. If it were a stand-alone company, I would expect it to be -- I'm not sure where it would fall.
Q. Okay. Is it fair to say that the SPDR index group predetermines characteristics of the comparable group without any direct relationship to the electric utility?
A. I guess I don't understand that question.
Q. The SPDR index group, the characteristics of -- you're using it as a comparable group here, right?
A. Correct.
Q. And the characteristics of the SPDR group are not determined or formed based on any reference to Columbus Southern Power or AEP Ohio --
A. No.
Q. -- correct? Okay.
Now, would use of the SPDR index create the same comparable group for all of the Ohio electric distribution utilities?

A. Yes.

Q. Okay. And this is the first case in which staff has advocated use of the SPDR index, correct?

A. I believe in the last case it was mentioned it would be something that could be used but it was not used in the last case.

The way Mr. Cahaan created his number I was not comfortable using that method, I wanted to use something that was more scientific and more -- had more transparency.

Q. And the way he created his number, you're referring to the 2009 SEET proceeding and his testimony on behalf of staff in that case?

A. Correct.

Q. And the way he developed his number was based on a number of -- consideration of a number of different factors I guess, multiple index groups, the methods that were advocated by other parties he also considered; is that correct?

A. I think at the end of the day he used his experience and a multitude of other factors that you mentioned to create that number.

Q. Okay. So he did not rely heavily or exclusively on the SPDR index in that prior case,

correct?

A. Not exclusively, but he did look at them as a test to see whether his number was, I don't know the term, but, in the ballpark.

Q. Okay. As a reasonableness check?

A. Correct.

Q. Okay. And since you mentioned Mr. Cahaan's testimony I actually wanted to ask you a couple questions about that. Do you have it with you?

A. I do, but, again, it might take me a while to get there.

Q. Well, I've got it right here. There you go.

A. Thanks.

Q. Okay, Mr. Buckley, could you turn to page 12. And in the middle of this page, let's start at line 8, there's a statement "In the future, the Staff may want to put forward a benchmark ROE based upon an index or combination of indices announced well in advance, so that parties could get a good idea of the resulting benchmark ROE well in advance. Parties would then be free to put forward any analysis they choose. But they would also be expected to address the specific modifications that they thought to be appropriate to the announced benchmarking index. By starting on a common page, the process might become more productive."

Do you see that?

A. I do.

Q. Okay. And is this essentially the same thought or recommendation that staff is sort of following through on in this case?

A. It is.

Q. Okay. Now, do you agree that Mr. Cahaan stated that the index would be discussed or announced well in advance?

A. I do.

Q. As a related matter if we could turn back to the 2009 decision, I think you still have that with you.

A. I do.

Q. Could you turn to page 35, please.

A. Yes.

Q. Do you see the paragraph at the bottom, "Finally"?

A. Yes.

Q. And could you read that.

A. "Finally, in regard to staff recommendation to offer a benchmark ROE based on an index or combination of indices as a starting point for the annual SEET, the Commission will continue to consider the proposal and address any amendment to the SEET process by entry to be issued in the near future."

Q. Okay. Are you aware of any such entry or process the Commission initiated since the last decision?

A. I am not.

Q. Okay. Now, you can put Mr. Cahaan's testimony aside, I'll come back to that in a couple minutes.

You also indicate in your testimony I believe at pages 4 and 5 that another reason that staff selected the SPDR index is based on a statement made in Company Witness Hamrock's testimony?

A. I do.

Q. Regarding the fact that AEP Ohio is not assured recovery of existing generation assets due to changes in state regulatory views and federal environmental statutes within a rapidly changing market, correct?

A. Correct.

Q. Okay. Now, to be clear, is it your testimony that staff did not intend to use the SPDR index until after reading Mr. Hamrock's testimony?

A. The use of the SPDR index has been discussed for a number of years -- I guess not a number of years, a couple of years. It was discussed last year even.

Again, we're just trying to add transparency to all the stakeholders so the result of a SEET hearing does not catch anyone off guard. It can be calculated almost any time.

So to answer your question, it was not after we read Hamrock's testimony that we thought of this. It had been thought of for a while prior to that.

Q. All right. But you cite in your testimony that his statement is another reason staff selected the SPDR index, correct?

A. That's what it says, correct.

Q. Okay. Now, is Mr. Hamrock's statement that you referenced there made in the context of selecting a comparable group?

A. We think his statement adds credibility to selecting the SPDR.

Q. Can you explain that?

A. The electric utility industry, both generation and distribution and transmission, is going through a lot of changes currently, so looking at outside that market for comparable groups I didn't think was necessarily appropriate at this time.

So I was trying to find a comparable group that captured a lot of those unique risks that would affect electric utilities. Being that the SPDR is made up of those electric utilities, that's why we looked at that one.

Q. Okay. So the market you referred to there and your intention in using SPDR is to capture the electric utility's business and financial risk; is that accurate?

A. Correct.

Q. Does that apply to an electric utility that -- an electric distribution utility, excuse me, that does not own generation assets?

A. The SPDR is made up of utilities that are at different levels of -- that have different levels of regulatory, for lack of a better word, influence, so it has some companies that are more distribution related, some that are more generation related. It's kind of a mixture.

Q. Right. In fact, let me just state it differently. You're saying that the SPDR index fund is made up of companies other than electric utilities. It's not just electric utilities, correct?

A. It's mainly utilities and there are some, I think there's some gas utilities, but mainly electric utilities.

Q. Okay.

MR. NOURSE: Your Honor, I'd like to mark an exhibit, AEP Ohio Exhibit 4.

EXAMINER PARROT: So marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Mr. Buckley, you have the exhibit we just marked as Exhibit No. 4?

A. Yes, I do.

Q. And this is the annual report for 2010 of the SPDR index fund, correct?

A. Yes, it is.

Q. Okay. And this is an excerpt, excuse me, of the annual report, and the page that's inside the cover page here indicates it's a schedule of increments for the SPDR index fund, and so is it accurate that the fund itself only classifies some of the members as electric utilities, about half?

A. Yes, but most of them are involved in the electric industry in some way. Except the gas utilities that are pointed out in the middle.

Q. Okay. So Nicor, Oneok gas utilities, they're not involved in the electric utility industry at all, correct?

A. I don't know if they're not involved at all, but they're classified as gas utilities. I'm not as familiar with those companies as some of the other ones.

Q. Okay. But it's fair to say their dominant business is gas, correct?

A. I would assume that essentially they're classified.

Q. And then we have Constellation, NRG, and AES that are classified as IPP or independent power producers and energy traders.

A. Yes.

Q. Okay. And what's your understanding of that term?

A. They are more of the generation type businesses.

Q. So wholesale, wholesale electric transactions?

A. Yes.

Q. And is it your understanding that AES is an international firm?

A. Yes.

Q. Okay. And the other category is multi-utilities with 39 percent there. Do you see that?

A. Yes.

Q. And most of these -- in other words, what's your understanding of that term?

A. Multi-utilities would have more diversification than just simply the electric utilities. For example, Dominion is involved in gas and other businesses, however, they're predominantly -- I think if you look at their revenues, they would be predominantly electric.

Q. Okay. All right. So can we agree that assuming the multi-utilities are all predominantly electric that it would be a different group if we excluded the gas utilities and the IPPs and that different group would be -- more accurately capture electric utilities as a category?

A. Yes, but my -- I want to kind of clarify that. When we start picking and choosing what goes in and what is removed from the SPDR, then it starts to become something that we can argue about and it's not as independent as it was before, but I think that removing the gas and IPPs would be more -- would allow it to be more electric based.

Q. Okay. And can you help me as to -- well, let me start with your understanding of the SEET statute and the Commission decision in the 2009 case. Is it your understanding that the comparable group should reflect the business and financial risks that are faced by the electric utility in question?

A. I think it was -- it's similar risk to companies. I don't think the Commission said it had to be just electric utilities.

Q. Okay. Well, how about the phrase "publicly traded companies including utilities that face comparable business and financial risk"? Would that be accurate?

A. Yes.

Q. Okay. So the part about including utilities, is your understanding of that phrase to mean only utilities?

A. I think companies other than utilities could be included, but, as I stated earlier, I selected only utilities because of the unique market that they're operating in at this time.

Q. Do you know, as you look at the roster of the SPDR index members, whether most or all of the members have retail shopping, are involved with retail shopping jurisdictions?

A. I know that some are. I don't know the percentage and I don't know if it's -- I don't know how predominant it is. I know that at least a couple are.

Q. What about government aggregation, do you, as you look down the list of members, can you tell us whether they face retail government aggregation?

A. Again, I would not -- I know at least one of them is. I don't know about the rest of them.

Q. Do you know whether some, any, or all of the members of the index operate in jurisdictions with renewable energy portfolio mandates?

A. I don't know the answer to that.

Q. Do you know whether any of the members in the SPDR index are involved in a jurisdiction where there's an excessive earnings or significantly excessive earnings test?

A. I don't think they are. I think that's unique to Ohio.

Q. Now, would you agree that -- well, first of all, with the list of members for the SPDR index do you know if any of these companies are wires-only companies?

A. I'm not sure.

Q. Relative to the risk, business and financial risk, would you expect a wires-only company to have less risk than an integrated utility or, specifically, an Ohio EDU?

A. I think that the guaranteed cash flow of a wires-only company would reduce the risk that it would face; however, all these companies, it's hard to classify -- it's hard to find a comparable group that would be exactly the same as any one company in any industry.

Every company is unique in its own right and has its own set of risks that it faces. The goal of selecting this was it's independent, they're all involved in the utility industry, and it provides a lot of transparency.

Q. Right. Let me ask you about your -- turn to your implementation of the comparable group and let's talk about the data that you used to, primarily I guess to develop what I thought was previously referred to as Staff Exhibit 2, and I think now it would be part of Staff Exhibit 3 but it's the staff 2010 SEET calculation where you list each of the SPDR index members, you have figures for net income, common equity at end of 2010 and common equity at the end of 2009. Do you see that exhibit?

A. I do.

Q. And I'll refer to that as Staff Exhibit 2 here I guess. And that's where you developed the 10.19 average equity for the entire group, correct?

A. Correct.

Q. Okay. Now, where did data come from that you used to pull into Exhibit 2?

A. Unfortunately, I took data from two different sources. Value Line and Google Finance.

Q. Okay. And why did you do that?

A. I originally wanted to do it all on Value Line so I could have one methodology and one place to go to get all these numbers; they did not have common equity numbers from last year.

When I pulled those in, I used Google Finance, but I did not update all the previous numbers from Value Line. I assumed they would all be the same. They were not.

Q. Okay. First of all, are you saying that for some of these companies the data comes from Value Line and other companies the data was pulled from Google Finance?

A. Correct.

Q. And is there an indication or can you indicate which came from which source?

A. I believe the net income came from Google Finance, and I can't remember on common equity where I -- which one I pulled from, to be honest.

Q. Okay. But you --

A. The --

Q. I'm sorry, go ahead.

A. The '09 numbers would be from Google Finance I would assume.

Q. And the '10 common equity numbers were from Value Line?

A. They could be a mixture.

Q. Some of the companies --

A. Correct.

Q. -- for '10.

Okay. So in some cases the numerator would be from Google and the denominator would be from Value Line?

A. Could you repeat that?

Q. I'm sorry. In some -- tell me if this is correct or not: In some cases, meaning for some of these companies, the calculation for the numerator, meaning the net income, would come from Google, and the denominator or the common equity would come from Value Line; is that correct?

A. That could have happened, yes.

Q. Okay. Now, what's your definition of common equity that's used as your guide in pulling data from those sources?

A. I would use total shareholder equity and then minus out preferred equity.

Q. Okay. So it was your intention to exclude preferred stock?

A. Correct.

Q. And what was your intention or your design relative to the exclusion of special accounting items, extraordinary accounting items, or nonrecurring accounting items that produced earnings in 2010?

A. The idea was to eliminate those. The two package -- or, systems that I used handled those differently, but the original intention was to exclude those.

Q. Okay. Now, the way you've presented this calculation on Exhibit 2 has the effect of basically weighting the companies relative to their size in coming up with the 10.19; is that accurate?

A. Yes.

Q. Is it reasonable to believe that the larger capital firms in this group are a better match to Columbus Southern Power's business and financial risks?

A. No.

Q. Okay. I'd like to go through some examples just to try to help us understand the data you pulled and the numbers that are in Staff Exhibit 2 and I've got six examples that I would like to go through here. If we could start with Southern Company and I believe you already have this information, correct?

And what I'd like to do, Mr. Buckley, is just use excerpts from each company's 2010 Form 10-K, okay, to go through these examples, and would you agree that the Form 10-K is a good source for financial results?

A. Yes.

Q. Do you have the Southern Company --

A. Yeah.

Q. -- report?

Now, for Southern Company for the net income you have, this is 2.04 billion for the net income? Am I adding enough zeros there? Let's just talk about the numbers that are in here and I think they're all expressed in millions so that's 2,040 for the Southern Company on the net income. Do you see that? And I'm referring to your exhibit first and then we want to look at the 10-K second.

A. Okay.

MR. NOURSE: While Mr. Buckley's looking I'll mark this first 10-K for Southern Company as AEP Exhibit 5.

EXAMINER PARROT: So marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

A. Okay.

Q. Are you back to Staff Exhibit 2?

A. Yes.

Q. Is it accurate for Southern Company you have a net income of 2,040?

A. Correct.

Q. Okay. And in the 10-K excerpt, if you could turn your attention to page II-44, third page in --

A. Yeah.

Q. -- Consolidated Statement of Income, there's a consolidated net income number of 2,040. Do you see that?

A. Yes, I do.

Q. And if you look at that on the next two lines, does that suggest that the number excluding preferred stock would be 1,975?

A. Yes.

Q. One thousand nine hundred seventy-five.

A. Yes.

Q. Now, if you could turn to the very last page in the excerpt, this is marked page II-49, Consolidated Statement Capitalization for 2009-2010. Do you see that?

A. Yes.

Q. And in your Exhibit 2 you have a 2009 common equity number of 15,960.

A. Yes.

Q. And for 2010 in your exhibit it's 17,284, correct?

A. Correct.

Q. Okay. Now, on this page in the 10-K we've got total common stockholders equity of 14,878 for 2009, correct?

A. Correct.

Q. And to get to your 15,960 you'd look down at the total stockholders equity, next-to-last line in that column, 15,585, and then you'd add 375 to that, I believe, to get 15,960, correct?

A. Correct.

Q. And if we refer back to page II-47, the preferred stock there is 375 for both '9 and '10, correct? At the bottom of the page.

A. Yes.

Q. Okay. So the number excluding preferred stock for 2009 for Southern is 15,585, correct?

A. Correct.

Q. And the similar number for Southern in 2010 is 16,909?

A. Yes.

Q. Okay. Let's move to the Dominion 10-K which I'll mark as AEP Ohio Exhibit 6.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. While we're passing that out, in your Exhibit 2 for Dominion you've got 2,963 for net income?

A. Yes.

Q. And if we look on page marked page 55 of the excerpt for Dominion's 10-K, third page in, it has a net income of 2,808?

A. Yes.

Q. And the 2,963 number from Exhibit 2 is actually two lines up from that and that's before accounting for the loss of discontinued operations of 155, correct?

A. Correct.

Q. So the net income number there excluding nonrecurring items should be 2,808, correct?

A. Yes.

Q. Okay. And then if you can turn back to the last page of that excerpt, you'll see the total common shareholders' equity for 2009 of 11,185, correct? For 2009.

A. Yes.

Q. And if you, I'm sorry, if you add in or consider the 257 a few lines above that, for preferred stock, you conclude, would you not, that the 2009 number excluding preferred stock would be 11,185?

A. Yes.

Q. And the same for 2010, the number excluding preferred stock would be 11,997?

A. Yes.

Q. Okay. We can move to Edison next.

MR. NOURSE: Your Honor, I'd like to mark this one as AEP Ohio Exhibit 7.

EXAMINER PARROT: So marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. For net income for Edison International you used 1,304, correct, in your exhibit?

A. Hang on a second.

Q. Sure.

A. Okay.

Q. You used 1,304 which is very similar I think to the number right in the middle of the page --

A. Yes.

Q. -- 1,303. And if you exclude the preferred stock, you get 1,256 instead, correct?

A. Correct.

Q. Okay. And then if you look at the last page of this excerpt, for Edison in 2009 you used 10,748 and for 2010 you used 11,490, correct?

A. Yes.

Q. And did those numbers reflect inclusion of preferred stock, and if you exclude the preferred stock, would you get 9,841 for 2009 and 10,583 for 2010?

A. Could you say that again, please?

Q. Yeah, if you look a few lines up from there, before they add in the preferred stock to use the number you used, there's total Edison's common equity of 9,841 for 2009 and 10,583 for 2010. Do you see that?

A. Yes.

Q. And so those are the numbers that exclude preferred stock, correct?

A. Correct.

Q. Okay. And let's go to Entergy next, there's only two more of these.

MR. NOURSE: Your Honor, I'd like to mark this one as AEP Ohio Exhibit 8.

EXAMINER PARROT: So marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Mr. Buckley, for Entergy you used 1,270 for your net income. And if you look at page 2 of that excerpt, you'll see the consolidated income statements and under the 2010 header after taking out preferred dividend requirements the net income is 1,250.

A. Yes.

Q. Okay. And let's look at the last -- next-to-last page in this excerpt, the Consolidated Balance Sheet for '9 and '10. In Exhibit 2 you used 8,925 for 2009 and 8,807 for 2010, correct?

A. Yes.

Q. And this 10-K shows that the shareholder equity excluding preferred is 8,613 for 2009, correct?

While you're looking let me try to help you follow the number here, Mr. Buckley. Under 2009 two/thirds of the way down there's preferred stock without sinking fund, 217. Do you see that -- are we looking on the same page?

A. Are you looking on page 48?

Q. 47, I'm sorry. I knew there was a problem there. We were humming right along until then. Page 48 -- I'm sorry, 47.

A. Okay.

Q. Are you there?

A. Yes.

Q. So if you take out the 217 of preferred stock for 2009, you get the 8,613 for common equity.

A. Yes.

Q. And for 2010 the result is 8,496.

A. Correct.

MR. NOURSE: Okay. And the last one in this series is Xcel, I guess we're up to No. 9, your Honor.

EXAMINER PARROT: So marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. In your Exhibit 2 you had 752 for net income.

A. Yes.

Q. Which is accurate as reflected on page marked 84, and I'd like to ask you about the last page, the consolidated balance sheet, and you used 7,388 for 2009 common equity and 8,189 for 2010.

A. Correct.

Q. And if you look on the, for 2009 there's an indication near the bottom of preferred equity 104, actually it's the same number for both years.

A. Yeah.

Q. And so the result without preferred is 7,283 for 2009, correct?

A. Yes.

Q. 8,083 for 2010.

A. Correct.

Q. Okay. Thank you.

Let me just cover one more area, Mr. Buckley. Constellation exhibit, if I can find it. Okay, are we up to No. 9?

MR. CONWAY: 10.

MR. NOURSE: 10, I'm sorry. AEP Ohio Exhibit No. 10 --

EXAMINER PARROT: So marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

MR. NOURSE: -- is the Constellation Energy, this is an earnings release from their website.

Q. Do you have that one, Mr. Buckley?

A. I do.

Q. Okay. And I guess it's unmarked, but

it's about three pages in, there's in the middle of the page it starts "Addendum, Amounts excluded to arrive at --"

A. Yes.

Q. "-- adjusted EPS"?

MR. McNAMEE: Objection. On this one we don't have a foundation I believe.

MR. NOURSE: Okay.

Q. Mr. Buckley, did you review this information -- are you familiar with this information regarding Constellation? And what I want to ask you about in particular is the special item $1.5 billion for 2010. Have you heard about that or do you have an understanding about that special item?

A. I don't know what that special item is. I know what special items are.

Q. Right. Okay.

Mr. Buckley, do you think it's appropriate for a comparable group to include the utility itself that's in question?

A. I don't really have a strong opinion either way.

Q. Okay. So it's okay to compare a utility to itself? I mean, doesn't that affect the math that comes out of the index?

A. It would have an effect, yes.

MR. NOURSE: One moment, your Honor, I think we're almost done.

Thank you, your Honor, that's all the questions I have.

EXAMINER PARROT: Mr. Kurtz?

MR. KURTZ: Thank you, your Honor.

- - -

CROSS-EXAMINATION

By Mr. Kurtz:

Q. Good afternoon, Mr. Buckley. All these questions that Mr. Nourse was asking you about preferred dividends with respect to some of your comparable groups on AEP Exhibits 5 through 10, do I take it that there was an error made in your calculation?

A. I think when I went between the two different programs, it caused -- it caused the groups not to be exactly comparable. I guess that's a bad word to use. The equity numbers aren't the same. I'm not using apples and apples all the time. There were some apples and oranges mixed in.

Q. Would the discrepancy be significant or how would you describe the magnitude of the discrepancy?

A. I didn't make that calculation. I note preferred stock's not very common in the utility industry anymore, it's probably more common in the utility industry than other industries but it's not predominant, it usually makes up a small percentage of the capitalization.

Q. So would you characterize the inconsistency as insignificant?

A. I wouldn't want to characterize it until I saw the actual number. I would say it's definitely less than 10 percent. I would imagine less than 5 percent.

MR. KURTZ: Your Honor, I would make a request for a post-hearing data response if I could, and the request would be that Staff Witness Mr. Buckley update his comparable group number which he identified as 15.29 percent to adjust for this discrepancy so that the Commission would have an accurate record of staff's position.

MR. McNAMEE: I would point out that data requests don't go to the staff.

MR. NOURSE: And, your Honor, I think this is clearly an attempt to friendly cross, rehabilitative. I think the company's going to request permission to do some rebuttal and we'll include these calculations. It's not just the one issue or the one discrepancy.

MR. KURTZ: Based on that representation I'll withdraw the motion.

Q. (By Mr. Kurtz) Mr. Buckley, let me ask you to turn to page 2 of your testimony. The question beginning on line 14, "What is the Staff's recommendation to the Commission in this proceeding?"

Your answer is "The Staff recommends that the Commission find that CSP's earned 17.54 percent ROE in 2010 and Staff's threshold ROE is 15.29 percent. This results in a refund of $30,057,000. See Staff Exhibit 1." Did I read that correctly?

A. Yes.

Q. On Staff Exhibit No. 1 you've calculated the net income, the significantly excessive net income in your opinion --

A. Correct.

Q. -- is that correct?

Now, for the utility to have 30.057 million in significantly excessive net income it had to collect from ratepayers that amount plus taxes; isn't that correct?

A. Yeah, I think to compute that amount you would take 1 minus the tax rate.

Q. So to get the refund, the refund amount, assuming the Commission were to accept your recommendation, we would take the 30,057,000 and multiply it by a tax gross-up factor?

MR. NOURSE: Your Honor, I object. This is clearly friendly cross trying to get additional information in the record that helps the -- Mr. Kurtz's client.

MR. KURTZ: I want to get an accurate number for the record and it's not friendly cross because staff has recommended a different refund than we did. I just want to get the mechanics of how this should work.

EXAMINER PARROT: I'll allow the question.

Q. So we should gross up the net income for income taxes?

A. Correct.

Q. Okay. And how did you say that should be accomplished?

A. I would divide the 30 million, approximately 30 million by 1 minus the tax rate.

Q. Let me ask you, on Mr. Kollen's Exhibit 2, page 1 of 1, he has a tax gross-up factor using a 35 percent federal income tax rate of 1.5385. So another way to do it would to be multiply the 30 million by the 1.5385?

A. Yes.

Q. And if we did that math, we would get a refund of approximately 46 million?

A. I don't have a calculator up here. I assume that's correct.

Q. Let me ask you to turn to page 3 of your testimony. The question in the middle of the page you're asked "Has the Staff reviewed CSP's and OP's 2010 earnings calculation and concur with its results?"

"Yes. The Staff has reviewed -- Staff has reviewed CSP's and OP's calculations and supporting information and finds them to be in conformance with the SEET calculation methodology as approved previously by the Commission and is an accurate representation of its 2010 earnings."

Did I read that correctly?

A. Yes.

Q. So you are concurring with the 17.54 percent return on equity that Mr. Mitchell calculated?

A. Yes.

Q. And that 17.54 percent return on equity was after his exclusion of off-system sales margins, correct?

A. I believe so, yes. I'd have to verify that, but I believe that's correct.

Q. You were here for Mr. Mitchell's cross-examination?

A. I was.

Q. Were you here when he testified that the margins that he excluded from the numerator were calculated by taking the sales price on off-system sales minus the variable costs such as fuel, emission allowances, and variable O&M expenses?

A. I can't verify that that's true because I don't remember it in that detail. I'm sorry.

Q. Okay. Do you agree that in order to make a power sale you need a power plant?

A. I assume you could never take -- or, you could take ownership to power if you trade power, but to make a physical sale, you have to have something to generate some power, correct.

Q. And that's what we're talking about here, the physical off-system sales margins, not any type of trading profit?

A. Correct.

Q. Okay. Would you agree that to make a

physical off-system sale you need transmission to move the power from the point of generation to the point of purchase?

A. Yes.

Q. And when I say "fixed costs" with respect to power plants and transmission, I mean the interest on the debt that pays for the plants, depreciation, and fixed O&M, like employees.

With that characterization of fixed costs do you think it's fair that -- let me back up.

One last point. On Mr. Mitchell's Exhibit 5, do you -- Exhibit 1, page 5 of 5, he calculates that 15.28 percent of the total generation was sold off-system. Do you have that?

A. I probably do but I don't -- it might take me a while to get it.

Could you repeat the --

Q. Mitchell Exhibit 1, page 5 of 5 for Columbus & Southern, in the far right-hand corner he calculates the percentage of off-system sales to total generation was 15.28 percent; is that correct?

A. Yes.

Q. Okay. And do you think it's reasonable that the off-system sales, which comprise 15 percent of total generation, when calculating the marginal profit from those off-system sales that Mr. Mitchell allocated none of the fixed costs of the power plants or none of the fixed costs of transmission to those sales?

Let me state it a different way: Do you think it's fair to allocate all the fixed costs of generation and transmission to total generation and not off-system sales?

MR. NOURSE: I just object to that question for relevance. It's not what Mr. Mitchell did.

MR. KURTZ: Well, that's exactly what he did and he testified he did it although he said it wasn't correct.

MR. NOURSE: He said on multiple occasions that he didn't allocate the cost to retail -- Ohio retail customers.

MR. KURTZ: The record will reflect that that -- may I respond, your Honor? The record will reflect that in the calculation of margins from off-system sales none of the fixed costs of the power plants, none of the fixed costs of the transmission was allocated to those sales, therefore, they were all retained in the Ohio retail jurisdictional calculation.

That is what Mr. Kollen testified to, Mr. Mitchell essentially agreed with it although he said that was appropriate because the fixed costs are fixed and he wanted to calculate the margin just on variable costs.

MR. NOURSE: Your Honor, I think Mr. Mitchell was clear. He did allocate the fixed costs to the off-system sales but that's entirely different from sales. All the fixed costs were allocated to the Ohio retail customers. If he wants to rephrase it and ask the former, then that would be consistent and relevant to what Mr. Mitchell testified.

MR. KURTZ: Well, I'll withdraw the Mr. Mitchell testimony because there's only two places for those fixed costs to go, Ohio retail customers or off-system sales or a mix of both, but they all went to Ohio retail. That's what the record reflects. And the Commission will decide whether that's appropriate. I want to know from the staff whether they agree.

MR. NOURSE: Your Honor, this is not a rate case. We're not establishing rates in this case. So that's incorrect.

EXAMINER PARROT: Mr. Buckley, you may

answer the question.

A. When I spoke with AEP about their calculations, I'm trying to reread my notes, I believed, when I went through the calculation I believed that their calculation was correct and I was comfortable with the methodology that they used. I don't know if I remember it currently in that detail, but at the time I was comfortable with how they made that calculation.

Q. Let me ask you now today, knowing that 15 percent of the power generated was sold off system, do you think it was appropriate to allocate zero percent of the fixed costs of production and transmission to those off-system sales?

A. As I've said before, I have never really dealt a whole lot with off-system sales. My knowledge of off-system sales is not great. When I spoke to AEP about their calculation, it was -- I was comfortable at the time, I had to have multiple documents in front of me to try to understand that.

I would not want to testify now about that, I'm just not comfortable talking about off-system sales.

MR. KURTZ: Thank you, your Honor. No more questions.

EXAMINER PARROT: OCC?

MS. KERN: No questions, your Honor.

EXAMINER PARROT: Any redirect?

MR. McNAMEE: Perhaps, your Honor, might we take a break so I can discuss?

EXAMINER PARROT: Yes. Take a five-minute break.

MR. McNAMEE: Thank you.

EXAMINER PARROT: Off the record.

(Recess taken.)

EXAMINER PARROT: Let's go back on the record.

Redirect, Mr. McNamee?

MR. McNAMEE: Your Honors, in discussing the possibility of redirect it became clear to me that the best form I think that redirect could take in this case or in this situation would perhaps be if Mr. Buckley were permitted to produce a new calculation of his -- a new version of his calculation with an adjustment for removing the preferred stock values, and the staff would be in a position to present that in written form by the close of business on Thursday, I am told, and we would suggest that that be submitted as our redirect examination in this case.

It should not delay the proceeding in that my understanding is Ohio Power wanted to provide rebuttal testimony in any event.

MR. NOURSE: Your Honor -- did you want to say something?

MS. YOST: Yeah. Your Honor, under these circumstances OCC would support the staff filing I think by close of business tomorrow, again, what would be written redirect so that it could be corrected to the extent that Mr. Buckley did testify that that was his understanding, that the preferred stock was removed from the sources he removed, and under the cross-examination by Mr. Nourse it's apparent that, at least some of the companies, that preferred stock was not removed.

So we would support the staff filing their redirect by the close of business tomorrow and there would be an opportunity, as Mr. McNamee said, AEP's indicated that they would like to file rebuttal, so to the extent there was any questions, that could be followed up at that time. Thank you.

EXAMINER PARROT: Just for clarification, you said end of business on Thursday, though.

MR. McNAMEE: Thursday.

EXAMINER PARROT: Rather than tomorrow.

MS. YOST: Oh, was it Thursday?

EXAMINER PARROT: Okay.

MR. NOURSE: Can I inquire whether the revised exhibit would also reflect exclusion of nonrecurring extraordinary and special items since I believe Mr. Buckley stated his intention was to capture that, that was his intention to --

MR. McNAMEE: I believe he did state that was his intention. I don't know that there are any to be removed.

MR. NOURSE: Well, the one Constellation exhibit was a big one I was going to try to discuss but he didn't have familiarity with it.

MR. McNAMEE: Go off the record for a second?

EXAMINER PARROT: Yes. Let's go off the record.

(Discussion off the record.)

EXAMINER PARROT: Let's go back on the record.

Mr. McNamee, I think you were midstream when we went off. Do you want to summarize --

MR. McNAMEE: I have -- I've forgotten what stream I was in the middle of, unfortunately, when we went off. What I would suggest, your Honors, is in lieu of doing redirect examination now that the staff be permitted to file basically a new analysis which adjusts the calculation for the removal of preferred stock values and at least one extraordinary item, apparently. We would ask that Mr. Buckley be permitted to file that December 20th.

We've had some other discussions while we were off the record and it was suggested that perhaps the company's rebuttal could be filed January 3rd with a hearing on January 10th, and that would take care of our business here.

EXAMINER PARROT: Do any of the other parties have any objections to the proposal as outlined by the staff?

MR. NOURSE: No. We agree. Companies agree.

MS. YOST: One clarification in terms of rebuttal. It was specific that the company's rebuttal, but any rebuttal I think is fair to say that would be the deadline, if there's rebuttal to be filed by other parties.

MR. NOURSE: I don't think we talked about that.

MS. YOST: That's what I talked about.

MR. NOURSE: That's when I said I

couldn't hear you and asked you to repeat it, but I didn't hear that.

MS. YOST: For the record --

MR. NOURSE: Your Honor, I mean, the companies have the burden of proof and would be the party that typically would be granted the opportunity for rebuttal. OCC didn't file direct testimony; I'm not sure how they would being permitted to file rebuttal in this case.

MS. YOST: My statements earlier were to the extent that Mr. Buckley's exhibit and testimony is updated to show the appropriate amounts that reflect removal of preferred stock, as we indicated, OCC wouldn't have an issue. That's the only rebuttal that would be in regards to the numbers not being updated in accordance with what OCC believes to be correct. I do not anticipate an issue, but --

MR. NOURSE: Well, again, your Honor, even if the staff included this revised exhibit in its testimony, OCC would not have an opportunity to rebut that. So I don't see why that would change at this phase since we're just doing a second revision after the hearing.

I guess what I would suggest on that is that we -- if the OCC intends or wants to file rebuttal, they would request permission and we could respond at that time.

MS. YOST: Or we can just file it and if they want to try to move to strike it, then they could move to strike it.

MR. NOURSE: Your Honor -- okay.

MS. YOST: It's not anticipated so it is a lot of argument that is premature.

EXAMINER PARROT: I think it's my understanding that staff is filing this exhibit as its redirect so the parties will still have the opportunity on January 10th to have recross on that exhibit at that point.

MR. McNAMEE: That is my intent, your Honor, yes.

EXAMINER PARROT: Okay. So I think that takes care of that issue, then.

MR. NOURSE: Thank you.

Your Honor, could I note for the record that I did hand out, just to make sure everyone had it, the original JH-1 exhibit that goes with Mr. Hamrock's direct testimony which was AEP Ohio Exhibit 1, and I earlier handed out the revised composite exhibit and neglected to include this last page. So I did give it to the reporter and everyone to make sure they have the right exhibit.

EXAMINER PARROT: Thank you, Mr. Nourse.

MR. NOURSE: Thank you.

EXAMINER PARROT: Anything else to come before us today?

(No response.)

EXAMINER PARROT: All right. Seeing nothing, we are adjourned until January 10th at 10:00 a.m.

(Hearing adjourned at 2:51 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, December 6, 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.

(MDJ-3937)

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