

BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

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In the Matter of the :  
Commission Review of the :  
Capacity Charges of Ohio : Case No. 10-2929-EL-UNC  
Power Company and Columbus:  
Southern Power Company. :

- - -

PROCEEDINGS

before Ms. Greta See and Ms. Sarah Parrot, Attorney  
Examiners, and Commissioner Andre Porter, at the  
Public Utilities Commission of Ohio, 180 East Broad  
Street, Room 11-A, Columbus, Ohio, called at 8:30  
a.m. on Wednesday, April 18, 2012.

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VOLUME II

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1                               Wednesday Morning Session,  
2                               April 18, 2012.

3                               - - -

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

6                               Good morning, everyone. I would like to  
7 take just brief appearances, just names only,  
8 beginning with the company and let's work our way  
9 around the table, please.

10                              MR. NOURSE: Thank you, your Honor. On  
11 behalf of the company, Steven T. Nourse and Daniel R.  
12 Conway, I don't think Mr. Satterwhite will be here  
13 today. Matthew J. Satterwhite, Christen Moore, same  
14 thing, thank you.

15                              MS. KALEPS-CLARK: On behalf of RESA,  
16 Direct Energy Services, Direct Energy Business, and  
17 Constellation NewEnergy, Constellation Energy  
18 Commodities, Lija Kaleps-Clark, M. Howard Petricoff,  
19 Vorys Sater, Seymour and Pease, and on behalf of  
20 Exelon Generation Company, Lija Kaleps-Clark, M.  
21 Howard Petricoff, David Stahl, and Sandy Grace.

22                              EXAMINER PARROT: Thank you.

23                              Mr. Hayden.

24                              MR. HAYDEN: Thank you, your Honor. On  
25 behalf of FES, Mark Hayden, Jim Lang, and David

1 Kutik.

2 MS. KINGERY: Good morning, your Honor.  
3 On behalf of Duke Energy Retail, Duke Energy Direct  
4 Asset Management, Amy B. Spiller and Jeanne W.  
5 Kingery, 139 East Fourth Street, Cincinnati, Ohio.

6 MR. DARR: On behalf of the Industrial  
7 Energy Users - Ohio, 6 Randazzo and Frank Darr.

8 MR. KURTZ: For the Ohio Energy Group,  
9 Mike Kurtz.

10 MS. McALISTER: On behalf of Ohio  
11 Manufactures Associations, Lisa McAlister.

12 MS. KERN: Thank you, your Honor. On  
13 behalf of the Ohio Consumers' Counsel, Kyle Kern and  
14 Melissa Yost, 10 West Broad Street, Suite 1800,  
15 Columbus, Ohio 43215.

16 MR. BEELER: On behalf of the staff, Ohio  
17 Attorney General Mike DeWine, Steve Beeler and John  
18 Jones, Assistant Attorneys General.

19 MR. CAMPBELL: On behalf of Interstate  
20 Gas Supply, Andrew John Campbell and Melissa  
21 Thompson, Whitt Sturtevant, LLC.

22 EXAMINER PARROT: Thank you, everyone.

23 At the conclusion of yesterday's hearing  
24 the Bench had deferred a ruling on the admission of  
25 IEU Exhibit 105. Those are the reply comments of CSP

1 and OP filed in Commission Case No. 07-796. The  
2 Bench has decided to deny the motion to admit IEU  
3 Exhibit 105 in the record.

4 MR. NOURSE: Thank you, your Honor.

5 EXAMINER PARROT: And, Mr. Nourse, you  
6 may proceed with your next witness.

7 MR. NOURSE: And Mr. Conway is going to  
8 call our next witness, thank you.

9 MR. CONWAY: Thank you, your Honor. At  
10 this time AEP Ohio calls Dr. Pearce.

11 (Witness sworn.)

12 EXAMINER PARROT: Please be seated.

13 MR. CONWAY: Your Honor, while Dr. Pearce  
14 is situating himself, do you have copies of his  
15 prefiled direct testimony? I have two extra copies  
16 here with me if anyone else needs a copy. I believe  
17 the court reporter has one.

18 - - -

19 KELLY D. PEARCE

20 being first duly sworn, as prescribed by law, was  
21 examined and testified as follows.

22 DIRECT EXAMINATION

23 By Mr. Conway:

24 Q. Dr. Pearce, could you state your full  
25 name for the record, please.

1           A.     Kelly Douglas Pearce.

2           Q.     And by whom are you employed?

3           A.     American Electric Power Service  
4 Corporation.

5           Q.     And what is your position with American  
6 Electric Power Service Corporation?

7           A.     I am the Director of Contracts and  
8 Analysis.

9           Q.     Dr. Pearce, did you prepare or have  
10 prepared under your supervision direct testimony that  
11 has been previously filed in the docket of this case?

12          A.     Yes, I did.

13          Q.     And do you have a copy of that with you  
14 today?

15          A.     Yes, I do.

16                 MR. CONWAY: Your Honors, I would like to  
17 mark as AEP Ohio Exhibit 102 Dr. Pearce's prefiled  
18 testimony.

19                 EXAMINER PARROT: So marked.

20                 (EXHIBIT MARKED FOR IDENTIFICATION.)

21          Q.     And, Dr. Pearce, do you have any  
22 additions or corrections to make to your prefiled  
23 testimony at this time?

24          A.     No, I do not.

25          Q.     And, Dr. Pearce, if I were to ask you the

1 questions in your direct testimony today, would your  
2 answers be the same as they appear in that document?

3 A. Yes, they would.

4 Q. And are those -- is that testimony true  
5 and accurate to the best of your knowledge and  
6 belief?

7 A. Yes, it is.

8 MR. CONWAY: At this time, your Honor, I  
9 would offer Dr. Pearce's direct testimony, AEP Ohio  
10 Exhibit 102, into the record, and Dr. Pearce is  
11 available for cross-examination.

12 EXAMINER PARROT: Thank you, Mr. Conway.

13 Dr. Pearce, would you please make sure  
14 your microphone is turned on? I don't believe that  
15 it is working if it is on. There's a switch to flip  
16 on the bottom. Right there.

17 THE WITNESS: Okay. Is that better?

18 EXAMINER PARROT: Yes, thank you.

19 All right. Would FES like to begin with  
20 cross-examination again today?

21 MR. LANG: Yes, your Honor. Thank you.

22 - - -

23 CROSS-EXAMINATION

24 By Mr. Lang:

25 Q. Good morning, Dr. Pearce.

1           A.     Good morning.

2           Q.     Looking at your testimony, you have a  
3     doctorate in nuclear engineering; is that correct?

4           A.     Yes, it is.

5           Q.     And I want to take you back on a brief  
6     history trip here. You are familiar that AEP Ohio  
7     has an electric transition plan proceeding in the  
8     1999-2000 timeframe, correct?

9           A.     Vaguely, but I was not personally  
10    involved in that case.

11          Q.     Right, so you were not involved in that  
12    transition plan case, correct?

13          A.     No, I was not.

14          Q.     And for purposes of preparing your  
15    testimony here, you did not review the filings in  
16    that electric transition plan case, correct?

17          A.     That is correct.

18          Q.     All right. Now, for the 2012-2013  
19    delivery year, you understand that the 2012-2013  
20    delivery years start June 1 of 2012, correct?

21          A.     Yes.

22          Q.     For that delivery year, can a CRES  
23    provider self-supply capacity to AEP Ohio shopping  
24    customers? Can they?

25          A.     No, they cannot.

1           Q.    And that's because a CRES provider would  
2           have had to have given notice to AEP Ohio of its  
3           intent to self-supply prior to March, 2009, for this  
4           upcoming delivery year, correct?

5           A.    That is correct.

6           Q.    And if a CRES provider had given that  
7           notice, it would have reduced the AEP Ohio portion of  
8           the FRR plan by the amount supplied by the CRES  
9           provider, correct?

10          A.    That is correct.

11          Q.    Now, AEP Ohio's -- at least our  
12          understanding of AEP Ohio's options for the capacity  
13          that would be freed up would have been to offer the  
14          surplus into an RPM auction, to seek a bilateral  
15          sale, or to hold it in reserve; is that correct?

16          A.    Yeah, that's the three options I can  
17          think of.

18          Q.    Okay. Now, prior to March, 2009, AEP  
19          Ohio did not give notice to CRES providers that it  
20          would begin charging for capacity based on full  
21          embedded costs starting June 1, 2012, correct?

22          A.    Other than the terms of the reliability  
23          assurance agreement as far as any other notice, that  
24          would be a better question for Company Witness Allen.  
25          That is all I'm aware of is the RAA terms.

1           Q.    All right.  So all you are aware of is  
2   that there is a reliability assurance agreement.  You  
3   are not aware of any actual notice from AEP Ohio to  
4   CRES providers that they intended to change their  
5   basis for calculating the capacity charge in the  
6   future, correct?

7           A.    No.  I am not aware of any notice given  
8   to -- by us to CRES providers or any inquiries by  
9   CRES providers back to us about what our future plans  
10  for making a filing are.

11          Q.    And as far as you are aware, in 2009, AEP  
12  Ohio did not have any plans to switch to a cost-based  
13  rate in 2012, correct?

14          A.    No, I cannot say that.  As far as plans,  
15  I mean, I don't know at what period that we would  
16  have made that election.  I think that was explained  
17  better by Company Witness Munczinski yesterday in  
18  terms of looking at that position and when we might  
19  make a decision to refile.

20          Q.    Right.  But to your knowledge in 2009,  
21  AEP Ohio did not have plans to switch to a cost-based  
22  capacity mechanism -- pricing mechanism, correct?

23          A.    My short answer is I don't know.  I don't  
24  know whether we planned or didn't plan to change  
25  that.



1           Q.    Now, you are also not aware of whether  
2    AEP Ohio did any forecasting with respect to what the  
3    2012-2013 auction clearing price would be back in the  
4    2009 time period, correct?

5           A.    I have recently learned that there is a  
6    group within AEP that does some capacity forecasting  
7    around that. I don't know what the status of that  
8    group was in the timeframe that you are asking, so I  
9    don't know.

10          Q.    Okay. And would that also hold true  
11    prior to the auction that took place in 2010 for the  
12    planning year of 2013-2014?

13          A.    Okay. So backing up three years, you are  
14    saying around 2010?

15          Q.    That would be prior to May, 2010.

16          A.    Prior to May, 2010, it would be the same  
17    answer, I don't know.

18          Q.    And with regard to the auction that took  
19    place in May, 20 -- May, 2010, you are not aware of  
20    whether prior to that auction AEP Ohio gave notice to  
21    CRES providers that it would begin charging for  
22    capacity based on full embedded costs after 2012,  
23    correct?

24          A.    Other than the terms of the RAA, so it  
25    would be the same as the previous year, that's the

1     only document out there of record, public document,  
2     that I -- I personally am knowledgeable of.

3             The -- as far as other notices that might  
4     have been conveyed or inquiries from CRES providers,  
5     if they had taken it upon themselves to find out the  
6     company's plans, I will have to refer you to Company  
7     Witness Allen.

8             Q.     Now, the -- you do not consider yourself  
9     an expert on the PJM reliability assurance agreement,  
10    correct?

11            A.     I believe I have some working knowledge  
12    of the document, certainly sections of it.

13            Q.     You are familiar with certain sections of  
14    the document, correct?

15            A.     Yes.

16            Q.     And the one section dealing with the  
17    state compensation mechanism, you've certainly  
18    reviewed that section of the reliability assurance  
19    agreement, correct?

20            A.     Yes, I have.

21            Q.     And that's -- and that's the provision  
22    that you are referring to when you say other than  
23    that provision; you are not aware of notice to CRES  
24    providers, correct?

25            A.     Well, since the -- that's a big document.

1     There can be all kinds of communication between the  
2     company and CRES providers related to other  
3     provisions of that. I -- I thought your question was  
4     confined to notice around that particular provision  
5     so, yes, that was my response back to you.

6             All I am aware of as far as we are  
7     changing under that provision was the language of  
8     Schedule 8.1 that you are referring to.

9             Q.     And Schedule 8.1 sets RPM pricing as the  
10    default pricing mechanism, correct?

11            A.     Well, I believe the provision speaks for  
12    itself as far as it was the initial mechanism but  
13    clearly allowed for a provision of both 205 and 206  
14    rights for parties to comment we will have to make a  
15    change to that.

16            Q.     Right. So as you referred to the initial  
17    mechanism was RPM pricing and in the -- certainly in  
18    the 2008-2009 and then say any time prior to May,  
19    2010, that is the pricing mechanism that was in place  
20    was RPM, correct?

21            A.     For the current delivery years, during  
22    that period, I would agree with that.

23            Q.     Okay. Now, you would agree that AEP Ohio  
24    is free to sell the electric output of capacity  
25    resources that are used by CRES providers.

1           A.     In terms of a CRES provider taking over  
2     the load-serving entity obligation for certain load  
3     and in theory there are some generation resources  
4     freed up in the energy market, it may or may not be  
5     sold into the energy market. It just depends.

6           Q.     Yeah. I'm sorry, I may have switched  
7     gears a little on you.

8           A.     Okay.

9           Q.     With regard to the capacity that would be  
10    sold to a CRES provider in -- so you have capacity  
11    being sold to a CRES provider for the load of that  
12    customer, there is electric output from that capacity  
13    that is -- that is not sold to the CRES provider or  
14    used by that load. So with respect to that electric  
15    output, AEP is free to sell that -- the output of  
16    those capacity resources, correct?

17           MR. CONWAY: Could I have that question  
18    read back, please.

19                    (Question read.)

20           A.     And I think I understood your question  
21    the first time. As far as the energy output of that  
22    generator, in theory we would reduce the LLC  
23    obligation so the load requirement from a strictly  
24    day-ahead basis would be reduced.

25                    So in terms of freed up to sell, again,

1     it depends on what the market clearing price is and  
2     everything -- what gets picked up in the day-ahead  
3     auction is a question mark in terms of what would  
4     have happened to the electrical output of that. And  
5     I can clarify that.

6             I mean -- and I have been involved in  
7     that type of modeling. If there has been a loss of  
8     load or something to -- to -- due to some large  
9     industrial customer shutting down or something, if  
10    you rerun your modeling, I don't replace that  
11    megawatt by megawatt in the market, basically. It  
12    can make a substantial change, I think, so it's not  
13    given megawatt-per-megawatt replacement in the  
14    market.

15            Q.    All right. I am going to ask you to  
16    refer to your deposition.

17            A.    Certainly.

18            MR. LANG: May I approach, your Honor?  
19    I'm sorry.

20            EXAMINER PARROT: You may.

21            Q.    Now, Dr. Pearce, you had your deposition  
22    taken last Monday on April 9; is that correct?

23            A.    Yes. Yes.

24            Q.    There was a court reporter there and you  
25    were sworn in, correct?

1           A.     That is correct.

2           Q.     And you had -- your attorney was present  
3     at the time?

4           A.     Yes, he was.

5           Q.     Okay.  If I could ask you to turn to page  
6     17, I believe.  Yep.  At the bottom of page -- let's  
7     see, nope, here we go.

8                     Yeah, at the bottom of page 17, line 24,  
9     I asked you a question starting "Okay.  Is AEP Ohio  
10    free to sell the electrical outputs of the capacity  
11    resources that are used by CRES providers?"

12                    Mr. Conway asked to have the question  
13    read back, and then you provided the answer, which  
14    was "Yes."  Was that your answer?

15           A.     In the context of that line of  
16    questioning, yes, it was.

17           Q.     Right.  So that was your answer?

18           A.     To clarify, if you go down just a couple  
19    more questions and answer, I think it's consistent  
20    with what I just said when you asked "Why not?" on  
21    that exact same page.  I said "Because, again, just  
22    to be clear, when we say 'free to sell the power,'  
23    they will offer units into PJM, and PJM will make the  
24    decision whether those units get awarded day-ahead  
25    selection."

1           Q.    And, again, the question was whether you  
2   are free to sell the power.  It wasn't a question  
3   about PJM markets, so you answered the question,  
4   thank you.

5                   MR. CONWAY:  Your Honor.

6           A.    That's a mischaracterization.

7           Q.    So moving on to page 76 in your  
8   testimony --

9                   MR. CONWAY:  Just a second.

10                  THE WITNESS:  Can I give a complete  
11   answer?

12                  MR. CONWAY:  Dr. Pearce, hold on a  
13   second.

14                  Mr. Lang.  I have an objection, your  
15   Honor, to the -- to the interruption by Dr. Lang --  
16   Dr. Lang, Mr. Lang of Dr. Pearce's explanation.  I  
17   think the witness should be allowed the opportunity  
18   to explain his answer, so thank you.

19                  EXAMINER PARROT:  And the answer shall  
20   stand.

21                  Are you finished, Dr. Pearce, with your  
22   clarification?

23                  THE WITNESS:  No.  My only clarification  
24   is when we say "free to sell," my point is the volume  
25   will not necessarily be the same which I think free

1 to sell could get confused meaning we would sell that  
2 power back megawatt per megawatt, and it's consistent  
3 with what I said in those pages of my deposition.

4 Q. Turning to page 7 of your testimony, on  
5 line 8, you state "The payments under the state  
6 compensation mechanism based on RPM pricing --"

7 A. I must be on the wrong page, I apologize.  
8 What page are you on?

9 Q. Page 7.

10 A. Of my deposition?

11 Q. No, I'm sorry, of your testimony.

12 A. Oh, testimony, okay. That's why.

13 Q. This is actually the question starting on  
14 line 6 and then you start the answer on line 8. So  
15 here you are stating that payments under the state  
16 compensation mechanism based on RPM pricing "...do  
17 not provide an appropriate level of compensation."

18 Now, in the past when energy prices were  
19 higher, is it fair to say that you do not know  
20 whether payments based on RPM pricing provided an  
21 appropriate level of compensation?

22 A. Yes, that's what the answer says. Did  
23 you have a question about it, or? I'm sorry. I  
24 don't understand the question. Could you repeat the  
25 question?



1 MR. LANG: Could I have the question read  
2 back, please.

3 (Record read.)

4 A. I haven't done any specific analysis  
5 around that, no, I have not.

6 Q. Now, when you refer to "the appropriate  
7 level of compensation," what you mean is equivalent  
8 to AEP Ohio full embedded costs, correct?

9 A. Yes.

10 Q. And as of today, your testimony is that  
11 AEP Ohio cannot recover its full embedded costs if it  
12 receives revenues solely from the PJM pricing for  
13 energy and capacity, correct?

14 A. That is -- that is correct.

15 Q. And the same would be true for the PJM  
16 market pricing that you see in the upcoming 2012-2013  
17 planning year, correct?

18 A. Yes, particularly so.

19 Q. Now, AEP Ohio will participate in the PJM  
20 RPM, the reliability planning model, auction as of  
21 the 2015-2016 planning year, correct?

22 A. Yes.

23 Q. And as a participant in that auction, in  
24 the 2015-2016 auction, any capacity that AEP Ohio  
25 offers that is accepted in the auction will receive

1 the market clearing price, correct?

2 MR. CONWAY: Objection.

3 EXAMINER PARROT: Mr. Conway, could you  
4 please use a microphone.

5 MR. CONWAY: Objection.

6 EXAMINER PARROT: Grounds?

7 MR. CONWAY: The grounds are the plan is  
8 to transfer the generation to AEP Generation  
9 Resources or other affiliates and so there's -- I  
10 object to the found -- the premise of the question  
11 which is -- for which there is no record support.

12 EXAMINER PARROT: Mr. Lang.

13 MR. LANG: Your Honor, it's a question  
14 for the witness. It's very nice of Mr. Conway to  
15 lead the witness with an answer, but I would actually  
16 like to hear the witness's answer to the question.

17 MR. CONWAY: The objection then, your  
18 Honor, is that there is no foundation for that  
19 question.

20 EXAMINER PARROT: The objection is  
21 overruled.

22 THE WITNESS: Could you repeat the  
23 question, please.

24 (Record read.)

25 A. I need to clarify when we say AEP Ohio as

1 far as what entity it would be. I mean, right now  
2 AEP Ohio -- OPCo is still a bundled company and we  
3 have participated in RPM, so to the extent that the  
4 capacity -- any of that capacity is supplied into  
5 RPM, they would presumably get the RPM clearing  
6 price.

7 Q. And to that point in the -- this takes  
8 place next month, correct?

9 A. To my knowledge, I believe that's the  
10 timeframe.

11 Q. And is it your understanding that it is  
12 AEP Ohio, the current owner of the units being bid  
13 into the auction, that it is AEP Ohio the actual  
14 entity bidding those auctions in that -- I'm sorry,  
15 bidding the units in next month?

16 A. They are offering the units in as the --  
17 as the current owner, yes, that's my understanding.

18 Q. And then as Mr. Munczinski discussed  
19 yesterday, there is a plan at AEP Ohio to transfer  
20 those units to other AEP affiliates, correct?

21 A. I believe Mr. Munczinski referenced Ohio  
22 Power's current ownership in Amos 3 and Mitchell 1  
23 and 2, if that's what you are referring to.

24 Q. Well, there is a larger --

25 A. Those are not offered in RPM, to clarify.

1 Q. Okay. And there is -- the corporate  
2 separation plan is that all of the currently owned  
3 generating units owned by AEP Ohio would be  
4 transferred either to AEP Generation Resources or to  
5 other AEP affiliates; is that your understanding?

6 A. That's my very basic understanding, but  
7 really Company Witness Munczinski would have been a  
8 much better person to have asked the specific details  
9 regarding corporate separation, excuse me.

10 Q. So the -- for the auction next month the  
11 units that are being -- units being bid in by AEP  
12 Ohio, is it your understanding that the -- the entity  
13 actually receiving the market clearing price in  
14 2015-2016 will be AEP Generation Resources?

15 A. I can't speak to the structure of how  
16 those deals will be laid out.

17 Q. Well, with regard to that auction, can  
18 you agree that CRES providers will not be subsidizing  
19 AEP in that auction, whether it's AEP Ohio or AEP  
20 Generation Resources?

21 A. To be clear, if those resources get moved  
22 to an unregulated affiliate that are I will say equal  
23 footing to do with what they want with the  
24 generation, to me that's a different market paradigm  
25 so I would -- I don't see any particular subsidies

1 that I can think of.

2 Q. So your answer would be, no, in that  
3 circumstance you don't see a subsidy?

4 A. Depending on the specifics of the market  
5 structure, it could be structured such that there is  
6 no subsidy.

7 Q. Now, your belief is that the formula rate  
8 that's calculated through -- that you propose in your  
9 testimony is implicit in the rate charged to standard  
10 service offer customers by AEP Ohio, correct?

11 A. When I use the term "implicit," I mean,  
12 again, based on just crudely looking at the numbers,  
13 it looks like it's a rough approximation.

14 Q. Now, it's also fair to say that not all  
15 SSO customers pay the formula rate for capacity,  
16 correct?

17 A. The tariff rates themselves are not based  
18 on the formula rate. As far as just comparing the  
19 strict level of the charges, again, is what they look  
20 like within a rough approximation, they appear to be  
21 equal. I would refer you to Company Witness Allen  
22 again for more detail.

23 Q. If I could ask you to turn to page 26 of  
24 your deposition, please. On page 26, the question  
25 starting on line 16, I asked you "Do all standard

1 service offer customers pay the formula rate for  
2 capacity?" Do you see that question?

3 A. Yes.

4 Q. Okay. And you answered, "No, they do  
5 not." And then you did explain, as you have here,  
6 that on -- there's a general -- there's a general  
7 correspondence, but your answer is that not all  
8 standard service offer customers pay the formula rate  
9 for capacity, correct? That was your answer,  
10 correct?

11 A. Yes.

12 Q. Okay. Now, do you agree that AEP Ohio  
13 has variable -- variable energy costs in addition to  
14 its fuel costs?

15 A. Yes. Although to clarify, I mean fuel is  
16 the predominant portion of just about anybody's  
17 calculation of variables.

18 Q. So in terms of variable cost, there's  
19 fuel and there's nonfuel, correct?

20 A. Yes.

21 Q. All right. Now, in your testimony at the  
22 top of page 9, you state that "The formula rate" --  
23 you are referring to this template that you see --  
24 "was recently approved by FERC."

25 A. That's correct.

1           Q.    Now, you were not involved in the FERC  
2 proceeding in which this template was approved,  
3 correct?

4           A.    I was not directly involved with this,  
5 no.

6           Q.    And is it also true you were not  
7 indirectly involved and you were not participating in  
8 that proceeding at the time that it occurred at FERC?

9           A.    Someone who reports to me was more  
10 directly involved, so I would get periodic updates  
11 and talk with people on our side from time to time,  
12 so.

13          Q.    Okay. Now, so you did -- in addition to  
14 talking with the people that were involved, you  
15 actually had reviewed the filings in that proceeding,  
16 correct, at the FERC?

17          A.    I have in the past. It's been a while.

18          Q.    And so you're aware that the template in  
19 that case was for wholesale customers, two  
20 municipalities, that took both capacity and energy  
21 from an AEP affiliate, correct?

22          A.    Yes.

23          Q.    And that the template in that case allows  
24 the AEP affiliate to collect its full embedded costs  
25 of capacity through a capacity charge, correct?

1 A. Yes.

2 Q. And also the template has an energy  
3 charge that recovers the AEP affiliates' energy  
4 costs, correct?

5 A. Yes.

6 Q. And, in fact, the customers are obligated  
7 to take all energy needed to meet their load at the  
8 cost to the AEP affiliate, correct?

9 A. Yes, that is correct.

10 Q. Now, the FERC proceeding was resolved by  
11 a settlement agreement, correct?

12 A. Yes, it was.

13 Q. And you've previously reviewed that  
14 settlement agreement, right?

15 A. Yes. Again, it's been a while but I  
16 have. And to clarify when I said "recently  
17 approved," that was about a year ago, so.

18 Q. Okay.

19 A. It's pushing, probably, "recently."

20 Q. The -- now, from your review of the  
21 settlement agreement you are aware that the  
22 settlement agreement itself provides that it shall  
23 not be regarded as establishing any principles or  
24 precedent as to the appropriate rate formulas to be  
25 used in any -- in any other proceeding, correct?



1           A.    I understand that the somewhat common  
2    legal terminology is in terms of -- is in the order,  
3    and I'm not opining from a legal sense since I am not  
4    an attorney.

5                   My statement in that portion of the  
6    testimony is just to state that you have a willing  
7    buyer and seller coming together, heavy regulatory  
8    review from FERC staff, so more of a commonsense. It  
9    was apparently a fairly just and reasonable wholesale  
10   deal between two transactions. So speaking as a  
11   nonattorney, that it was good from that setting;  
12   could it be good other places as well?

13           Q.   And I am not asking for a legal opinion  
14   from you. I'm just asking if you are aware that --  
15   if you remember from your review at the settlement  
16   agreement that it has the language -- has that  
17   language contained in it saying that it shall not be  
18   used as precedence in another proceeding?

19           A.    Yes, I am aware it has that fairly common  
20   legal language.

21           Q.    Now, you also reviewed the letter order  
22   that the companies received from FERC in the case  
23   accepting the settlement, correct?

24           A.    It's been a while, but, yes.

25           Q.    And from that review you are also aware

1       that the FERC, when they accepted the settlement,  
2       approved the settlement on the -- with a statement  
3       that it does not constitute approval of or precedent  
4       regarding any principle or issue in the proceeding,  
5       correct?

6             A.     Yes.

7             Q.     Now, with regard to --

8             A.     I'm sorry. Excuse me. Is there any  
9       water?

10            THE WITNESS: I'm sorry, your Honor.  
11       Thank you, sorry.

12            Q.     I'll wait.

13            A.     Okay. Go ahead.

14            Q.     Okay. Now, with regard to this template,  
15       it has not been approved by FERC for a customer that  
16       takes just capacity, correct?

17            A.     That template was not approved for a  
18       customer that only takes capacity. I would agree  
19       with that.

20            Q.     And you are not aware of it being  
21       approved in any other example for a customer that  
22       takes just capacity, correct?

23            A.     No, I am not.

24            Q.     So the template is not currently used to  
25       develop a rate for a wholesale customer that takes

1 just capacity, correct?

2 A. None that I can recall, no.

3 Q. And what you propose as a potential  
4 energy credit including the modifications, that has  
5 also not been approved by the FERC for wholesale  
6 customers taking just capacity, correct?

7 A. No, I wouldn't agree with that because  
8 the -- the energy template that we used to calculate  
9 the energy credit is based on that exact template, so  
10 if you were to collect a combination of the capacity  
11 charge based on these FERC agreements and the  
12 energy-cost basis for the energy credit, that's based  
13 on that exact same template, so the two together form  
14 a package that is very comparable to what was  
15 approved in Minden and Prescott.

16 And to clarify further, while I reference  
17 the specific template in these, just because they  
18 were through such a long process, this is not unlike  
19 over 30 of similar agreements that we have across  
20 with munies and co-ops in several of our operating  
21 states.

22 Q. Could I ask you to turn to your  
23 deposition, please, page 51. Are you there?

24 A. Yes.

25 Q. Okay.

1           A.     Yes.

2           Q.     The question beginning at line 14, I  
3     asked you "Now, what you propose for an energy credit  
4     including the modifications has not been approved by  
5     FERC for wholesale customers taking just capacity; is  
6     that right?"

7                     And your answer was "Not to my knowledge,  
8     no."

9                     Is that correct? Was that your answer?

10          A.     Yes, that was my answer then, and I would  
11     agree with that answer now, again, just strictly for  
12     capacity there have not been any.

13          Q.     Okay.

14          A.     It was with the energy credit included  
15     that it becomes that way.

16          Q.     Now, in the template shown in your  
17     Exhibits KDP-3 and 4, the gross plant in service in  
18     those exhibits includes the costs of the Waterford  
19     facility and the Darby facility, correct?

20          A.     Yes, it does.

21          Q.     And those facilities were acquired by AEP  
22     Ohio in 2005 and 2007, correct?

23          A.     I'm sorry, I need to correct my previous  
24     answer. When you say KDP-3 and KDP-4, I have to  
25     shift gears to pre-merger, since both of those are

1 pre-merger CSP, they would be included in KDP-3 but  
2 not KDP-4. KDP-4 was OPCo.

3 Q. They were both acquired by Columbus  
4 Southern is your understanding?

5 A. Yes.

6 Q. And they were acquired by Columbus  
7 Southern in 2005 and 2007?

8 A. Yes.

9 Q. All other generating facilities included  
10 in the gross plant in service on either Exhibit 3 or  
11 4 are facilities that were in service as of  
12 January 1, 2001, correct?

13 A. Yes.

14 Q. Now, a clean-up point at page 10 of your  
15 testimony, line 15, you reference page 6, line 4 of  
16 your Exhibits 1 and 2. Is that an error that you  
17 would like to correct?

18 MR. CONWAY: Could I have a  
19 clarification? What error is it that you are  
20 referring to?

21 MR. LANG: I'm asking him if there is an  
22 error there that he would like to correct, the  
23 reference to page 6, line 4 of those exhibits.

24 A. I don't believe that is an error. In  
25 referring to KDP-1 and KDP-2, page 6, line 4 -- oh,

1 good catch. That should read "page 4, line 6."

2 Q. Just making sure the record's clear.

3 Now, page 11 of your Exhibits 1 through 4  
4 is the composite cost of capital calculation,  
5 correct?

6 A. I'm sorry. Where are you referring to?

7 Q. Your Exhibits KDP-1, 2, 3, and 4, page  
8 11.

9 A. Page 11. Yes.

10 Q. Note F on that page states the "Return on  
11 equity cannot be changed absent a Section 205/206  
12 filing with the Commission," and there when you refer  
13 to the Commission, you are referring to the Federal  
14 Energy Regulatory Commission, correct?

15 MR. CONWAY: Mr. Lang, could I have a  
16 reference again to the spot where you're quoting  
17 from?

18 MR. LANG: Exhibits 1 through 4, page 11,  
19 Note F.

20 MR. CONWAY: Thank you.

21 A. That is correct.

22 Q. So through this Note F you are telling  
23 the Ohio Commission that it cannot change the return  
24 on equity of 11.15 percent, only the FERC can do  
25 that?

1           A.    No.  I'm not telling the -- the Public  
2           Utilities Commission of Ohio anything.  We initially  
3           filed this template as a FERC 205 filing.  Speaking  
4           as a nonattorney, I understand there is still some  
5           dispute regarding jurisdiction of this matter.

6                     If this was ultimately to get settled at  
7           FERC, then I believe Note F -- Note F stands so we  
8           continue to include it in the -- in this.  The  
9           Commission can do or strike with that particular note  
10          what it chooses to do.

11          Q.    Was this note part of the template  
12          submitted with the settlement in the Minden and  
13          Prescott case that we've referenced earlier?

14          A.    It's been a long time since I looked at  
15          the specific Minden Prescott filing to say with  
16          certainty.  Do you care for me to speculate?

17          Q.    I'm just asking you whether you know.

18          A.    I don't know with certainty.

19          Q.    Now, with regard to the return on equity  
20          that's used in the template, you've modified the  
21          template so that at a fixed 11.15 percent return on  
22          equity, and as I believe you say in your testimony,  
23          that's consistent with the return on equity that AEP  
24          Ohio proposed last year in its distribution case  
25          proceedings; is that correct?

1           A.    Yes.  As supported by Company Witness  
2   Avera in that case.

3           Q.    And at the time your -- at the time you  
4   originally drafted your testimony, the -- there had  
5   not been any determination in that distribution case,  
6   correct?

7           A.    I don't recall a specific time that the  
8   case was settled, but I would accept that.

9           Q.    Okay.  And the return on equity that was  
10   approved in those proceedings was on a combined basis  
11   for the company's 10.2 percent, correct?

12          A.    That's my understanding, yes.

13          Q.    Now, on page 11 of your testimony, lines  
14   1 and 2, you note that "50 percent of the  
15   non-pollution control (CWIP) construction work in  
16   progress" --

17          A.    I'm sorry, where are you reading from?

18          Q.    Page 11, I'm sorry, it's page 11 of your  
19   testimony.

20               MR. CONWAY:  Which lines are you at,  
21   Mr. Lang?

22               MR. LANG:  Lines 1 and 2.

23          Q.    Now, here you are noting 50 percent of  
24   the nonpollution control CWIP is included in the  
25   template costs, correct?



1           A.     Yes.

2           Q.     And pollution control CWIP is included in  
3 the template costs at 100 percent, correct?

4           A.     Yes, it is.

5           Q.     You've reviewed Section DD of the PJM  
6 tariff which calculates the avoidable project  
7 investment recovery rate, correct?

8           A.     I have in the past.

9           Q.     You do not know whether under the PJM  
10 tariff it includes an allowance for CWIP in  
11 calculating that investment recovery rate, correct?

12                   I can restate it. You do not know  
13 whether or not under the PJM tariff that Section DD  
14 includes an allowance for CWIP in calculating the  
15 investment recovery rate?

16           A.     No, I do not.

17           Q.     Now, using the formula rate template, the  
18 capacity rate that's generated, the outcome of the  
19 template is a capacity rate that will vary from year  
20 to year, correct?

21           A.     That is correct.

22           Q.     And each of the lines on page 4 of your  
23 Exhibits 1 through 4 which is the summary of the  
24 costs in the template, each of those lines could  
25 change from year to year, correct?

1           A.    I'll even give you that they won't just  
2 could change but they will change.

3           Q.    Fair enough.

4           A.    Okay.

5           Q.    And as one example, if environmental  
6 investment accelerates from one year to the next,  
7 that could cause a change in the capacity rate that  
8 is the output of the -- of the template, correct?

9           A.    You're talking about environmental  
10 spending as it would relate to the CWIP portion of  
11 the rate?

12          Q.    Either the CWIP portion or what would be  
13 included in the gross plant in service.

14          A.    That could happen just as other O&M cost  
15 cutting measures or something could serve to reduce  
16 the rate.

17          Q.    And also on page 2 of those Exhibits 1  
18 through 4 where the five coincident peaks are used in  
19 the calculation, that -- the five coincident peaks  
20 also could change from year to year, correct?

21          A.    It would be an amazing coincident if they  
22 did not change from one year to the next.

23          Q.    Now, with regard to the RPM auction for  
24 capacity, it's your understanding that RPM capacity  
25 pricing is not designed to provide generation owners

1 a return on the full embedded costs of their  
2 generation; is that correct?

3 A. No. I would have to disagree with that.  
4 I wouldn't characterize it as particularly that --  
5 exactly that framework that you mentioned. And by  
6 that I mean I understand that there is a clearing  
7 price, but in theory if you were one of the lowest  
8 offers on that curve for a reasonable settlement  
9 price, presumably the clearing price would recover  
10 all of your fixed costs.

11 In fact, the gross CONE that is used  
12 to -- and net CONE that is used to develop the demand  
13 curve, if you will, variable resource requirement,  
14 includes fixed costs in that calculation.

15 Q. Could I ask you to turn to your  
16 deposition, please.

17 A. Yes.

18 Q. Page 43, I am actually going to need some  
19 assistance from the errata sheet here.

20 MR. HAYDEN: Your Honor, may I approach?

21 EXAMINER PARROT: You may.

22 Q. And, Dr. Pearce, just so this is  
23 accurate, Mr. Hayden is giving you the errata sheet  
24 for that transcript for this Q and A. So I want to  
25 direct you to line 13 on 43.

1 I asked you to your statement "Do you  
2 know whether RPM capacity pricing is designed to  
3 provide for the full return of embedded costs to  
4 generation owners?"

5 And your answer starts on line 16, you  
6 answered "No. I believe the RPM market is not  
7 designed to do that which is partly the reason we  
8 didn't participate in that."

9 Is that correct? That was your answer?

10 A. That is correct and that is true for the  
11 clearing price at the top. It was not for that  
12 particular unit that clears the market. They will  
13 not recover presumably their fixed costs.

14 Q. Okay. Now, switching from the capacity  
15 market to the energy market, the PJM energy market,  
16 to the extent that the PJM energy market clears above  
17 an energy owner's energy cost, that allows the  
18 generation owners to make a margin on energy sales,  
19 correct?

20 A. Could you repeat the question or read it  
21 back, please?

22 Q. I can repeat it.

23 A. Okay.

24 Q. To the extent the PJM energy market  
25 clears above a generation owner's energy costs, that

1 allows the generation owners to make a margin on  
2 energy sales, what would be a positive margin on  
3 energy sales; is that correct?

4 A. That is correct.

5 Q. Now, that positive margin could be an  
6 offset for some embedded costs of the generation  
7 owner, correct?

8 A. It could. It depends on where the margin  
9 from that sale -- particular sale goes to.

10 Q. Okay. Now, when AEP Ohio's customers  
11 shop, AEP Ohio has energy that is freed up that is  
12 not needed by their internal load, correct?

13 A. Yes.

14 Q. And AEP Ohio can bid that energy into the  
15 PJM energy market, correct?

16 A. It can bid its offer associated with that  
17 unit in the day-ahead market, yes, they can.

18 Q. And then if the unit clears, which I know  
19 you are thinking about, if the unit clears, that  
20 energy is sold at the RPM market price, correct?

21 A. Yes.

22 Q. Is it fair to say AEP Ohio would not  
23 normally sell energy into the RPM market if it would  
24 lose money doing so, correct?

25 A. I believe we talked about in our

1 deposition subject to certain operation --  
2 operational constraints I would agree with that.

3 Q. And you would also agree that every  
4 dollar of positive energy margin earned by AEP on a  
5 generation resource is a reduction in its net cost,  
6 correct?

7 A. To the extent that a given unit in the  
8 current pool framework clears, makes an incremental  
9 margin, it would be shared across the companies.

10 We have various off-system sale sharing  
11 arrangements in the vast majority of our  
12 jurisdictions. Whatever is retained by the company  
13 then would presumably be applied by each -- each of  
14 the operating companies within the applied --  
15 potentially to a reduction of its cost, whatever is  
16 left over.

17 Q. So with that understanding my question is  
18 accurate that every dollar of positive energy margin  
19 earned on the resource could be a re -- can be a  
20 reduction in its net costs?

21 A. And I am giving you a qualified yes in  
22 the sense that understand when you say "every  
23 dollar," I'm saying what may be left over is, for  
24 example, 25 cents.

25 Q. Is that because of the pool agreement?

1           A.     Because the pool agreement and off-system  
2     sales sharing arrangements in several jurisdictions.  
3     It would be a passthrough so it would not reduce our  
4     overall costs.

5           Q.     Now, on -- back to your testimony on page  
6     18 of your testimony, line 7. Here you are saying  
7     "AEP Ohio proposes that any energy credit be further  
8     reduced by 50 percent."

9                     I want to ask you a hypothetical on this.  
10    I want you to assume that the energy prices are  
11    constant during the three-year period when the  
12    template will be used, all right?

13                    Now, if the energy prices stay constant  
14    during that three-year period, all else being equal,  
15    this will result in AEP Ohio shareholders receiving  
16    50 percent of the energy credit, correct?

17           A.     If the -- per your assumption if the  
18    market prices stayed the exact same, the units  
19    cleared, and the cost basis did not change, then I  
20    think what you are getting is there would be some  
21    defined margin that would be allocated as per the  
22    company's calculation of the credit, yes.

23           Q.     Okay. And --

24           A.     That's -- and to clarify that, that's  
25    where we are getting down to the portion retained by

1 AEP Ohio after the MLR effects to the other  
2 companies.

3 Q. And -- all right. So just on that  
4 clarification, the 50 percent sharing, does that  
5 occur before the MLR adjustment in your calculation  
6 or after the MLR adjustment?

7 A. Oh, no, after the MLR adjustment.

8 Q. Okay. And so just to see an impact of  
9 energy pricing, if the energy prices increase from  
10 year to year during the three-year period, all else  
11 held equal, AEP Ohio's shareholders would receive  
12 more than 50 percent of the energy credit; is that  
13 correct?

14 A. To clarify, they wouldn't receive more  
15 than 50 percent. I think what you're saying is that  
16 50 percent would be a bigger number. The percentage  
17 would stay the same.

18 Q. Okay. Well --

19 A. So under your scenario the energy credit  
20 would also be bigger.

21 Q. Now, in your Exhibit 7 you have a  
22 reference to gross CONE, or gross cost of new entry.  
23 And that is -- that's the cost of new entry for what?

24 A. Are you referring to column C, just to  
25 clarify?



1 Q. I believe I am.

2 A. Gross CONE column.

3 Q. Gross CONE, yes.

4 A. Well, that stands for the cost of new  
5 entry of I believe a combustion turbine.

6 Q. And that's a simple cycle combustion  
7 turbine?

8 A. That's my current understanding, yes. I  
9 would refer you to Company Witness Horton, depending  
10 on how far into that you want to get.

11 Q. Now, the gross CONE numbers in your  
12 Exhibit 7 are calculated by PJM; is that correct?

13 A. That's my understanding, yes.

14 Q. Now, for the purpose of calculating net  
15 CONE, PJM makes an energy and ancillary services  
16 adjustment to gross CONE; is that your understanding?

17 A. That is my understanding.

18 Q. And PJM does not reduce the energy and  
19 ancillary service adjustment by 50 percent, correct?

20 A. No, not to my knowledge they don't. But  
21 to clarify there, while they do not reduce it by  
22 50 percent, it's my understanding that they look at  
23 the three previous years of energy revenues which to  
24 me is somewhat distorted given that the prices have  
25 steadily been declining since the 2007-2008

1       timeframe.

2               Q.     Okay.  Now, in suggesting in your  
3       testimony how an energy credit could be calculated,  
4       you state that generally the credit is the difference  
5       between market-based revenues and AEP Ohio's energy  
6       costs, correct?

7               A.     Yes.

8               Q.     Now, how energy cost is determined under  
9       the template is shown for Columbus Southern and Ohio  
10      Power starting on page 21 of your Exhibits 3 and 4;  
11      is that correct?

12              A.     I'm sorry, did you say 23 or 24?

13              Q.     I said page 21.

14              A.     Oh, 21.

15                   MR. CONWAY:  Your Honor, when  
16      Mr. Pearce -- Dr. Pearce gets to a page reference,  
17      can I have the question reread?

18              A.     I'm on page 21.

19                   (Record read.)

20                   THE WITNESS:  I'm sorry, could you read  
21      that back one more time?

22                   (Record read.)

23              A.     Yes, I would agree with that.

24              Q.     Then starting on page 22, there's  
25      actually several page 22s.

1           A.    Yes.  For clarity there is the months.  
2   That's why we have 12 of those pages.

3           Q.    Right.  So those are the exhibits that  
4   provide details for each month in 2010, correct?

5           A.    Yes.

6           Q.    And then the -- is it true that the  
7   monthly cost is then carried over to your Exhibit  
8   KDP-5 on page 1, the second table?

9           A.    Yes.

10          Q.    And just to follow it through let's look  
11   at -- let's see for Ohio Power.  Ohio Power is KDP-4,  
12   correct?

13          A.    Yes.

14          Q.    Okay.  Now, the detail for Ohio Power for  
15   March, 2010, would be on page 22 of Exhibit KDP-4 and  
16   would say at the top "Month of March, 2010"; is that  
17   correct, so we can get to the same place?

18          A.    Okay.  So you are comparing what?

19          Q.    Not too many comparisons yet, just trying  
20   to find the right page for Ohio Power which is March,  
21   2010, monthly energy related costs.  So that would be  
22   one of the page 22s of your Exhibit KDP-4 that had  
23   March of 2010 at the top, correct?

24          A.    Yes.

25          Q.    So we are on the same page, the total

1 energy related costs at the bottom is 75, 530, 603;  
2 is that correct?

3 A. Yes.

4 Q. All right. Same place. Now, is that  
5 number the total energy-related costs that are then  
6 carried over to your Exhibit KDP-5?

7 A. No, it is not.

8 Q. Can you explain how -- from March of 2010  
9 for Ohio Power what is carried over or what  
10 calculations you do to get from what you -- what you  
11 show in this template for monthly energy-related  
12 costs to the number that you have on your Exhibit  
13 KDP-5?

14 A. The \$75 million is the calculation of the  
15 total cost and that is carried back to Exhibit KDP-4,  
16 page 21. So as you see like in column 1, March,  
17 2010, \$75 million. It is then divided through by the  
18 actual megawatt hours of the company to obtain the  
19 rate.

20 Q. And then is it the rate that's carried  
21 over to your KDP Exhibit 5?

22 A. I don't recall any other specific  
23 adjustments at this time, but I'll concede those  
24 aren't the exact same number.

25 Q. So for -- on your page 21, the rate for

1 March, 2010, is \$30 and then .075. The March rate on  
2 your Exhibit KDP-5 is \$31.26; is that correct?

3 A. That is correct. It may be a loss  
4 adjustment in there that I am not recalling at this  
5 point in time that's causing that difference.

6 Q. All right. So at this time you don't  
7 know what the -- you don't know how you got from the  
8 one number to the other?

9 A. I can't recall, no.

10 Q. Now, back on that page 22 that is the  
11 March, 2010, data for energy-related costs, are you  
12 back there?

13 A. Yes. Or page -- page 22?

14 Q. Page 22, the March, 2010, data.

15 A. Okay.

16 Q. On line 13, line 13 says purchased power  
17 energy related and has an amount of 22,451,338. What  
18 are those costs?

19 A. Purchased power -- well, they are just  
20 the FERC 5 -- FERC account 555 purchased power  
21 properties of PJM designated as energy related in the  
22 FERC Form 1s.

23 Q. So what -- is it accurate that what this  
24 shows is Ohio Power purchases of power recorded in  
25 that account 555 of slightly over \$22 million during

1 that month?

2 A. Yes.

3 Q. I'm sorry to move around on you, but I  
4 want to take you back to your testimony on page 15 of  
5 your testimony. On this page you are referring to  
6 AEP Ohio using the entire load shape to calculate the  
7 energy credit.

8 A. Yes.

9 Q. Okay. Now, which means you are using the  
10 total connected load both shopping and nonshopping,  
11 correct?

12 A. Yes.

13 Q. And is that on an hourly basis?

14 A. Yes, it is.

15 Q. Okay. Now, you are aware that the  
16 shopping load of other EDUs in Ohio has had more  
17 shopping at the commercial/industrial level as  
18 compared to residential, correct?

19 A. I can't say that. I don't know.

20 Q. If I could take you to your deposition,  
21 please, this time to page 54. Page 54, line 14, I  
22 asked you the question "Do you know whether when  
23 electric distribution utilities in Ohio have shopping  
24 that the shopping -- whether that shopping draws more  
25 heavily from the, you know, large commercial and

1 industrial as compared to the residential customers?"

2 And your answer was "It's been my  
3 understanding thus far that there has tended to be  
4 more shopping at the commercial and industrial level  
5 than residential."

6 And then you did follow up saying that  
7 Company Witness Allen may have more detail on that  
8 but that was your understanding, correct?

9 A. And to be -- and I appreciate the fact  
10 that you said "utilities in Ohio." I was tending to  
11 think of our own AEP Ohio which it is my  
12 understanding that it may have drawn more. I  
13 continue to believe. So today you asked and I  
14 appreciate about other utilities in the state. I was  
15 tending to think of our own during the deposition.

16 Q. All right. Thank you. So you do know  
17 that the same has been true for AEP Ohio.

18 A. That's -- per my -- that's my  
19 understanding for AEP Ohio. And, again, that they --  
20 there has been more shopping at the  
21 commercial/industrial level than residential. But,  
22 again, I would refer you to Company Witness Allen for  
23 the details.

24 Q. Thank you. Now, your Exhibit KDP-5 which  
25 we were just looking at, this has -- page 1 of KDP-5

1 reflects a sharing of revenues among the pool  
2 members, correct?

3 A. Yes.

4 Q. And you find that in this -- in the  
5 column that's labeled ML -- MLR, correct?

6 A. Yes.

7 Q. And that "MLR" stands for member load  
8 ratio, correct?

9 A. Yes.

10 Q. And that's a term that's defined in the  
11 pool agreement, correct?

12 A. Yes, it is.

13 Q. Now, the MLR for the post-merger Ohio  
14 Power is approximately 40 percent.

15 A. Yes.

16 Q. Which means that under the pool agreement  
17 approximately 60 percent of off-system sales revenues  
18 would go to -- would be distributed to other -- the  
19 other pool members, correct?

20 A. Yes.

21 Q. Now, one of those members is Appalachian  
22 Power or APCo, correct?

23 A. Yes.

24 Q. And APCo is both energy and capacity  
25 short, correct?



1           A.     Currently, yes.

2           Q.     Ohio Power in contrast is both energy and  
3 capacity long, talking about the merged Ohio Power.

4           A.     Yes, that tends to be the case.

5           Q.     Now, the way the pool agreement works is  
6 that the resources of the pool are assigned first to  
7 the internal load of members based on lowest cost per  
8 megawatt hour; is that fair?

9           A.     Yes, within operational constraints,  
10 that's true.

11          Q.     And once the internal load is satisfied,  
12 the off-system sales are made from the remaining  
13 resources, correct?

14          A.     Yes.

15          Q.     And then from those sales from those  
16 resources, Ohio Power could receive 40 percent of the  
17 revenues from those sales.

18          A.     Yes.

19          Q.     And that's -- that's an adjustment that  
20 you are making on this Exhibit 5 for the -- the -- in  
21 the MLR column; is that accurate?

22          A.     Yes, it is.

23          Q.     All right. Now, APCo also receives a  
24 percentage of those sales, correct?

25          A.     Any incremental or additional off-system

1 sales, yes, APCo would get its MLR share of.

2 Q. But because of West Virginia regulation,  
3 West Virginia requires that 100 percent of those  
4 revenues that are shared under the pool that are  
5 received by Appalachian Power are shared with retail  
6 customers, correct?

7 A. That is currently the case, yes.

8 Q. So it's credited -- 100 percent is  
9 credited to the retail customer, correct?

10 A. That is correct, compared to virtually  
11 all the other jurisdictions that there is some  
12 retention by the company.

13 Q. Right. And in your mind that's  
14 potentially a subsidy to the West Virginia customers,  
15 correct?

16 A. I am not clear on the point whether there  
17 is or is not a subsidy. I would characterize it as  
18 unequitable from the standpoint we are doing  
19 everything we can to maximize off-system sales, which  
20 has been why basically all the remaining  
21 jurisdictions that I am aware of there is some sort  
22 of sharing provision between the shareholders and  
23 customers to retain some portion of off-system sales.

24 Q. Now, the current plan, and I believe you  
25 were here for Mr. Munczinski's testimony yesterday,

1 the current plan for corporate separation and pool  
2 termination is to achieve the separation and the pool  
3 termination effective January 1, 2014; is that fair?

4 A. Yes.

5 Q. If corporate separation and pool  
6 termination are achieved as of January 1, 2014, your  
7 testimony does not take that into account, correct?

8 A. I'm not -- in what way would it take it  
9 into account? I am not clear of the question.

10 Q. Well, does it take -- your testimony did  
11 not take into consideration any of the impacts of  
12 corporate separation and pool termination as of  
13 January 1, 2014, correct?

14 A. In terms of our proposed calculation of  
15 the CRES charge, which I think is where you are  
16 going, because of the last FERC Form 1 we would ever  
17 need to rely on is the 2014 FERC Form 1 which is  
18 prior to the date of corporate sep which would apply  
19 to the '14-'15 PJM planning year, then we wouldn't  
20 have to address in this formula the corporate  
21 separation.

22 Q. So the answer is it does not take  
23 separate corporation and pool termination into  
24 account, correct?

25 A. It doesn't need to in my mind.

1           Q.    As an example, as you just described, the  
2   2012 FERC Form 1 data is what will be used under the  
3   template to derive the capacity charge from -- for  
4   the 2013-2014 planning year, correct?

5           A.    Yes.

6           Q.    So the last five months of that planning  
7   year, January through May of 2014, will have a  
8   capacity charge based on the cost of assets that are  
9   no longer owned by AEP Ohio, correct?

10          A.    While the costs will be based on the  
11   assets that are no longer owned by the wires company,  
12   it is the cost of basically the same assets that will  
13   be supplying the FRR plan still in effect, Gavin --  
14   cost of Gavin.

15          Q.    Cost of Gavin, as an example, Gavin for  
16   those five months of that planning year will be owned  
17   by AEP Generation Resources, correct?

18          A.    That's my simple understanding.

19          Q.    Okay.

20          A.    Mr. Munczinski is the better witness for  
21   it.

22          Q.    Now, the last year the template is used  
23   will be for AEP Ohio's costs as reported on the 2013  
24   FERC Form 1, correct?

25          A.    Yes.

1           Q.    And the resulting capacity charge will be  
2           assessed between June 1, 2014, and May 31, 2015,  
3           correct?

4           A.    Yes.

5           Q.    So for those 12 months which is the 2014  
6           through 2015 planning year, the capacity charge,  
7           again, will be based on the cost of assets not owned  
8           by AEP Ohio but owned by AEP Generation Resources,  
9           correct?

10          A.    In terms of strict ownership, that is  
11          correct. To clarify my simple understanding is that  
12          there will still be effectively a contractual  
13          obligation to provide those same assets which have  
14          already been committed to satisfy the capacity  
15          requirements of that load through May 31 of 2015.

16          Q.    Now, the Amos plant and the Mitchell  
17          plant are included in the template as Ohio Power  
18          assets. They are in gross plant in service and so  
19          they would be part of the FERC Form 1 for 20 -- for  
20          2011, 2012, and 2013, correct?

21          A.    Presuming no transfer of assets happen  
22          before that date, then that would be correct.

23                   And just to expand on that point,  
24          hypothetically if you are going to try to do some  
25          sort of going-forward adjustment to pulling Mitchell

1 out, to be fair you would also have to pull out the  
2 benefits that AEP Ohio would have received from those  
3 things as well. So if you were trying to account for  
4 that, it's not clear that would necessarily drive the  
5 rate much in particularly either direction.

6 Q. You are jumping ahead of me.

7 A. Oh, okay.

8 Q. But if I do ask first AEP's cost for  
9 capacity after January 1, 2014, assuming that's when  
10 the corporate separation occurs, AEP Ohio's costs  
11 will be sent by the contract between it and AEP  
12 Generation Resources, correct?

13 A. I understand that there is -- the  
14 companies' current objective is that there is a  
15 contract. I'm not clear on what the specific terms  
16 and conditions and provisions of that contract will  
17 be.

18 Q. Okay. Now, again, assuming corporate  
19 separation January 1, 2014, after -- after that  
20 corporate separation takes place, the Mitchell and  
21 the Amos plants will not be owned by Ohio Power or by  
22 AEP Generation Resources, correct?

23 A. Again, it's my understanding that one of  
24 the objectives is to move those assets, but, again,  
25 Mr. Munczinski would have been the best person to

1 provide any details on that.

2 Q. Well, generally you do understand that  
3 the -- the general proposal that's out there is to  
4 move the Amos and the Mitchell assets to Appalachian  
5 Power and Kentucky power, correct?

6 A. Yes, and to clarify, because as we've --  
7 I think has already been raised in this is currently  
8 with Ohio Power being such surplus and those  
9 companies being short there has been a traditional  
10 exchange of power for some assets and so that's the  
11 intent of that, to equalize supply and demand across  
12 the companies, at least move it in that direction.

13 Q. So during the 17-month period between  
14 January 1, 2014, and May, 31, 2015, you reference  
15 there would be a contract between Ohio Power and AEP  
16 Generation Resources that Ohio Power can obtain  
17 capacity and energy, correct?

18 A. Could you repeat the question?

19 Q. Right. I certainly can. Talking about  
20 the 17-month period which is the bridge period  
21 between corporate separation and AEP going to RPM,  
22 there's going to be a contract, I think you had  
23 referenced earlier, between AEP Ohio or Ohio Power  
24 and AEP Generation Resources, correct?

25 A. Again, I am going to refer Mr. Munczinski

1 would have been the best one. My understanding is  
2 the company will potentially propose some type of  
3 contract. It's going to be subject to whatever  
4 regulatory approvals are required, so I'm not going  
5 to opine where that winds up.

6 Q. Now, during that -- during that bridge  
7 period, AEP Generation Resources will not be selling  
8 capacity from the Amos and Mitchell facilities to AEP  
9 Ohio, correct?

10 A. I'm sorry. They won't be selling?

11 Q. Capacity from the Amos and Mitchell  
12 plants to AEP Ohio because AEP Generation Resources  
13 won't own those plants, correct?

14 A. Well, let's be clear. The commitment  
15 that's made under the FRR plan was for a bundle of  
16 all the companies of the operating -- the current  
17 pool and that's in effect through May 31 of 2015.

18 So I think you can make that assertion  
19 June 1 of '15, but it's not clear to me that we will  
20 be able to unscramble the egg, if you will, just the  
21 way you described it prior to May 31, 2015. We have  
22 already committed as a bundle five, now four-member  
23 pool to that theory, so the assets of all the  
24 companies together are satisfying the FRR plan.

25 Q. Now, during that time period you talked



1 about these assets are specifically being transferred  
2 to Appalachian Power and Kentucky Power because they  
3 are short on capacity, correct?

4 A. Yes.

5 Q. I want to ask you some questions about  
6 production-owned expense. I would like to start on  
7 your Exhibit KDP-4 on page 14. Now, is it correct,  
8 Dr. Pearce, that page 14 of your Exhibit KDP-4 is the  
9 Ohio Power listing of production O&M expense?

10 A. Yes. Yes.

11 Q. And column 2 on this page which has a  
12 header of "Demand Fixed," column 2 represents the  
13 fixed costs of power purchased by Ohio Power; is that  
14 correct?

15 MR. CONWAY: Mr. Lang, I apologize for  
16 interjecting, but I'm not following along with you.  
17 Could you give me the reference to the exhibit page  
18 you're on?

19 EXAMINER PARROT: Mr. Conway, can you  
20 make sure you are using the microphone.

21 MR. CONWAY: Excuse me, your Honor. I  
22 apologize for interrupting.

23 MR. LANG: I heard it. Exhibit KDP-4,  
24 page 14, if you have your book turned sideways, you  
25 are probably in the right place.

1 MR. CONWAY: Column 2, is that where you  
2 are?

3 MR. LANG: Column 2.

4 MR. CONWAY: Okay. Thank you very much.

5 Q. (By Mr. Lang) So the question was column  
6 2 with the header of "Demand Fixed" represents the  
7 fixed costs of power -- I'm sorry. Column 2  
8 represents the fixed costs of production O&M expense,  
9 correct?

10 A. Yes, as calculated by the template.

11 Q. And then on line 11 again is the -- is  
12 the line item for purchased power. What appears in  
13 column 2 for line 11, \$59 million and change, that's  
14 the annual fixed cost of Ohio Power's purchased  
15 power; is that correct?

16 A. Yes, as reported in the FERC Form 1.

17 Q. And that is -- it's your understanding  
18 that a substantial portion of the purchased power  
19 cost identified there is Ohio Power's purchase of  
20 power from OVEC, O-V-E-C; is that correct?

21 A. Yes, that's my understanding.

22 Q. And what else is in there in addition to  
23 the purchase from OPEC -- I'm sorry, from OVEC?

24 A. Well, as outlined in the company's FERC  
25 Form 1, I believe on page 327 are the purchased power

1 expenses and you have specific columns for portions  
2 of each purchase that have been allocated within the  
3 FERC Form 1 is the demand portion of purchases and  
4 energy portion of purchases.

5 There's also another column for some  
6 miscellaneous small items, so it would be pulled out  
7 of what's in the demand column from the FERC Form 1  
8 for purchases.

9 Q. Now, page 14 would also include general  
10 administrative expenses, correct?

11 A. It would receive an allocation portion of  
12 that, yes.

13 Q. Okay. And -- and on page 14 we would  
14 find that on line 13 where it says "A & G Expense,"  
15 correct?

16 A. Yes.

17 Q. And that reference -- that refers us to  
18 page 10 of line 17, so I want to take you there,  
19 please. Now, page 10 is the administrative and  
20 general expense and allocation sheet; is that  
21 accurate?

22 A. Yes.

23 Q. Now -- now, you had mentioned there is an  
24 allocation factor applied. Is that an allocation  
25 between the wires company and the production company?

1           A.    I'm sorry.  You're on -- just to make  
2   sure, you're on page 10?

3           Q.    Correct.

4           A.    Okay.  So what was the question?

5           Q.    You had stated earlier that there is an  
6   allocation factor applied.  Is there a reference on  
7   page 10 to an allocation factor?

8           A.    Yes.  In terms of no -- like note A says  
9   at the bottom, "Percent from note B, page 7."

10          Q.    So and is that an allocation between --  
11   of these general expenses between the wires company  
12   and the production of generation company?

13          A.    Well, it's an allocation of total company  
14   amount to the production functions as we are still a  
15   bundled company at this point in time.

16          Q.    Okay.  What advertising costs are  
17   included here?

18          A.    We specifically exclude advertising costs  
19   as we do use memberships for a template like on line  
20   1.

21          Q.    All right, so in the FERC Form 1 the  
22   miscellaneous general expenses on the FERC Form 1  
23   would include advertising costs, correct?

24          A.    Yes.  The total FERC Form 1 would, but as  
25   I said, we were doing an adjustment to specifically

1 pull out those items.

2 Q. And that's what I wanted to track is you  
3 have -- in the carry-over of the advertising costs on  
4 FERC Form 1 would appear on line 1 of page 10, but as  
5 you say, you back those costs out of what appears on  
6 line 11; is that right?

7 A. Yes.

8 Q. Now, the note says "Excludes general  
9 advertising...." So just to be clear, are you saying  
10 it excludes all advertising?

11 A. I would have to go back to the work file  
12 to see specifically. In general I'm thinking we're  
13 pulling all the advertising I could think of out of  
14 that, but I would have to go back and look.

15 Q. So it may include generation-related  
16 advertising?

17 A. No. My understanding is that we are  
18 pulling all advertising out of that number.

19 Q. Now, you're familiar with AEP's recent  
20 advertisement, lemonade stand advertisement, that is  
21 an advertisement AEP is running against CRES  
22 providers in Ohio?

23 A. I saw the commercial. I have -- I have  
24 had absolutely nothing to do with it or what its  
25 purpose is. I'm drinking water, not lemonade.

1           Q.     Excellent. Are you aware that AEP Ohio  
2     is paying for that -- is paying for that  
3     advertisement through an organization called  
4     FairEnergyOhio.org?

5           MR. CONWAY: Objection, relevance. He's  
6     already explained that to his knowledge all  
7     advertising has been excluded, and in any event the  
8     advertising that Mr. Lang is referring to apparently  
9     ran in the last weeks so there is no way that any  
10    money -- any cost associated with what he's talking  
11    about is in the numbers that are in the FERC Form 1  
12    for 2010, so I object to the -- to the relevance and  
13    the foundation.

14          MR. LANG: And I absolutely hope it would  
15    not appear -- I absolutely hope it would not appear  
16    in the 2010 FERC Form 1, but I am exploring the  
17    question of whether it will appear in the 2012 FERC  
18    Form 1 which will be part of this template.

19          MR. CONWAY: And, once again, your Honor,  
20    he's already testified his understanding is that all  
21    advertising is excluded.

22          EXAMINER PARROT: The objection is  
23    overruled.

24          THE WITNESS: Could you repeat the  
25    question?

1 (Record read.)

2 A. Not with certainty, no.

3 Q. Do you have a suspicion?

4 MR. CONWAY: Objection. Just a second,  
5 Dr. Pearce.

6 A. Hearsay is what I would say.

7 Q. From hearsay.

8 MR. CONWAY: Dr. Pearce, there is an  
9 objection --

10 THE WITNESS: Sorry.

11 MR. CONWAY: -- from your attorney,  
12 please.

13 EXAMINER PARROT: Grounds, Mr. Conway?

14 MR. CONWAY: Calls for speculation. He  
15 asked him whether he had a suspicion. That's clearly  
16 equivalent to asking him if he has a speculation.

17 MR. LANG: And, your Honor, I am happy to  
18 move on.

19 EXAMINER PARROT: Thank you, Mr. Lang.

20 Q. (By Mr. Lang) Now, Dr. Pearce, assuming  
21 AEP Ohio is funding that ad, that cost would appear  
22 in the 2012 FERC Form 1 data, correct? It would be  
23 an advertising cost of the company?

24 MR. CONWAY: Objection again, your Honor.

25 EXAMINER PARROT: Overruled.

1           A.    As far as how the company would cut a  
2           check to any organization to do anything with it  
3           including running an ad, it would just depend on  
4           where the money got posted to, what account it hit,  
5           where it would show up in the FERC Form 1.

6                       Specifically in this exhibit we are  
7           pulling out our advertising cost and things including  
8           like dues and memberships. So assuming that did even  
9           make its way into the FERC Form 1 for 2012, I'm  
10          comfortable stating that the template, regardless of  
11          what adjustment had to be made, would not pick up  
12          that expense.

13          Q.    So it's -- you would certainly agree  
14          there is more complexity to using the template. It's  
15          simply not taking FERC form data, plugging it into  
16          the line items here, and generating a capacity  
17          number. There's adjustments that you are making to  
18          the FERC Form 1 data, correct?

19          A.    Well, let's be clear. All of the data in  
20          this ties in total to the FERC Form 1. In certain  
21          instances we are pulling additional detail out of the  
22          company's books and records, very transparent through  
23          the workpapers, through other supporting  
24          documentation that we can provide upon request for  
25          any audit purposes to make any adjustments to it and



1 check it all the way back to the totals that are  
2 shown in the FERC Form 1.

3 So to me it is still a fairly simple  
4 process that does tie in total to the FERC Form 1.

5 Q. Now, when you say here in Note D that  
6 you're excluding the general advertising, is that  
7 because you're treating that advertising as a wires  
8 company expense rather than a generating company  
9 expense?

10 A. No. It just -- standard practice across  
11 various retail jurisdictions, certain items can get  
12 disallowed. To me the FERC form -- the templates  
13 that we're using are not dissimilar to that in the  
14 sense that there's certain types of costs that the  
15 company incurs that maybe traditionally have not been  
16 included in a generic rate case, so some of those  
17 same type of items kind of from a traditional cost of  
18 service are excluded, picked up strictly by  
19 shareholders and noted by whether you are charging  
20 the wholesale customer or to retail customers. I  
21 don't think it's really a wires company per  
22 generation function issue.

23 Q. Are there also political or charitable  
24 expenses that are included on this page 10 or are  
25 those pulled out also?

1           A.     To my knowledge we pull out any type of  
2     items like that. They are intended to be reported in  
3     specific FERC subaccounts which can then be pulled  
4     out from just a general ledger query and subject to  
5     audit not only internally by our outside auditor.  
6     The entire FERC form is audited.

7           MR. CONWAY: Mr. Lang, are you about to  
8     switch to a new topic or are you still?

9           MR. LANG: I'm staying on production O&M  
10    expense, but I am going to Columbus Southern. Are  
11    you thinking this might be a good time for a break?

12          MR. CONWAY: Yes. We've been going over  
13    an hour and a half, close to an hour and three  
14    quarters so can we take a 10-minute break?

15          EXAMINER PARROT: Mr. Lang, how much more  
16    do you think you maybe have at least on this topic?

17          MR. LANG: On production O&M it's  
18    probably another 15 minutes and then probably a half  
19    hour to 40 minutes total.

20          EXAMINER PARROT: Let's keep things  
21    moving and finish the topic and then we'll take a  
22    break.

23          Q.     (By Mr. Lang) Now, I want to take you back  
24    to the production O&M expense page 14 but, now, we  
25    are in Exhibit KDP-3 on the Columbus Southern,

1 Columbus Southern data.

2 A. Did you say KDP-3, page 14?

3 Q. KDP-3, page 14.

4 A. Okay.

5 Q. And that is -- the header at the top says  
6 "Annual Fixed Cost Production O&M Expense," correct  
7 in?

8 A. Yes.

9 Q. And as with the other page 14 we looked  
10 at for Ohio Power, line 11 here is the -- it would be  
11 Columbus Southern's purchased power costs as shown in  
12 account -- FERC Account No. 555, correct?

13 A. Yes.

14 Q. And, again, in column 2 that's Columbus  
15 Southern's fixed cost of purchased power for 2010,  
16 correct?

17 A. Yes, it is.

18 Q. Which is \$106 million and change,  
19 correct?

20 A. Yes.

21 Q. And that's part of the production O&M  
22 expense that is used to calculate the capacity  
23 charge, correct?

24 A. Yes, it is.

25 Q. Now, a majority of that \$106 million in

1 purchased power costs is purchases from the  
2 Lawrenceburg facility owned by the company called AEP  
3 Generating Co., correct?

4 A. AEP Generating Company, yes, that's  
5 correct.

6 Q. And AEP Generating Company is an -- is  
7 another AEP affiliate that -- is it fair to say that  
8 it's -- it's sole function is to own the Lawrenceburg  
9 plant?

10 A. No. It also owns portions of the  
11 Rockport plant.

12 Q. Thank you. The 106 million as shown here  
13 on page 14 comes from Columbus Southern's FERC Form 1  
14 of purchased power costs, correct?

15 A. It does subject to one adjustment that I  
16 know of.

17 Q. Okay. Jumping ahead of me again but  
18 we'll get there.

19 A. Okay.

20 MR. LANG: If I can approach, please. I  
21 have one exhibit.

22 EXAMINER PARROT: You may.

23 MR. LANG: Your Honors, I ask that this  
24 document be marked as FES Exhibit 109, 109.

25 EXAMINER PARROT: So marked.

1 (EXHIBIT MARKED FOR IDENTIFICATION.)

2 Q. Dr. Pearce, are you familiar with the  
3 document that's been marked as FES Exhibit 109?

4 A. That is the one that the page is the FERC  
5 Form 1 you just handed me?

6 Q. Correct.

7 A. Yes.

8 Q. And so the cover page is the cover page  
9 of the FERC Form 1 for 2010, correct?

10 A. Certain pages from that, yes.

11 Q. Well, the cover page.

12 A. Oh, yeah, the cover page is that.

13 Q. And then the attached pages is the  
14 purchased power section of that report, correct?

15 A. Yes.

16 Q. And that's the report for Columbus  
17 Southern Power?

18 A. It appears to be so, yes.

19 Q. Now, on page 326, line 1, that shows  
20 Columbus Southern Power's purchases from AEP  
21 Generating Company, correct?

22 A. Yes.

23 Q. And if you follow the lines across to  
24 page 327, the demand charge of 60 million --  
25 \$60,734,136 is what you include as Columbus

1 Southern's purchased power demand costs that's  
2 carried over to page 14, line 11, for the purchases  
3 from the Lawrenceburg facility?

4 A. Yes, that's correct.

5 Q. Now, the sales -- AEP Generating Company  
6 purchased Lawrenceburg in 2007; is that correct?

7 A. Yeah, that sounds correct. Yes.

8 Q. And then this is a contract between AEP  
9 Generating Company and Columbus Southern whereby  
10 Columbus Southern purchases the output of the  
11 Lawrenceburg facility, correct?

12 A. Yes.

13 Q. Now, so the -- the demand column on page  
14 326, 327, 327.1, and 327.2 is what you use on page 14  
15 of the template, correct?

16 A. Yes, with one adjustment.

17 Q. Yep. And to get there the total on the  
18 FERC Form 1 is approximately \$104 million, correct?

19 A. That is correct.

20 Q. So what is the adjustment that's made to  
21 go from \$104 million to \$106 million?

22 A. Well, there's approximately a \$1.8  
23 million adjustment associated with the deferral of  
24 Lawrenceburg. Since that is a purchase initially  
25 there was a recording of payments between Columbus

1 Southern Power and the AEG and those were reported in  
2 a rent expense account, 507.

3 It's my understanding this Commission at  
4 one point approved those purchases be placed in the  
5 555, but you get the traditional between straight  
6 line depreciation and the tax deferral between those  
7 payments that's going into purchased power. So that  
8 is a deferral we specifically added back in and it's  
9 very analogous to the discussion that we had prior  
10 around this very topic on the, for example, last year  
11 the companies believed there should not be any  
12 deferred fuel, for example, not added back in to the  
13 calculation, so we did the same thing with this  
14 deferral.

15 Other than fuel this is the only other  
16 deferral that I'm aware of an adjustment that we made  
17 in the entire template was that \$1.8 million add  
18 back.

19 Q. Okay. Was that a one-time only for 2010,  
20 or was that an adjustment that will also be made in  
21 2011, '12, and '13?

22 A. That's a good question. Because of the  
23 transition now that we have got authorization to move  
24 those payments from 507 to 555 on CSP's books, I'm  
25 not clear whether we will have a specific adjustment

1 in future years or not. Sitting right here I don't  
2 know.

3 Q. Now, staying on the FERC Form 1, it shows  
4 several pages of purchases of capacity during 2010,  
5 correct?

6 A. Yes.

7 Q. For example --

8 A. Or "several," a few.

9 Q. A few. Line 3 on page 326 is a  
10 references -- is that a reference to purchases from  
11 the pool?

12 A. That would be my belief, yes.

13 Q. So that would be approximately \$19  
14 million of purchases from the pool?

15 A. Yes.

16 Q. Going down on page 326.1, line 1, that  
17 would be another purchase of capacity from  
18 Constellation of approximately \$2 million.

19 A. As shown in the FERC Form 1, that's  
20 correct.

21 Q. And it's your understanding that would be  
22 a -- as -- in contrast to the purchases from the  
23 pool, that would be a bilateral market transaction.

24 A. That would be the cost that is hitting,  
25 for clarity, CSP's books as far as bilateral. I just



1 want to clarify it's not necessarily -- Constellation  
2 with CSP, it could be the Service Corp. acting as an  
3 agent on behalf of all the four or five members.

4 Q. So it may be a -- a purchase by the pool  
5 of capacity and then Columbus Southern's -- would it  
6 be Columbus Southern's MLR percentage that hits the  
7 FERC Form 1?

8 A. Yes. We use MLR for a lot of things.  
9 This would generally be an MLR allocation if it is a  
10 system purchase, capacity purchase.

11 MR. LANG: That was the end of this  
12 section.

13 EXAMINER PARROT: All right. Thank you,  
14 Mr. Lang.

15 Let's take a 10-minute break.

16 (Recess taken.)

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

19 Mr. Lang.

20 MR. LANG: Thank you, your Honor.

21 Q. (By Mr. Lang) Getting close, Dr. Pearce.  
22 The -- let's see, if I could take you to the last  
23 page of your testimony, page 24. There's a question  
24 and answer starting on line 8, your answer starts on  
25 line 11. And here you are comparing the 40 percent

1 cap on the energy credit that you're proposing to the  
2 gross CONE values, correct?

3 A. Yes.

4 Q. Again, I think you said this earlier,  
5 gross CONE is calculated for a simple cycle gas  
6 turbine, correct?

7 A. It's my understanding that's the current  
8 reference source.

9 Q. And it's true that a majority of AEP  
10 Ohio's capacity is base load coal, correct?

11 A. The majority of our plants are coal  
12 plants, that is correct.

13 Q. And that type of unit, a base load coal  
14 unit, generally make a higher energy margin per  
15 megawatt hour than a simple cycle gas turbine,  
16 correct?

17 A. In a given hour for a specific market  
18 energy price I would expect the cost basis -- what  
19 time period? Let me clarify what time period are we  
20 talking about? Back to the 2010 data? I would  
21 agree -- I would agree with that in very general  
22 terms.

23 Q. Now, on the previous page of your  
24 testimony on page 23 at the bottom, line 22, you  
25 state that net CONE -- "...the Net CONE value has

1       trended upward significantly." And you have a -- do  
2       you have a general understanding of why net CONE has  
3       trended upwards significantly?

4               A.     There's some speculation that I could do  
5       but I would -- the Company Witness Horton would be  
6       the more specific company witness to get into the  
7       specifics on that.

8               Q.     Fair enough. Now, you also reference the  
9       maximum RPM rate in your testimony, and I think it's  
10      on Exhibit 7; is that correct?

11              A.     Yes.

12              Q.     Yes. And your view is as long as AEP  
13      Ohio is an FRR entity, an embedded cost rate that  
14      exceeds the maximum RPM rate is reasonable; is that  
15      fair?

16              A.     What I believe is that our -- based on us  
17      being an FRR, the embedded cost is the most  
18      appropriate cost because, as Mr. Munczinski was  
19      talking about, the contractual nature that I  
20      understand is to be.

21              Q.     And it's the most appropriate cost even  
22      if it exceeds the maximum RPM rate for a particular  
23      planning year, correct?

24              A.     Yes.

25              Q.     Now, over the long-term we should expect

1 to see RPM prices clear around net cost of new entry  
2 or net CONE, correct?

3 A. That's my simple understanding. I would  
4 say, again, Company Witness Horton could -- could go  
5 further into that but, yeah, that would be my simple  
6 understanding.

7 Q. And so over the long-term you expect some  
8 years when the RPM clearing price is lower than net  
9 CONE and some years when it's above net CONE,  
10 correct?

11 A. Yes.

12 Q. But certainly for the next three delivery  
13 years the RPM prices are lower than that average  
14 price, correct?

15 A. Well, for the next two years, I mean,  
16 they're approaching zero, so yes, that's lower, much,  
17 much lower.

18 Q. And I wanted to follow-up on one thing  
19 you said right before the break. Talking about the  
20 purchase power costs that are shown in the template,  
21 and we had talked earlier both that there's purchased  
22 power costs in the -- in the energy part of the  
23 template to page 21, 22, and then also purchased  
24 power costs on page I think it's 14.

25 Are both of those -- is what's reflected

1 in the FERC Form 1 and what's reflected in the  
2 template, are both of those the MLR percentage of  
3 either the costs or the revenues?

4 A. So you're saying about purchased power  
5 like 555 and off-system -- off-system sales revenue  
6 447?

7 Q. Correct.

8 A. In general, I would say that's fair to  
9 say most of those transactions are MLR. You know,  
10 specifically like we talked about Lawrenceburg is  
11 directly assigned. CSP has the bilateral for  
12 Lawrenceburg so it's not MLR.

13 MR. LANG: Your Honor, that's all the  
14 questions I have.

15 EXAMINER PARROT: Thank you, Mr. Lang.  
16 Ms. Kaleps-Clark.

17 MS. KALEPS-CLARK: No questions, your  
18 Honor.

19 EXAMINER PARROT: Thank you.  
20 Ms. Kingery.

21 MS. KINGERY: Yes, we have a few.

22 - - -

23 CROSS-EXAMINATION

24 By Ms. Kingery:

25 Q. Dr. Pearce, you stated earlier this

1 morning, I believe, that the implicit capacity rate  
2 that's charged to the standard service offer  
3 customers is roughly equivalent to the formulaic rate  
4 that AEP Ohio would propose in this case, correct?

5 A. That sounds like a paraphrase of  
6 something I said, yes.

7 Q. Thank you.

8 A. At least not a quote.

9 Q. So under AEP Ohio's proposal both  
10 shopping and nonshopping customers will pay a similar  
11 rate for capacity, correct?

12 A. Well, I used roughly equivalent with the  
13 intent of showing that the formula rate concept was  
14 in my mind on the order of whatever was in the base  
15 G. Company Witness Allen would be the one to -- I  
16 would refer you to for refinement, more detail around  
17 any specific comparison in that area.

18 Q. But it would be roughly equivalent in  
19 your opinion.

20 A. I -- yes, I said roughly, approximately.

21 Q. Okay. Thank you.

22 A. Approximate, not equivalent. I hope I  
23 said that.

24 Q. Yes, roughly, approximately.

25 This morning you also discussed the

1 return on equity of -- that I believe was proposed to  
2 be 11.15 percent; is that correct?

3 A. Yes.

4 Q. And, sir, are you aware of any other Ohio  
5 electric utilities that are receiving 11.15 percent  
6 on the generation portion of their business?

7 A. As far as Ohio specifically, well, for  
8 one thing for our own companies I don't -- my  
9 understanding is we are not -- I don't know exactly  
10 what's in ROE for our companies, and I am not aware  
11 of what the other Ohio companies are charging.

12 I am aware of the template that we are  
13 referring to, Minden Prescott. In this case what was  
14 settled between the parties and FERC staff in those  
15 SWEPCo cases was 11.10 percent. It was pretty darn  
16 close to the 11.15 percent we included here.

17 Q. And that related to cities in Arkansas,  
18 correct?

19 A. One in Arkansas and one in Louisiana but,  
20 again, we have over 30 of those cities and  
21 municipalities scattered across several states and  
22 that is in line with ROEs I would say that we are  
23 recovering, you know, in several of those  
24 transactions, wholesale transactions.

25 MS. KINGERY: I would move to strike the

1 portion of the answer after he indicated that --  
2 after he answered with regard to the cities in  
3 question. It was not responsive.

4 EXAMINER PARROT: Motion to strike is  
5 denied.

6 Q. Sir, within the AEP pool are there other  
7 pool members who are earning 11.15 percent on  
8 generation business?

9 MR. CONWAY: Your Honor, I would object  
10 to this line of examination. The ROEs that are  
11 either earned or authorized, but particularly that  
12 are earned by other AEP operating companies outside  
13 of Ohio, I don't think are relevant. The manner of  
14 regulation and circumstances are very different in  
15 the other states compared to here.

16 I think that there was a similar  
17 objection raised yesterday to this line of questions  
18 when Mr. Munczinski was on the stand. I think the  
19 ruling was in favor of the objection.

20 MS. KINGERY: Your Honor, I would note  
21 then that the ROE earned under the FERC formula is  
22 similarly nonrelevant.

23 MR. KURTZ: Your Honor, may I be heard on  
24 this very briefly? Under the question of what is  
25 compensatory to AEP Ohio for providing capacity, I



1 think it is relevant to understand how much of a  
2 return, rate of return, the other AEP affiliates are  
3 earning in their businesses.

4 And if what they are proposing here is  
5 substantially above what they're earning in West  
6 Virginia, Virginia, Kentucky, et cetera, then the  
7 Commission should understand that and take that into  
8 account.

9 EXAMINER PARROT: Thank you, Mr. Kurtz.

10 The objection is overruled. You may  
11 answer the question.

12 THE WITNESS: May I have the question  
13 read back, please.

14 (Record read.)

15 A. I don't know --

16 Q. Thank you, sir.

17 A. -- whether there are earning more or  
18 less.

19 Q. Sir, earlier this morning if you recall  
20 in your discussions with Mr. Lang, you were  
21 discussing whether the company would be free to sell  
22 the electrical output of capacity that was capacity  
23 resources that were paid for by the CRES providers,  
24 do you recall that discussion?

25 A. Yes, somewhat.

1           Q.    And you clarified to Mr. Lang that not  
2   every megawatt would be sold.  You were looking back  
3   at your deposition; is that correct?

4           A.    Yes, I recall that.

5           Q.    But isn't it true that your clarification  
6   only goes to the company's ability to earn a margin  
7   on that energy, not its freedom to sell; isn't that  
8   true?

9           A.    Well, I think that's the point I was  
10   clarifying when you say "free to sell," you know,  
11   presumably subject to operational constraints, you  
12   know, units normally don't get dispatched in PJM  
13   unless they are being done so economically.

14          Q.    Right.  But that goes to the company's  
15   ability to earn a return, to earn something from  
16   the -- from those sales, not a question of whether  
17   it's free to sell.

18          A.    To create a margin off of that.

19          Q.    Correct.  So the company is indeed free  
20   to sell that energy.  It may or may not earn a  
21   margin.

22          A.    It has -- it has the capacity available  
23   in its LLC if responsibility has gone down.

24          Q.    Correct.  So the company is free to sell  
25   that energy that is now available?

1           A.    I apologize. I keep getting hung up on  
2   this "free to sell." The company is going to offer  
3   the units into PJM and what gets picked up gets  
4   picked up.

5           Q.    I would like to look back at your  
6   deposition once again where this was clarified and  
7   that was your deposition on page 17 where the  
8   discussion started.

9                   And I believe in the clarification this  
10   morning one important intervening question was  
11   omitted from the clarification so if we look at that  
12   deposition, you were initially asked "Is AEP Ohio  
13   free to sell the electrical outputs of the capacity  
14   resources that are used by CRES providers?" Did I  
15   read at that correctly?

16          A.    I'm sorry, what page are you on?

17          Q.    It starts at the very bottom of page 17.  
18   So it would be line 24. And I'll read that again.

19                   "Is AEP Ohio free to sell the electrical  
20   outputs of the capacity resources that are used by  
21   CRES providers?"

22                   Did I read that correctly?

23          A.    You read the question correctly.

24          Q.    And after your counsel asked for the  
25   counsel to be reread, you answered on line 7 of page

1 18, "Yes"; is that correct?

2 A. Yes, that is correct.

3 Q. Okay. And then --

4 A. With the same clarification that if  
5 you -- as I said this morning, if you go -- read down  
6 further on page 18 --

7 Q. Sir --

8 A. -- I explained my "because" in lines 13  
9 proceeding on.

10 MR. CONWAY: Your Honor.

11 Q. I'm trying to get to the next question  
12 because we just are omitting that next question.

13 EXAMINER PARROT: All right. Very good.  
14 Were you finished, Dr. Pearce?

15 THE WITNESS: Yes.

16 EXAMINER PARROT: All right.

17 Ms. Kingery.

18 Q. (By Ms. Kingery) So following your "yes"  
19 response, the next question was "If AEP Ohio sells  
20 that energy into the PJM markets, would AEP Ohio  
21 collect full energy margin from that sale?"

22 Did I read that question correctly?

23 A. Yes, you did.

24 Q. Okay. And that's where you went on then  
25 and said, "no," and clarified that you might or might

1 not earn a margin on it; is that correct?

2 A. No. Because when I say there -- I don't  
3 specifically say about creating a margin. I am  
4 getting into regarding the decisions of day-ahead  
5 awards being picked up within PJM.

6 Q. Well, let's read your answers.

7 A. Which --

8 Q. Go ahead. Let's read your answers  
9 starting on line 13.

10 A. "Okay. And, again, just to be clear,  
11 when we say 'free to sell their power,' they will  
12 offer the units into PJM and PJM will make the  
13 decision whether these units get awarded day-ahead  
14 selection. PJM does this dispatch now since we have  
15 been a member of PJM, not AEP."

16 Q. Do you want to keep reading because  
17 that's --

18 A. "But to the extent they are picked up by  
19 PJM and off-system sales are generated due to the AEP  
20 interconnection agreement, AEP Ohio would be  
21 obligated to share those margins with the other  
22 current members of the AEP interconnection agreement  
23 known as the pool agreement."

24 Q. And isn't it also true that AEP must  
25 offer all of its generation into the day-ahead

1 market?

2 A. I'm going to refer that question to  
3 Mr. Horton, Company Witness Horton.

4 Q. All right. Thank you.

5 If you would go back to your testimony on  
6 line -- on page 17, please. Are you on that page  
7 now?

8 A. Yes, I am.

9 Q. All right. If you look at line 16, we're  
10 talking here about the calculation of energy credit,  
11 and you suggest starting on line 16 that "The energy  
12 value is computed as though it were the result of an  
13 incremental energy sale." Did I read at that  
14 correctly?

15 A. Yes.

16 Q. In other words, I believe you were saying  
17 that it would be treated as an off-system sale,  
18 correct?

19 A. In the context of a customer leaving us  
20 and us -- to the extent that we are able to sell any  
21 of that, some portion of that generation in the  
22 market, it would be an off-system sale.

23 Q. Okay.

24 A. Just to clarify as opposed to treated as.

25 Q. I understand. And, therefore, you would

1 share the revenues with other pool members under your  
2 proposal, correct, the revenues of that sale?

3 A. Yeah. Well, under the -- again, to  
4 clarify when you say "under the proposal," I mean,  
5 that is contained within my testimony more so than a  
6 proposal. I clarify that as I believe Mr. Munczinski  
7 was stating yesterday that under the terms of the  
8 agreement, the pool agreement.

9 Q. Under the terms of your pool agreement  
10 any revenues, any margin, would have to be shared  
11 with pool members.

12 A. Yes.

13 Q. Okay. Now, you have previously testified  
14 that the energy credit that you're suggesting if the  
15 Commission decides to adopt an energy credit is based  
16 on that same FERC template that we have been talking  
17 about, correct?

18 A. Yes.

19 Q. And if we look back in your testimony to  
20 where you first talked about that template, I believe  
21 you said that the -- the wholesale customers in  
22 question, and this is on page 9 of your testimony,  
23 the wholesale customers are full requirements  
24 customers taking both capacity and energy; is that  
25 correct?

1           A.    Yes, that's correct.

2           Q.    And you also said that those full  
3 requirements customers would pay AEP at cost for the  
4 energy that they purchased, correct?

5           A.    Yes, which is why we used a cost basis as  
6 well similar to the template in our cost basis for  
7 the energy credit calculation.

8           Q.    So help me understand, if the company  
9 sells that energy at cost and we're modeling the  
10 energy credit on that same template, would there be  
11 then any margin to share under the pool agreement?

12          A.    It depends. To the extent that the  
13 energy at that cost is sold on that cost basis and  
14 picked up, dispatched by PJM and the day ahead or  
15 realtime LMP price is higher than that, there would  
16 be some margin which goes to how the energy -- the  
17 energy credit is calculated. It's just basically the  
18 difference between that cost basis and the day-ahead  
19 LMPs.

20                So in that case that energy calculation  
21 in the capacity portion of the template is very close  
22 to Minden Prescott and all of our other wholesale  
23 rate customers.

24               MS. KINGERY: I have nothing further.

25               EXAMINER PARROT: Thank you.



1 Mr. Darr?

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

3 - - -

4 CROSS-EXAMINATION

5 By Mr. Darr:

6 Q. With regard to the FRR entity,  
7 Dr. Pearce.

8 A. I apologize. Could you speak up a little  
9 bit or use a microphone.

10 Q. Sure. Thank you.

11 Can you hear me now?

12 A. Yes. Much better, thank you.

13 Q. Who is the designated party that  
14 participates or presents the FRR plan to PJM for AEP?

15 A. I'm sorry, back to not hearing you. Just  
16 a little bit higher.

17 Q. Sure. Let's try it again.

18 A. Okay.

19 Q. Who is the entity within AEP that is  
20 designated to present the FRR plan to PJM?

21 A. I'm not sure specifically who the entity  
22 is, per se. That may be a question better asked of  
23 Company Witness Horton.

24 Q. A few minutes ago you indicated that you  
25 believe that there was an equivalence between the

1 cost of capacity in the SSO rate and I believe the  
2 calculation based on the formula that you presented.  
3 Did I capture that correctly?

4 A. No. I said roughly approximate  
5 calculation and referred to Company Witness Allen for  
6 a refinement on any comparison in that regard.

7 Q. Okay. So approximately they -- they are  
8 close; is that what I should take away from that?

9 A. A rough approximation, I would accept  
10 that.

11 Q. And would that be true across individual  
12 customer classes, if you know?

13 A. I haven't looked at that.

14 Q. Are you aware of anything in the rates  
15 for the default or standard service offer customers  
16 that indicates that they are paying a megawatt day  
17 rate for any of their service?

18 A. Well, let's be -- I mean, from an  
19 engineering standpoint converting megawatts per day  
20 to dollars per kWh a month which is what several of  
21 our tariffs are on, it's a strict conversion \$355  
22 charge equivalents to I believe around \$10.80 per kW  
23 a month, which is a pretty common type charge, I  
24 believe, for industrial customers where you will have  
25 a demand component of your rate, if that answers your

1 question.

2 Q. Can you convert that to a  
3 cents-per-kilowatt hours?

4 A. To convert to cents-per-kilowatt hour,  
5 you have to make a load factor assumption, but for a  
6 demand charge you don't need to. It's just  
7 multiplying by 365 and dividing by days into a year  
8 and dividing by 12,000 megawatts to kilowatts in 12  
9 months, in a year.

10 Q. And what load factor would you be using?

11 A. No. I'm saying you would have to --

12 Q. I understand that.

13 A. Oh, okay.

14 Q. And I'm asking the follow-up which is do  
15 you have a load factor in mind?

16 A. No.

17 Q. How would you find that?

18 A. It would depend on what you're comparing.  
19 And I would go back to my previous response as far as  
20 the comparison of loads. Anything other than a rough  
21 approximate level I will refer you to Company Witness  
22 Allen.

23 Q. If you assumed 100 percent load factor,  
24 can you provide a calculation based on that?

25 A. Well, if my math is correct, I would

1 say -- do you want that in dollars-per-megawatt hour  
2 or cents-per-kilowatt hour?

3 Q. Either way.

4 A. Dollars per megawatt, that's  
5 fourteen-eighty-two; cents-per-kilowatt hour would be  
6 1.48 cents per kilowatt hour. Give it to you both  
7 ways.

8 Q. Okay. And would we find that number  
9 anywhere in the rates, if you know, in the retail  
10 rates?

11 A. I don't know because, again, as I was  
12 speaking in terms of rough approximation, I would  
13 refer you to Company Witness Allen for that.

14 Q. In your calculation of the formula rate,  
15 you use the FERC Form 1 data, as we have been  
16 discussing this morning, correct?

17 A. I'm sorry, give me one moment.

18 Okay. Sorry, what?

19 Q. Let me try it again. In the calculation  
20 of the formula rate we use the FERC Form -- you have  
21 used the FERC Form 1 data, correct?

22 A. Correct.

23 Q. And in that FERC Form 1 data, you are  
24 looking at for Ohio Power Company the total company  
25 revenues, expenses, and other book values, correct?

1           A.    No, I would not agree with that. While  
2           the FERC Form 1 may be on a total-company basis, we  
3           don't pool everything like the discussion is out of  
4           the FERC Form 1, very specific about which pages  
5           we're referring to, which FERC accounts that we're  
6           picking up in that rate.

7           Q.    These FERC accounts they pick up both --  
8           for example, for generation they pick up generation  
9           used for your retail service and generation used for  
10          your off-system sales service, correct?

11          A.    With the clarification, I can say that I  
12          would agree with that in the sense that the formula  
13          rate is commonly referred to as a slice-of-system  
14          approach, meaning if you're 5 percent of the  
15          company's capacity, you pay 5 percent of the cost.

16                So where you'll pick up essentially all  
17          the capacity costs of the company then as has been  
18          shown on our exhibit, you back off of that.  
19          Basically you give credit then for capacity sales  
20          that went elsewhere and the net is what then is  
21          allocated to across the total capacity of the  
22          company.

23          Q.    So if I understand it correctly, you take  
24          a total company number, and then you apply an  
25          allocation based on a division of presumably revenue?

1           A.    No.  It's -- you take total company and  
2           then you net off the revenue associated with sales  
3           that went through effectively something other than  
4           your internal load, connected load in this case, and  
5           then you have a remainder that you're allocating to  
6           that similar to the -- very similar to a common NEC  
7           type fuel calculation.  I shouldn't say "very  
8           similar," but along that same type.

9           Q.    So the revenues that remain, for example,  
10          for retail service, those would include the revenues  
11          associated with your current ESP, correct?

12          A.    No.  To be clear when we say revenue of  
13          offsets, we're talking about nonrequirements revenue  
14          offsets.  It doesn't include that -- I mean, just  
15          like a traditional cost of service approach.  So you  
16          are looking at your total cost of service and then  
17          compare it to what revenues you're collecting.

18          Q.    Correct.  I think I understand that.

19                Let me see if I can be more specific in  
20          my question.  When you're looking to do an assignment  
21          of the costs or your revenues, going to make an  
22          assignment of the revenues associated with your  
23          retail business and calculate an assignment based on  
24          your revenues associated with your off-system sales;  
25          is that correct?

1           A.    I can only go back to what the formula  
2           rate does in terms of you -- you calculate your  
3           costs. You back off the revenues associated with the  
4           demands, and then you have something left over for  
5           that.

6                       As far as specific allocations of costs  
7           of off-system sales or any other kind of ratemaking  
8           adjustments, to my -- to my way of thinking that  
9           varies pretty sub -- I mean to some degree across  
10          several jurisdictions.

11          Q.    Have you done an embedded cost analysis  
12          on a per megawatt day for the entire AEP East pool?

13          A.    The closest I can recall to what I think  
14          you're talking about in terms of our East  
15          pool agreement payments from like, for example, Ohio  
16          Power from the other companies within that currently  
17          exceeds the \$10.80 equivalent per kW a month, so long  
18          they're actually getting higher points, I believe, in  
19          the 12, and all of that is supplied as a credit  
20          before we calculate the net formula rate.

21          Q.    In terms of making your calculations, did  
22          you make any adjustments for the Supreme Court's  
23          finding in 2011, make any adjustments to the FERC  
24          Form 1 data after the Supreme Court's finding in 2011  
25          that certain rates -- or certain revenue streams that

1 were authorized in the first ESP were not properly  
2 authorized by this Commission?

3 A. My source documentation is the FERC Form  
4 1, so, again, to the extent that our company follows  
5 generally accepted accounting principles and is  
6 audited externally, it includes whatever adjustments  
7 to -- if there was such a thing as you're saying, I  
8 don't know. I don't know so I guess I can't answer  
9 that question.

10 Q. When would the FERC Form 1 for 2010 have  
11 come out?

12 A. I'm sorry?

13 Q. When would the FERC Form 1 of 2010 have  
14 come out? When would it have been issued?

15 A. April, 2011 -- oh -- yeah.

16 Q. Go ahead. That's fine.

17 In making your calculation or -- let me  
18 rephrase that.

19 In preparing the formula rate, you  
20 indicated earlier that you used the model from the  
21 Minden -- Minden FERC-approved contract. Did you  
22 compare that in any way to a cost-based rate that  
23 might be authorized under state law? Now, I'm  
24 talking specifically about Ohio law.

25 A. No, I did not. Let me -- maybe it would



1 be clearer, when you say "state law," what are you  
2 referring to? For a retail rate?

3 Q. Yes, sir.

4 A. No, I did not.

5 Q. Are you aware of any limitations on the  
6 use of a cost-based method for setting cost -- for  
7 setting generation rates in the state of Ohio, any  
8 legal limitation?

9 MR. CONWAY: Could I have the question  
10 reread, your Honor?

11 (Record read.)

12 MR. CONWAY: I think I have an objection  
13 here. I think he is asking a lay witness for a legal  
14 opinion. I think that's objectionable.

15 MR. DARR: All I am asking for is his  
16 opinion and whether he was aware of any limitations.  
17 He can do that as a layperson.

18 MR. CONWAY: I don't think that's the  
19 same question.

20 EXAMINER PARROT: Mr. Darr, would you  
21 care to rephrase?

22 MR. DARR: I would like him to answer my  
23 question, your Honor. Are you granting the  
24 objection?

25 EXAMINER PARROT: I'm asking are you --

1 I'm asking whether you're posing this question in  
2 terms of seeking a layperson or a legal opinion? If  
3 you could clarify.

4 MR. DARR: I think I made it clear by my  
5 response I am only asking for his lay opinion.

6 EXAMINER PARROT: Thank you.

7 With that clarification, you can answer  
8 the question, Dr. Pearce.

9 A. Speaking as a lay person I don't know of  
10 any.

11 Q. (By Mr. Darr) In making the calculation  
12 that you did, did you anticipate any particular date  
13 certain for establishing the rates -- the rate?  
14 Excuse me.

15 A. I'm sorry. I don't understand your  
16 question.

17 Q. Under state law in terms of ratemaking  
18 there's oftentimes a requirement to establish a date  
19 certain. Did you establish a date certain for your  
20 calculation?

21 A. I'm not clear in this particular instance  
22 for this specific filing of a date certain other than  
23 we requested that it become -- become in effect.

24 Q. In fact, what you've basically did is you  
25 took the numbers off the FERC Form 1 for 2011,

1 inserted them in the formula, and that produced a  
2 result, correct?

3 MR. CONWAY: Objection, form of the  
4 question. Mischaracterizes what the witness did,  
5 first of all, because when we are talking about the  
6 FERC Form 1 for 2010, not 2011.

7 EXAMINER PARROT: Mr. Darr.

8 Q. With that correction, you took the 2010  
9 information, inserted it in the formula, made some  
10 adjustments as we discussed this morning, and  
11 produced the result that gives us 355 per megawatt  
12 day, correct?

13 A. That is part of what I did. Speaking as  
14 the director over the group that does all the formula  
15 rates and at least speaking as a nonlegal layperson,  
16 looking at this CRES rate is something of a  
17 potentially wholesale rate. This looked like a very  
18 reasonable and -- just and reasonable, fair  
19 methodology for charging CRES providers in the state.

20 Q. It's fair to say you didn't -- based on  
21 your prior answer to my question concerning the  
22 applicability of state law, you didn't make any  
23 calculation in view of what would be applicable state  
24 law; is that correct?

25 A. I defer to my counsel as far as telling

1 me what's permissible by state law. I think if -- to  
2 the extent that we were proposing something that at  
3 least it's implied and would have spoke up, so I'm  
4 comfortable saying this is within the confines of  
5 state law, speaking as a nonattorney.

6 Q. Are you offering any testimony with  
7 regard to whether or not the inclusion of this  
8 capacity rate would satisfy under the requirements of  
9 an ESP that would be more favorable than an MRO?

10 A. I would defer to Company Witness Allen  
11 for any questions regarding that comparison.

12 Q. You're not offering that, are you?

13 A. No.

14 MR. DARR: Nothing further. Thank you.

15 EXAMINER PARROT: Mr. Kurtz.

16 MR. KURTZ: Thank you, your Honor.

17 - - -

18 CROSS-EXAMINATION

19 By Mr. Kurtz:

20 Q. Good morning, Mr. Pearce. Will you turn  
21 to your Exhibit 7, please. Do you have it in front  
22 of you?

23 A. Yes.

24 Q. Okay. Am I correct that the second  
25 column from the right is the RPM rate for the AEP

1 load zone on a historic as well as a future basis?

2 A. Yes, with all the appropriate  
3 multipliers, that's correct.

4 Q. So am I reading this right for the  
5 2007-2008 PJM planning year the RPM rate and the AEP  
6 load zone was \$46.73 per megawatt day?

7 A. Yes.

8 Q. And that is what you charged CRES  
9 providers to provide capac -- to supply capacity for  
10 shopping customers in that planning year?

11 A. To the extent that we had any CRES  
12 shopped load.

13 Q. That was my next question. Did you  
14 have -- AEP Ohio had -- do you know how much shopping  
15 load you had at that point in time?

16 A. It's my basic understanding that we had  
17 either nothing or close to nothing, but I'll defer to  
18 Company Witness Allen to provide those.

19 Q. So \$46 a megawatt day at that period in  
20 time you had no shopping risk exposure, no shopping  
21 of customers to speak of; is that correct?

22 A. Nothing material from a financial  
23 standpoint.

24 Q. Okay. In the 2008-2009 planning year the  
25 RPM rate was \$29.71 per megawatt day; is that

1 correct?

2 A. Yes.

3 Q. And that's what you charged CRES  
4 suppliers, that RPM rate?

5 A. Again, to the extent we had any CRES  
6 suppliers.

7 Q. And at 129 in the 2008-'9 planning year  
8 you virtually had no shopping as well; is that  
9 correct?

10 A. Again, I'll defer to Company Witness  
11 Allen for the specifics.

12 Q. Same question, the next year is \$126 per  
13 megawatt day, and you had very little shopping at  
14 that point; isn't that correct?

15 A. As far as our history of shopping, that  
16 line of questioning, I'll just say I'll defer to  
17 Company Witness Allen. To my basic understanding,  
18 that's correct, we didn't have any for a while.

19 Q. The next planning year the RPM rate you  
20 charged CRES providers was \$220 a megawatt day,  
21 essentially be the first half of calendar year '11.  
22 And you again had very little shopping exposure at  
23 that capacity number; isn't that right?

24 A. I can't speak to that period.

25 Q. Let's go to the next number, \$145.79 per

1 megawatt day as the RPM rate, that's what you're  
2 currently charging CRES suppliers; isn't that  
3 correct?

4 A. Based on an effective rate basis, yes.

5 Q. Okay. Are you familiar with staff's  
6 testimony that was filed a couple of days ago in this  
7 case?

8 A. I have not yet had an opportunity to  
9 review staff's testimony.

10 Q. Could you look at the bottom line  
11 conclusion that the cost base number essentially in  
12 rebuttal to the -- according to the staff witnesses  
13 was \$144 a megawatt day, essentially what the RPM  
14 rate is currently?

15 A. I have not reviewed their testimony so I  
16 can't speak as to my -- it sounds low obviously to  
17 me.

18 Q. Okay. Are you aware that the \$145.79 per  
19 megawatt day is what AEP is proposing to charge CRES  
20 suppliers in the 21 percent, 31 percent, 41 percent  
21 first tier in the ESP filing?

22 A. It's my understanding that there's  
23 something on that order of those tiers and then some  
24 \$255 payment above that. I'm not a witness in the  
25 ESP case. So I would defer you to a witness in that

1 case.

2 Q. Did you review the testimony of OEG  
3 Witness Kollen where he testifies that he believes  
4 the maximum rate that AEP should charge for a  
5 capacity is this same \$145 per megawatt day?

6 A. No, I did not.

7 Q. Okay. Look -- the next two years is  
8 really where the problem is, isn't it? This is where  
9 Mr. Munczinski said the capacity is free essentially  
10 the numbers drop off the table. This is what the  
11 problem is AEP is facing, isn't it? The \$20 a  
12 megawatt day and \$33 a megawatt day?

13 A. No. I mean, from my perspective the  
14 appropriate embedded number is \$355.72.

15 Q. Isn't the real financial exposure what  
16 Mr. Allen calculates in his testimony with ROE would  
17 be of AEP Ohio if they were only able to charge  
18 this -- these very low RPM numbers? Isn't this  
19 what's the real catalyst here?

20 A. And I would say it's a matter of degree.  
21 I mean, basically, you know, for the current year if  
22 we are selling our capacity at less than half of  
23 what, you know, there is some exposure if we get in a  
24 a period where we are giving it away close to free,  
25 then, yeah, there's more financial exposure to your



1 point and extreme financial concern.

2 Q. In your proposal I am going -- you've got  
3 these -- this two-year problem where capacity is  
4 essentially free and your proposal is to go  
5 completely the other way and solve with a sledge  
6 hammer and charge \$355 a megawatt day which grossly  
7 exceeds anything you've charged ever for capacity.

8 MR. CONWAY: Objection, your Honor. He  
9 is mischaracterizing the witness's prior testimony.

10 Q. Let me rephrase.

11 Isn't your proposal to charge \$355 a  
12 megawatt day for -- under the first year the  
13 template -- the template will charge every year but  
14 your fully embedded costs would be \$355 in the first  
15 year?

16 A. That is our fully embedded costs on an  
17 average-cost basis, so it would be expecting to  
18 charge CRES providers, again, if they are using 20  
19 percent over capacity or whatever the number is, they  
20 are paying 20 percent over embedded costs.

21 Q. So your proposal would be to charge 355  
22 which is far more than you have ever charged for  
23 capacity even in the years when you had no shopping.

24 A. And to clarify the -- I believe the most  
25 appropriate number while we are FRR, under the FRR

1 constructs, not RPM, is our embedded cost. For years  
2 as was -- I stated and Company Witness Allen can  
3 confirm if we had variable to no shopping it was  
4 somewhat of a moot point.

5 Q. You were in the hearing room yesterday,  
6 were you not?

7 A. Yes.

8 Q. And you heard or saw the  
9 cross-examination on the Ohio Commission's pleading  
10 filed at FERC? Did you hear my cross-examination of  
11 Mr. Munczinski on that pleading?

12 A. You are going to have to refresh my  
13 memory.

14 MR. KURTZ: Counsel, it is OEG Exhibit  
15 101.

16 MR. CONWAY: You said OEG Exhibit 101?

17 MR. KURTZ: Yes.

18 Q. Ask you to turn to page 4 of that  
19 exhibit. Are you there?

20 Let me read to you what the Ohio  
21 Commission is telling FERC and ask you a question.  
22 At the top "It is evident that the Ohio Commission is  
23 endeavoring to arrive at a CRES capacity rate that  
24 will promote alternative competitive supply and  
25 retail competition while simultaneously ensuring an

1 incumbent electric utility provider's ability to  
2 attract capital investment to meet its FRR  
3 obligations. Arriving at this delicate balance is  
4 not a perfunctory matter." I could go on.

5 There's other things in the document but  
6 my question to you is this, at \$355 a megawatt day,  
7 do you know what that would do to the competitive  
8 market in AEP Ohio?

9 A. No.

10 Q. If you had no shopping when the -- when  
11 the capacity price was far less, do you have any  
12 professional opinion as to what it might do to a  
13 competitive market?

14 A. Absolutely. If you're talking about the  
15 earlier timeframes, energy prices were dramatically  
16 higher than they are today so it's not clear to me at  
17 all that even at the somewhere rough approximation of  
18 the capacity costs SSO suppliers are providing in a  
19 phase where we have \$2 gas costs, that suppliers  
20 can't come in and pay that and make a headroom  
21 margin.

22 Q. If you're charging 355 to shopping  
23 customers for capacity, and that's essentially what  
24 you've testified you're charging nonshopping  
25 customers for capacity, there's -- there's no net

1 difference on the capacity side of the shopping  
2 decision, isn't that -- on an overall basis?

3 I know it varies by rate schedule and  
4 load factor and so forth, but on a total-company  
5 basis, wouldn't that be true?

6 A. No. To my recollection I didn't even say  
7 that, you know, even in the total-company basis it  
8 was the same number. I said it was a rough  
9 approximation.

10 Q. It's roughly the same, 355 on a  
11 total-company basis, then there's no benefit from  
12 shopping just on capacity.

13 A. I don't know that it is not the same. I  
14 don't know that the SSO rate doesn't work out to be  
15 slightly higher such that there would be some  
16 generation.

17 And even for the sake of argument if  
18 those were similar rates on a total-company basis,  
19 again, opportunities in the energy market, what CRES  
20 providers could do on that side, there's a lot of  
21 opportunities and that's the nature of embedded  
22 market for suppliers to attempt to come in and  
23 provide full service to their customers. Excuse me,  
24 in this case energy service because we are already  
25 supplying the capacity.

1           Q.    If you know, AEP put on testimony in this  
2 case about what would be the effect on its return on  
3 equity if the Commission adopted RPM, Mr. Allen  
4 testified it would be 2.4 or 2.9 percent in a couple  
5 of years.

6                     If you know, why didn't the company put  
7 on any evidence in this case as to the effect on the  
8 competitive market the development of shopping  
9 capabilities at your \$355 number?

10                   MR. CONWAY: Your Honor, I'm going to  
11 object at this point. First, I think it doesn't  
12 accurately portray the company's presentation. I  
13 think Witness Graves may have some testimony on the  
14 subject that Mr. Kurtz finds -- or believes is  
15 lacking.

16                   Secondly, the line of questions is well  
17 beyond this witness's scope of testimony and would  
18 have been better directed either to Mr. Munczinski or  
19 some other witness and may very well have been  
20 discussed with Mr. Munczinski, but my point is that  
21 it's well beyond the scope of this witness's  
22 testimony.

23                   EXAMINER PARROT: Mr. Kurtz.

24                   MR. KURTZ: Your Honor, that was my final  
25 question. I prefaced it by "if you know." If he

1 doesn't know, that's fine.

2 EXAMINER PARROT: Dr. Pearce, you may  
3 answer if you know.

4 THE WITNESS: Could you repeat the  
5 question, please?

6 Q. I'll rephrase it.

7 Why didn't you do a study as to the  
8 effect on the competitive market at your \$355  
9 megawatt day recommendation?

10 A. And my response would be I didn't do that  
11 study. I don't know that one was not done. I will  
12 defer to Company Witness Allen for what he might have  
13 done.

14 MR. KURTZ: Thank you, your Honor.

15 EXAMINER PARROT: Thank you.

16 Ms. McAlister?

17 MS. McALISTER: No questions, your Honor.

18 EXAMINER PARROT: Thank you.

19 Mr. Campbell?

20 MR. CAMPBELL: No questions.

21 EXAMINER PARROT: Ms. Kern?

22 MS. KERN: No questions.

23 EXAMINER PARROT: Are there any other  
24 counsel before we get to staff?

25 All right. Mr. Beeler or Mr. Jones.

1 MR. JONES: Thank you, your Honor.

2 - - -

3 CROSS-EXAMINATION

4 By Mr. Jones:

5 Q. Good morning, Mr. Pearce.

6 A. Good morning.

7 Q. I have a few questions for you. I want  
8 to direct you to your testimony on page 7, the  
9 question at the top of the page there, actually the  
10 answer to that first question where you talk about  
11 the current interim compensation mechanism. Do you  
12 see that?

13 A. Sorry, what page are you on?

14 Q. Page 7.

15 A. And what line?

16 Q. That would be line 3.

17 A. Okay.

18 Q. You describe the current interim  
19 compensation mechanism charge based on the RPM  
20 clearing price; is that correct?

21 A. That's what my testimony states.

22 Q. Isn't it a fact, Mr. Pearce, that there  
23 is a cap on that for the RPM price to be applied?

24 A. Let me clarify in the -- the terminology  
25 there of "interim" --

1 Q. Yes.

2 A. -- I was more talking in scope of the  
3 timeframe between the time that the PUCO asserted, I  
4 believe, in December of 2010 that there was a state  
5 compensation mechanism and at the time that they  
6 stated though that they would review it.

7 So it was just more of a generic interim  
8 term between the time that was initiated to whatever  
9 the decision is within this case.

10 Q. Okay. So you're not referring to what's  
11 in effect today for the interim rate.

12 A. Not since they ordered -- issued the  
13 order with the interim but the end of May 31, no.

14 Q. Okay, okay. Thank you.

15 Now, I want to refer you to page 8, line  
16 9, where you testify that "Formula rates are  
17 currently utilized in many states...." Do you see  
18 that?

19 A. Yes.

20 Q. Okay. In fact, Mr. Pearce, there's two  
21 states, right, Louisiana and Arkansas?

22 A. That is not correct.

23 Q. All right. What states are there?

24 A. Michigan, Indiana, Kentucky, West  
25 Virginia, Virginia, Arkansas, Louisiana, and Texas



1 are the ones that come to mind.

2 Q. Okay.

3 A. Hopefully that qualifies as "many."

4 Q. That helps clarify it, thank you.

5 Now, also on that same page here you are  
6 referring to the formula rate being transparent and  
7 you talk about in the bulk of the input information  
8 for that rate is -- would be relying on the FERC  
9 formula annual reports. Do you see that?

10 A. Yes.

11 Q. Testimony on -- at lines 13, 14 or 12,  
12 13, and 14?

13 A. Yes.

14 Q. Okay. In fact, then you talk about there  
15 being various workpapers that also would be in play  
16 here for input; is that correct?

17 A. Yes.

18 Q. So what information would you be  
19 referring to that would be coming from those  
20 workpapers that would be inputs into the model or  
21 into the template?

22 A. Well, in addition to the templates  
23 themselves we have fairly large spreadsheets with  
24 various tabs that we commonly refer to as the  
25 workpapers. We have one in CSP, one in OPCo which I

1 believe we provided in this case in discovery.

2 That plus the FERC Form 1 would tie --  
 3 excuse me. That plus the information would tie back  
 4 to the FERC Form 1s. At times we'll -- where we do  
 5 seek more detail from the company's books and  
 6 records, it would be the standard financials, income  
 7 statements, again, we are talking about the previous  
 8 year's balance sheet, things like that, or sometimes  
 9 specifically a general ledger query if you are  
 10 looking at some specifics of accounting.

11 Q. Now, the template that you had referred  
 12 to in your testimony on page 9 and that was used for  
 13 the cities of Minden and Prescott in what you are  
 14 proposing here as a template in this case, that  
 15 template actually is -- is you are modifying that  
 16 template, right, considerably given that this is only  
 17 talking about capacity? And that's an area where you  
 18 are dealing with Prescott and Minden, you are dealing  
 19 with capacity and energy for a template; is that  
 20 correct?

21 A. No, I would not characterize it that way.  
 22 The specific significant modifications to the  
 23 capacity are included in my testimony. In fact, I  
 24 believe I speak to them specifically like on page 11,  
 25 and I'll let that speak for itself.

1           Actually should the Commission choose to  
2     adopt an energy credit, then I'm using the energy  
3     portion of that same template to calculate the energy  
4     credit which frankly in my mind is a little generous  
5     anyway because that's based on average costs of a  
6     given company, and as I believe even been mentioned  
7     this morning, if generation -- excuse me, if a CRES  
8     provider takes load away and we are able to sell some  
9     of that additional off-system sales, again, basically  
10    because of our economic stacking in our LLC load  
11    intends operational constraints to get the cheaper  
12    generation and expense resources does to get assigned  
13    off system, it would generally be a higher average  
14    cost basis that we would have assigned to that off  
15    system but we are being consistent with template to  
16    go ahead and use both an average-cost basis for the  
17    capacity piece and average-cost basis for the energy  
18    credit consistent with the Minden/Prescott templates  
19    and virtually all of our formula rate customers.

20           Q.    Okay. Well, in this case you're not --  
21    your position, the company's position is there should  
22    be no energy credit applied; is that correct?

23           A.    The company is not proposing an energy  
24    credit. However, we do offer a calculation if the  
25    Commission does choose -- chooses to do one.

1 Significant concern of the companies is that if there  
2 is going to be an energy credit, that it is done in a  
3 sound manner in terms of not an overstatement of how  
4 much revenues can be created from any loss of load.

5 Q. And your testimony that if the energy  
6 credit would be applied, it should have a cap at a  
7 floor, be limited severely, what would be allowed  
8 for -- for an offset to the charge?

9 A. Part of the proposal is that, yes, it is  
10 based on -- that it should be capped at more -- no  
11 more than 40 percent of the embedded costs, capacity  
12 costs, that's correct.

13 Q. And where is that 40 percent derived  
14 from?

15 A. That number was reviewed from a few  
16 different standpoints. One is we did examine the  
17 energy credit as shown in my Exhibit 7 between gross  
18 CONE and net CONE.

19 For example, I believe the biggest energy  
20 credit on a percentage basis is no more than 20  
21 percent, we doubled it to 40 percent. And I think  
22 that that's somewhat consistent, that proposal is,  
23 with the Brattle report that came out last August in  
24 terms of a discussion around potentially changing the  
25 variable resource requirement curve to put some sort

1 of limitation on the how low, if you will, the supply  
2 curve can go -- can go in terms of if you wind up  
3 with an excessive energy credit.

4 Company Witness Horton or Graves may be  
5 able to shed some more light on that.

6 Q. Okay. Thank you.

7 Mr. Pearce, I do want to refer you then  
8 now to your Exhibit KDP-7, if you would look there,  
9 please.

10 A. Yes.

11 Q. And I'm looking at the forecasted RPM  
12 rate for the 2014-'15 planning year and under the RPM  
13 rate megawatt day it's 153.89. Do you see that?

14 A. Yes.

15 Q. Okay. And so if you assume  
16 hypothetically that you have the same level of  
17 shopping at which you have today in that -- in  
18 that -- in 2015 and you would apply that RPM rate,  
19 then you would say that was a fair and reasonable  
20 rate to the company for the capacity to CRES  
21 providers?

22 A. No, I would not say that. For my  
23 position asking CRES providers to pay a  
24 slice-of-system cost they are paying 5 percent --  
25 they are getting 5 percent of the capacity benefit,

1 they pay 5 percent of the company's embedded cost of  
2 capacity would be the 355 as periodically updated.

3 To me that's the most relevant number no  
4 matter what RPM clears at until we move to RPM.

5 Q. And you are going to go to RPM in 2015,  
6 correct, June 1?

7 A. June 1 of '15.

8 Q. That's correct. And you're aware of the  
9 forecast what that rate is going to be for 2015,  
10 correct?

11 A. '15-'16?

12 Q. '15 -- '14-'15.

13 A. Well, that's -- that's not really a  
14 forecast. I mean, that auction has already happened  
15 except for the incremental options. I mean that is  
16 going to be about the rate.

17 Q. The 153?

18 A. Yeah, subject to some incremental option  
19 auction and PJM loves to do periodic small slices to  
20 the various scaling factors, so.

21 Q. So that's the rate that the company is  
22 going to accept then on June 1, 2015, right, as the  
23 rate to be charged to CRES providers?

24 A. No. Because that's -- that's the rate --  
25 that's the RPM rate through -- if I understand your

1 question. Maybe I don't. I've only got the table  
2 out to May of '15, June 1 of '15 there will be an  
3 upcoming auction that will be the RPM rate that  
4 presumably our capacity to the extent that we  
5 participate in the RPM auction will be.

6 Q. But if you assumed hypothetically that  
7 rate would not change for June, 2015, you're saying  
8 that the -- you have the same level of shopping,  
9 you're saying that wouldn't be a fair, reasonable  
10 rate to be charged to CRES providers?

11 A. First off, I can't accept that as even a  
12 premise to the question. It's been clear if you look  
13 at that column how varied the RPM clearing price is.  
14 So, you know, to assume that that's the exact same  
15 price that it clears at in '14-'15 is just extreme  
16 conjecture on my part. I mean --

17 Q. I'm asking you to assume this  
18 hypothetically.

19 A. Okay.

20 Q. So what's your answer to that?

21 A. Okay. My answer is in the -- to the  
22 extent that the company offers in capacity, could  
23 presumably the corporate separate genco into the RPM  
24 market, they will settle -- they will receive  
25 whatever cost is out of the RPM for that capacity as

1 a Step I, I'll say.

2           However, you can hedge your way out of  
3 the RPM capacity market. That is effectively what we  
4 did with FRR because, in other words, if I'm a  
5 load-serving entity and I have a thousand megawatts  
6 of load and I have a thousand-megawatt generator,  
7 even if I offer that load and offer that generation  
8 into the RPM market, in some sense whether it settles  
9 at a dollar or \$1,000, I'm netting and I'm still back  
10 to the embedded costs of that generation.

11           So RPM is not the end all/be all I think  
12 at times, so to the extent that our Genco looks for  
13 other opportunities where even if it offers it into  
14 RPM, to swap payment, there could be a commitment to  
15 provide that to an LLC payment under embedded cost  
16 terms.

17           There's a number of things that could be  
18 done with that generation that would result in it  
19 receiving revenues something different than what RPM  
20 clears at.

21           Q.    So what's your answer on 153.89 being the  
22 hypothetical price?

23           A.    Well, I guess I just gave it with all the  
24 qualifications I said; if we offer some into RPM and  
25 not looking at any offsetting transactions we have on



1 the other side, it's just uncommitted, it will clear  
2 at whatever that RPM price is including 153, that is  
3 a correct understanding, at that point we are  
4 relieved of the obligation of supplying it under an  
5 FRR plan.

6 MR. JONES: I have nothing further.  
7 Thank you.

8 EXAMINER PARROT: Thank you, Mr. Jones.  
9 Mr. Royer, did you have any questions for  
10 the witness?

11 MR. ROYER: No, thank you, your Honor.

12 EXAMINER PARROT: Thank you.

13 Mr. Conway, any redirect?

14 MR. CONWAY: Would it be possible to  
15 break for lunch now and come back and complete  
16 redirect, or what's your measure?

17 EXAMINER PARROT: We will be taking our  
18 break to coincide with the Commission meeting today,  
19 so, no.

20 MR. CONWAY: Okay.

21 EXAMINER PARROT: If you need a brief  
22 break though.

23 MR. CONWAY: Take a brief break.

24 EXAMINER PARROT: Let's take 5 minutes.

25 MR. CONWAY: Thanks.

1 (Recess taken.)

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

4 Mr. Conway, if you could just hold off  
5 for a moment. I believe Commissioner Porter has a  
6 few questions for the witness.

7 COMMISSIONER PORTER: Just -- just very  
8 quickly.

9 - - -

10 EXAMINATION

11 By Commissioner Porter:

12 Q. Dr. Pearce, I just want to clear up two  
13 subject matters for the record, it would be helpful.  
14 Can you hear me?

15 A. There's a copier going over here. I'm  
16 doing my best.

17 Q. Just very quickly I wanted to be clear  
18 about two addition matters for the record. I believe  
19 in response to questions from counsel for Duke, you  
20 referred to current -- the proposal for the 355  
21 capacity rate as a rough approximation, meaning that  
22 it's similar to rates that are -- the capacity rate  
23 included in the current rates.

24 Am I correct, was that rough  
25 approximation a reference to the proposed 355 rate as

1 being roughly approximate to the rates currently  
2 included within rate base?

3 A. The SSO rates. I have not looked at all  
4 the specifics within our currently-proposed ESP but,  
5 yes, in that range.

6 Q. So what does "roughly approximate" mean?

7 A. "Roughly approximate"?

8 Q. Yeah.

9 A. From my standpoint I did a sanity check.  
10 If I take, you know, 355.72 and I do attempt to  
11 convert that to a, you know, cents-per-megawatt hour.

12 Again, as I said earlier, it just depends  
13 on what load factor you use which is the 65 percent  
14 just as a generic. I came up with something on 2.28  
15 cents per kilowatt hour which seemed like fairly  
16 reasonable in that ballpark, but I didn't do anything  
17 beyond that.

18 Q. Okay. And those are the same -- using  
19 those same calculations we back into a 355.72 rate  
20 for the current capacity rates currently included  
21 within rate base?

22 A. I'm sorry?

23 Q. So what I'm trying to understand is the  
24 difference between -- what I thought you did and on  
25 cross-examination from one of the witnesses was to

1 compare this current proposal of 355.72 as a rough  
2 approximation to capacity rates currently being  
3 charged. That's what I understood you to do. Is  
4 that correct?

5 A. Yes.

6 Q. Okay. And so current capacity rates are  
7 roughly or approximately or both roughly and  
8 approximately 355.72?

9 A. Yes, I mean, and again, rough  
10 approximation. I didn't calculate a specific like  
11 percentage comparison so I do have to present that as  
12 qualitative, not specific quantitative.

13 Q. So it would be somewhere in the around  
14 355.72?

15 A. Yes.

16 Q. Is there sort of a range that you could  
17 give? Is it, you know, \$10 off, \$20 off, without  
18 guessing?

19 A. Right. Let me refer you to Company  
20 Witness Allen for those -- that comparison.

21 Q. That's fine, I'll ask that later.

22 And I believe in response to questions on  
23 cross-examination from counsel for staff you referred  
24 to the hedging of units beginning with the June,  
25 2015, delivery period, so the company has committed

1 to RPM beginning June 1, 2015.

2 A. Yes.

3 Q. And is it your understanding there is a  
4 commitment of load at that point in time? June 1,  
5 2015, load is committed to RPM; is that correct?

6 A. I would believe that the Ohio load would  
7 be bid into the RPM auction as well.

8 Q. Okay. So load and are there also  
9 resources, generating units committed to RPM?

10 A. Yes.

11 Q. Okay. So the resources that are then  
12 committed to RPM, would they accept the closing --  
13 I'm sorry, the clearing prices from the base residual  
14 auction?

15 A. Yeah, to the extent that they are offered  
16 into that auction and that's what they get, then,  
17 yes, that's what they would accept.

18 Q. Okay. So how else do they hedge if they  
19 accept that price?

20 A. Well, if there were some -- any specific  
21 deals done. My only point is in general in PJM, you  
22 can have transactions between a willing buyer and  
23 seller similar to our formula rate contracts where a  
24 city doesn't want to accept the RPM price so they  
25 basically will hedge with a supplier for I'll pay

1 your embedded costs, we'll do a long-term deal  
2 whether it's in RPM or not, that's not what it  
3 settles out.

4 Q. Okay. But the specific units that are  
5 committed to RPM, they would accept the RPM price?

6 A. Yes.

7 Q. I think you mean other units that are not  
8 committed to the RPM that could do the hedging  
9 outside of the RPM prices; is that what you mean?

10 A. Yes, yes.

11 Q. Go ahead.

12 A. Yes. Certainly units committed but even  
13 units committed to RPM I am saying can do some sort  
14 of transaction like a financial swap or something  
15 even though they are in RPM.

16 Q. Okay. So they've accepted the RPM price  
17 first.

18 A. Right.

19 Q. And then subsequently.

20 A. Yes.

21 COMMISSIONER PORTER: Thank you. That's  
22 all I have.

23 EXAMINER PARROT: Mr. Conway.

24 MR. CONWAY: Thank you, your Honor.

25 - - -

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REDIRECT EXAMINATION

By Mr. Conway:

Q. Dr. Pearce, in your discussion with Mr. Lang at one point there was a question or two regarding variability from year to year of the formula rate that you have proposed. Do you recall that?

A. Yes.

Q. Do you expect substantial variations from year to year in the formula rate you propose for the Commission use?

A. No, I do not. And nothing on the order of what we've seen like in the volatility of the RPM rate. The original 2010 FERC filing we made which was based because of the time period on the 2009 data, the rate of the \$359 approximately per megawatt day when we updated it for this case. The rate now is \$355.72.

Our FERC Form 1 2011 just came out last week. It's available on the website to whoever wants it. In fact, we have the templates. People can start populating it. We worked over the weekend and, subject to check, we are coming up with a rate that's approximately \$358, so it's been incredibly stable over those three years.

1           Q.    Thank you, Dr. Pearce.

2                   And then there was also a series of  
3   questions that Mr. Lang posed to you and in the  
4   course of that discussion he referred to the RPM  
5   energy market and I think you referred, if my  
6   recollection serves me correctly, AEP Ohio's  
7   participation in that RPM energy market. What is the  
8   nature -- what is -- of the energy market that AEP  
9   Ohio participates in?

10           A.    Well, that needs to be clarified. There  
11   was no such thing to my knowledge of an RPM energy  
12   market. PJM has an energy market regarding supply of  
13   capacity which is completely separate. They have the  
14   two alternatives, the RPM process or the fixed  
15   resource requirement or so-called self-supply option,  
16   and that is some of what we talked about this morning  
17   regarding the complete split dichotomy of the  
18   capacity market in PJM and the energy market.

19                   We participate in the energy market. We  
20   do not currently, nor can we, to my knowledge,  
21   through May of '15 do anything other than be in the  
22   FRR market for capacity.

23           Q.    And then did you explain what energy  
24   market AEP Ohio is participating in?

25           A.    Well, it's in the PJM traditional energy



1 market, if it's the one I think of, where there's a  
2 day-ahead offer process, awards get received at  
3 4:00 o'clock or so for the next day. There's a  
4 second round and then there's the realtime market  
5 actual hour-to-hour every day delivery.

6 Q. Is there an acronym associated with that  
7 energy market?

8 A. Well, the LMP stands for locational  
9 marginal price which are the prices that result in  
10 that market.

11 Q. Thank you.

12 And then Mr. Darr asked you several  
13 questions, at some point I think I might have even  
14 objected to them, but he asked you several questions  
15 regarding whether you had made any adjustments to  
16 your formula rate to reflect the impact of the Ohio  
17 Supreme Court decision from last spring. I believe  
18 it was with regard to the POLR issue. Do you recall  
19 that line of questions?

20 A. Yes.

21 Q. And what impact on your formula rate  
22 proposals would there be from including or excluding  
23 POLR revenues?

24 A. Because we don't include revenues in the  
25 requirements revenues in the numerator, the

1 calculation, that even if that was produced by some  
2 order, it would have no impact on the calculations.

3 MR. CONWAY: Thank you. That's all I  
4 have, your Honor.

5 EXAMINER PARROT: Thank you.

6 Mr. Lang, any recross?

7 MR. LANG: Yes.

8 - - -

9 RECROSS-EXAMINATION

10 By Mr. Lang:

11 Q. Dr. Pearce, did I hear you say that AEP  
12 Ohio cannot participate in the PJM capacity market  
13 prior to June 1, 2015?

14 A. The PJM RPM capacity market prior to June  
15 of '15. That's my understanding.

16 MR. LANG: All right. And so -- that's  
17 fine as long as that's your understanding. All  
18 right.

19 EXAMINER PARROT: Ms. Kaleps-Clark?

20 MS. KALEPS-CLARK: No questions, thank  
21 you.

22 EXAMINER PARROT: Ms. Kingery?

23 MS. KINGERY: Nothing.

24 EXAMINER PARROT: Mr. Darr?

25 MR. DARR: No questions.

1 EXAMINER PARROT: Mr. Kurtz?

2 MR. KURTZ: No, ma'am.

3 EXAMINER PARROT: Ms. McAlister?

4 MS. McALISTER: No questions.

5 EXAMINER PARROT: Ms. Kern?

6 MS. KERN: No questions.

7 EXAMINER PARROT: Mr. Jones?

8 MR. JONES: No, thank you.

9 EXAMINER PARROT: Thank you very much.

10 You are excused, Dr. Pearce -- I'm sorry. Mr. Royer  
11 is in the back.

12 - - -

13 CROSS-EXAMINATION

14 By Mr. Royer:

15 Q. Very quickly, in response to Commissioner  
16 Porter's questions about the 355 MWD charge, roughly  
17 approximating the \$2.28, I want to make sure what the  
18 \$2.28 represents, is that the amount -- for the  
19 current ESP is that the amount that the SSO customer  
20 is paying -- in effect paying for capacity per  
21 kilowatt hour? Is that what that translates to?

22 A. That's strictly a conversion from the 355  
23 to that with an assumed 65 percent load factor.

24 Q. And I would asked Mr. Munczinski that  
25 same question or if he could tell me what it was.

1 Were you here for that?

2 A. I was in the room.

3 Q. Okay.

4 A. I don't recall the question specifically.

5 MR. ROYER: All right. That's all I  
6 have.

7 EXAMINER PARROT: Thank you. All right.  
8 Now, you're excused. Thank you, Dr. Pearce.

9 Mr. Conway, I believe you had moved for  
10 the admission of AEP Exhibit 102. Are there any  
11 objections to the admission of that exhibit?

12 Hearing none, AEP Exhibit 102 is admitted  
13 into the record.

14 (EXHIBIT ADMITTED INTO EVIDENCE.)

15 EXAMINER PARROT: Mr. Lang.

16 MR. LANG: FES would move Exhibit FES  
17 109.

18 EXAMINER PARROT: Are there any  
19 objections to the admission of FES Exhibit 109?

20 Hearing none, FES Exhibit 109 is  
21 admitted.

22 (EXHIBIT ADMITTED INTO EVIDENCE.)

23 EXAMINER PARROT: Mr. Conway or  
24 Mr. Nourse, you may call your next witness.

25 MR. CONWAY: At this time, your Honors,

1 AEP calls Dana Horton.

2 (Witness sworn.)

3 EXAMINER SEE: Thank you. Have a seat.  
4 Mr. Conway.

5 MR. CONWAY: Thank you, your Honor.

6 EXAMINER SEE: Mr. Conway, before you  
7 start beginning this we are trying to take a lunch  
8 break that would include the Commission meeting. We  
9 would like to take a break about 1-ish, so whomever  
10 is in the middle of cross-examining this witness, if  
11 you would find a break, a natural break within your  
12 cross-examination, the Bench would appreciate it.

13 Mr. Conway, go ahead.

14 MR. CONWAY: Thank you, your Honor.

15 - - -

16 DANA E. HORTON

17 being first duly sworn, as prescribed by law, was  
18 examined and testified as follows.

19 DIRECT EXAMINATION

20 By Mr. Conway:

21 Q. Mr. Horton, could you state your name for  
22 the record, please?

23 A. Dana Earl Horton.

24 Q. And, Mr. Horton, by whom are you  
25 employed?

1           A.     American Electric Power.

2           Q.     And what is your position with American  
3     Electric Power?

4           A.     I'm Director of RTO Regulatory.

5           Q.     And, Mr. Horton, did you prepare direct  
6     testimony that has been previously filed in the  
7     docket of this case?

8           A.     Yes.

9           Q.     And do you have a copy of it with you  
10    today?

11          A.     Yes.

12                 MR. CONWAY: Your Honor, I would ask to  
13    mark Mr. Horton's direct testimony as AEP Ohio  
14    Exhibit No. 103, I believe is where we are.

15                 EXAMINER SEE: The exhibit is so marked.

16                 (EXHIBIT MARKED FOR IDENTIFICATION.)

17          Q.     Mr. Horton, do you have any changes or  
18    corrections to make to your prefiled direct testimony  
19    at this time?

20          A.     I do not.

21          Q.     And if I were to ask you the questions  
22    today that are contained in your direct testimony  
23    which has been marked as AEP Ohio Exhibit No. 103,  
24    would your answers be the same as they appear in that  
25    document?

1           A.     Yes.

2           Q.     And are those answers true and accurate  
3     to the best of your knowledge and belief?

4           A.     Yes.

5           MR. CONWAY: Your Honors, at this time we  
6     would offer into the record Exhibit No. 103,  
7     Mr. Horton's direct testimony, and Mr. Horton is  
8     available for examination.

9           EXAMINER SEE: Mr. Randazzo, are you  
10    going to start cross-examination?

11          MR. RANDAZZO: I would be happy to do  
12    that, your Honor, if that would be your pleasure, but  
13    the reason I rose, I have motions to strike that I  
14    would like to have you consider, the Bench consider,  
15    prior to us conducting cross-examination.

16          EXAMINER SEE: Okay.

17          MR. RANDAZZO: I have five areas of the  
18    testimony. First is page 9 starting at line 8 and,  
19    again, going down through the bottom of page 9 and  
20    carrying over to the top of page 10. And here  
21    Mr. Horton purports to discuss things that occurred  
22    during a settlement process at the Federal Energy  
23    Regulatory Commission representing the views of  
24    stakeholders making it impossible for me to conduct  
25    cross-examination on the stakeholders which he is

1       only one of, perhaps.

2               But also the discussions that take place  
3       in settlement negotiations are supposed to be  
4       confidential so if I were to inquire of this witness  
5       about things that took place in the settlement  
6       negotiations, I would be invading the confidentiality  
7       of that settlement negotiations, at least that FERC  
8       are subject to. That's -- that's one and two  
9       actually.

10              Would you like me to continue?

11              EXAMINER SEE: Yes.

12              MR. RANDAZZO: Okay.

13              MR. CONWAY: Your Honor.

14              EXAMINER SEE: Mr. Conway, you want to  
15       respond to them individually?

16              MR. CONWAY: Well, I think it might be --  
17       might be helpful.

18              How many did you say you had?

19              MR. RANDAZZO: I've got three more now.

20              MR. CONWAY: Three more?

21              MR. RANDAZZO: Yeah. Very similar  
22       grounds on the three.

23              MR. CONWAY: Okay. Go ahead.

24              MR. RANDAZZO: Thank you, Mr. Conway.

25              May I go ahead, your Honor?



1 EXAMINER SEE: Go ahead, Mr. Randazzo.

2 MR. RANDAZZO: Thank you.

3 Page 10, beginning with the Q and A that  
4 starts at line 3, the basis for that objection is  
5 it's hearsay and also attempts to modify a contract  
6 violating the parole evidence rule.

7 Page 4 -- or, excuse me, the fourth one  
8 is page 11, the Q and A starting on line 1 --

9 MR. CONWAY: Mr. Randazzo, could I  
10 interrupt you? I was just jotting down a note or two  
11 about your previous argument on the hearsay and the  
12 modification.

13 MR. RANDAZZO: It wasn't an argument, I  
14 was observing a fact.

15 MR. CONWAY: Excuse me.

16 MR. RANDAZZO: I was observing a fact,  
17 not an argument.

18 MR. CONWAY: And I didn't hear your  
19 reference to the next passage that you are moving to  
20 strike, so could you just explain it to me again?

21 MR. RANDAZZO: Yeah. Sure. We're moving  
22 to the top of page 11, all right? The question is  
23 "Has the Public Utilities Commission of Ohio  
24 (Commission) voiced support for the FRR plan since  
25 its inception?"

1           This witness is not authorized to speak  
2 on behalf of the Commission. And, therefore, the  
3 question is improper and the answer doesn't answer  
4 the question.

5           The witness proceeds to talk about  
6 something the Commission staff said. Even assuming  
7 that what he represents there is correct, this  
8 witness is not authorized to speak on behalf of the  
9 staff.

10           And, again, at best it's hearsay, and  
11 since we have no ability to do discovery on the staff  
12 and the staff is not directly involved in the form of  
13 presenting evidence, we have no opportunity to  
14 cross-examine the people that Mr. Horton refers to  
15 for purposes of extracting himself, authenticating,  
16 or bootstrapping himself into the position he has  
17 already adopted. We object.

18           The last one is page 14, beginning at  
19 line 4, the question there, the question and answer  
20 beginning at line 4 where the witness also states or  
21 attributes to PJM or expresses his view, I should  
22 say, of what PJM believes.

23           This witness is not authorized to speak  
24 on behalf of PJM, which has a very exotic government  
25 structure, nor -- nor is it appropriate to, again,

1 try to bring some merit to whatever Mr. Horton's  
2 position might be by enlisting a statement from a  
3 Professor Hobbs from 2008.

4 Mr. Hobbs is not here, no indication that  
5 he is an expert on anything. He was a professor  
6 once. And, therefore, the testimony is improper.  
7 Direct evidence offered -- can be offered in the  
8 support of an affirmative position. We object.

9 That's all.

10 EXAMINER SEE: Okay. Mr. Conway.

11 MR. CONWAY: I'm to respond to each of  
12 those? Well, I can -- I can try.

13 With regard -- let me go in reverse  
14 order. With regard to the last statement I think  
15 that what we are doing here -- what Mr. Horton is  
16 doing here is referring to a filing at FERC, it's a  
17 public document, and it is a PJM document and  
18 Professor Hobbs was retained by PJM to provide the  
19 opinions and analytical work that are contained in  
20 his affidavit.

21 And if -- if Mr. Randazzo's concern is  
22 use of the word "believes" in line 6, it can easily  
23 be revised or regarded as simply stated, because  
24 that's what we're doing here is to simply providing  
25 information regarding what PJM has stated about the

1 future of capacity supplies in the RPM option.

2 I think -- and that's what the question  
3 asks, what has PJM stated regarding those matters.  
4 So I think it's -- it appropriate for the witness to  
5 include in his testimony reference to such a public  
6 document by an agency like PJM including the experts  
7 that -- that the agency PJM has enlisted.

8 And as sort of a predicate to all of  
9 these responses, I would just note that OEG 1 is a  
10 document which Mr. Kurtz introduced and  
11 cross-examined our witnesses about that provided the  
12 Ohio Commission's position or statements by the Ohio  
13 Commission and it was -- it was permitted in the  
14 record and examination was allowed based on that  
15 document.

16 So I don't think that what Mr. Horton has  
17 done is anything different than in this regard to  
18 what Mr. Kurtz was allowed to do. And I would make  
19 the same comment with regard to the -- I think it's  
20 the third segment that Mr. Randazzo addressed on page  
21 11, which addresses the filing made in the -- in the  
22 FERC docket or with regard to a FERC docket, actually  
23 a FERC staff technical conference, on June 7 of 2006,  
24 in which the Commission staff submitted a document  
25 which said exactly what Mr. Horton says it said.

1           And it is a prior statement of the staff  
2       which is a party in this proceeding so it's -- in any  
3       event it's an admission. It doesn't offend the  
4       hearsay rule and if there's any criticism about the  
5       accuracy of the content quoted, we would be happy to  
6       provide a copy of it. So it's not -- it's a public  
7       document, first of all. It's not hearsay in any  
8       event and because it's a prior statement by a party.

9           With regard to the -- go backwards, the  
10      second item, I believe, which is at page 9 and -- I'm  
11      sorry, page 10 starting at line 3 and continuing on  
12      to the end of page 10, in this -- in this and also  
13      the first segment of testimony that was subject of  
14      the motions to strike, Mr. Horton is describing the  
15      PJM stakeholder process that was developed for  
16      determining adequate capacity, reimbursement pricing  
17      for CRES providers, which also ultimately included  
18      the fixed resource requirement alternative.

19           And Mr. Horton is simply recounting the  
20      nature of the -- of the stakeholder meeting and his  
21      understanding about what the issues were that were to  
22      be addressed by the stakeholder process and it's not  
23      objectionable.

24           It's Mr. Horton's personal experience  
25      with the -- with the process and it can be subject to

1 the cross-examination on it if Mr. Randazzo thinks  
2 that there is anything inaccurate about his  
3 understanding about what the issues were.

4 And there's no -- and on -- in addition  
5 with regard to the confidentiality concern that  
6 Mr. Randazzo raised, there's nothing in here which  
7 reveals any -- any settlement offer or compromised  
8 position offer by any of the other participants in  
9 this proceeding.

10 What we're trying to do here is explain  
11 what the issues are that were raised by the process  
12 and what the company's position was with regard to  
13 the issues and we're entitled to do that and the same  
14 argument applies to the first segment of testimony  
15 that Mr. Randazzo seeks to strike.

16 Again, it's -- it's fair -- it's  
17 appropriate for AEP to explain what its position is  
18 with regard to these matters what it intended and  
19 we're not revealing any secrets of any other party in  
20 the course of this discussion.

21 And -- and the argument that the  
22 testimony seeks to modify the terms of the new  
23 contract, I guess the reliability assurance  
24 agreement, is not -- is not accurate. We're simply  
25 explaining our view of what that contract is. We're

1 entitled to do that.

2 To be told we can't explain what your  
3 view of the contract is and we can't present the  
4 person who -- one of the people who was directly  
5 involved in the process at the time to explain what  
6 the company's position was and what it sought to  
7 achieve and what it believed it did achieve, I think  
8 would be not only inappropriate but unfair.

9 So we think it is our contract in which  
10 we are a party and we are entitled to explain our  
11 view of what it means, particularly by the person who  
12 was there when -- when we entered into it. So I  
13 think that the motions to strike should be denied.  
14 Thank you.

15 EXAMINER SEE: Do any of the other  
16 parties have anything to add to either request? To  
17 the request to strike or not to strike?

18 Are there any additional motions to  
19 strike any portion of Mr. Horton's testimony? Okay.

20 Okay. In regards to IEU's motion to  
21 strike at page 9, carrying over to the top of page 10  
22 at line 2, the motion -- the motion is denied.

23 In regards to the balance of page 10  
24 starting at line 3, that motion is also denied.

25 In regards to the motion to strike the

1 item on page 11, starting at line 1 through line 12,  
2 we would like to request that AEP Ohio put in the  
3 record a copy of the document to which it is  
4 referring and note that this is staff's opinion as  
5 opposed to the Commission's.

6 MR. CONWAY: Your Honor, we could do that  
7 by the return from the lunch break.

8 EXAMINER SEE: Accordingly the motion to  
9 deny -- the motion to strike is denied. And the same  
10 is true with the last item, and we would like  
11 similarly to request that that document to which they  
12 refer be put in the record.

13 And at this time it's 12:57. Given that  
14 we need to take a break for lunch we are going to  
15 take a recess now, and we'll pick back up with  
16 cross-examination of this witness. We'll reconvene  
17 at approximately 2:00 o'clock depending on how long  
18 the Commission meeting goes.

19 (Thereupon, at 12:57 a lunch recess was  
20 taken.)

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Wednesday Afternoon Session,  
April 18, 2012.

- - -

EXAMINER SEE: Let's go on the record.

MR. NOURSE: Your Honor, just one preliminary matter before we go back to testimony. And this relates to some discovery we were expecting to get and there's an ongoing, you know, multiple motions to compel. Some of that information we wanted to have for cross-examination, of course, and Ms. Ringenbach, I think, is scheduled to testify tomorrow as well as Mr. -- sorry --

EXAMINER SEE: Mr. Hamman?

MR. NOURSE: Mr. Hamman. So I guess we just want to inquire as to what the intention is relative to responding and resolving those motions to compel prior to intervenor cross-examination and at least put folks on notice that that could be an issue. That's why we tried to file those as early as possible. We figured out the information was not being provided.

EXAMINER SEE: Ms. Ringenbach is scheduled for tomorrow, that was if the schedule accommodated her. As you may realize, she was scheduled for another day and asked to be made on the

1 19th -- to be able to testify on the 19th.

2 If we do not take Mr. Allen's testimony  
3 until tomorrow, it's unlikely we will get to all  
4 three witnesses scheduled for tomorrow.

5 Now for the motions to compel, we  
6 indicated at the start of the hearing that we would  
7 wait until we had received replies and we understood  
8 at that time there were additional motions being  
9 filed.

10 The Bench will review those motions and  
11 try to -- and be prepared to address those issues as  
12 early as possible tomorrow, if not later today,  
13 depending on how the schedule goes.

14 MR. KUTIK: Your Honor, we understand  
15 there was a motion filed over lunchtime.

16 EXAMINER SEE: I'm not necessarily  
17 referring to that one, but we had some that were -- I  
18 want to say there were two that were filed in the  
19 time for replying to those and I'm sure FES has  
20 already filed their reply, we have those and those  
21 were the motions we were talking about in the  
22 beginning we will go through ones that were filed  
23 today and we will take into account that people need  
24 time to prepare their cross-examination.

25 MR. KUTIK: All I was inquiring is that

1 the Bench is not going to rule on the third motion  
2 that was filed this noon today or tomorrow.

3 EXAMINER SEE: The Bench hasn't seen that  
4 motion so I can't say either way.

5 MR. KUTIK: Fair enough, thank you.

6 MR. NOURSE: And I would just point out,  
7 your Honor, the motions filed today is the same basis  
8 just includes additional questions. But that's fine.  
9 Obviously we're not asking for a ruling on a motion  
10 that was just filed today. We're hoping that the  
11 motions that are -- have been responded to can be  
12 addressed prior to cross-examination, thank you.

13 EXAMINER SEE: Okay. Is there anything  
14 else, Mr. Nourse or Mr. Conway?

15 MR. CONWAY: Your Honor, I would just  
16 note that on the -- during the break we did retrieve  
17 and send electronically copies of the two documents  
18 that were referenced -- that are referenced in  
19 Mr. Horton's testimony that the Bench requested we  
20 provide copies of.

21 So electronically we've been able to do  
22 it, and my understanding is that one of the documents  
23 was fairly lengthy, a little more difficult to  
24 actually provide hard copies at this point.

25 EXAMINER SEE: Mr. Conway, I'm going to

1 really need you to speak up as we go. I heard the  
2 last part, but I'm going to need to you speak up.

3 MR. CONWAY: Your Honor, on the break we  
4 did retrieve and circulate electronically two  
5 documents that were identified by the Bench at the  
6 end of the ruling on the motion to strike, and so we  
7 have -- we have served or circulated electronically  
8 copies of each document to the parties. One document  
9 is fairly lengthy, more difficult to provide hard  
10 copies of that one. That's the second of the two.  
11 And so hopefully we have satisfied your instruction  
12 regarding that.

13 MR. KUTIK: Your Honor, do you have a  
14 copy of those?

15 EXAMINER SEE: Do I have a copy? Yes, I  
16 do.

17 MR. KUTIK: Are you finished, counsel?

18 Your Honor, I guess I'm not sure whether  
19 the companies have complied with your order, and this  
20 is why: There are two documents that have been  
21 submitted. One, the fairly lengthy one appears to be  
22 Ohio regulatory staff remarks, and the others are  
23 responses of Joseph P. Bowring. The latter is the  
24 one I have some concerns about.

25 That --

1 EXAMINER SEE: The smaller one?

2 MR. KUTIK: Yes. It appears that that is  
3 a subject that's cited on page 14 of Mr. Horton's  
4 testimony. However, I thought the thrust of  
5 Mr. Randazzo's motion was the remarks for the  
6 opinions of a Professor Benjamin Hobbs. And so at  
7 this point we do not have whatever basis there is to  
8 examine what Mr. Hobbs' opinions may or may --  
9 Professor Hobbs' opinions may or may not be.

10 I'm not suggesting that it's intentional  
11 in any way, but I think perhaps there's a confusion  
12 between he and the company as to exactly what your  
13 ruling is and how it should be applied.

14 MR. CONWAY: Your Honor, I would just  
15 note that the opinions of Dr. Horton in reference to  
16 Professor Stafford are referenced in the citation are  
17 incorporated in the document, part of it.

18 MR. RANDAZZO: And could you tell us  
19 where?

20 MR. NOURSE: We might want to go off the  
21 record so we can get this clarified. The witness can  
22 assist with that.

23 MR. KUTIK: That's fine with us, your  
24 Honor.

25 EXAMINER SEE: Let's go off the record.

1 (Discussion off the record.)

2 EXAMINER SEE: Let's go back on the  
3 record.

4 Mr. Conway?

5 MR. CONWAY: Yes, your Honor.

6 EXAMINER SEE: Can you take up the issue  
7 of the two items that were sent to the parties over  
8 the lunch break?

9 MR. CONWAY: Yes, your Honor. Over the  
10 lunch break we did retrieve and circulate  
11 electronically the two documents that you requested  
12 we provide that were referenced in Mr. Horton's  
13 testimony.

14 In addition, hard copies are in transit  
15 to the hearing, they're not here yet but they will be  
16 here. And so if there is a desire to mark the  
17 reference documents as exhibits, that will be  
18 possible.

19 EXAMINER SEE: So let's do that,  
20 Mr. Conway.

21 MR. CONWAY: Why don't we mark them as --  
22 103-A and 103-B.

23 EXAMINER SEE: And A is which document,  
24 Mr. Conway?

25 MR. CONWAY: A would be the staff

1 comment.

2 EXAMINER SEE: The smaller of the two  
3 documents dated June --

4 MR. CONWAY: The smaller of the two  
5 documents.

6 EXAMINER SEE: Dated June 7, 2006?

7 MR. CONWAY: Yes. And 103-B would be the  
8 PJM document.

9 MR. KUTIK: I'm sorry, your Honor, I'm  
10 kind of confused at this point. And perhaps it was  
11 because I received this all in one stack.

12 But I thought the smaller document was  
13 from the PJM -- was from the market monitor, the PJM  
14 interconnection, and the larger document was the Ohio  
15 regulatory staff remarks.

16 MR. CONWAY: If I could try to clear it  
17 up, I apologize for any confusion. What I had  
18 indicated could be marked as AEP Ohio Exhibit 103-A  
19 is the Ohio staff's remarks which were provided to  
20 the FERC staff technical conference regarding PJM's  
21 variable resource requirement forward procurement  
22 auction with a downward sloping demand curve June 7,  
23 2006. That would be Exhibit 103-A.

24 Exhibit 103-B would be a document covered  
25 by PJM letterhead dated June 30, 2008, regarding the

1 PJM interconnection LLC, Docket Nos. EL-05-1410-000,  
2 and EL-05-148-000. And the letter is transmitted by  
3 Jacqueline B. Hugee, H-U-G-E-E, senior counsel for  
4 PJM.

5 MR. KUTIK: Thank you, your Honor.

6 (EXHIBITS MARKED FOR IDENTIFICATION.)

7 EXAMINER SEE: Now, with that would you  
8 like to begin your cross-examination, Mr. Kutik?

9 MR. KUTIK: Yes, your Honor, thank you.

10 EXAMINER SEE: Go ahead.

11 - - -

12 DANA E. HORTON

13 being first previously sworn, as prescribed by law,  
14 was examined and testified further as follows:

15 CROSS-EXAMINATION

16 By Mr. Kutik:

17 Q. Mr. Horton, part of your testimony  
18 discusses a proceeding that you participated in at  
19 the Federal Energy Regulatory Commission, correct?

20 A. Yes.

21 Q. And that was a proceeding that resulted  
22 in a settlement that was ultimately approved by the  
23 FERC, correct?

24 A. Yes.

25 Q. And that case involved modifications to



1 the reliability assurance agreement and the  
2 establishment of what is currently -- the current  
3 version of the RPM process, correct?

4 A. Yes, there have been other changes since  
5 then but the basic premise is true.

6 Q. And that FERC proceeding had FERC Docket  
7 Nos. ER-05-141-000 and 001, and ER-05-148-000 and  
8 001, correct?

9 A. Those sound correct, yes.

10 Q. And you were a member of the AEP team  
11 that participated in the stakeholder process in that  
12 case or those cases.

13 A. Yes.

14 Q. In that proceeding your role was to  
15 present the view of AEP.

16 A. I was part of the team that developed  
17 presenting that role, yes.

18 Q. And the settlement that resulted from the  
19 stakeholder discussions and process was ultimately  
20 filed in September of 2006 with the FERC.

21 A. Yes, that sounds right.

22 Q. And it dealt with changes and additions  
23 to the reliability assurance agreement.

24 A. Yes.

25 Q. And the PJM open access tariff.

1           A.     That is correct.

2           Q.     Including Attachment DD, as in "David  
3 David," which deals with the RPM process.

4           A.     Yes, that Attachment DD is the -- deals  
5 with the RPM process.

6           Q.     There were a series of documents that  
7 were filed in support of the settlement at FERC,  
8 correct?

9           A.     Yes.

10          Q.     And as you might guess by the stacks in  
11 front of you, sir, I have some documents to show you.

12                 MR. KUTIK: May I approach your Honor?

13                 EXAMINER SEE: Yes.

14                 THE WITNESS: Your Honor, may I remove my  
15 jacket, please?

16                 EXAMINER SEE: Certainly.

17                 THE WITNESS: Thank you.

18                 MR. KUTIK: Due to the volume, I do not  
19 have copies for all the parties, but I can make them  
20 available.

21                 Your Honor, I'd like to have marked as  
22 FES Exhibit No. -- Nos. 110-A through D, the  
23 following documents: First, as Exhibit 110-A, the  
24 document labeled reliability assurance agreement  
25 among load serving entities in the PJM region; as

1 110-B, PJM open access transmission tariff; as 110-C,  
2 Attachment DD, reliability pricing model; and as  
3 110-D, Attachment DD-1.

4 EXAMINER SEE: The exhibits are so  
5 marked.

6 (EXHIBITS MARKED FOR IDENTIFICATION.)

7 MR. KUTIK: Your Honor, I'd like now to  
8 have marked a second set of documents. These, your  
9 Honor, I would like to have marked as FES  
10 Exhibit 111A through D. These all appear to have the  
11 same cover letter that is a cover letter dated  
12 December 29, 2006, to the Honorable Magalie R. Salas,  
13 Secretary of the Federal Energy Regulatory  
14 Commission, from among other people, Barry M. Spector  
15 of the Wright & Talisman law firm, but they do  
16 distinguish themselves, these documents or the cover  
17 documents, by having a handwritten notation 1 of 4, 2  
18 of 4, 3 of 4, and 4 of 4.

19 So the document that bears the indication  
20 1 of 4 I would like to have marked as FES  
21 Exhibit 111-A. The document bearing the handwritten  
22 notation 2 of 4, 111-B. The document bearing the  
23 notation 3 of 4, Exhibit 111-C. And the document  
24 bearing 4 of 4, 111-D.

25 EXAMINER SEE: FES Exhibits are so

1 marked.

2 (EXHIBITS MARKED FOR IDENTIFICATION.)

3 MR. KUTIK: May I have it so marked your  
4 Honor?

5 EXAMINER SEE: The exhibits are so  
6 marked.

7 MR. KUTIK: Thank you.

8 Q. (By Mr. Kutik) Now, Mr. Horton, starting  
9 with the exhibits that have been described as 110A  
10 through D, the first stack that I gave you, would it  
11 be fair to say that you recognize these documents?

12 A. Yes.

13 Q. And would it be fair to say that 110A is  
14 a true and accurate copy of the reliability assurance  
15 agreement that we've been referring to in this case?

16 A. Yes, it looks like it's dated March 26,  
17 '12, yes, that's true.

18 Q. And would you accept, subject to check,  
19 that Exhibits 110B, C, and D are true and accurate  
20 copies of the PJM open access transmission tariffs  
21 and Attachments DD and DD-1?

22 A. Subject to check, those look reasonable,  
23 yes.

24 Q. And as we mentioned earlier, there was a  
25 settlement process and there were settlement

1 documents that were submitted to FERC, correct?

2 A. Yes.

3 Q. And you would recognize Exhibits 111A  
4 through D as those settlement documents, correct?

5 A. Yes.

6 Q. Now, in the -- just looking at the first  
7 page of Exhibit 111A, the first page of the first  
8 document of the settlement material, at the bottom of  
9 that first page there is a description, is there not,  
10 of a number of supplemental affidavits that were  
11 submitted in support of the settlement? Correct?

12 A. Did we go -- I'm sorry, which one are we  
13 doing?

14 Q. 111A, the second stack.

15 A. Is that the one -- all right, the second  
16 stack. Okay, the 1 of 4?

17 Q. Yes.

18 A. Yes, I see that.

19 Q. And one of those affidavits was from an  
20 individual by the name of Robert Stoddard. Do you  
21 see that?

22 A. Yes, I do.

23 Q. And is it -- would it be correct to say  
24 that no one on behalf of AEP submitted an affidavit,  
25 correct?

1           A.     Correct.

2           Q.     Now, did you work with Mr. Stoddard as  
3 part of the stakeholder process?

4           A.     We were both a part of the stakeholder  
5 process.

6           Q.     You were aware of what he was doing in  
7 the stakeholder process?

8           A.     Yes.

9           Q.     And would it be correct to say that  
10 Mr. Stoddard was one of the individuals that drafted  
11 a large part of the settlement documents?

12          A.     I'm not in position to judge whether he  
13 drafted a large part of the settlement documents.

14          Q.     Did he draft some of them?

15          A.     He probably had a hand in drafting part  
16 of the settlement documents.

17          Q.     Would he be -- would he have been  
18 regarded -- would it be fair to say that he was  
19 regarded as one of the drafting team of the  
20 settlement documents?

21          A.     I don't know.

22          Q.     Were there individuals who were -- well,  
23 would it be fair to say there were individuals who  
24 were in charge of drafting the documents? They got  
25 drafted, didn't they?

1           A.    They got drafted.

2           Q.    And would it be fair to say that certain  
3 individuals, as far as you can understand, were put  
4 in charge of being the principal drafters of the  
5 documents?

6           A.    I don't recall who did the primary part  
7 of the drafting.

8           Q.    Well, that wasn't my question. My  
9 question really is, isn't it true that there was a  
10 group of individuals -- there was a group of  
11 individuals who were in charge of the drafting  
12 process of the settlement documents?

13          A.    I don't recall.

14          Q.    As part of the settlement process, there  
15 were a number of discussions among and between  
16 various stakeholders, correct?

17          A.    Yes.

18          Q.    And there were some written proposals  
19 that were circulated from time to time either among  
20 or between various stakeholders.

21          A.    That was the process.

22          Q.    And would it be correct to say that as  
23 part of the FERC rules, those discussions and those  
24 documents would be barred from disclosure of public  
25 dissemination outside the context of those settlement

1 discussions?

2 A. Yes; those were confidential.

3 Q. So in terms of understanding the intent  
4 of the reliability assurance agreement or the PJM  
5 open access tariff and attachments that were modified  
6 as part of those proceedings at FERC, it would be  
7 fair to say that what we can do is rely on two  
8 things: One, the reliability agreement and tariffs  
9 themselves; and two, the settlement documents?

10 A. I would suggest there would be a third --  
11 a third category also.

12 Q. Well, let's start with the two that I  
13 suggested. We can rely on those, correct?

14 A. Yes, and a third category.

15 Q. With respect to the two that I mentioned  
16 to you, the settlement documents and the RAA and PJM  
17 tariff, would it be fair to say that neither of those  
18 sets of documents refers to or uses the term  
19 "embedded costs"?

20 A. We're talking about almost 3,000 pages  
21 here. There's a lot of costs used in there but I  
22 don't know if there's anything -- I just don't know  
23 if there's embedded costs in there or not.

24 Q. Fair enough. It would be fair to say  
25 then that sitting here today you couldn't point us to



1 any specific reference to the term "embedded cost" in  
2 those documents.

3 A. Not without doing a search.

4 Q. Now, the term "avoidable costs" is used  
5 several times in those documents, is it not?

6 A. That's true.

7 Q. Now, I want to talk to you a little bit  
8 about the way that the RPM process works.

9 MR. KUTIK: May we go off the record for  
10 a minute, your Honor?

11 EXAMINER SEE: Yes.

12 (Discussion off the record.)

13 EXAMINER SEE: Let's proceed.

14 MR. KUTIK: Thank you, your Honor.

15 Q. (By Mr. Kutik) Would it be correct to say  
16 that unless a generation owner becomes a fixed  
17 resource requirement entity, FRR entity, or it had  
18 already committed its generation through a bilateral  
19 transaction, that the generation owner would be  
20 required to offer its capacity into the RPM auctions?

21 A. Yes. That's the way the rules are  
22 written.

23 Q. And there's something called a base  
24 residual auction that's held every year, correct?

25 A. Yes.

1           Q.    And that base residual auction's held  
2           every year for the so-called delivery or planning  
3           year three years hence, correct?

4           A.    Correct.

5           Q.    So that the auction -- there's going to  
6           be an auction held next month in May, correct?

7           A.    Yeah, May 7.

8           Q.    And that would be for the planning year  
9           that begins June 1, 2015, correct?

10          A.    Yes.

11          Q.    All the capacity -- well, I'll back up.

12                The base residual auction determines two  
13           things; one is something called a clearing price, and  
14           another is something called the reserve margin,  
15           correct?

16          A.    Yes.

17          Q.    And in terms of the clearing price, all  
18           of the capacity that's offered at or below the  
19           clearing price must be committed to PJM for the  
20           delivery year three years hence, correct?

21          A.    Yes.

22          Q.    And some capacity that may be offered  
23           into the BRA may not clear, correct?

24          A.    That is correct.

25          Q.    Now, with respect to an entity that is an

1 FRR entity, in essence, all of the load, all of the  
2 generation resources that they would need to meet  
3 their load obligations would have to be committed,  
4 correct, to meet that load?

5 A. Can you repeat the question, please?

6 Q. Sure. Let me rephrase it, if I could.

7 If an entity's an FRR entity, it has an  
8 obligation to meet a load, correct?

9 A. Yes.

10 Q. And it may determine that it must commit  
11 its own resources to meet that load, correct?

12 A. It may determine it needs to commit its  
13 own resources to meet that load.

14 Q. As part of what the FRR entity needs to  
15 do, it needs to submit a plan to PJM to establish  
16 that it, "it" the FRR entity, has sufficient  
17 resources to meet its load obligation, correct?

18 A. That's correct.

19 Q. And once it submits that plan and the  
20 plan is reviewed by PJM, those resources are then  
21 committed for that delivery year, that plan it  
22 pertains to. Fair to say?

23 A. Yes, that's fair to say.

24 Q. Now, the clearing price is determined, we  
25 might say determined graphically by the intersection

1 of two lines that you show in Figures 1 and 2 in your  
2 testimony, correct?

3 A. Just give me a second to open it up, but  
4 that sounds right.

5 Q. Sure. So we're all looking at the same  
6 table or same graph, let's look at Figure 1 on page 3  
7 of your testimony. Are you there?

8 A. Yes.

9 Q. The downward sloping curve is the demand  
10 curve as you labeled, and the upward sloping curve is  
11 the supply curve, correct?

12 A. Yes.

13 Q. And where those two curves intersect,  
14 that's the clearing price.

15 A. Yes.

16 Q. Now, the demand curve, would it be fair  
17 to say, is administratively set for determination.

18 A. Yes, it's an administratively set demand  
19 curve.

20 Q. And that curve is set through a series of  
21 calculations that use something called the gross cost  
22 of new entry, correct? That's what it starts with.

23 A. It's the net cost that's actually a  
24 starting point on the demand curve. To get to the  
25 net cost of new entry, you start with the gross.

1           Q.   Fair enough. And in terms of the  
2 difference between the gross CONE, the cost of new  
3 entry, or the net CONE, the difference is the net  
4 margin on the sale of energy and ancillary services,  
5 correct?

6           A.   It's a hypothetical calculation. We're  
7 talking about the demand curve itself, it's a  
8 hypothetical calculation of what a combustion turbine  
9 could earn in an energy and ancillary service market.

10          Q.   And with respect to that net margin  
11 that's used, it isn't 40 percent of the net margin or  
12 50 percent of the net margin, it's all of the net  
13 margin, correct?

14          A.   That's correct.

15          Q.   Now, in terms of kind of the interplay  
16 between the clearing price and the reserve margin,  
17 would it be fair to say that the higher the clearing  
18 price, the lower the reserve margin?

19          A.   Yes, for the most part that's a  
20 correlation. Once you get out to the IRM or target  
21 reserve margin plus 5 percent, then it goes vertical,  
22 but that's a real small part. Might still clear  
23 various prices at 50 percent reserve margin.

24          Q.   But generally in relation --

25          A.   Generally what you're saying is true.

1           Q.    And would it also be fair to say that  
2           generally the lower the reserve margin, the  
3           relatively more scarce generation capacity resources  
4           are?

5           A.    Yeah, that's -- that's a true statement.

6           Q.    Now, in terms of PJM's target reserve  
7           margin, the target is 15 percent.

8           A.    Depending on the year, it's been as high  
9           as I believe 16.2.  It varies between 15 and 16.2,  
10          so.

11          Q.    It's in the 15 percent neighborhood,  
12          would you say?

13          A.    Yes.

14          Q.    And what a reserve margin is, is it sets  
15          margin above the load forecast, the peak load  
16          forecast, right?

17          A.    Yes.

18          Q.    Now, if the clearing price results in a  
19          reserve margin below the target, in the neighborhood  
20          of 15 percent, one could conclude that the clearing  
21          price is clearing above net CONE.

22          A.    Could you restate the question or --  
23          restate the question or state it again?

24          Q.    Sure.  If the reserve margin was less  
25          than 15 percent, as a result --

1           A.     Assuming the start get's 15.

2           Q.     Right, is less than the target. Then we  
3 could say that the clearing price was below net  
4 CONE -- or, excuse me, above net CONE.

5           A.     Yes.

6           Q.     Now, if capacity doesn't clear in the  
7 base residual auction, the owner of that capacity  
8 still has some opportunities to sell that capacity,  
9 correct?

10          A.     Or shut it down.

11          Q.     But it has that option.

12          A.     He has the option to try and sell it, he  
13 can try to sell the capacity or stay on as an energy  
14 resource, or retire the unit.

15          Q.     Let's talk about the opportunities to  
16 sell capacity if the generation owner doesn't --  
17 isn't able to clear that capacity in the BRA.

18                 First, there are three incremental --  
19 what are called incremental auctions held for a  
20 particular planning year between the base residual  
21 auction and the start of that planning year, correct?

22          A.     Yes.

23          Q.     And if a generation owner -- the capacity  
24 does not clear, the generation -- in the BRA, the  
25 generation owner then can offer it into one of those

1 incremental auctions.

2 A. Yes.

3 Q. And if the capacity at that point clears  
4 one of those auctions, then the generation owner is  
5 committed to commit that capacity in the delivery  
6 year.

7 A. Yes.

8 Q. At whatever the clearing price is for  
9 that particular auction.

10 A. Right.

11 Q. The owner of the generation can also seek  
12 to sell that capacity in a bilateral transaction,  
13 correct?

14 A. Yes, it can.

15 Q. Let me change topics. I am going to talk  
16 to you a little bit about AEP's thought process with  
17 respect to becoming an FRR.

18 And when we're talking about AEP, can we  
19 agree we're talking about the AEP -- the so-called  
20 EPA East operating companies?

21 A. Yeah, the four, yes.

22 Q. And as we mentioned earlier, or it has  
23 been mentioned, those companies applied to become an  
24 FRR entity, correct?

25 A. Yes.



1           Q.    And that was a voluntary decision that  
2   AEP made.

3           A.    Yeah, it was a voluntary decision.

4           Q.    And as we mentioned earlier, to do that  
5   AEP had to file a plan with PJM that had to be  
6   approved.

7           A.    Yes.  There are onerous penalties if you  
8   file a bogus plan.

9           Q.    Now, an FRR entity is not necessarily  
10   required to use only the capacity that it owns to  
11   fulfill it's FFR -- FRR obligation, correct?

12          A.    That's a correct statement.

13          Q.    Would it also be correct to say that the  
14   sole reason why AEP made the election to be an FRR  
15   entity was that AEP thought it would be better off  
16   for the company?

17               MR. RANDAZZO:  Can I inquire when counsel  
18   is using "AEP" and "company," are we talking about  
19   AEP Ohio or?

20               MR. KUTIK:  When I mention "AEP" here  
21   without talking about AEP Ohio, I'm talking about the  
22   AEP East companies.

23          Q.    Is that how you understood my question,  
24   sir?

25          A.    That's how I understood it also.

1 MR. RANDAZZO: Thank you.

2 Q. Let me explain -- ask the question again.

3 A. Please.

4 Q. Would it be fair to say the sole reason  
5 why AEP made the election to be an FRR entity was  
6 that it thought that it would be better off for the  
7 company?

8 A. We thought the FRR provided a lot of  
9 advantages to AEP as -- to the AEP company, yes.

10 Q. So the answer to my question is yes.

11 A. Yes.

12 Q. Now, would it also be correct to say that  
13 AEP, including AEP Ohio, thought that the FRR option  
14 better matched the regulatory environment that the  
15 companies were operating in at that time? And by  
16 "that time" I'm talking about 2007 when the election  
17 was first made.

18 Well, let me back up.

19 Is it fair to say that the -- that AEP  
20 first applied to be an FRR entity in 2007?

21 A. You know, I can't remember. It had to be  
22 prior to the first auction that was held for 2007. I  
23 can't remember the exact timing of the first two or  
24 three auctions because they had to run so many of  
25 them quickly after the settlement agreement was

1       accepted by FERC.

2                       So I don't know if it was in late 2006 or  
3       early 2007.   Timeframe's still relatively at that  
4       timeframe.

5               Q.     Okay, so in late 2006/early 2007,  
6       whenever the election was made, would it be fair to  
7       say that AEP, including AEP Ohio, thought that the  
8       FRR option better matched the regulatory environment  
9       that you were operating in at that time?

10              A.     Yes, that's a true statement.

11              Q.     And the regulatory climate in the states  
12       that AEP East or AEP comprised of was either fully  
13       regulated or partially deregulated, correct?

14              A.     Thinking of our East states, I think we  
15       were thinking of Ohio as being a partially  
16       deregulated and the others being fully regulated.

17              Q.     And when you used the phrase "partially  
18       deregulated", what you mean is that only very few  
19       customers had chosen to be supplied by an outside  
20       supplier, correct?

21              A.     Yes.   We knew the option was available,  
22       but at the time the -- we had very few customers that  
23       had chosen an outside supplier.

24              Q.     And at the time of the election, late  
25       2006/early 2007, AEP, the companies that were making

1 up the AEP East operating companies, they were all  
2 vertically integrated, correct?

3 A. Yes.

4 Q. And that vertical -- the fact of the  
5 vertical integration also played a role in the  
6 decision to become an FRR entity, correct?

7 A. I don't recall the vertical integration  
8 being a part of that decision.

9 Q. Well, isn't it true that the fact that  
10 AEP operating companies were vertically integrated  
11 and the regulatory climate that they were in were two  
12 of the reasons why you thought that being an FRR  
13 entity was good for the company?

14 A. We did think the FRR option was good for  
15 the company and our customers because of the  
16 regulatory environment we were in with our states.

17 Q. Is the answer to my question yes?

18 A. Yes.

19 Q. Now, in the 2006-2007 timeframe when AEP  
20 made its election to be an FRR entity, Ohio law  
21 permitted shopping, correct?

22 A. That's my understanding.

23 Q. And it would be fair to say that you're  
24 not particularly familiar with Ohio law on that  
25 subject.

1           A.     I am not.

2           Q.     Would it be fair to say that you in fact  
3 had never even heard of a bill called SB3?

4           A.     I believe you asked me that in my  
5 deposition and my answer, I believe, is still the  
6 same: I don't know about SB3.

7           Q.     And you're not familiar with Ohio Revised  
8 Code Chapter 4928, correct?

9           A.     No, I'm not.

10          Q.     And you're also not familiar with whether  
11 there was any requirement under Ohio law in the  
12 2006-2007 timeframe for electric companies to  
13 separate their generation functions from their  
14 distribution functions.

15          A.     I cannot comment any -- I have no  
16 knowledge of that.

17          Q.     Would it also be true to say that in  
18 2006-2007, whenever the FRR option was made, AEP  
19 really didn't give any consideration as to how long  
20 it might be an FRR entity? Correct?

21          A.     No, I'm not sure I would agree with that  
22 statement. We knew that when we made the initial FRR  
23 election, we had to be in there for five years  
24 because that was what was negotiated in the process  
25 and that's what appeared in the RAA. But we made no

1 assumptions of what would happen after that.

2 Q. So there wasn't a perception that at some  
3 point in time you have to stop being an FRR entity.

4 A. We just had no -- we had no preconceived  
5 notions either way of what would happen at the end of  
6 the five years.

7 Q. So, again, there was no idea that there  
8 would be -- there would come a time where you'd have  
9 to stop being an FRR entity, correct?

10 A. That's not exactly how I put it.

11 Q. Can you answer my question, sir? Is that  
12 a yes or a no?

13 MR. CONWAY: Your Honor, I object. He's  
14 already answered the question twice. Not getting  
15 quite the answer he wants, but the witness has given  
16 him his answer and explained that is his answer and  
17 he doesn't agree with the characterization.

18 MR. KUTIK: Your Honor, I believe this is  
19 cross-examination. I'm allowed to get the answers to  
20 my questions.

21 MR. CONWAY: And, once again, your Honor,  
22 I think he got an answer.

23 MR. KUTIK: That's obviously for the  
24 Bench to decide.

25 EXAMINER SEE: The question's been asked

1 and answered. Go ahead and move on, Mr. Kutik.

2 MR. KUTIK: Thank you, your Honor.

3 Q. (By Mr. Kutik) Now, I think you mentioned  
4 earlier that the first plan that AEP submitted,  
5 first FRR plan, was for a period of five years,  
6 correct?

7 A. Yes.

8 Q. And that would have been a period that  
9 would have ended in May of 2012, correct?

10 A. Yes. I had to count on my fingers.

11 Q. Take your time.

12 A. All right.

13 Q. Now, starting in 2007 until at least  
14 2010, would it be fair to say that even though AEP  
15 Ohio was part of an FRR entity, it charged CRES  
16 providers an RPM-based price for capacity?

17 A. Yes, that's a true statement.

18 Q. Would it also be true to say that you  
19 have not seen comparisons for the period 2007 through  
20 2010 of the RPM-based price that you were charging in  
21 AEP Ohio's embedded costs?

22 A. Can you repeat the question? I'm sorry,  
23 I want to pick up the time period.

24 Q. 2007-2010.

25 A. Have I ever seen a comparison or?

1 Q. Yes.

2 A. What I can't remember is if that's any  
3 part of Mr. Pearce's exhibits or testimony, because I  
4 have looked through Mr. Pearce's exhibits but I can't  
5 remember if he went back. I was more in tune what  
6 was currently. So other than what may have appeared  
7 in Mr. Pearce's exhibits, I -- I don't recall ever  
8 seeing a comparison to.

9 Q. So it would be fair to say that with  
10 respect to any period of time, the only comparison  
11 you've seen of RPM-based prices versus AEP Ohio's  
12 embedded costs would have appeared in Mr. Pearce's  
13 testimony or his workpapers?

14 A. That's -- that's fair.

15 Q. Now, you mentioned just before after  
16 counting on your fingers that the last period or the  
17 period of the first FRR plan ended in May of 2012,  
18 correct?

19 A. Yes.

20 Q. And there was another FRR plan that AEP,  
21 again AEP East companies filed, correct? After the  
22 first one.

23 A. We submit revisions to the FRR plan not  
24 all the time but it's not an unusual thing for us to  
25 submit additional FRR plans.



1 Q. Well, you submitted an FRR plan to begin  
2 June, 2012, correct?

3 A. Yes.

4 Q. And that plan or the documentation and  
5 the plan were submitted in the March/April timeframe  
6 for 2009, correct?

7 A. Yes.

8 Q. And in 2010 there was a similar exercise  
9 in the March/April timeframe for the planning year  
10 beginning June, 2013.

11 A. Yes.

12 Q. And that period would have ended in May  
13 of 2014.

14 A. May 31, 2014.

15 Q. In November of 2010, AEP Ohio -- well,  
16 I'll back up.

17 In November of 2010, there was a filing  
18 that you participated in at the FERC, correct?

19 A. Can you be more specific about which  
20 filing at FERC?

21 Q. Well, would it be fair to say that AEP  
22 Ohio or some other AEP entity filed for authority to  
23 charge CRES providers for capacity on a basis other  
24 than RPM?

25 A. That's the timeframe I recollect that

1 filing being made, yes.

2 Q. And there was a filing made on behalf of  
3 AEP Ohio, correct?

4 A. I don't know if it was on AEP Ohio or it  
5 was AEP for the -- all the operating companies, but  
6 I'm familiar with the filing that was made.

7 Q. And, again, the timeframe there is  
8 November of 2010, correct?

9 A. Yes.

10 Q. And that would have been the first time  
11 that AEP Ohio, or since they became an FRR entity,  
12 that a CRES provider would have been on notice that  
13 AEP Ohio wanted to charge for capacity something  
14 other than an RPM-based price.

15 A. That option's always in the RAA.

16 Q. That's not my question. The November,  
17 2010, filing would have been the first time that a  
18 CRES provider would have been on notice that AEP Ohio  
19 intended to charge for capacity a price other than  
20 the RPM-based price.

21 A. I will defer to Witness Allen.

22 MR. KUTIK: Your Honor, may I approach?

23 EXAMINER SEE: Yes.

24 Q. Mr. Horton, do you have your deposition  
25 with you?

1           A.    Yes, I do.

2           Q.    Let me refer you to page 47 of your  
3 deposition.  Are you there, sir?

4           A.    Yes.

5           Q.    Let me particularly direct you to line 9.  
6 Well, first, you had a deposition taken, right?

7           A.    Yes.

8           Q.    And I took your deposition.

9           A.    Yes, you did.

10          Q.    Among other fine counsel.

11          A.    Yes.

12          Q.    And is it true that on page 37, line 9,  
13 you testified as follows:  Question:  "So would it be  
14 fair to say that the first time that a CRES provider  
15 would have been on notice that AEP Ohio wanted to  
16 charge for capacity something other than RPM price  
17 was December 2010?"

18                Answer:  "Well, that would have been the  
19 first time a CRES provider would have been made aware  
20 that AEP was thinking of changing the way it was  
21 charging a CRES provider."

22                That was your testimony.

23          A.    Yes, it was on that Monday.

24          Q.    Thank you.

25          A.    May I --

1 Q. No.

2 A. May I follow-up?

3 Q. Let me ask you my next question. If your  
4 lawyer has questions for you, you want to explain.

5 MR. CONWAY: Your Honor, I think he's  
6 entitled to clarify his deposition answer.

7 MR. KUTIK: All I asked was is that his  
8 testimony.

9 MR. CONWAY: He asked him to read his  
10 deposition. He's trying to impeach him with it. I  
11 think the witness is entitled to explain his answer.

12 MR. KUTIK: And that's direct.

13 EXAMINER SEE: True. Mr. Conway, you can  
14 take any additional clarification of the matter up on  
15 redirect.

16 Q. (By Mr. Kutik) AEP in that -- AEP Ohio in  
17 that proceeding that was filed in November, 2010,  
18 sought to have a change in capacity prices starting  
19 in January of 2010?

20 MR. RANDAZZO: Can I have the question  
21 reread, please?

22 Q. I'm sorry, 2011.

23 A. That's where I was having a problem.

24 Q. Let me give you the question again.

25 Thank you.

1                   Would it be correct to say that the  
2                   filing that was made November, 2010, sought to have  
3                   the prices changed as of January, 2011?

4                   A.    I believe that's the timing.

5                   Q.    And at that point in time, that is  
6                   January, 2011, a CRES provider would not have been  
7                   able to opt out of the FRR alternative, correct?

8                   A.    That's correct, we had a contract for  
9                   three years forward in the FRR arrangements.

10                  Q.    And the FRR entity would not have been  
11                  able to opt out for the 2012-2013 planning year,  
12                  correct?

13                  MR. RANDAZZO: Can I have the question --

14                  A.    I'm sorry. Did you say the FRR entity?

15                  Q.    The CRES provider would not have been  
16                  able to opt out of the FRR.

17                  A.    For?

18                  Q.    The planning year 2012-2013 as of  
19                  November, 2010.

20                  A.    That's a correct statement.

21                  Q.    And we can make the same statement for  
22                  the planning year 2013-2014, correct?

23                  A.    That's correct, '13-'14. They could have  
24                  for '14-'15.

25                  Q.    So in November of 2010, the first time

1 that a CRES provider could have opted out would have  
2 been starting in June of 2015 or 2014?

3 A. June of 2014.

4 Q. Thank you. Now, with respect to this  
5 case that was filed or this petition that was filed  
6 in November of 2010, you prepared an affidavit in  
7 that case, correct?

8 A. Yes.

9 Q. And you refer to that case, that  
10 November, 2010, filing, as seeking capacity exit  
11 fees, correct?

12 A. Without referring to my testimony, I  
13 don't know if that's the term I used or not. I  
14 believe I -- in my affidavit I said capacity exit  
15 fees.

16 Q. No. I'm asking you whether you would  
17 refer to the relief you sought as seeking capacity  
18 exit fees.

19 A. Do you have a page of my testimony?

20 Q. Can you answer that question without  
21 referring to your testimony?

22 A. I want to be accurate.

23 Q. All right. Well, let's see if you were  
24 accurate in your deposition. Can you turn to your  
25 deposition, please?

1           A.    All right.

2           Q.    Let me refer you to page 11. Starting at  
3 page -- excuse me, line 22, you testify as follows:  
4 Question: "Have you ever submitted any type of  
5 written testimony or affidavit in any proceeding  
6 before this one?"

7           Answer: "I submitted an affidavit I  
8 believe it was in the fall of 2010 when we first  
9 filed for the capacity exit fees."

10          Is that your testimony, sir?

11          A.    That's my -- yes, that's my deposition  
12 there.

13          Q.    And in terms of what you were seeking at  
14 the FERC, it was similar in terms of what you were --  
15 what AEP Ohio is trying to obtain here, correct?

16          A.    A capacity fee to charge to CRES  
17 providers.

18          Q.    Again, it was similar --

19          A.    Yes.

20          Q.    -- in terms of what you were trying to  
21 get.

22          A.    Yes.

23          Q.    In terms of the phrase "capacity exit  
24 fees," would it be fair to say that you mean a charge  
25 that AEP is giving or charging to make outside

1 providers pay for customers exiting your regulated  
2 environment?

3 A. I don't believe that's a fair  
4 characterization of "capacity exit fees."

5 Q. Let me refer you to your deposition, sir.  
6 Refer to page 96 of your deposition. Are you there,  
7 sir?

8 A. Yes.

9 Q. Let me direct you specifically, sir, to  
10 line 18. Did you testify in your deposition as  
11 follows? Question: "And I'm just curious, sir, as  
12 to why you would have called this a capacity exit  
13 fee, the filing that was made in the fall of 2010."

14 Answer: "In my mind that was the charge  
15 that we were going to make to the outside providers  
16 for customers exiting our regulated environment."

17 That was your testimony in your  
18 deposition, was it not, sir?

19 A. That is in my deposition.

20 Q. Thank you.

21 Now, in this case you understand that AEP  
22 is -- Ohio is seeking to get permission to charge  
23 capacity charges that are based on the company's  
24 embedded costs?

25 A. Yes.



1           Q.    Would it be fair to say that you believe  
2           that embedded costs are very similar to stranded  
3           costs?

4           A.    I'm just not familiar with strand -- the  
5           definitions around stranded costs.  So I -- I don't  
6           feel comfortable making comparisons between embedded  
7           costs and stranded costs.

8           Q.    Let me refer you to your deposition, sir.  
9           Let me refer you specifically to page 26.  And would  
10          it be fair to say, sir, that you testified in your  
11          deposition starting on line 10 of that page as  
12          follows:  Question:  "Are you familiar with the term  
13          stranded costs?"

14                Answer:  "Yes."

15                Question:  "Can you tell me how stranded  
16          costs differ at all from embedded costs?"

17                Answer:  "There would be a lot of  
18          similarities between the two concepts."

19                That was your testimony, correct?

20           A.    Yes, and when followed up I -- with your  
21          questioning on can you come up with costs that would  
22          be in one versus the other, I could not give you  
23          examples of one versus the other.

24           Q.    Because they were similar, correct?

25           A.    I would not draw that conclusion.

1           Q.    Now, on page 5, line 12 of your  
2 testimony --

3           A.    Testimony or deposition?

4           Q.    Testimony, your written testimony in this  
5 case.

6           A.    What page number again?

7           Q.    Page 5, line 12. You there, sir?

8           A.    Yes.

9           Q.    You say "for AEP, the FRR mechanism  
10 allowed it to continue to recover its embedded  
11 generation costs associated with the consumers it  
12 serves through existing Commission approved rate  
13 structures." Did I read that correctly?

14          A.    Not quite. "The FRR mechanism allowed it  
15 to continue to recover its embedded generation costs  
16 associated with the customers it serves through  
17 existing Commission approved rate structures."

18          Q.    Thank you.

19                Now, it would be fair to say that you  
20 don't know what existing rate structures were in  
21 effect in 2006.

22          A.    Can you be a little more specific on  
23 "rate structures"?

24          Q.    Well, you refer to rate structures there,  
25 do you not, in your testimony?

1           A.    Yes, but I want to make sure that you're  
2           thinking of the same context as I was there.

3           Q.    So are you saying you can't answer my  
4           question?

5           A.    No, I didn't say that.

6           Q.    Can you answer my question then?

7           A.    Can you repeat the question?

8           Q.    Sure.  Would it be fair to say that you  
9           don't know what existing rate structures were in  
10          effect in 2006?

11          A.    That's a very broad categorization, so I  
12          cannot answer that.

13          Q.    Okay.  Let me refer to your deposition,  
14          sir, page 48.

15          A.    All right.  I'm there.

16          Q.    You testify as follows starting at line  
17          19:  Question:  "And with respect to Ohio, can you  
18          tell me what existing PUCO-approved rate structures  
19          you were referring to in that sentence?"

20                  Answer:  "I'm not -- I'm just not a state  
21          Commission regulatory expert here so I don't know  
22          which rate structures that might have been affect in  
23          Ohio."  Correct?

24          A.    I say that, yes.  I fail to see how  
25          that's different from my testimony.

1           Q.    Okay.  You don't know whether in  
2           2006-2007 there were rates developed for AEP Ohio as  
3           part of Ohio's transition from a fully regulated  
4           market to a fully or partially deregulated market,  
5           correct?

6           A.    Correct, that's correct.  I do not know  
7           specific rate structures in Ohio.

8           Q.    And you also don't know whether AEP Ohio  
9           was recovering its embedded costs from non-shopping  
10          customers in 2006 and 2007.

11          A.    That's outside of my area of expertise.

12          Q.    You don't know.

13          A.    I don't know.

14          Q.    Thank you.

15                And you don't know whether AEP Ohio has  
16          been able to recover its embedded costs from  
17          non-shopping customers under its current ESP,  
18          correct?

19          A.    That's correct.

20          Q.    Now, on page 14 of your testimony.

21          A.    Okay.  I'm there.

22          Q.    And particularly on line 2, you refer to  
23          a \$342 per megawatt day figure, correct?

24          A.    Yes.

25          Q.    And one of the things that you're saying

1       there is the RPM prices are supposed to approach net  
2       CONE and there's a net CONE value for 2014-2015 of  
3       \$342 per megawatt day.

4             A.     Yes, \$342 per megawatt day is the net  
5       CONE calculation '14/'15.

6             Q.     Now, wouldn't it be the case, sir, or  
7       isn't it the case, that historically and through the  
8       year -- the planning year 2014-2015, the RPM clearing  
9       prices for the rest of the market that would be  
10      applicable to Ohio have been less than net CONE?

11            A.     At least they have out here in the Ohio  
12      region.

13            Q.     Thank you.

14                   MR. KUTIK:  Let's go off the record.

15                   EXAMINER SEE:  Keep going, Mr. Kutik.

16                   MR. KUTIK:  Thank you.  We're back on the  
17      record, your Honor?

18                   EXAMINER SEE:  Technically we were never  
19      off, so keep going.

20            Q.     (By Mr. Kutik) And would it be also fair  
21      to say that there's been no planning year where there  
22      have been RPM prices established for the rest of the  
23      market in PJM, the prices applicable to Ohio where  
24      the RPM price has reached a level of \$342 per  
25      megawatt day?

1           A.    Up until now, that's a true statement.

2           Q.    Now, you also give some prices on a  
3 megawatt -- on a dollars per megawatt hours basis,  
4 correct?

5           A.    I do, if you could help me with the page  
6 you're referring to.

7           Q.    Page 13.

8           A.    In my testimony?

9           Q.    Yes.

10          A.    Yes.

11          Q.    And would it be fair to say that all you  
12 did is you took dollars per megawatt day and divided  
13 it by 23?

14          A.    That's how I did the calculation.

15          Q.    So that would have assumed a 100 percent  
16 load factor, correct?

17          A.    Yes.

18          Q.    And if a customer had a lower load  
19 factor, that would translate to a higher price.

20          A.    Yes, at 50 percent load factor it would  
21 be doubling the dollars per megawatt hour price.

22          Q.    Now, I want to talk to you a little bit  
23 about the savings that you discuss, I'll put  
24 "savings" in quotes, that you discuss with respect to  
25 not having to meet the reserve margins that you would

1 have had to meet if you participated in the RPM  
2 process. Do you understand my question?

3 A. Yes.

4 Q. You provide some numbers on page 7, line  
5 8, and page 8, line 1, correct?

6 A. All right, I'm there.

7 Q. And the numbers that you show there,  
8 15.7 million, and 25 million dollars respectively,  
9 are not numbers that are just for AEP Ohio, correct?

10 A. Right. Those are AEP the company.

11 Q. Let me also now talk with you a little  
12 bit about penalties and how the penalty process works  
13 for RPM entities -- RPM participating entities.

14 First, would it be fair to say that you  
15 don't know the frequency of the assessment of  
16 penalties by PJM on RPM participating entities for  
17 failing to meet their obligations?

18 A. That's -- that's not posted anywhere by  
19 PJM.

20 Q. So the answer is you don't know.

21 A. I don't know the frequency.

22 Q. All you know is that you have kind of  
23 heard through the grapevine in talking to other  
24 stakeholders within PJM that there have been  
25 penalties assessed, fair to say?

1           A.    Yes.

2           Q.    So you don't know the frequency, you  
3 don't know the amount, you don't know who they were  
4 assessed against and the circumstances of the  
5 assessment, correct?

6           A.    I only know what AEP had for penalties.

7           Q.    But other than AEP, correct?

8           A.    That's correct. We don't normally share  
9 that type of confidential information among parties.

10          Q.    Now, if an RPM en -- participating entity  
11 has an outage kind of like the outage that you  
12 describe in your testimony, which I'll get to in a  
13 minute, there are potential opportunities for that  
14 entity to replace the load that's out.

15          A.    Replace the generation that's out.

16          Q.    Yes, correct, thank you.

17                Like we talked about earlier, folks that  
18 have capacity that doesn't clear in the BRA and  
19 participate as sellers in the incremental auction,  
20 correct?

21          A.    Yes.

22          Q.    And so someone who has an outage could  
23 potentially participate in the incremental auction as  
24 a buyer, correct?

25          A.    Yes, they could.



1           Q.    And as we talked about with respect to  
2   folks who don't have capacity that clears in the BRA,  
3   those folks can participate as sellers in a bilateral  
4   transaction, right?

5           A.    Could be a bilateral or as a seller in  
6   the incremental auctions.

7           Q.    So folks who are looking to replace  
8   capacity that's been reduced because of an outage,  
9   they could also participate as a buyer in a bilateral  
10   transaction.

11          A.    Yes.

12          Q.    Now, the case that you refer to the  
13   outage, I want to talk to you a little bit about the  
14   details of that. That occurred when one of the units  
15   at the Cook nuclear plant went out.

16          A.    Correct.

17          Q.    And that plant is owned by Indiana  
18   Michigan, not AEP Ohio, correct?

19          A.    That's correct.

20          Q.    What happened there was that one of the  
21   turbines broke.

22          A.    Yeah, and that's my understanding was a  
23   turbine issue.

24          Q.    And damaged the unit.

25          A.    Yeah.

1 Q. And it was out for more than a year.

2 A. Yeah.

3 Q. The unit was rated somewhere in the  
4 neighborhood of 1000 to 1100 megawatts?

5 A. Yes. I'm just not sure what the forced  
6 outage rate applied to it but it's in that range.

7 Q. But as it turned out, the PJM load  
8 forecast was reduced by a level more than that  
9 outage, correct?

10 A. That was -- not sure if I would call that  
11 a fortuitous occurrence because the load forecast was  
12 reduces due to the economic downturn.

13 Q. Now, when an RPM entity commits their  
14 capacity through a BRA or incremental auction, they  
15 get paid in advance for the capacity commitment,  
16 correct?

17 A. Well, they don't get paid in advance.  
18 They -- even though the auction clears three years in  
19 advance, they don't get paid until that delivery year.

20 Q. But, in essence, sometimes they get paid  
21 before they have to provide that capacity, correct?

22 A. It's more concurrent with when they  
23 provide the capacity. Start getting paid on June 1  
24 of that delivery year when that capacity shows up.

25 Q. So they get paid on June 1.

1           A.    For -- and I believe they're paid  
2 monthly.

3           Q.    So they get paid beginning of the month  
4 for capacity that they are to provide.

5           A.    Yes.

6           Q.    Now, if an RPM participating entity has  
7 an outage and can't provide the replacement, so it  
8 doesn't fulfill its obligation, one of the things  
9 that has to happen is that that entity needs to pay  
10 back to PJM for the capacity it did not provide.

11          A.    Right.

12          Q.    And then on top of that there is a  
13 20 percent payment that needs to be made.

14          A.    Right.

15          Q.    So the net cash outflow is a negative  
16 20 percent.

17          A.    That's the net negative penalty, yes.

18          Q.    So in the example that you give on page  
19 12 of your testimony, that negative outflow would be  
20 roughly \$7.5 million.

21          A.    I don't see \$7.5 million.

22          Q.    Would it would be 20 percent of the  
23 figure that appears there?

24          A.    We were an FRR entity so it's all cash  
25 outflow.

1           Q.    If you were an RPM participating entity,  
2           the net cash flow would have been 7.5 to the  
3           negative, right?

4           A.    And by saying that assuming that we had  
5           just been not supplied the capacity. The net would  
6           have been 20 percent of the 44.

7           Q.    Or 7.5 percent.

8           A.    Yes, roughly.

9           MR. KUTIK: May I have one second, your  
10          Honor?

11          EXAMINER SEE: Yes.

12          MR. KUTIK: I have no further questions  
13          at this time, your Honor.

14                I do have one issue that perhaps -- I  
15          mean, I received the documents within 15 minutes of  
16          us starting our session, and so I would like to have  
17          some time this afternoon to look at these documents  
18          to see if I have any further questions.

19          MR. CONWAY: Your Honor, this testimony  
20          was filed, I think, 23rd of March. Discovery has  
21          been fast and furious ever since then, and if he  
22          wanted these documents, he could have either asked  
23          for them or he could have gotten them himself without  
24          asking for them.

25                So to make a statement that he's somehow

1     been prejudiced because we didn't provide these  
2     things more quickly than within an hour after they  
3     were first requested here today is not genuine and I  
4     think it's -- I think he's had his opportunity to do  
5     his cross-examination and I think he's also had his  
6     opportunity to do his discovery.

7                 So I would object to the effort to try to  
8     adjourn his cross-examination until some later point  
9     in the day.

10                MR. KUTIK: Your Honor, I don't mean to  
11     cast aspersions on the promptness of AEP's production  
12     of these materials. What I don't think I could have  
13     fairly anticipated was a ruling from the Bench that  
14     put these materials into the record as opposed to  
15     merely having cited them.

16                MR. CONWAY: And, your Honor, we are --  
17     we can do two things, we could take a break --

18                EXAMINER SEE: Mr. Conway, I need you to  
19     speak up.

20                MR. CONWAY: We could do a couple things.  
21     One, we could take a break and he could review the  
22     documents and see if he has any additional  
23     cross-examination, or we don't have to mark any  
24     documents in the first place. That was done as an  
25     accommodation.

1 EXAMINER SEE: Mr. Randazzo, you had  
2 something to add.

3 MR. RANDAZZO: Your Honor, I would say  
4 that Mr. Kutik's request in my mind is reasonable,  
5 but I would suggest that we proceed with  
6 cross-examination, allow Mr. Kutik to advise us as to  
7 whether or not he needs additional time once he's had  
8 an opportunity to look at the documents.

9 Your Honors have seen the length of the  
10 documents. They are new to all of us. It was an  
11 accommodation, I understand it, in response to a  
12 motion to strike, so my view is absent the documents  
13 the testimony needs to come in because it presents  
14 the same problem, but I suggest we proceed with  
15 cross-examination.

16 MR. CONWAY: Your Honor, I object to  
17 having two different opportunities to conduct  
18 cross-examination. I think it's unfair, and I think  
19 it's not appropriate.

20 EXAMINER SEE: Thank you both.

21 At this point we're going to continue  
22 with cross.

23 Yes, Mr. Randazzo.

24 MR. RANDAZZO: Could I go next? Could I  
25 volunteer?

1 EXAMINER SEE: I'm going to leave that up  
2 to Ms. Spiller and Ms. Kaleps-Clark.

3 MS. KALEPS-CLARK: I have a few  
4 questions, but I'm happy to have you go.

5 MS. SPILLER: You can go.

6 - - -

7 CROSS-EXAMINATION

8 By Mr. Randazzo:

9 Q. Mr. Horton, I'm not sure we've met  
10 before, have we?

11 A. No. I'm not sure. I've heard your name.

12 Q. I'm sure you have. And I'm sure you will  
13 again after today.

14 What -- you've been with AEP since 1984,  
15 right?

16 A. Yes.

17 Q. And you were with the AEP trading  
18 operations for a period of time?

19 A. A period of time, yes.

20 Q. And can you briefly describe the trading  
21 operations of AEP? What types of business were the  
22 trading operations for AEP?

23 A. At that time?

24 Q. Yeah.

25 A. Which is much different at that time

1       versus now. At the time I was involved in the  
2       tradings operations it was -- that was prior to  
3       joining PJM, and we bought and sold power on the  
4       energy market. This was in the earlier days of when  
5       the trading hubs were developing.

6               Q. And if I were to describe that type of  
7       business model as the Enron business model, would you  
8       agree with me?

9               A. That's too broad of a statement for me to  
10      agree with that so I would have to disagree with that  
11      characterization.

12              Q. But it was a different model, was it not,  
13      than a vertically integrated regulatory utility  
14      business model, right?

15              A. Well, at the time we incorporated that,  
16      the trading within the vertically integrated utility  
17      structure.

18              Q. And so that was in anticipation, the  
19      trade energy trading business model was an  
20      anticipation of developing competition in the  
21      wholesale market, I take it?

22              A. Can you be a little more specific,  
23      developing competition in which wholesale market? We  
24      had competition in that time period and some aspects  
25      of the wholesale market so I'm not sure where you're



1 heading.

2 Q. Okay, that's fine.

3 How many employees were in the energy  
4 trading operation at its peak, ballpark?

5 MR. CONWAY: Your Honor, I'm going to  
6 object at this point. The line of examination  
7 doesn't have any obvious relevance to me, so I object  
8 to the grounds of relevance.

9 EXAMINER SEE: Did you want to respond,  
10 Mr. Randazzo?

11 MR. RANDAZZO: No, the individual  
12 indicates as part of his background -- I'm entitled  
13 to test his background. I'm also entitled to test  
14 the proposition that AEP has continuously presented  
15 that it's been stunned by this notion that we have  
16 competition and it's been pulled out of a regulatory  
17 business model through actions by others.

18 MR. CONWAY: Your Honor, that's a  
19 mischaracterization of what we have stated publicly  
20 and --

21 MR. RANDAZZO: I'll withdraw the  
22 question.

23 EXAMINER SEE: Thank you.

24 Q. (By Mr. Randazzo) With regard to PJM,  
25 Mr. Horton, how many people within -- first of all,

1 you're employed by the AEP Service Corporation; is  
2 that correct?

3 A. Yes, that's correct.

4 Q. And, you know, I've been around long  
5 enough to know that when somebody says "AEP," it can  
6 mean a number of things. So when you use "AEP" in  
7 your testimony, your written testimony, I was  
8 confused at page 1, between lines 5 and 7, because  
9 you initially define AEP Power Service Corporation as  
10 AEP, and then you go on to say in lines 6 and 7 that  
11 AEP Service Corporation is agent for AEP Ohio, and  
12 then you refer to that as AEP or the company.

13 Can you tell me where in your testimony  
14 you use "AEP" synonymously with "AEP Ohio"?

15 A. Sitting here now I don't know  
16 specifically -- I cannot go right away and point to  
17 specific parts of the testimony. Perhaps a context  
18 or a line you're asking about?

19 Q. Well, it's throughout your testimony,  
20 sir, so I mean, your use of "AEP" is on every page.  
21 Your use of "company" is on every page. And I'm  
22 simply trying to figure out when you use AEP or  
23 company whether you're referring to American Electric  
24 Power Service Corporation or AEP Ohio.

25 A. May I volunteer an answer here?

1 Q. Actually whether you volunteer it or  
2 you're compelled, you need to provide an answer.

3 A. That's fine.

4 Q. Yes.

5 A. In the context here of the testimony, I'm  
6 thinking of AEP as for the most part in our FRR  
7 situation AEP is treated -- all four of the operating  
8 companies are treated as one by PJM when filing an  
9 FRR plan and how the FRR plan is looked at.

10 So up until 2015-'16, AEP is looked at as  
11 one single entity by PJM.

12 Q. I'm still somewhat confused. Does AEP  
13 American Electric Power Service Corporation perform  
14 activities on behalf of let's say AEP Retail?

15 A. I'm -- that's outside of my  
16 understanding. I have no idea what the legal  
17 connections are between AEP Retail and the Service  
18 Corporation.

19 Q. Well, how about do you know who American  
20 Energy Partners is?

21 A. I believe that's AEP Retail. I'm not  
22 sure. I'm not a hundred percent certain.

23 Q. Does AEP American Electric Power Service  
24 Corporation provide services or support to American  
25 Energy Partners?

1           A.    I can't answer that. I'm -- I don't know  
2           the exact names of the Retail Services and AEP Energy  
3           Partners. I'm uncomfortable with making that -- any  
4           kind of a statement on that because I just don't --

5           Q.    Have you had discussions or interactions  
6           with any representatives of AEP Retail in your  
7           capacity as a liaison to PJM?

8           A.    In my past I have had some communication  
9           with AEP Retail.

10          Q.    And please describe the nature of those  
11          communications.

12          A.    Summaries of some of the PJM meetings,  
13          materials.

14          Q.    And would you have notified AEP Retail or  
15          would -- based upon internal communications would AEP  
16          Retail have had some notice that in November of 2010  
17          you were going to seek to file an application at FERC  
18          to modify the form of compensation under the  
19          reliability assurance agreement?

20          A.    No. We would not have given any previous  
21          notice to AEP Retail versus any other CRES provider.

22          Q.    So we can be assured that nobody knew in  
23          the CRES community that AEP was going to submit a 205  
24          application to the Federal Energy Regulatory  
25          Commission prior to doing so in November of 2010,

1 correct?

2 A. The option was always there in the RAA.

3 Q. You didn't -- the question, sir, dealt  
4 with whether or not you notified any CRES supplier,  
5 including affiliated CRES suppliers, about filing the  
6 205 action in November of 2010, and I asked you  
7 whether or not we can be assured based upon your  
8 understanding that nobody at AEP Service Corporation  
9 notified any CRES supplier prior to making the  
10 application to FERC in 2010; is that a correct  
11 statement?

12 MR. CONWAY: Your Honor, I object to the  
13 line of questioning. He's already explained that he  
14 doesn't -- what he knows or doesn't know about  
15 contacts between himself and AEP Retail and  
16 communications regarding the December -- the  
17 November, 2010, filing.

18 I think to bear upon the witness to make  
19 assurances about any communication any CRES might  
20 have received from any station is inappropriate.  
21 It's just a form of the question, it's overbroad, and  
22 frankly, the relevance of it escapes me. That's  
23 beyond the scope of his testimony.

24 EXAMINER SEE: Would you like to rephrase  
25 the question, Mr. Randazzo?

1 MR. RANDAZZO: No, ma'am, I would not.

2 I'm sorry, I would.

3 Q. (By Mr. Randazzo) Let's try it this way,  
4 Mr. Horton. For how many AEP total corporate  
5 American Electric Power business units, including  
6 each of the operating companies, does American  
7 Electric Power Service Corporation provide services?

8 MR. CONWAY: Objection, relevance.

9 EXAMINER SEE: Overruled.

10 You can answer the question, Mr. Horton.

11 A. I have no idea.

12 Q. So you wouldn't know whether or not in  
13 addition to providing services as agent for AEP Ohio,  
14 as you mention on page 1, line 6 of your testimony,  
15 American Electric Power Service Corporation also  
16 provides services to affiliates engaged in  
17 unregulated activities. You wouldn't know that,  
18 right?

19 A. I don't know all the relations between  
20 the Service Corporation and the Retail affiliates.

21 Q. All right. Now, are you the resident  
22 expert within the American Electric Power Service  
23 Corporation for purposes of understanding the  
24 obligations/commitments that have made as part AEP  
25 East joining PJM?

1           A.     With regards to our performance and then  
2     what we do within the PJM markets, that's -- that is  
3     my area of expertise.

4           Q.     Okay. And you would be the one that if  
5     somebody had a question about what the AEP Ohio's  
6     obligations were under the reliability assurance  
7     agreement that Mr. Kutik was kind enough to provide  
8     as an exhibit, you would be the one that people would  
9     go to to better understand the nature of those  
10    obligations, responsibilities, and rights, right?

11          A.     That would be a correct assessment.

12          Q.     Okay. Now, prior to November 2010, did  
13    anybody from AEP Ohio come to you and discuss with  
14    you the question of what AEP Ohio's options were  
15    under the reliability -- reliability assurance  
16    agreement as it relates to the FRR option?

17          A.     We had those discussions as far back as  
18    2006.

19          Q.     So you were constantly evaluating  
20    beginning in 2006 the significance of the FRR  
21    election as it related to Ohio Power, correct?

22          A.     Can you help me out with "constantly"?  
23    It wasn't a hundred percent --

24          Q.     Well, you revisited the FRR election from  
25    2006 on --

1 A. Yes.

2 Q. -- in the case of AEP Ohio, correct?

3 A. Yes.

4 Q. And how far in advance of the November,  
5 '10, 205 filing at the Federal Energy Regulatory  
6 Commission did AEP Ohio make the decision to file the  
7 205 filing?

8 A. I don't know how many months in advance  
9 that was made, or weeks. I just don't know.

10 Q. Well, you would agree with me that it was  
11 prior to the filing actually showing up at the  
12 Federal Energy Regulatory Commission, right?

13 A. Yes.

14 Q. So evidence -- we've got electronic  
15 filing now, but you still have to go there, an  
16 internal governance process in AEP corporate in order  
17 to do such things, right?

18 A. Yes.

19 Q. Who made the decision to file the 205  
20 filing in November, 2010?

21 A. I don't know.

22 Q. Do you know whether or not it was any  
23 officer of AEP Ohio?

24 A. I don't know.

25 Q. Who was the filing filed by? Who was



1 the -- who filed -- which corporate entity filed the  
2 205 filing in November, 2010?

3 A. Without looking at that document, I -- I  
4 can't say.

5 Q. So if I were to suggest to you that it  
6 was filed by American Electric Power Service  
7 Corporation, would that refresh -- refresh your  
8 recollection?

9 A. A lot of FERC filings, in fact, probably  
10 about all our FERC filings start with American  
11 Electric Power Service Corporation.

12 Q. Okay, so would you accept, subject to  
13 check, that the 205 filing filed in November, 2010,  
14 was filed by the American Electric Power Service  
15 Corporation as agent for AEP Ohio?

16 A. Subject to check.

17 Q. So it's clear from that -- and let me ask  
18 you, just to follow up on this, the 205 filing filed  
19 in November, 2010, was dismissed by FERC initially,  
20 right?

21 A. I can't recall the exact language used by  
22 FERC, whether it was a dismissal or, so I don't know.

23 Q. Would you agree with me that FERC said  
24 you couldn't file a 205 filing in response to the 205  
25 filing?

1           A.    I'm not sure I understand the question.  
2   Too many 205s in there.

3           Q.    It is what it is.

4                   Subsequent to the 205 filing was there  
5 another attempt to do a similar thing at the Federal  
6 Energy Regulatory Commission through what we call a  
7 206 filing?

8           A.    I believe so.

9           Q.    And which entity filed the 206 filing?

10          A.    I don't know.

11          Q.    Would you accept, subject to check, that  
12 it was American Electric Power Service Corporation?

13          A.    Subject to check.

14          Q.    Now, is AEP Ohio a signatory party to the  
15 reliability assurance agreement?

16          A.    I can't recall if our individual  
17 operating companies are signatories on the RAA or  
18 whether it's Service Corp. on behalf of.

19          Q.    Okay. Do you have the reliability  
20 assurance agreement in front of you?

21          A.    I do.

22          Q.    Would you turn to page 130?

23          A.    I see it.

24          Q.    Does that refresh your recollection as to  
25 whether or not the reliability assurance agreement

1 was signed by AEP Service Corporation as agent for  
2 the operating companies?

3 A. Yes, that appears as how it's listed on  
4 the -- on page 130 of the RAA.

5 Q. And while we're there, would it also be  
6 true that AEP Retail Energy Partners, LLC, is a  
7 signatory to the reliability assurance agreement?

8 A. I see that also.

9 Q. And how about American Power Partners,  
10 LLC, do you see that?

11 A. I see American Power Partners.

12 Q. Is that an affiliate of American Electric  
13 Power?

14 A. I don't know.

15 Q. Now, this is a list of all the parties to  
16 the reliability assurance agreement, the names that  
17 start at page 130 of the reliability assurance  
18 agreement, right?

19 A. Well, assuming this is the latest version  
20 as of March 26, 2012, that's -- that is the case.

21 Q. Well, in order for this document, the  
22 reliability assurance agreement, to change, there has  
23 to be a superseding filing at the Federal Energy  
24 Regulatory Commission, right?

25 A. Yes.

1           Q.    So you're comfortable with the view that  
2           this -- the document that we're looking at here is  
3           the currently effective complete document, right?

4           A.    Yes.

5           Q.    And by "document," I'm referring to the  
6           reliability assurance agreement.

7           A.    Yes.

8           Q.    Now, the 206 filing that was made  
9           subsequent to the 205 filing -- are you with me?

10          A.    Yes.

11          Q.    Okay. We've already agreed that that was  
12          made by American Electric Power Service Corporation  
13          on behalf of American Electric Power Ohio, correct?

14          A.    Subject to check.

15          Q.    Okay. And, subject to check, American  
16          Electric Power Service Corporation would have been  
17          acting in an agent capacity for purposes of  
18          submitting the 206 filing, correct?

19          A.    Yeah. Yes.

20          Q.    Anywhere in the testimony or exhibits  
21          is -- that you provide -- well, strike that.

22                       Is there an agreement between AEP Ohio  
23          and American Electric Power Service Corporation  
24          defining the nature of the agency relationship  
25          between the two?

1           A.     In any of the -- you mean in the RAA?

2           Q.     No.   Do you understand what "agent"  
3           means?

4                   MR. CONWAY:   Your Honor, I'm going to  
5           object again at this point.   This is well beyond the  
6           scope of his testimony.   If Mr. Randazzo is  
7           interested in pursuing code of conduct or corporate  
8           separation issues or corporate structure issues, then  
9           I don't know who the witness might be at this point  
10          that would be best able to answer his questions, but  
11          it's not Mr. Horton, and his lines of question are  
12          beyond the scope of not only his testimony but the  
13          case.   So I object.

14                   EXAMINER SEE:   Mr. Randazzo.

15                   MR. RANDAZZO:   If I may, your Honors,  
16          page 1, line 6, the witness says that he works at the  
17          Service Corporation, which is the agent of AEP Ohio.  
18          I think I'm entitled to test his understanding of  
19          what the agency relationship is.

20                   MR. CONWAY:   Your Honor, this testimony  
21          is prepared by the witness with the assistance of his  
22          counsel and it's true that Mr. Horton is employed by  
23          the Service Corporation.   It's also true that the  
24          Service Corporation provides a multitude of services  
25          for all the operating units of the company.

1 But the fact that that's so doesn't turn  
2 this case into a case about Mr. Horton's ability to  
3 answer a thousand questions from Mr. Randazzo about  
4 the interrelationship about all the affiliates of AEP  
5 and all this other -- these other lines of questions  
6 about that he's pursuing with Mr. Horton.

7 As Mr. Horton has explained, he's got a  
8 limited ability to answer in the first place. It's  
9 not related to his testimony or the issues in the  
10 case, so I object.

11 EXAMINER SEE: And the objection is  
12 sustained.

13 Move on, Mr. Randazzo.

14 Q. (By Mr. Randazzo) Mr. Horton, at page 1,  
15 line 6 of your testimony, where you use the word  
16 "agent," can you tell me what that means as you use  
17 it in your testimony?

18 MR. CONWAY: Objection.

19 EXAMINER SEE: No, the witness can answer  
20 the question. He asked from his interpretation.

21 A. The Service Corporation provides --  
22 provides service to AEP Ohio.

23 Q. Have you -- is there an agreement between  
24 the Service Corporation and AEP Ohio, if you know?

25 A. I don't know. That's a legal thing that

1 I'm not familiar with.

2 Q. Okay. So when you're looking at the  
3 reliability assurance agreement as we discussed  
4 earlier, that says that American Electric Power  
5 Service Corporation is a signatory on behalf of the  
6 operating companies, including AEP Ohio, you do not  
7 know the relative responsibilities between the  
8 Service Corporation and the operating companies; is  
9 that correct?

10 A. Not being an attorney and not having even  
11 seen any documents documenting that relationship, I  
12 cannot answer that question. I don't know the  
13 relationship.

14 Q. Now, there are a number of PJM agreements  
15 that collectively interact to define rights and  
16 responsibilities, members, transmission owners, and  
17 parties to the reliability assurance agreement,  
18 correct?

19 A. Yes.

20 Q. And one of them -- another one that  
21 Mr. Kutik has introduced is the open access  
22 transmission tariff, correct?

23 A. Yes.

24 Q. That's Exhibit 110B, right?

25 A. I don't know what number it was, but.

1 Q. Would you except that, subject to check?

2 A. Sure.

3 Q. So what is the open access transmission  
4 tariff?

5 A. It contains mostly the -- any market  
6 rules affecting the PJM -- the PJM market's  
7 structures.

8 Q. Okay. If you know, would it also include  
9 provisions dealing with the role and responsibilities  
10 of the independent market monitor for PJM?

11 A. It's 2,000 pages long. I don't know.  
12 There are three agreements within the PJM governing  
13 documents, and I don't know where the market monitor  
14 relationship with PJM is in those documents.

15 Q. Would you accept, subject to check, that  
16 Schedule M of the open access transmission tariff  
17 deals with the rights, responsibilities, and duties  
18 of the independent market monitor?

19 A. Could I just open up this?

20 Q. You're free to look at the open access  
21 transmission tariff, if that's what you're looking  
22 at.

23 A. You don't happen to have a page number  
24 that you're looking at.

25 Q. Yes, sir, I do.



1           A.    Oh, good.

2           Q.    Page 1784 and page 1891.

3           MR. CONWAY:  Mr. Randazzo, before we do,  
4   I'm having a little bit of difficulty keeping up with  
5   the 1,700 or 2,000 pages of the document.  Could you  
6   explain for my benefit which of the exhibits we're in  
7   and which page it is?

8           MR. RANDAZZO:  I'm sorry, I thought I'd  
9   made that clear.  Let me make sure --

10          MR. CONWAY:  I'm sure you did.

11          MR. RANDAZZO:  So everybody's on the same  
12   page, we're talking about PJM's open access  
13   transmission tariff, the core document PJM, and  
14   we're -- which is -- was marked previously as  
15   Exhibit 110-B by Mr. Kutik.  And at the witness's  
16   request I referenced him to page 1784 and 1791 of  
17   that document.

18          MR. CONWAY:  My copy only goes up as far  
19   as I can tell to page 504.

20          THE WITNESS:  Same with my copy.

21          Q.    Then you don't have the attachments.

22          A.    Okay.

23          Q.    Okay, so we can go -- would you agree,  
24   sir, that to get the entire open access transmission  
25   tariff, we can go to PJM's website and pull down from

1 the website the currently effective open access  
2 transmission tariff as it has been approved by the  
3 Federal Energy Regulatory Commission?

4 A. Yes.

5 MR. RANDAZZO: Your Honors, I would ask  
6 that the Commission take administrative notice of the  
7 full PJM open access tariff.

8 MR. CONWAY: Could I inquire as to what  
9 the purpose is? The connection is to what we're  
10 about here?

11 MR. RANDAZZO: The purpose is these are  
12 controlling documents related to the ability of  
13 people to operate under the various agreements,  
14 tariffs, and operating procedures of PJM.

15 MR. CONWAY: If you thought it was  
16 germane to the issues in this proceeding, I'm  
17 surprised you didn't bring it with you.

18 MR. RANDAZZO: Well, do you have it,  
19 Mr. Conway?

20 MR. CONWAY: And your explanation as to  
21 how it is germane is very generic. It doesn't  
22 provide a connection to the case. So I'd like to  
23 know why it is we're taking administrative notice of  
24 a document that you're not really either willing or  
25 able to explain how it applies.

1 MR. RANDAZZO: May I approach the  
2 witness, your Honor? I repeat my request for  
3 administrative -- if we have in this case witnesses  
4 from AEP that have repeatedly said we're bound to  
5 contracts, we have these agreements, we can't do this  
6 and we can't do that.

7 And when people try to present to the  
8 Commission the controlling documents in their full  
9 form, we have this business about I don't know how  
10 it's relevant. Now, either we're going to have a  
11 discussion about what these agreements are and what  
12 they mean, or we're not. But if we're not, then the  
13 company's got to quit doing it itself.

14 MR. CONWAY: Your Honor, I'm not  
15 objecting to having a discussion about whatever it is  
16 that's relevant to the issues in this case. I just  
17 wanted to have an explanation as to how this document  
18 that Mr. Randazzo wants to take administrative notice  
19 ties into the issues in the case before he proceeds.  
20 That's all. And we'd like to have a copy of it also,  
21 what he's going to be referring to.

22 EXAMINER SEE: That's enough. Thank you  
23 both.

24 Mr. Horton, did you indicate that what we  
25 have before us as FES Exhibit 110-B is not the full

1 and complete PJM open access tariff?

2 THE WITNESS: That's correct. This is  
3 400 -- about 500 pages long. The entire tariff is I  
4 think around 2500 pages long.

5 EXAMINER SEE: Commission is willing to  
6 take administrative notice for the complete PJM open  
7 access tariff.

8 MR. RANDAZZO: Thank you, your Honor.

9 May I approach the witness?

10 EXAMINER SEE: Yes.

11 Q. (By Mr. Randazzo) Mr. Horton, I'm handing  
12 you page 1784 and page 1791 from the PJM open access  
13 tariff that the Commission has taken administrative  
14 notice of. Will you except that those are pages  
15 from the open access tariff?

16 A. Subject to check.

17 Q. Subject to check.

18 A. Sure.

19 Q. And am I correct that those pages -- the  
20 first page I handed you, the 1784 page, is titled  
21 Attachment M and deals with the PJM market monitoring  
22 plan; is that correct?

23 A. Yes. That's the title on the document.

24 Q. All right. Now, would you look at the  
25 other page, the 1791 page, and am I correct that that

1 identifies the monitored activities of the  
2 independent market monitor for PJM?

3 A. Yes. There's that section in there on  
4 page 1971.

5 Q. All right. And with regard to those  
6 monitored activities -- first of all, what's the  
7 independent market monitor?

8 A. It's an organization that is -- whose  
9 function is to assure that the markets in PJM are  
10 competitive in nature and if -- and point out where  
11 issues might arise where markets might be affected.

12 Q. And does the independent market monitor  
13 have the independent ability to go to the Federal  
14 Energy Regulatory Commission separate and apart from  
15 PJM to take actions, make recommendations, provide  
16 information, and those sorts of things? If you know.

17 A. There have been actions taken by the  
18 market monitor as preemptive FERC filings, yes.

19 Q. Okay. Now, on the monitored activities  
20 on page 1791 that I referred to you, would you --  
21 there are three listed initially, six total, right?

22 A. Yes.

23 Q. And is the third monitored activity, does  
24 that require the market monitor to identify  
25 structural problems in PJM markets that may inhibit a

1 robust and competitive market?

2 A. That's -- that's how No. 3 reads.

3 Q. All right. So prior to the November,  
4 2005 -- excuse me, 2010, 205 filing by American  
5 Electric Service -- American Electric Power Service  
6 Corporation on behalf of AEP Ohio, did you or anybody  
7 else with the Service Corporation or anybody from AEP  
8 Ohio approach the market monitor and suggest that the  
9 PJM capacity market or the FRR option was interfering  
10 with the robust development of the competitive  
11 market?

12 A. Could you repeat the question?

13 Q. Yes. Let's back up.

14 Did the independent market monitor  
15 intervene in response to the AEP 205 filing in  
16 November of 2010?

17 A. I don't know if he intervened or not.

18 MR. RANDAZZO: Your Honors, I would like  
19 to have marked for identification purposes IEU  
20 Exhibit No. 109, I believe.

21 EXAMINER SEE: The exhibit is so marked.

22 (EXHIBIT MARKED FOR IDENTIFICATION.)

23 Q. Mr. Horton, do you have what has been  
24 marked for identification purposes as IEU Exhibit No.  
25 109?

1 A. Yes.

2 Q. Okay, now, do you recognize this?

3 A. Do I recognize -- I don't recall ever  
4 seeing this before.

5 Q. Okay. Would you accept, subject to  
6 check, that this is the independent market monitor's  
7 intervention in response to the November, 2010, 205  
8 filing by American Electric Power Service Corporation  
9 on behalf of AEP Ohio?

10 A. It's a doc-less motion to intervene. It  
11 contains standard language that would be in multiple  
12 interventions that you might enter into.

13 Q. And does the -- you will accept, subject  
14 to check, that this is, in fact, the doc-less  
15 intervention request from the independent market  
16 monitor in response to your November, 2005 -- excuse  
17 me, 2010, 205 filing. Will you accept that, subject  
18 to check?

19 A. Yes. It says ER11-2183, but okay,  
20 subject to check.

21 Q. And it was filed December 9, 2010, right?

22 A. Yes.

23 Q. Do you see the text where it says "basis  
24 for intervening"?

25 A. It's pretty standard language, but, yes.

1           Q.    And do you see that the PJM market  
2           monitor is referring to the open access tariff and  
3           the requirements that are placed on the market  
4           monitor?

5           A.    Yes.

6           Q.    And the reference there is to the section  
7           of the tariff that I directed you to; is that  
8           correct, the open access transmission tariff?

9           A.    Sections 2 and 4.B.1., 2, 3. Which, all  
10          right, yes.

11          Q.    And so my question to you, sir, is prior  
12          to filing the 205 filing in November, 2010, did you,  
13          AEP Service Corporation or AEP Ohio approach the  
14          market monitor and suggest that there were problems  
15          with the FRR alternative or the design of the  
16          capacity market?

17          A.    Repeat the question.

18          Q.    Prior to -- I think this will be the  
19          third time, but prior to filing the '05 filing in  
20          November of 2010, did you, American Electric Power  
21          Service Corporation, on behalf of the AEP Ohio, or  
22          anyone else to your knowledge, approach PJM's  
23          independent market monitor and suggest that there  
24          were problems with the FRR option or design of the  
25          capacity market operated by PJM?



1           A.    We had had discussions on issues with FRR  
2           and RPM with the market monitor.

3           Q.    And when did those discussions take  
4           place?

5           A.    Oh, periodically from two-thousand --  
6           from the time the settlement agreement was formed.  
7           That's not an unusual discussion to have.

8           Q.    So and what would be -- was there a focus  
9           specifically on AEP Ohio's circumstance?

10          A.    Well, PJM looks at -- did not see AEP  
11          Ohio as a separate entity. It was all AEP as one FRR  
12          entity.

13          Q.    Okay, but your November, 2010, 205 filing  
14          related specifically to AEP Ohio, right?

15          A.    Yes.

16          Q.    So my question, sir, is did you bring up  
17          AEP Ohio's circumstances prior to filing the 205  
18          filing in November, 2010, with the market monitor  
19          suggesting that there was a problem with the FRR  
20          option relative to AEP Ohio or the design of the  
21          capacity market relative to AEP Ohio in general? Did  
22          you do that?

23          A.    I'd have to go back to my previous  
24          answer. We had regular discussions or periodic  
25          discussions with the marketing monitor on FRR issues.

1           Q.    Now, prior -- we talked earlier about you  
2    filed the 205 filing in November and subsequently  
3    made a 206 filing to try to get to the same result,  
4    right?

5           A.    Okay.

6           Q.    Prior to filing the 206 filing, did you,  
7    anybody from AEP Ohio, anybody from AEP Service  
8    Corporation, have a discussion with PJM's market  
9    monitor about the circumstances of AEP Ohio and  
10   problems with the FRR option, or the design of the  
11   PJM's capacity market in general?

12          A.    Is the timeframe you're referring to  
13   between the filing of the 205 and the 206?

14          Q.    That is correct.

15          A.    I don't know.

16          Q.    Did the PJM independent market monitor  
17   file comments in the 206 case?

18          A.    I don't know.

19               MR. RANDAZZO: Your Honors, I would like  
20   to have marked for identification purposes IEU  
21   Exhibit No. 110. It's titled United States of  
22   America Before the Federal Energy Regulatory  
23   Commission Answer of PJM Interconnect to Complaint.

24               EXAMINER SEE: The exhibit is so marked.

25               (EXHIBIT MARKED FOR IDENTIFICATION.)

1           Q.    Mr. Horton, do you have before you what  
2           has been marked as IEU Exhibit No. 110?

3           A.    All right.

4           Q.    Will you accept, subject to check, that  
5           this is the answer that PJM submitted in response to  
6           the 206 filing that we've just discussed?

7           A.    It appears to be.

8           Q.    And so this is not the market monitor,  
9           this is PJM itself, right?

10          A.    That's correct.

11          Q.    So would you agree that in these  
12          comments, PJM is describing PJM's view of your  
13          complaint in the 206 filing case?

14          A.    That might be PJM's view at the time that  
15          they wrote this, this intervention -- or this answer.

16          Q.    And they also discuss problems that they  
17          had with your affidavit in that case, correct?

18          A.    You'll have to give me a second to find  
19          where they refer to my affidavit, but go ahead.

20          Q.    Have you ever seen this document before?

21          A.    It's been a while since I've seen it. I  
22          have even it.

23          Q.    Page 7, "AEP offers the affidavit," first  
24          full paragraph.

25          A.    Thank you.

1 Q. Do you have that paragraph?

2 A. I do.

3 Q. And they're referring to your affidavit  
4 there, right?

5 A. Yes.

6 Q. And at least based upon what PJM said at  
7 the time, they observed that your affidavit violated  
8 a fundamental principle of contract interpretation,  
9 right?

10 A. That's what the words say. I don't know  
11 what a "fundamental principle of contract  
12 interpretation" is, but.

13 Q. Well, they have a citation there.

14 A. Yes.

15 Q. In case you want to learn more about that  
16 important principle of law.

17 And they then go on on page 7 to  
18 characterize AEP's argument that in the 206 filing  
19 that AEP is essentially saying that all the parties  
20 that entered into the settlement agreement that  
21 produced the reliability assurance agreement somehow  
22 made a communal mistake, right?

23 A. They say that in this answer.

24 Q. Right. And in this answer they also  
25 express PJM's view of the limitations on an FRR

1 entity to seek a 205 action, right? That would be  
2 page 9, starting at page 9.

3 A. So what was the question again?

4 Q. I'll withdraw the question.

5 In your testimony you talk about  
6 stakeholders relative to the settlement process. Is  
7 there a stakeholder process in PJM?

8 A. Yes, there is.

9 Q. And if -- if members of the -- of PJM  
10 have an issue with something that's in the open  
11 access tariff or the reliability assurance agreement,  
12 or the other controlling PJM dockets, generally that  
13 is supposed to be discussed among the stakeholders,  
14 there are votes, sectoral voting, to express the  
15 view, collective view of the membership, and then the  
16 board reserves the right to do what the board decides  
17 to do in response to the determinations made by the  
18 sectoral voting, right?

19 MR. CONWAY: If, your Honor -- just a  
20 moment, Mr. Randazzo. If I might interject, you  
21 began approaching the witness when you had a document  
22 but didn't have sufficient copies to use to question  
23 him from at your location behind the table, and I  
24 assume you're done approaching him at this point so I  
25 would ask that you return to your place.

1 MR. RANDAZZO: I'm happy do that. I  
2 didn't realize it was bothering you that much, Dan,  
3 so.

4 Is this okay over here? Thank you,  
5 Mr. Conway.

6 Q. (By Mr. Randazzo) Mr. Horton, if you were  
7 bothered at all as a result of my physical proximity  
8 to the witness stand, I humbly apologize.

9 A. You're fine.

10 Q. I didn't sense you were having a problem.  
11 I'm sorry.

12 A. To answer your question, that's a general  
13 view of how the stakeholder process works and that  
14 especially when it comes to negotiating and voting on  
15 RPM FRR related rule changes, that seems to be one of  
16 the most contentious issues within the stakeholder  
17 process.

18 Q. And would you agree with me that the PJM  
19 answer that's been marked as IEU Exhibit No. 110  
20 indicates that AEP neglected to follow the  
21 stakeholder process prior to filing the 206 action?

22 A. Well, you need to understand that --

23 Q. Well, would you answer --

24 A. PJM --

25 Q. Sir, would you answer my question? And

1 then I will give you the opportunity to explain,  
2 okay? Unlike some folks who don't give you the  
3 opportunity to explain. Answer the question and then  
4 please provide an explanation.

5 MR. CONWAY: Your Honor, objection. He's  
6 trying to answer the question, first of all. And,  
7 secondly, Mr. Randazzo is not the Bench, obviously,  
8 and he is not permitted to instruct witnesses in this  
9 manner.

10 So first objection is let him please --  
11 would you let him answer the question, would you tell  
12 Mr. Randazzo to let him answer the question, and  
13 secondly, would Mr. Randazzo not instruct the witness  
14 on how to testify.

15 EXAMINER SEE: The witness has begun to  
16 answer your question. And let's let him do that.

17 Q. Mr. Horton, please proceed.

18 A. Well, PJM from the start in 2006 was not  
19 in favor of having an FRR alternative in the first  
20 place and so it wasn't until FERC actually indicated  
21 there needed to be an FRR alternative to the RPM  
22 structure that PJM cooperated in any way with the  
23 development of the FRR arrangement.

24 So for them to provide an answer to an  
25 interpretation of what may have gone on in 2006 from

1 AEP's standpoint it -- from what they -- their  
2 position was early on in the discussions was --  
3 that's not surprising.

4 Q. Okay, I appreciate that. Now, I'd like  
5 you to answer my question which is in the answer  
6 filed by PJM that's marked as IEU Exhibit No. 110,  
7 PJM indicates that AEP neglected following the  
8 stakeholder process prior to filing the 206 action,  
9 right?

10 A. We didn't think we had to go through a  
11 stakeholder process. It was written in the RAA.

12 Q. All right, who has the ability to amend  
13 the RAA?

14 Well, let me ask it this way: Am I  
15 correct that only the PJM board has the ability to  
16 amend the RAA, if you know?

17 A. I can't answer that from a legal  
18 standpoint. It's different for the tariff versus the  
19 RAA versus the operating agreement. And on the fly  
20 here I'm not sure if it's the board that has sole  
21 rights for the RAA.

22 Q. Would you accept, subject to check, that  
23 only PJM's board has the ability to modify the  
24 reliability assurance agreement?

25 MR. CONWAY: Objection. Your Honor, I



1 would object to the witness being requested to accept  
2 subject to check a legal conclusion that he's, in  
3 fact, one that he's already indicated reluctance to  
4 address or to agree with, and frankly, I'm concerned  
5 about having one of my witnesses being asked to  
6 accept subject to check some legal argument  
7 Mr. Randazzo has presented. So I object.

8 MR. RANDAZZO: I'll withdraw the  
9 question.

10 Q. So you don't know whether or not only the  
11 PJM board can modify the reliability assurance  
12 agreement; is that correct?

13 A. I do not know whether or not the PJM  
14 board can do that on its own.

15 Q. All right. Now, if you know, is there  
16 something in the PJM governing documents that's  
17 called an advisory opinion procedure?

18 A. I'm not familiar with advisory opinion  
19 versus procedure.

20 Q. Now, I didn't ask you if you were  
21 familiar with it, I asked you if you were aware there  
22 was one.

23 A. No. Actually I was not aware there was  
24 one.

25 MR. RANDAZZO: Your Honors, I would ask

1 that the Commission take administrative notice of the  
2 advisory opinion procedures that have been adopted by  
3 PJM as part of the FERC approved governance process  
4 PJM. You can -- again, it's available from PJM's  
5 website. It's entitled Advisory Opinion Procedures.

6 EXAMINER SEE: Mr. Conway?

7 MR. CONWAY: Your Honor, I object. I  
8 think that if Mr. Randazzo wants to refer to this in  
9 his post-hearing brief or post-hearing arguments,  
10 fine. But to administratively notice subject a  
11 document I don't think it advances the cause.

12 I think it's -- I also think that it's  
13 somewhat misleading because apparently there is a  
14 remedy at the FERC which trumps the PJM. So I don't  
15 see what the point of all this is. If you want to  
16 argue about it on brief, do so. But I don't think it  
17 serves the purpose to administratively notice that  
18 document, the FERC's rules and regulations, Federal  
19 Power Act, et cetera.

20 And none of us have seen a document he  
21 wants to throw in -- he wants to put into the record,  
22 so I think it's also surprising and I object.

23 EXAMINER SEE: Mr. Randazzo, where are  
24 you going with this?

25 MR. RANDAZZO: Your Honors and

1 Commissioner, as I've already established, there is a  
 2 process of PJM for parties for the reliability  
 3 assurance agreement for members of the PJM to bring  
 4 concerns to PJM through the stakeholder process,  
 5 through the independent market monitor, and the last  
 6 option is through what is called the PJM advisory  
 7 opinion process for individuals who have concerns  
 8 about the meaning of various PJM governing documents  
 9 have an opportunity to seek an advisory --

10 EXAMINER SEE: Thank you. Were you  
 11 finished, Mr. Randazzo? Were you finished?

12 MR. RANDAZZO: Yes.

13 EXAMINER SEE: Mr. Conway, you had  
 14 something you wanted to add?

15 MR. CONWAY: Just briefly, our position  
 16 in this case as it has been at the FERC is that we  
 17 have a right to pursue our option for a cost-based  
 18 rate for capacity.

19 And the fact there may be PJM processes  
 20 that deal with PJM specific issues is not -- is not a  
 21 barrier to -- it's not a requirement to pursue before  
 22 we pursue our rights under the reliability assurance  
 23 agreement under Section 205 or Section 206. So it's  
 24 irrelevant. In any event if he wants to make the  
 25 argument, make the argument.

1 MR. RANDAZZO: Well, if I may, and I  
2 believe this is -- please.

3 EXAMINER SEE: Go ahead, Mr. Randazzo.

4 MR. CONWAY: Your Honor, I'm sorry, at  
5 some point if there's a convenient moment, we've been  
6 going for quite a while with Mr. Horton and without a  
7 break, and I would just request you keep that in mind  
8 if you get to a point that's convenient, we can do  
9 that.

10 MR. RANDAZZO: Fair amount of time has  
11 been devoted to you, Mr. Conway. So I will keep it  
12 in mind and honor a request at any time. Thank you.

13 EXAMINER SEE: Is that the point you were  
14 about to make, Mr. Randazzo?

15 MR. RANDAZZO: No, your Honors. The  
16 point I was about to make is here in this case AEP is  
17 essentially lamenting to the Commission about the  
18 financial consequences of retail competition and the  
19 point here is that to the extent that there were  
20 concerns about the structure of the FRR option, PJM's  
21 capacity market, or the financial implications, there  
22 were abundant opportunities for AEP to approach PJM,  
23 stakeholder process, or the independent market  
24 monitor, and seek an accommodation, which is  
25 essentially what PJM says in IEU Exhibit 110.

1                   It chose not to do that. Instead it  
2 chose to run to the Federal Energy Regulatory  
3 Commission without advising anybody and try to pursue  
4 a 205 action and is insisting here that it is bound  
5 by agreements that AEP is interpreting based upon its  
6 litigation position.

7                   From my perspective, from the perspective  
8 of my clients, it would be important to know whether  
9 or not prior to engaging in all this litigation AEP  
10 attempted to take advantage of the less litigious  
11 remedies that were available inside the PJM process  
12 to solve this very important problem.

13                   Instead it's dumped the problem in the  
14 Commission's lap.

15                   EXAMINER SEE: Thank you, Mr. Randazzo.  
16 Let's take a 10-minute break.

17                   (Recess taken.)

18                   EXAMINER SEE: Let's move along.  
19 Mr. Randazzo, I think you had requested that the  
20 Commission take administrative notice of the advisory  
21 opinion procedures?

22                   MR. RANDAZZO: Yes.

23                   EXAMINER SEE: And there was some  
24 opposition by the company but the Commission is going  
25 to take administrative notice of that process.

1 MR. RANDAZZO: Thank you, your Honor.

2 Q. (By Mr. Randazzo) Mr. Horton, you have  
3 before you what has already been marked as FES -- as  
4 an FES exhibit. I believe it's 110-A. That would  
5 be the reliability assurance agreement. Is that  
6 correct?

7 A. I have the reliability assurance  
8 agreement.

9 Q. I'd like to see if we're on the same page  
10 in terms of things that are in that agreement and  
11 what they may mean. If you could turn to page 10 of  
12 that agreement.

13 A. All right.

14 Q. And there is a definition there for FRR  
15 entity; is that correct?

16 A. Yes.

17 Q. And in order to be an FRR entity you have  
18 to be a party, right?

19 A. Yes.

20 Q. And party is capitalized there, so you  
21 would read that as indicating that's a defined term  
22 as well, right?

23 A. I see party is capitalized, so it must  
24 be.

25 Q. Another legal principle. Page 12,

1 definition of investor-owned utility, you see that  
2 there?

3 A. IOU? Yes.

4 Q. Yes. Would you agree with me that own  
5 generation -- own or operate the generating asset?

6 A. It says two or more of the following  
7 three asset categories; generation, transmission,  
8 distribution.

9 Q. So you could be an investor-owned utility  
10 by this definition and only have distribution and  
11 transmission savings, right?

12 A. By that definition, yes.

13 Q. And page 15, we find why party was  
14 capitalized previously, that's definition 1.62,  
15 right?

16 A. Yes.

17 Q. And we earlier we talked about all the  
18 parties to the reliability assurance agreement and  
19 the list of parties starts at page 130, right?

20 A. Yes.

21 Q. Now, page 18, definition 1.81.

22 A. All right.

23 Q. That defines the term "state regulatory  
24 structural change," correct?

25 A. Yes, I see that.

1           Q.    Does that relate to the FRR option, if  
2   you know?

3           A.    I don't see a mention of FRR in that  
4   section.

5           Q.    Okay.  So you don't know whether that has  
6   any significance, that definition has any  
7   significance relative to the FRR option; is that  
8   correct?

9           A.    Well, it would depend on the context of  
10  how you are talking about the two.

11          Q.    Well, let me ask you, are you aware of  
12  how this definition works for purposes of the FRR  
13  option?

14          A.    Perhaps you could give me a little more  
15  definition of what you mean by "how it works."

16          Q.    Yeah, there's nothing that occurs to you  
17  based upon our discussion so far that would help you  
18  identify how this definition interacts with the FRR  
19  option; is that a fair statement?

20          A.    There could be some interaction between  
21  that and the FRR option.

22          Q.    But you're not aware of any as we sit  
23  here right now presently, correct?

24          A.    I seem to recall something in the  
25  arrangements about if there's a state regulatory



1 structure change there are certain options that can  
2 be exercised within the RPM or FRR rules, but that's  
3 as much as I can recall right on the fly here.

4 Q. Okay. We'll get to it.

5 Page 21, Article 2.

6 A. All right.

7 Q. This is where everybody does those  
8 wonderful things to provide some overarching  
9 expression of the purpose of the agreement, right?

10 A. That says "Purpose" at the top.

11 Q. And you had reviewed this as part of your  
12 responsibility -- for part of your responsibility for  
13 interacting within PJM relative to the reliability  
14 assurance agreement, correct?

15 A. Yes. There are some sections I'm much  
16 more familiar with than others because of frequency  
17 and need.

18 Q. Now, American Electric Power Service  
19 Corporation, as we discussed previously, has signed  
20 this reliability assurance agreement on behalf of all  
21 the operating companies, including AEP Ohio, right?

22 A. Yes. That's what the -- that page 130 I  
23 believe says.

24 Q. Which means that you are bound by this  
25 agreement; would you agree with that?

1           A.     Yes.

2           Q.     And do you see the sentence that begins  
3 with "further," about six lines down?

4           A.     I see a sentence that begins with  
5 "further" six lines down.

6           Q.     And do you see that the sentence states  
7 that the intention and objective of the parties which  
8 would include American Electric Service -- Power  
9 Service Corporation on behalf of AEP Ohio and the  
10 other operating companies, is to implement this  
11 reliability assurance agreement in a manner  
12 consistent with the development of a robust  
13 competitive market. Did I read that correctly?

14          A.     "Consistent with the development of a  
15 robust competitive marketplace" can mean a lot of  
16 things. And the FRR arrangement itself is contained  
17 within this same document.

18          Q.     Did I read the sentence correctly?

19          A.     You did read the sentence correctly.

20          Q.     Now, let's go to page 69. Did you read  
21 this reliability assurance agreement to refresh your  
22 memory about its content prior to preparing your  
23 testimony?

24          A.     I did not read the entire RAA agreement  
25 prior to preparing my testimony. I read certain

1 sections of it but not the entire agreement.

2 Q. Have you ever read the entire agreement?

3 A. I've not read page 1 through page 135  
4 word for word.

5 Q. So you have not read the entire agreement  
6 previously, correct?

7 A. The RAA's been in existence for several  
8 years. I'm sure I've referred to most sections in my  
9 time at AEP, but I can't say I've read the entire  
10 agreement cover to cover at any one sitting.

11 Q. How about over in multiple sittings?

12 A. I don't know.

13 Q. Page 69, does the laws of Delaware  
14 control for purposes of defining the rights and  
15 obligations under this agreement? If you know.

16 A. That sentence on page 69 does say that it  
17 shall be interpreted, construed, and governed by the  
18 laws of the State of Delaware.

19 Q. Is Delaware a retail access state?

20 A. I'm not sure.

21 Q. Page 71, now, earlier we talked about how  
22 the reliability assurance agreement may be amended.  
23 Do you recall that?

24 A. Yes.

25 Q. Would you read Section 16.4 on page 71?

1           A.    "This Agreement may be amended only by  
2           action of the PJM Board."

3           Q.    So does that refresh your recollection  
4           with regard to the process by which the reliability  
5           assurance agreement can be amended?

6           A.    Yes, it does. Thank you.

7           Q.    Let's turn to page 106. Now, this is  
8           where we start to get into within the reliability --  
9           or within the reliability assurance agreement, this  
10          is where we start to get into the fixed resource  
11          requirement that's been much discussed over these  
12          many months, right?

13          A.    Yes.

14          Q.    Now, earlier the Bench instructed you to  
15          provide or your counsel to provide copies of  
16          documents that were referenced in your testimony and  
17          one of those documents has been designated as AEP  
18          Exhibit 103-B. Do you have that before you?

19          A.    I'm not sure what 103-B is. Can you help  
20          me out?

21          Q.    Well, I'm afraid to get up.

22                  MR. RANDAZZO: Would it be okay if I  
23          approach the witness?

24                  MR. CONWAY: As long as you get back down  
25          after.

1 MR. RANDAZZO: Thank you, Mr. Conway. I  
2 surely will. I've learned my lesson.

3 Q. Mr. Horton, AEP Ohio Exhibit 103-B, which  
4 I'm showing you now, is the lengthy document that has  
5 the PJM logo in the upper left-hand corner and is  
6 dated June 30, 2008.

7 A. Yes.

8 Q. Do you have a copy of that handy?

9 A. I do not.

10 Q. Is it okay if I --

11 MR. RANDAZZO: Counsel, would you prefer  
12 to have -- provide the witness with a copy so that  
13 I'm not in the area? Or can I look over -- can I  
14 show it to him and look over his shoulder?

15 MR. CONWAY: It's up to your Honors.

16 EXAMINER SEE: Do you have a copy for  
17 Mr. Horton, Mr. Conway?

18 MR. CONWAY: Just a moment.

19 EXAMINER SEE: Here's one. Mr. Conway,  
20 Bench has provided him a copy.

21 MR. RANDAZZO: Let the record reflect I'm  
22 going back.

23 Q. (By Mr. Randazzo) Mr. Horton, do you have  
24 before you AEP Ohio Exhibit 103-B?

25 A. I do.

1 Q. Would you turn to page 72 of that  
2 document, please?

3 MR. RANDAZZO: For the record I received  
4 it at 1:43.

5 A. Is that page 73?

6 Q. 72, sir.

7 A. 72, all right.

8 Q. And on your page 72 do you have  
9 background at the top of the page in bold print?  
10 Sorry.

11 A. Hold on a second. All right. Yes.

12 Q. Okay. Now, do you see the document is  
13 talking about the FRR exclusions; is that correct?

14 MR. KUTIK: Counsel, just for  
15 clarification you're referring to page 72 of the  
16 Brattle Report that's attached.

17 MR. RANDAZZO: Yes, I'm sorry. Thank  
18 you. Thank you.

19 A. Okay. Yes. FRR exclusions on page 72.

20 Q. Yes, sir. You with me?

21 A. Yes.

22 Q. I apologize.

23 All right. Now, do you see the third  
24 sentence there, begins with "this fixed obligation"?

25 A. All right, I see this sentence. Not

1 quite sure what it means but I see the sentence.

2 Q. Well, this is a document that you cited  
3 in your testimony, correct?

4 A. Well, the entire -- I cited some  
5 references to I believe Hobbs in the testimony. The  
6 intent wasn't to cite the entire filing here. But by  
7 reference I guess the filing's now part of this case.

8 Q. That's correct.

9 A. All right.

10 Q. Correct. Do you see the third sentence  
11 there that begins with "the fixed obligation"?

12 A. Yes.

13 Q. And am I correct that that sentence  
14 states that the fixed obligation, and there they're  
15 referring to the FRR, right?

16 A. Okay. So far I would agree.

17 Q. And it says that "the fixed obligation is  
18 akin to the capacity obligations under the prior  
19 capacity market design, although it now has a  
20 locational element." Right?

21 A. Yeah, I see that.

22 Q. What was the capacity structure in PJM  
23 prior to the RPM capacity market?

24 A. I only have a real limited knowledge of  
25 that. We didn't join PJM until 2004, and by 2006, we

1 were negotiating this RPM situation.

2 So my basic understanding is that it was  
3 a daily capacity clearing and that capacity in any  
4 part of the PJM region could be used to satisfy  
5 reserve requirements.

6 Q. So prior to the FRR being -- becoming  
7 part of RPM, there was a capacity structure within  
8 PJM; is that correct?

9 A. Of some sort, yes. Yes.

10 Q. And so you're not familiar with the  
11 extent to which that prior capacity structure may be  
12 akin to the FRR option; is that correct?

13 A. No, I -- I couldn't make any comparisons  
14 here on that prior capacity structure and the FRR.

15 Q. Earlier you said there was a lot -- or  
16 suggested there was controversy over the FRR option,  
17 and these are my words, you can challenge them if you  
18 will, but it sounded to me like you were suggesting  
19 that PJM doesn't like the FRR option.

20 A. Well, back in '06 when we were -- we  
21 began the negotiations, PJM was reluctant to adopt an  
22 FRR alternative.

23 Q. Okay. Now, would you turn -- I want to  
24 shift back for a moment to the reliability assurance  
25 agreement and ask that you go to page 107. Now,



1 would you agree with me that that section deals with  
2 the eligibility for the FRR option? Right?

3 A. Yes. That section does deal with  
4 eligibility of -- for the FRR alternative.

5 Q. Of the portions of the reliability  
6 assurance agreement that you have read previously,  
7 have you previously read the text that appears on  
8 page 107?

9 A. Yes.

10 Q. Okay. So you were aware that the  
11 opportunity to elect the FRR option could be a  
12 portion through the FRR entities area, right? In  
13 other words, AEP Ohio could have elected RPM while  
14 the balance of the AEP operating companies went FRR,  
15 right?

16 A. As long as there is proper metering in  
17 place so that you can segregate the load serving  
18 entity off, yes, that's -- we were aware of that as  
19 an alternative.

20 Q. And AEP Service Corporation on behalf of  
21 all of the operating companies decided not to carve  
22 out AEP Ohio even though that was an option at the  
23 time this agreement was put together, correct?

24 A. Well, up until June of 2015, we were  
25 looking at AEP as a single FRR entity.

1           Q.    I understand that you were looking that  
2   way, but you had the opportunity to not do that. You  
3   could have elected FRR for everything except for AEP  
4   Ohio, right?

5           A.    We would have had to have given -- we  
6   would have had to have been after the five-year  
7   minimum period that -- and also three years in  
8   advance because you always have the three-year  
9   forward obligation within an FRR. So switching is  
10   not something that you can do on the -- on short  
11   notice.

12          Q.    I'm talking about the initial election  
13   between FRR and RPM. It could have been a partial  
14   election under this provision, right?

15          A.    It theoretically could have been a  
16   structure with Ohio separate from the other operating  
17   companies.

18          Q.    All right. Now, let's go to page 108.  
19   Have you read this section of the reliability  
20   assurance agreement previously?

21          A.    Oh, yes.

22          Q.    I thought this one might have been of  
23   interest. This section deals with how you go about  
24   terminating the FRR election, correct?

25          A.    Yes.

1           Q.    All right.  Now, once you -- under C.2 on  
2   page 108, once you leave FRR, you can never go back,  
3   right?

4           A.    Well, once you leave FRR, you have to go  
5   with RPM for a minimum of five years, and then you  
6   could come back.

7           Q.    So that's your view based upon this  
8   language here.

9           A.    Well, I think that's more than just my  
10  view.  I believe that's the --

11          Q.    That's what the contract says.

12          A.    That's what the language is.

13          Q.    Yeah.  So you can't flip flop between RPM  
14  and FRR; is that correct?

15          A.    That's the intent of the minimum stay  
16  provisions.

17          Q.    So then we come to C.3 on page 108.  And  
18  does C.3 provide opportunities to terminate the FRR  
19  election as a result of a state regulatory structural  
20  change?

21          A.    With three years' notice.

22          Q.    Has there been a structural change in  
23  Ohio as far as you know?

24          A.    Well, it's my basic understanding what's  
25  been happening over the last several months is that

1 the -- starting June of 2015, there is an expected  
2 change where AEP will be participating in the RPM  
3 option.

4 Q. Well, has this been a state structural  
5 change as you understand the term in Ohio? State  
6 regulatory structural change, to be more precise.

7 A. I'm not sure how to interpret that with  
8 the more recent Ohio rulings and all so I don't know.

9 Q. Has AEP Service Corporation either on  
10 behalf of AEP Ohio or anybody else approached PJM to  
11 terminate the FRR option as a result of a state  
12 regulatory structural change in Ohio?

13 A. Well, we told PJM earlier this year that  
14 we were choosing RPM for Ohio. I don't recall in the  
15 letter that was sent whether there was a mention of  
16 structural change or not. It wasn't necessary.

17 Q. But you would agree with me that there is  
18 an option to terminate the FRR election associated  
19 with the state regulatory structural change, right?

20 A. With three years' notice because it's  
21 very clear you have to give it two months prior to  
22 the base residual auction for that year which is  
23 always three years in advance.

24 Q. And that's true regardless of the  
25 five-year commitment, right?

1           A.    I don't know how that would have played  
2 out.  It's a moot point now that we -- at least for  
3 AEP, that we're well past the five-year minimum.

4           Q.    Now, there's been some discussion about  
5 this already, I'll try not to repeat, and if I do, I  
6 will be reminded not to repeat, I'm sure.

7                   In PJM's capacity structure an entity  
8 that has a capacity obligation has to designate  
9 specific generating resources, demand response  
10 resources, energy efficiency resources that are going  
11 to be utilized to satisfy the capacity obligation; is  
12 that correct?

13          A.    Did you say as an FRR entity?

14          Q.    No.  No.

15          A.    All right.  Well, may I have the question  
16 again?

17          Q.    Well, let me back up and let's start with  
18 an FRR entity.

19                   Does an FRR entity have to designate  
20 specific generating assets, specific units, and  
21 specific demand response capability, and specific  
22 energy efficiency capabilities as part of the plan to  
23 satisfy the capacity obligation within the PJM  
24 structure?

25          A.    Yes.

1           Q.     So in the PJM structure it's more than  
2     just generating assets, you can point to demand  
3     response capabilities, energy efficiency, and other  
4     things to satisfy that capacity obligation, right?

5           A.     That is correct.

6           Q.     Are you aware of AEP's practice of  
7     objecting to customers within AEP's service territory  
8     that attempt to participate in PJM demand response  
9     market?

10          A.     I am aware of -- I am aware of the  
11     protest that we do when those customers file.

12          Q.     In fact, it's routine, as soon as a  
13     customer enters with PJM's demand response program,  
14     AEP launches an objection, right?

15          A.     "Launches" is a strong --

16          Q.     Submits.

17          A.     -- word.

18          Q.     I agree. Submits.

19          A.     Submits a rejection, which is ignored,  
20     and the demand side response resource then has so far  
21     been allowed to sell into the RPM market.

22          Q.     Okay. And even though it's ignored, AEP  
23     keeps doing it, right?

24          A.     And the reason we do it is because of the  
25     FRR plan does not get any credit for that capacity.

1 Q. Okay. And you would get credit under  
2 RPM, right?

3 A. It would depend on how it's structured as  
4 whether the load serving entity is responsible for  
5 that load or not, how the contract for the DSR  
6 customer is structured. So that's also too broad of  
7 a statement to agree with.

8 Q. Okay. Are you aware of the opportunity  
9 in Ohio for mercantile customers to commit their  
10 demand response capabilities to AEP Ohio?

11 A. Can you repeat the question?

12 Q. Yes. Are you aware of the opportunity in  
13 Ohio for mercantile customers to commit their demand  
14 response capabilities to AEP Ohio?

15 A. No. That's an area that's outside of my  
16 expertise.

17 Q. Okay. I'd like to -- you may say  
18 "finally," but I'd like to now turn to your  
19 testimony, page 3, Figure 1. Let me know when you're  
20 with me.

21 A. I'm there.

22 Q. Now, this is an example, illustrative  
23 example, for the entire PJM region, right?

24 A. Yes, that would be -- yes.

25 Q. And in PJM -- what PJM is looking at for

1 purposes of satisfying resource adequacy requirement,  
2 hitting reliability targets, it's looking at the pool  
3 of capacity resources inside the entire footprint of  
4 PJM, right?

5 A. And to the extent that there can be  
6 capacity delivered from outside of the region.

7 Q. Right. And regardless of who gets paid  
8 what, and regardless of the pricing protocols, PJM  
9 has the ability to instruct generators inside the PJM  
10 footprint to operate in a way that preserves  
11 reliability, correct?

12 A. Can you clarify whether that's  
13 short-term, long-term? What kind of reliability --

14 Q. Let's start with short-term. We have  
15 very hot weather, Cook unit trips off in Indiana.  
16 PJM at that point would instruct all the generators  
17 to fill any void that was physically needed in order  
18 to maintain reliability, right?

19 A. Well, initially they would send a -- they  
20 would try to resolve the issue with a market pricing  
21 signal. So they would send very high LMP pricing  
22 signals to the energy market to signal to turn on to  
23 fill that void.

24 Q. And in the event that somehow pricing  
25 signals don't start Cook back up again, and there's a



1 physical shortage in the grid, PJM will instruct all  
2 the resources to do what PJM thinks is necessary to  
3 preserve reliability, correct?

4 A. They would issue an emergency signal for  
5 units to operate at maximum output.

6 Q. And then -- and that signal would go to  
7 the supply side resources, right?

8 A. Well, I believe it would also go to  
9 demand response resources.

10 Q. Everything that's a capacity resource  
11 would get that message, correct?

12 A. And I believe the signal would also go to  
13 energy-only resources, but anything that's listed as  
14 capacity would definitely get that signal.

15 Q. All right. So in the PJM structure the  
16 generation capacity that's available to PJM's control  
17 is subject to PJM's control regardless of who owns  
18 that generating asset, correct?

19 A. Well, that's also a strong statement.  
20 Control, the owner of the generator does have -- he  
21 is the owner, and so if -- if there's a disagreement  
22 between the owner of the unit and the PJM operations,  
23 that doesn't normally happen and I can't recall of a  
24 situation where that does happen, or has happened in  
25 my experience, but there can be a dispute

1 resolution -- dispute resolution alternatives in the  
2 tariff.

3 Q. It's kind of like the advisory opinion  
4 stuff. That's all right.

5 A. I -- I -- I don't know.

6 Q. I'll withdraw the question.

7 So in the PJM structure, all of the  
8 generating units that are owned by AEP Ohio are not  
9 dedicated to AEP Ohio's load serving obligations; is  
10 that correct? In other words, PJM can instruct AEP  
11 to run those generators in order to help solve a  
12 problem in other service territories, right?

13 A. Well, it would be done through a pricing  
14 signal first. And PJM tries to solve all issues,  
15 whether they're reliability or otherwise, through  
16 economic price signals in the energy market.

17 Q. I understand.

18 A. So I'm not sure -- I'm not sure if your  
19 question has to do with the energy market or the  
20 capacity market or some other.

21 Q. I'm talking about reliability and who has  
22 a call on those generating assets to maintain  
23 reliability. Am I correct, sir, that PJM can direct  
24 AEP to run all of its generating assets in order to  
25 solve reliability issues outside AEP's service area?

1           A.    They can request AEP do that, go to  
2   max -- maximum generation capacity.

3           Q.    And that has happened; is that correct?

4           A.    Yes.

5           Q.    And AEP has followed PJM's instructions  
6   in those circumstances, correct?

7           A.    To my knowledge we have done everything  
8   possible to meet PJM's direction.

9           Q.    Following good utility practice, correct?

10          A.    Following good utility practice. I'm not  
11   part of the operations group, so I don't know  
12   specifically every signal, every -- every price  
13   signal and every instruction that has been received  
14   from PJM.

15          Q.    All right. I think this is my last area,  
16   and I hope so for both of us.

17                Now, I want to talk to you about the  
18   discussion that you begin on page 4 where you --  
19   actually, it's actually on page 7. I apologize.  
20   Where you talk about the incremental reserve margin  
21   and the impact on AEP, whatever AEP means, and it's  
22   customers, right?

23          A.    AEP would be the FRR entity comprised of  
24   four operating companies.

25          Q.    Okay. And there you use the

1 \$46.73-megawatt-a-day statistics or number that  
2 calculates the incremental cost of 15.7 million, and  
3 I'm talking about lines 14 through 16.

4 A. I see that.

5 Q. Okay. So that's your math, right?

6 A. Yes.

7 Q. And the \$46.73 comes from where?

8 A. Well, the RPM clearing price for  
9 generators in that year was roughly \$40. I can't  
10 remember the exact dollars. Roughly \$40 and then  
11 grossed up for the same type of gross ups that  
12 Mr. Pearce uses in his exhibits for reserve margins  
13 for losses, brings it up to the \$46.

14 Q. You actually discuss the \$40 number on  
15 page 4 of your testimony, right?

16 A. There it is. Yes.

17 Q. I do read it.

18 All right, so let's see if I've got this  
19 correctly. In the 2007-2008 auction produced a  
20 capacity charge price of 46.72 a megawatt day; is  
21 that correct?

22 A. Produced a \$40 a megawatt day clearing  
23 price paid to a generator.

24 Q. Right.

25 A. All right.

1           Q.    And what you've done in the 46.73 is  
2 adjusted that price back to the AEP zone, right?

3           A.    Well, I followed Mr. Pearce's exhibit to  
4 do that.

5           Q.    Well, do you think that's a reasonable  
6 way to do that?

7           A.    Yes.

8           Q.    So you've been here in the hearing room;  
9 is that correct.

10          A.    Yes, I was here yesterday.

11          Q.    And you heard AEP's witnesses say that  
12 there's \$355 per megawatt day in capacity revenue  
13 embedded in AEP Ohio's retail rates for non-shoppers,  
14 right?

15          A.    Yes, I have heard the 355.

16          Q.    So for purposes of the discussion there  
17 on page 7 referencing 2007-2008, that's the delivery  
18 year, right? 2007-2008 is the delivery year, right?

19          A.    Yes.

20          Q.    So it was obvious to AEP back in -- for  
21 purposes of 2007-2008 delivery year that the RPM  
22 process was capable of producing a price in the AEP  
23 zone of approximately 46 bucks, right?

24          A.    We didn't know what kind of price the RPM  
25 would produce, and that was -- or it was only

1 estimates of what the price and the reserve margin  
2 was going to clear at, and that was part of the big  
3 reason why we chose the FRR option from the start.

4 Q. All right. Now, I want you to bear with  
5 me for a moment and indulge a perspective. My  
6 perspective hypothetical is this: That AEP had an  
7 obligation to provide capacity at the lowest total  
8 cost. Will you accept that as part of my  
9 hypothetical?

10 A. For what period?

11 Q. For the delivery year 2007-2008.

12 A. As I believe I heard from a previous  
13 witnesses, the AEP has constantly taken a longer term  
14 opinion of what the cost of customers that the best  
15 way to produce at the lowest long-term for customers.

16 Q. I understand that, what I'm asking you,  
17 it seems sensible to you that a public utility has an  
18 obligation to take the option that produces the  
19 lowest total cost to customers. Does that seem  
20 sensible to you? Is that consistent with your  
21 understanding of regulatory responsibilities of  
22 public utilities?

23 A. That seems like a big picture policy  
24 question and I'm the PJM guy.

25 Q. Well, let's assume that that big picture

1 policy question is correct, that the obligation that  
2 utilities have is to reduce the total cost of  
3 providing service while maintaining adequate service.  
4 Will you indulge that assumption?

5 A. I'm sorry, that's -- that's a policy type  
6 issue that I cannot address.

7 Q. Okay. All right. By electing RPM -- or  
8 not electing RPM, I should say, AEP Ohio could have  
9 satisfied -- strike that.

10 Had AEP Ohio elected RPM, it could have  
11 satisfied its capacity obligation in PJM at the price  
12 of \$46 and some change a megawatt day; is that  
13 correct?

14 A. I don't know. I don't know what our  
15 units would have offered in at. I don't know how our  
16 load and generation supply would have affected how  
17 those prices would have cleared. So I don't think I  
18 can answer that.

19 Q. Well, that's the number you used to  
20 calculate the incremental savings that you claim is  
21 \$15.7 million on line 16, right? You use 46.73.

22 A. Yes.

23 Q. All right. So if you are attributing a  
24 higher capacity or higher reserve obligation as a  
25 result of the RPM election, you're saying in effect

1 by your last answer you don't know what the impact  
2 would have been on the zone capacity rate as a result  
3 of AEP electing RPM; is that a fair statement?

4 A. Well, it seems to me that we're trying to  
5 put RPM rules which are totally different from FRR  
6 concepts and AEP elected the FRR concept because we  
7 did not agree with how the RPM construct which was a  
8 negotiated construct was laid out. So I don't  
9 know -- I don't know how we can make that comparison.

10 Q. All right. Would you agree with me  
11 mathematically just from math if AEP Ohio had elected  
12 RPM and could have satisfied its capacity obligation  
13 to PJM by paying \$46.73 a megawatt day, a number you  
14 use in your testimony, that that would have imposed a  
15 lower total capacity service revenue obligation or  
16 revenue requirement on customers than \$355 a megawatt  
17 day? Mathematically.

18 MR. CONWAY: Your Honor, I object. He's  
19 already answered the question several times. He  
20 said that comparing the concept of the FRR to the RPM  
21 rules regime is not something that he feels  
22 comfortable doing and he's explained this two or  
23 three times and Mr. Randazzo just continues to  
24 restate the question in a slightly different format.  
25 It's been asked and answered and I object.



1 MR. RANDAZZO: If I may, your Honors.

2 EXAMINER SEE: Go ahead.

3 MR. RANDAZZO: The witness has overlaid  
4 RPM onto the FRR election saying that the incremental  
5 cost of RPM would have been 46.73 a megawatt day  
6 times the incremental reserve requirement. It's  
7 not -- Mr. Conway I know wants to accuse me of taking  
8 us there. It's not me, it's what the witness did.

9 And I'm entitled to ask the witness about  
10 the implications of overlaying the RPM construct for  
11 purposes of trying to figure out whether customers  
12 would have been -- total customer costs would have  
13 been less if AEP Ohio elected RPM. AEP Ohio elected  
14 RPM under the partial election option that we've been  
15 through in the reliability assurance agreement.

16 MR. CONWAY: Your Honor, then what we're  
17 doing is we're rehashing the ground that has already  
18 been, not to mix metaphors, but been plowed at least  
19 once, if not twice or thrice before. Back in the RSP  
20 in 2004-'5 and then in the first ESP in 2008.

21 The Commission approved the company's  
22 retail rates and the company has been collecting the  
23 lawfully approved rates. But Mr. Randazzo to now try  
24 to construct an argument that the rates that we've  
25 been collecting for the last ten years are somehow

1     imprudent or incorrect I think is well beyond the  
2     scope of this case and I think it's also probably  
3     precluded by res judicata and maybe collateral  
4     estoppel or any other issue principles that might be  
5     available.

6                     So I just think it's not pertinent and  
7     it's -- and I object.

8                     EXAMINER SEE: The objection is  
9     sustained. The witness has already answered the  
10    question.

11            Q.     (By Mr. Randazzo) As part of the decision  
12    making that went into the election of FRR, did AEP  
13    Service Corporation attempt to quantify whether  
14    customers would be better off or worse off from a  
15    total cost of capacity standpoint in the long run as  
16    a result of electing the FRR option?

17                    MR. CONWAY: Your Honor, I make the same  
18    objection. The FRR election was made in 2006-'7 and  
19    it's water over the dam, under the bridge, and it's  
20    not appropriate to litigate that issue prior to that  
21    decision in this case.

22                    MR. RANDAZZO: If I may.

23                    MR. CONWAY: And you sustained the  
24    objection to essentially the same argument we just  
25    had one question before.

1 EXAMINER SEE: Would you like to respond  
2 briefly, Mr. Randazzo?

3 MR. RANDAZZO: Yes, your Honors, I would.  
4 We've already been through the reliability assurance  
5 agreement which demonstrates that there are multiple  
6 opportunity for an FRR entity to carve out a portion  
7 of its service territory and elect RPM. And there  
8 are multiple opportunities to seek to terminate the  
9 FRR election ahead of the five years.

10 So whatever decision AEP made at the  
11 inception of the FRR option, there have been multiple  
12 opportunities for AEP to revisit that based upon what  
13 it knew about what was going on in Ohio and to  
14 terminate the FRR option for purposes of AEP Ohio as  
15 we've already explored in the reliability assurance  
16 agreement.

17 And I think I'm entitled to ask this  
18 witness whether or not that was done and whether or  
19 not there was any analysis conducted to try and  
20 determine whether customers and AEP Ohio would have  
21 been better off had AEP Ohio opted for. I'm entitled  
22 to pursue it.

23 EXAMINER SEE: Mr. Horton, answer the  
24 question. The objection is overruled.

25 A. I'm not aware of any studies that were

1 done along that line.

2 MR. RANDAZZO: Thank you very much. I  
3 appreciate your indulgence. Pleasure to meet you,  
4 hope it's under better circumstances next time.

5 EXAMINER SEE: Ms. Kaleps-Clark.

6 MS. KALEPS-CLARK: Thank you.

7 - - -

8 CROSS-EXAMINATION

9 By Ms. Kaleps-Clark:

10 Q. Good afternoon, or I guess evening at  
11 this point, Mr. Horton. My name is Lija  
12 Kaleps-Clark, and I'm here on behalf of Direct  
13 Energy, RESA, Constellation, and Exelon.

14 I just have a couple questions for you.

15 Mr. Horton, AEP Ohio has decided not to  
16 pursue an FRR election for the 2015-2016 planning  
17 year and instead PJM of its intent to compete in the  
18 RPM auction for those delivery years, correct?

19 A. That's correct.

20 Q. And how long is that election, meaning  
21 how many years will AEP Ohio be committed to  
22 participating in that auction?

23 A. Well, according to the tariff and RAA as  
24 they're currently written, that's a five-year minimum  
25 commitment.

1           Q.    So that commitment lasts until what  
2 delivery year?

3           A.    '15-'16, '17-'18, '18-'19, '19-'20.

4           Q.    And once you've made that commitment  
5 which you said you have, if the RPM auction price  
6 were to drop to what AEP Ohio would consider  
7 unsustainable rate or if there were other conditions  
8 that would make participation in the RPM auction  
9 unsustainable in Ohio's opinion, would AEP Ohio have  
10 the option to withdraw this commitment at any time  
11 prior to the end of that five-year period?

12          A.    Well, the only -- may I ask a clarifying  
13 question? Are you talking about the generation or  
14 the load? Because it is my understanding starting in  
15 2015-16 the two will be separate and so if -- can you  
16 clarify your question along that line?

17          Q.    Both, under both circumstances. Let's  
18 started with load.

19          A.    With load, again, as the tariff and RAA  
20 are currently written, the load has made that  
21 election for a minimum of five years. Now, the  
22 generators being based on the perceived scenario when  
23 we get to 2015-'16 will be on their own and they will  
24 offer into the auction three years in advance but for  
25 essentially one year at a time.

1                   And so if -- if they -- they would be  
2 committed if they clear a net auction for that single  
3 year but there will be a mismatch then on the load  
4 side versus the generation side. The generation side  
5 will be offering into the RPM one year at a time  
6 three years in advance, and then if it looks like the  
7 RPM prices are not sustainable, they would -- we  
8 would have to make a decision every year  
9 whether to offer in or retire.

10                   That's the big thing of why we're pushing  
11 for the transition is because knowing that in advance  
12 you can plan for that three years in advance, we've  
13 already made the FRR commitment now through 2014-'15.  
14 So the whole world changes after June 1 of 2015.

15                   Q.     So and, again, if there was a mismatch  
16 then on the load versus the generation, what effect  
17 would that have?

18                   A.     It's unknown because the -- the load  
19 becomes part of the whole PJM RPM process. So it  
20 would be put in with all the other loads in the PJM  
21 footprint and we're now looking out several years who  
22 knows what the generation structure might be that  
23 would offer into. But into the auction.

24                   So it's really an unknown what would  
25 happen from June of '15 on, but the load itself would

1 be -- would be part of the PJM auction, the whole RPM  
2 auction process.

3 Q. So as for the commitment regarding the  
4 load, that's not something that you could reverse,  
5 can you take back that commitment within that  
6 five-year period?

7 A. Well, as the rules are written now, it  
8 would be you could not take it back. The tariff has  
9 been changed from time to time, that would be a major  
10 change in the tariff. But nevertheless, conceptually  
11 the tariff could be changed but that would be a --  
12 that would be a difficult process.

13 Q. And when you reference "tariff," are you  
14 referencing the RAA, reliability assurance agreement,  
15 or?

16 A. In my mind when I said -- thank you for  
17 the clarification. When I said tariff right there  
18 was both the tariff and the RAA agreement.

19 Q. And as far as amendments, is that the  
20 same process that Mr. Randazzo took you through a  
21 little bit earlier? Do you remember?

22 A. Yes, that is the same process,  
23 stakeholder process, PJM board making the ultimate  
24 decision, yes.

25 Q. Moving on to a slightly different topic,

1 can you turn to page 12 of your testimony? Let me  
2 know when you're there.

3 A. I see it.

4 Q. Now, here you're discussing the penalties  
5 related to forced outages under the RPM rules,  
6 correct? Just generally?

7 A. Yes.

8 Q. And at the bottom of page 12 you have a  
9 question there that kind of goes on to page 13 and  
10 response to that question you state that AEP Ohio  
11 cannot pass those penalties that you were referencing  
12 earlier on to CRES providers. Do you see that?

13 A. Yes, I do.

14 Q. Now, do you know if AEP Ohio is able to  
15 pass those penalties on to consumers?

16 A. I don't know how the -- I'm not a rate  
17 structuring person. I don't know how the -- any  
18 penalties imposed from the RPM markets and FRR are in  
19 our rate structures. I just don't know.

20 Q. You don't know, okay. All right. Those  
21 are all my questions, thank you -- wait. Actually  
22 might have one more.

23 Now, as for the penalty payment, do you  
24 know which AEP entity that is that would make the  
25 penalty payments to PJM?



1           A.    From an accounting standpoint?  There's a  
2    billing relationship between AEP Service Corporation,  
3    all our operating companies, and PJM, and just  
4    because it's a billing situation, all the bills come  
5    through as labeled as Appalachian Power and it's just  
6    purely because of settlement needs some kind of legal  
7    reason between PJM and AEP Service Corp.

8           Q.    So it's not Ohio Power then.

9           A.    I don't know once the bill comes how it's  
10   shared out among the operating companies.

11           MS. KALEPS-CLARK:  That's all, thank you.

12           THE WITNESS:  Okay.

13           EXAMINER SEE:  Ms. Kingery.

14           MS. KINGERY:  Thank you, your Honor.

15                                 - - -

16                                 CROSS-EXAMINATION

17   By Ms. Kingery:

18           Q.    Let's start with a few very easy  
19   questions, I hope, at this hour.  You were, I  
20   believe, if you'll recall, testifying to this earlier  
21   a part of the AEP Ohio team that was involved in the  
22   stakeholder deliberations relating to the FRR  
23   requirement, correct?

24           A.    Yes.

25           Q.    And during those deliberations the FRR

1 alternative to RPM was developed, correct?

2 A. Yes.

3 Q. And those deliberations also resulted in  
4 the creation of tariffs applicable to the FRR,  
5 correct?

6 A. Yes. Tariff in the RAA, yes.

7 Q. Good. And so you as -- together with the  
8 rest of the team reviewed those proposed tariffs at  
9 that time, correct?

10 A. Yes.

11 Q. And AEP has taken an active role in all  
12 respects in discussions concerning the RAA language  
13 implementing the FRR alternative, correct?

14 A. That is -- that is also correct.

15 Q. And you agreed to the final tariff  
16 language applicable to the FRR, correct?

17 A. Yeah, we did sign the settlement  
18 agreement and as part of the agreement, yes.

19 Q. And the revisions of the RAA to  
20 incorporate the FRR were also approved by the FERC,  
21 correct?

22 A. Yes.

23 Q. And AEP Ohio voluntarily signed the RAA.

24 A. Yes, we voluntarily signed the RAA.

25 Q. And also voluntarily elected the FRR.

1           A.     That's correct.

2           Q.     You were not involved in retail  
3 ratemaking with AEP Ohio, correct?

4           A.     Correct.

5           Q.     And so I assume that you would agree with  
6 me that you have no personal knowledge of the  
7 criteria that the PUCO might use for purposes of  
8 establishing retail rates.

9           A.     That's totally outside my realm.

10          Q.     So you would agree with that.

11          A.     I would agree.

12          Q.     Good. And similarly you would agree you  
13 are not aware of what state policy considerations  
14 might guide PUCO's decision.

15          A.     I'm not aware of what state policy would  
16 guide the decision.

17          Q.     We talked earlier about the exhibits made  
18 by the PUCO's staff, I believe this is Exhibit 103-A.

19          A.     Yeah. I don't think I got a copy of  
20 that, but I do recall.

21          Q.     But you remember it.

22          A.     Yes.

23          Q.     And in those comments is it correct that,  
24 if you know this, the PUCO's staff did not urge the  
25 FERC to ensure that an incumbent utility must be

1 assured a full cost recovery in an FRR plan, correct?

2 A. I don't -- I don't recall the entire  
3 filing by the PUCO.

4 Q. To the best of your knowledge, was there  
5 any such urging by the staff, or do you simply not  
6 know?

7 A. I just don't know.

8 Q. All right, that's fine.

9 Do PJM's capacity -- does PJM's capacity  
10 market provide for energy credits in the RPM market  
11 by way of the energy and ancillary service offsets in  
12 the calculation of net CONE?

13 A. Yes, there is that calculation.

14 Q. And similarly does the PJM capacity  
15 market provide for energy credits in the RPM market  
16 by way of energy and ancillary service offsets in the  
17 calculation of mitigated offer caps for capacity  
18 suppliers offering into the auction?

19 A. Yes, they do.

20 Q. All right, thank you.

21 You were here yesterday during the  
22 testimony of Mr. Munczinski, correct?

23 A. Yes, I was.

24 Q. And did you hear him refer FERC questions  
25 to you?

1           A.    Oh, yes, I did.

2           Q.    Thank you very much, right?

3                   And did you also hear him testify about  
4 the need to maintain capacity supply consistent with  
5 the FRR contract with PJM?

6           A.    I remember several discussions along that  
7 line, so go ahead.

8           Q.    And AEP does clear reserves for FRR  
9 entities, correct?

10          A.    "Clear reserves" means we carry at least  
11 the PJM target reserve margin for our capacity  
12 obligations, yes.

13          Q.    Thank you.

14                   And AEP Ohio has a compliant FRR plan,  
15 correct?

16          A.    Yes, and -- but I'd like to make sure  
17 that you understand that it's the entire AEP East  
18 system that's part of the FRR plan. AEP Ohio doesn't  
19 file their own. It's an entire FRR plan.

20          Q.    Okay. That's fine.

21                   And so all of AEP East now as a unit is  
22 operating under a compliant FRR plan, correct?

23          A.    Yes. Yes.

24          Q.    And, in fact, PJM has determined that AEP  
25 East, the whole unit, has a compliant plan through

1 the 2014-2015 planning year, correct?

2 A. Yes.

3 Q. And for FRR entities having a compliant  
4 FRR plan, is it correct that penalties for failure to  
5 perform under that plan would be assessed at 1.2  
6 times the RPM clearing price?

7 A. Yes, and for the -- if you submit a  
8 noncompliant plan, that would be a bogus plan or  
9 something that where you -- it's not a valid FRR  
10 plan, the penalties are probably two times gross CONE  
11 for submitting an invalid plan.

12 Q. But AEP East, the whole unit, has a  
13 compliant plan.

14 A. We do.

15 Q. So the penalties would be 1.2 if you were  
16 to fail to comply to perform.

17 A. Yes.

18 Q. Yesterday you were here during  
19 Mr. Pearce's testimony, I believe; is that correct?

20 A. That was actually earlier today.

21 Q. Oh, that was, yes. You were here then.

22 A. I was here then.

23 MR. KUTIK: Seems like yesterday.

24 Q. I thought it was yesterday.

25 And we talked with Mr. Pearce about his

1 Exhibit 7, if you recall.

2 A. Okay.

3 Q. Which listed the RPM clearing prices in a  
4 number of planning years.

5 A. Right.

6 Q. And looking at his Exhibit 7, I don't  
7 know whether you need a copy of that.

8 A. Actually I may have. Hold on.

9 I think I do. Yes, I do.

10 Q. Great. Thank you. If we look right in  
11 the middle of the page, there's a column labeled "RPM  
12 BRA Clearing."

13 A. Yes.

14 Q. I believe it's column G. If you look  
15 down to the 2012-2013 planning year, what is the RPM  
16 clearing price for that planning year?

17 A. 16.46, 16.64 a megawatt day.

18 Q. So during that planning year, if AEP Ohio  
19 were to cease operating its plants and not show up at  
20 PJM with the promised capacity, am I correct that it  
21 would be assessed a penalty of 1.2 times 16.46 or  
22 approximately \$19 a megawatt day?

23 A. You know, actually wondered if we were to  
24 not show up for '15-'16 if that would actually be a  
25 violation of the first one submitting a bogus plan.

1 So I -- I'm not a hundred percent certain that it  
2 would just be the 1.2.

3 Q. If it were not to turn it into a bogus  
4 plan, we're still a compliant plan, then it would be  
5 1.2 times 16.46, correct?

6 A. If it were still considered to be a  
7 compliant plan, if we were to not show up, that we're  
8 still considered compliant, then the penalty would  
9 be -- it's the higher of 1.2 or RPM plus \$20. So but  
10 order of magnitude it's still the same, yes.

11 Q. And similarly for planning year  
12 2013-2014, am I correct that the RPM clearing price  
13 for that year was shown as 27.73 in Exhibit 7?

14 A. Yes.

15 Q. And so similarly the penalty would be 1.2  
16 times that figure if it were still a compliant plan.

17 A. If it were still a compliant plan.

18 Q. Do you have any reason to believe that  
19 they would determine if AEP were not to show up that  
20 it is a bogus plan?

21 A. Well, if we were just to not show up by  
22 retiring the entire fleet, then it would bring into  
23 suspicion, well, didn't AEP know that when you  
24 submitted your plan? So it's -- it would cause a --  
25 I'm sure there would be some attorneys involved. No



1 offense.

2 Q. And presumably there might have been some  
3 middle ground as well.

4 A. I don't know because that's -- the  
5 penalties are pretty well defined. I don't know that  
6 they could be negotiated. So I hear you but I don't  
7 know that I can comment.

8 Q. When I said "middle ground" I was meaning  
9 where you might show up with some of your capacity  
10 but not all.

11 A. Oh. That could be a possibility.

12 Q. Assuming that AEP would have made a  
13 decision to show up with less than all of the  
14 promised capacity, am I correct that it would not  
15 really have been any threat to the reliability of the  
16 system since PJM would have cleared sufficient  
17 reserves to cover that eventuality?

18 A. Can you give me a timeframe? If -- oh,  
19 go ahead.

20 Q. So if, for example, AEP had not shown up  
21 in 2012-'13, were not to, in that planning year, say  
22 with half of its planned capacity, do you believe  
23 there would have been a threat to the reliability of  
24 the system?

25 MR. CONWAY: Your Honor, at this point

1 we've been going down this line of questioning for a  
2 few minutes and the relevance is remaining unapparent  
3 to me, so I object. It's outside the scope of his  
4 testimony, whatever the point is that's being driven,  
5 and so I wouldn't think it's relevant.

6 EXAMINER SEE: Ms. Kingery, you want to  
7 respond?

8 MS. KINGERY: I'll withdraw the last  
9 question, and I will be happy to move on.

10 Q. (By Ms. Kingery) Sir, as the designated  
11 FERC expert in this case, are you familiar with the  
12 Edgar standards?

13 A. No, I don't think I was held out as the  
14 FERC expert. I'm the PJM expert. So I'm not the  
15 familiar with the Edgar standards.

16 Q. Okay. I believe you were present earlier  
17 for the discussion about generators and load serving  
18 entities participating in RPM.

19 A. Yes.

20 Q. Some discussion of that earlier?

21 A. Yes.

22 Q. After corporate separation, the generator  
23 whose generation clears the BRA for 2015-'16 planning  
24 year will receive the BRA clearing price, correct?

25 A. If it clears, yes, it will receive the

1 BRA clearing price.

2 Q. And am I correct that with regard to AEP,  
3 that generator would be the non-regulated AEP  
4 Generation Resources?

5 A. That's my understanding of how the vision  
6 is for '15-'16. Yes.

7 MS. KINGERY: Thank you, I have no  
8 further questions.

9 EXAMINER SEE: Thank you.

10 Mr. Kurtz.

11 MR. KURTZ: Thank you, your Honor.

12 - - -

13 CROSS-EXAMINATION

14 By Mr. Kurtz:

15 Q. Good evening. Did I understand you  
16 correctly that AEP Ohio is going to bid into the  
17 May 7, 2012, RPM auction? You're going to bid your  
18 generation in a few weeks?

19 A. Yes.

20 Q. Is that all the generation or is that  
21 less Mitchell and the Amos units?

22 A. It's my understanding, and then I'm not  
23 part of all those discussions, but it's my  
24 understanding that Amos and Mitchell will be part of  
25 the other FRR plan and will not be offering into RPM.

1           Q.    Okay.  Is it correct that the AEP -- I  
2           guess it's Section 8.1 of the RAA, this filing of the  
3           FERC to get a cost base rate for your capacity, is  
4           that the first such filing at FERC?  Has anybody ever  
5           done that before?

6           A.    Well, for the most part AEP has been the  
7           only FRR entity consistently.  Now, other entities  
8           have been FRR on a temporary basis but AEP has been  
9           the only FRR entity and, therefore, it's been the  
10          only one that has exercised that option in the RAA.

11          Q.    So this is a case of first impression for  
12          FERC.

13          A.    Yes.

14          Q.    Are there any standards in the PJM RAA  
15          agreement or anywhere that define how a cost base  
16          rate would be made, would be determined?

17          A.    The PJM tariff does not deal with the  
18          state regulatory ratemaking process.

19          Q.    As I understand it, you're asking FERC to  
20          make that determination.  Are there any detailed set  
21          of requirements as to how FERC will go about doing  
22          that if FERC elected to accept your proposal?

23          A.    In the PJM documentation?

24          Q.    Yes.

25          A.    Not to my knowledge.

1 Q. Okay.

2 A. Other than in the RAA where it says we  
3 can file for a cost-based rate.

4 Q. And you know that the staff here has  
5 submitted testimony, detailed testimony what they  
6 believe a cost rate base would be, are you familiar  
7 with that?

8 A. Is that in this particular docket?

9 Q. Yes.

10 A. I knew they filed. I've not read it.

11 Q. Is there any prohibition that you're  
12 aware of that FERC would have just said that the Ohio  
13 Commission's determination of cost base rate is  
14 appropriately adopted? Is that prohibited in any PJM  
15 document?

16 A. I'm sorry. Could you repeat the question  
17 or move the microphone?

18 Q. Could FERC say we reviewed the Ohio  
19 Commission's staff's determination of a cost-based  
20 rate and we adopt it as being reasonable? Is there  
21 any prohibition from FERC doing that?

22 A. Any prohibition? I'm not sure how to  
23 interpret "prohibition," so I don't know.

24 MR. KURTZ: Thank you, your Honor.

25 EXAMINER SEE: Mr. Yurick?

1 MR. YURICK: I just have a couple.

2 CROSS-EXAMINATION

3 By Mr. Yurick:

4 Q. Can you hear me okay?

5 A. Yes.

6 Q. Sir, I wanted to ask you a question about  
7 two calculations that you did, okay?

8 A. All right.

9 Q. The first calculation that you did you  
10 came with a number of \$15.7 million. I think that  
11 was Mr. Randazzo was asking you a couple of questions  
12 about it. But I'm just -- this calculation where you  
13 came up with \$15.7 million I'm going to ask you some  
14 questions about that, okay?

15 A. All right. Can we point to a page on my  
16 testimony?

17 Q. I think it's page 7, although I have page  
18 8.

19 A. I've got it.

20 Q. Okay. And then right below that you make  
21 another calculation and you come up with \$25 million  
22 annual figure. Do you see that too?

23 A. Yes.

24 Q. So I'm going to ask you questions about  
25 both those calculations, just so you know upfront.

1           A.    I'm ready.

2           Q.    Okay.  So my understanding of what you  
3   did to come up with a \$15.7 million number is you  
4   took 925 megawatts, correct?

5           A.    Yes.

6           Q.    Times 46.73 which I think you said was  
7   roughly a calculation based on an RPM clearing price  
8   of \$40 per megawatt day, correct?

9           A.    Yes.

10          Q.    So 46.73 per megawatt day times 365,  
11   right?

12          A.    Yes.

13          Q.    And then you come up with 15.2 million,  
14   correct?

15          A.    Yes.

16          Q.    And the significance of the 925 megawatts  
17   is that it's 4.2 percent of 22,000 megawatts,  
18   correct?

19          A.    Yes.

20          Q.    Now, would I be correct in saying that if  
21   you took 22,000 megawatts times \$355 per megawatt day  
22   times 365 days, that would be a really large number?

23          A.    Well, it would be larger than the  
24   15.7 million.

25          Q.    Not only would it be larger than the

1 15.7 million, but it would be much larger than if you  
2 took 22,925 megawatts which would be your total load  
3 plus your reserve, correct? 22,925.

4 A. Not quite, but go ahead. The reserve  
5 would have to be 15 percent on top of the 22,000 peak  
6 load, but.

7 Q. I'm using your number. You said  
8 4.2 percent capacity reserves, right?

9 A. Well, that's the difference between what  
10 the RPM cleared at and what the target reserve margin  
11 was. So AEP -- and this is part of the reason with  
12 why we chose FRR is because AEP as an FRR entity  
13 meets the target reserve margin, whereas, if you're  
14 part of RPM, the load has to pay for whatever reserve  
15 margin clears.

16 Q. Well, let's just take what you did here.  
17 So if you took 22,925 megawatts, correct?

18 MR. CONWAY: Objection. He just  
19 explained that's not the right way to figure what the  
20 reserve margin is. He just explained it's 15 percent  
21 plus 4.2 percent.

22 Q. Great. Let's go --

23 EXAMINER SEE: Just a minute. Please  
24 don't crosstalk.

25 MR. YURICK: Sorry, your Honor. I can



1 rephrase.

2 Q. (By Mr. Yurick) If you took 22,000 -- the  
3 25 times 115 percent, correct?

4 A. Okay.

5 Q. Then you --

6 MR. CONWAY: I'll object to that too.

7 EXAMINER SEE: There's an objection.

8 MR. CONWAY: I object. It's a  
9 hypothetical also and has no foundation in the  
10 witness's testimony or any other basis.

11 MR. YURICK: Your Honor, if I may be able  
12 to respond? The witness has thrown out a number of  
13 15.2 million. All I'm trying to determine is what  
14 that signifies, because as far as I can tell, that's  
15 a hypothetical number.

16 I think I should be able to show that his  
17 15.7 million figure that he's thrown out there is a  
18 number that really signifies nothing. At the very  
19 least it goes to the credibility of his calculation,  
20 at the least.

21 EXAMINER SEE: The objection is  
22 overruled. Start again, Mr. Yurick, please.

23 Q. (By Mr. Yurick) 22,925 times 115 percent,  
24 whatever that number is, then you multiply that times  
25 46.73, correct?

1           A.    Go ahead.

2           Q.    Then you multiply that times 365, okay?  
3    You would still come up with a much, much smaller  
4    number than if you took 22,000 times 355 times 365;  
5    isn't that right?

6           A.    This is an apples-to-oranges comparison  
7    though.

8           Q.    You made the comparison, sir. You made  
9    the comparison. I'm just asking you what you're  
10   doing here. So you've thrown this number  
11   15.7 million out, right?

12          A.    Yes. As --

13          Q.    And I'm just trying to figure out --

14               EXAMINER SEE: Mr. Yurick, Mr. Yurick, if  
15   you're going to ask the question, allow the witness  
16   to answer.

17          Q.    Please, sir, I didn't mean to cut you  
18   off.

19          A.    That's fine. The 15.7 was a calculation  
20   I don't know that AEP as a -- as the vertically  
21   integrated utility we were a part of RPM. And that  
22   would have been a real dollar figure that we would  
23   have had to pay additional -- additional capacity  
24   costs that we may have had to recover from our  
25   commissions.

1           Q.    Let me put it this way, sir:  If you paid  
2   RPM, okay, versus paying your cost base rate of  
3   \$355 per megawatt day, RPM's still less, much less,  
4   correct?

5           A.    355 versus the RPM clearing price in that  
6   particular year.

7           Q.    Even if I give you the 15.7 million, in  
8   other words, that RPM price is still going to be  
9   much, much smaller than your cost base price, right?

10          A.    We're talking capacity, are we talking  
11   capacity and energy, how many years?

12          Q.    I'm just -- I'm just referring to your  
13   calculation here, sir, and as far as I can tell, it's  
14   capacity only.

15               MR. CONWAY:  Your Honor, I object.  He's  
16   simply arguing with the witness at this point.  He's  
17   got an argument that he's making \$355 is more than  
18   \$46 or 40, and, of course, that may be accurate but  
19   the context the witness has said is apples to oranges  
20   and, now, he's arguing with him, so I object.

21               MR. YURICK:  I thought the witness asked  
22   me a clarifying question, your Honor, I apologize.  I  
23   can withdraw my arguing statement.

24               EXAMINER SEE:  I don't think he did.

25          Q.    (By Mr. Yurick) Do you understand the

1 question, sir?

2 A. I think the question is making me draw a  
3 conclusion of an apples-to-oranges comparison.

4 Q. Let me ask you this, what the  
5 \$15.7 million signifies is the difference between  
6 22,000 megawatts and 22,925 megawatts of capacity.

7 A. I don't see any basis for the 22,925.

8 Q. I don't either. But you have --  
9 apparently you say here that 925 megawatts of  
10 additional capacity for the years 2007-2008 would be  
11 required, correct?

12 A. Additional on top of the reserve margin  
13 that you have to carry is even as an FRR entity.

14 Q. Well, the number that you've used is  
15 22,000 megawatts in your testimony.

16 A. We would have had to purchase in an RPM  
17 entity as an RPM entity, we would have had to  
18 purchase over and above the 15 percent, we would have  
19 had to purchase another 4.2 percent as part of RPM  
20 and, therefore, another 925 megawatts would have had  
21 to have been purchased as an RPM entity.

22 Q. Right. And that's what you're saying  
23 here in this.

24 A. But that's different than 22,000 plus  
25 \$925 -- or 925 megawatts. What I said was not the

1 same as adding 925 to 22,000.

2 Q. What you're saying is 925 megawatts of  
3 additional capacity over the 2007-2008 year would  
4 cost you \$15.2 million, right?

5 A. Yeah. We would -- I would have had to  
6 refer from our commissions in some kind of regulatory  
7 proceeding.

8 Q. But even if you added 15.7 million to  
9 whatever you had to pay for capacity, and I said you  
10 could do 22,000 times 115 percent at \$46.73 a  
11 megawatt day, that number still is much, much less  
12 than 22,000 megawatts times 355 per day times 365  
13 days. It has to be, doesn't it?

14 A. It's an apples-to-oranges comparison.

15 Q. Okay. In the next question and answer  
16 you make the statement "AEP has saved its customers  
17 25 million annually by choosing FRR." Correct?

18 A. Yes, I do make that statement.

19 Q. So my understanding of the way that you  
20 came to this savings is that you take  
21 22,000 megawatts times 3.5 percent, correct?

22 A. Which is the difference between what the  
23 RPM reserve margin that's cleared at in that time  
24 period versus the target.

25 Q. Correct. Times \$90 per megawatt day

1 times 365 days, correct?

2 A. Yes.

3 Q. But if you were to take 22,000 megawatts  
4 times \$355 per megawatt day times 365 days, that  
5 number would still be much higher, correct?

6 A. Well, it's the same concept as we talked  
7 about for the single year in that it's an  
8 apples-to-oranges comparison. AEP would have had  
9 actual out-of-pocket costs of \$25 million a year  
10 extra had we been a part of RPM.

11 And that's the basis for what I was  
12 testifying or what my testimony was had we been part  
13 of RPM, what additional penalties or what additional  
14 costs would we have incurred.

15 Q. My point is even with the additional  
16 \$25 million annually, your total capacity costs would  
17 still be much, much less than if you were to pay 355  
18 megawatts per day for capacity.

19 A. No. AEP's capacity costs would have been  
20 355 plus the \$25 million a year because AEP's costs  
21 for providing that capacity is \$355 a megawatt day.  
22 That's what our cost is.

23 Q. I'm just a little bit confused, I guess.  
24 You say it's an apples-to-oranges comparison, right?

25 A. Yes.

1 Q. So doesn't really have a lot of meaning,  
2 right?

3 A. Well, my testimony does have meaning  
4 because that's what the -- our actual out-of-pocket  
5 costs would have been for capacity.

6 Q. Your actual out-of-pocket costs for  
7 capacity if you had been in RPM, the way I understand  
8 your testimony, is you would have had to acquire  
9 22,000 megawatts plus 3.5 percent, correct?

10 A. We would have had to have acquired 22,000  
11 plus 15 percent plus another 3 and a half percent.

12 Q. Correct. At \$90 a megawatt day, correct?

13 A. Yes.

14 Q. For 365 days, right?

15 A. Yes.

16 Q. And what I'm saying is that number is  
17 still much smaller than if you had 22,000 megawatts  
18 times \$355 per megawatt day times 365. It's a  
19 smaller number, sir.

20 A. I think I feel you're trying to get me to  
21 admit to something that's an apples-to-oranges  
22 comparison making them the same, and I just cannot  
23 agree with that.

24 Q. All I'm asking you is if you take  
25 22,925 megawatts times 115 percent, okay, times

1     \$90 per megawatt day times 365, that number is a lot  
2     smaller than 22,000 megawatts times \$355 per megawatt  
3     day times 365 days.

4             MR. CONWAY: Your Honor --

5             Q. I'm just asking you numerically it's a  
6     much smaller number.

7             MR. CONWAY: Your Honor, I object. He's  
8     asked the question several times now, and the witness  
9     has given him an answer. He's done the best he can.  
10    So I object. It's been asked and answered.

11            EXAMINER SEE: And it has been. Move on,  
12    Mr. Yurick.

13            MR. YURICK: No further questions. Thank  
14    you, your Honor.

15            EXAMINER SEE: Ms. Thompson.

16            MS. THOMPSON: No questions from IGS.

17            EXAMINER SEE: Ms. Kern.

18            MS. KERN: No questions, your Honor.

19            EXAMINER SEE: Mr. Jones?

20            MR. JONES: No questions, your Honor.

21            EXAMINER SEE: You need 5 minutes?

22            MR. CONWAY: Just a short period of time,  
23    your Honor. We'll be quick.

24            EXAMINER SEE: Let's go off the record,  
25    take a brief recess.



1 (Recess taken.)

2 EXAMINER SEE: Are you ready, Mr. Conway?

3 MR. CONWAY: Yes, your Honor.

4 - - -

5 REDIRECT EXAMINATION

6 By Mr. Conway:

7 Q. Mr. Horton, during Mr. Kutik's  
8 cross-examination do you recall a line of questions  
9 in which Mr. Kutik asked you whether there were two  
10 categories of documents that provide insight into the  
11 meaning of the tariff and the settlement agreement in  
12 the RAA?

13 A. I do remember that, and I wanted to add a  
14 third one.

15 Q. What is that?

16 A. Well, the parties that were a part of the  
17 settlement agreement, most of the parties made and  
18 have continued to make FERC filings related to the  
19 settlement agreement in which they state their  
20 opinions and positions on various parts of RPM, FRR,  
21 and otherwise.

22 So there are public documents out there  
23 where parties can make known their interpretations as  
24 well as their opinions of what was in the settlement  
25 agreement.

1           Q.    Thank you.  And I believe Mr. Kutik also  
2           asked you a series of questions regarding whether as  
3           part of the FRR election a load serving entity, the  
4           FRR entity designates a specific capacity resources  
5           to meet its class obligations.  Do you remember that  
6           line of questions?

7           A.    Yes, I do.

8           Q.    And can you tell us to what extent is the  
9           commitment, is there a commitment made by the FRR  
10          entity to designate specific resources to meet that  
11          capacity obligation?

12          A.    Well, and I believe I said it this way,  
13          but perhaps to clarify.  When we submit, the FRR  
14          entity submits, its initial plan, it does designate  
15          specific units to meet the obligations of that plan.  
16          Between the time the plan is submitted and the  
17          delivery year, things happen and even once we're in  
18          the delivery year.

19                So there is always the ability to  
20          substitute units for unit outages, and that's part of  
21          the -- another benefit that we had with the FRR  
22          arrangement that we were able to have a lot of  
23          flexibility for unit performance issues after the and  
24          during the three-year period after the FRR plan was  
25          filed.

1           Q.    So what are the different options that  
2   the FRR entity may use to procure to provide the  
3   capacity resources? Did you mention the substitution  
4   of units as one of the options?

5           A.    I'm not sure I did. I believe I heard we  
6   talked about demand side response, I think energy  
7   efficiency. But obviously you can substitute the  
8   units, do bilateral transactions for units that have  
9   not cleared in RPM. So there are other ways of  
10   satisfying your FRR obligation if you do have unit  
11   issues.

12          Q.    Do you recall a line of questions from  
13   Mr. Randazzo which focused on a document that was I  
14   believe the document that's been marked as -- it's  
15   the initial answer of PJM to the -- made to the  
16   205 -- to the 205 filing that the AEP companies made?

17          A.    I'm not sure if it was the 205 or the 206  
18   filing, but I am looking at that answer of PJM  
19   interconnection LLC to the complaint.

20               EXAMINER SEE: And that's been marked as  
21   IEU Exhibit 110.

22               MR. CONWAY: IEU Exhibit 110, thank you.

23          Q.    Thank you for that correction and it was  
24   in response as I understand it to the 206 filing.  
25   And you discussed with Mr. Randazzo -- he had you

1 actually read from the document certain passages. Do  
2 you recall that?

3 A. Yes, I do.

4 Q. Do you have a copy of that document with  
5 you?

6 A. I do have a copy of that document.

7 Q. When does it indicate that it was  
8 submitted on the last page of the document, on page  
9 50?

10 A. It was submitted like April 25th of 2011.

11 Q. And do you know whether there's a more  
12 recent submission by PJM in that docket that updates  
13 PJM's position?

14 A. Yes, I do -- I do have information along  
15 that line. PJM has made a more recent response in  
16 that same docket. It's dated March 15th of 2012.

17 MR. CONWAY: Your Honor, I would just  
18 note that the document to which the witness referred,  
19 a copy of it has been attached to Mr. Kollen's direct  
20 testimony as Exhibit LK-2 to his testimony, and we'd  
21 like to mark it as an exhibit at this time, an AEP  
22 exhibit. And I believe we are at 103-C, March 15,  
23 2012, PJM filing in the 206 docket at FERC as AEP  
24 Ohio Exhibit 103-C.

25 MR. KUTIK: And could you identify the

1 exhibit number from Mr. Kollen's testimony?

2 MR. CONWAY: The exhibit number attached  
3 to his testimony is LK-2. If anyone does not have a  
4 copy of Mr. Kollen's testimony and would like a copy  
5 of that attached exhibit to that testimony now  
6 marked.

7 EXAMINER SEE: And the exhibit is so  
8 marked.

9 (EXHIBIT MARKED FOR IDENTIFICATION.)

10 Q. Are you familiar with this document,  
11 Mr. Horton?

12 A. Yes, I am.

13 Q. Could you please read for me the passage  
14 on page 2, that second full paragraph, the first  
15 sentence, please?

16 A. Yes. "PJM has no reason to doubt that  
17 the PUCO will ultimately adopt a final state  
18 compensation mechanism that, consistent with the  
19 intent of Section D.8, will compensate AEP for the  
20 cost to satisfy its FRR capacity obligations  
21 associated with load reflected in AEP's FRR capacity  
22 plan that has instead chosen to be served by CRES  
23 providers."

24 And the footnote they have under Section  
25 D.8 is as a footnote that refers to the RAA Schedule

8.1, Section D.8.

Q. Mr. Horton, if we didn't already go over this, this document was filed when?

A. This document was filed March 15, 2012, just a month ago.

Q. And do you recall when the document that Mr. Randazzo discussed with you, the answer was submitted?

A. It was filed in April 25, 2011.

Q. So the document that you just quoted from is a more recent filing by PJM; is that right?

A. That is correct.

MR. CONWAY: Your Honor, that is all the redirect that I have.

EXAMINER SEE: Ms. Kaleps-Clark?

MS. KALEPS-CLARK: No redirect.

EXAMINER SEE: Mr. Kutik?

MR. KUTIK: Yes, your Honor.

- - -

# RECROSS-EXAMINATION

By Mr. Kutik:

Q. Mr. Horton, with respect to the documents that have been agreed to in terms of stating forth the parties to the RAA's intent, those -- the documents you described in response to questions from

1 your counsel would not be part of that, correct?

2 A. Would not be part of what?

3 Q. The documents that people agree to. In  
4 other words, if someone -- if a party files a  
5 document about what it thinks it agrees to, that's  
6 not a document that all parties to the RAA have  
7 agreed to, correct?

8 A. Well, that's why they filed the answer or  
9 the document.

10 Q. So if we're looking at documents that  
11 everyone has agreed to in terms of trying to  
12 understand what the intent of the parties is for the  
13 RAA and subsequent modifications or consequent  
14 modifications to the PJM open access tariff and  
15 attachments, we would look to the tariffs and the  
16 RAA, correct?

17 A. There are regularly disagreements on  
18 interpretations of the tariffs and the RAA.

19 Q. That's not my question.

20 A. Okay.

21 Q. My question is with respect to what  
22 document that all parties have agreed to, there are  
23 only two categories of those documents, right? One,  
24 is the RAA and the affected portions of the open  
25 access tariff, and two, the settlement documents,

1 fair to say?

2 A. There's always interpretations of those  
3 documents.

4 Q. That's not my question. My question is  
5 simply in terms of the matter of agreement. Do you  
6 understand that, sir?

7 A. Maybe I don't.

8 Q. Okay. Apparently not.

9 With respect to the criteria that apply  
10 to what facilities or units can be designated under  
11 the FRR plan, there are no external criteria, are  
12 there?

13 A. Define "external criteria."

14 Q. Criteria that's been established by  
15 someone other than the owner of the generation or the  
16 party that's the FRR entity.

17 A. Has to be a deliverable source.

18 Q. Other than that?

19 A. Has to meet the performance criteria  
20 within PJM.

21 Q. Anything else?

22 A. Might be if I sat here and thought about  
23 it.

24 Q. Well, for example, does the RAA require  
25 the FRR entity to put its facilities or the



1 facilities that might have available in order of  
2 efficiency?

3 A. For capacity or for energy?

4 Q. For capacity.

5 A. No, there's no particular order for the  
6 units that are entered into the FRR capacity plan.

7 Q. And to rank the facilities in terms of  
8 their economics, most economical, the most efficient  
9 being put in first, and the less economical and the  
10 less efficient coming in last, there's no such  
11 criteria, correct, for an FRR entity?

12 A. For its capacity plan?

13 Q. Correct.

14 A. There's no criteria for listing. We  
15 could list them in alphabetical order if we wanted  
16 to.

17 Q. But there's no criteria.

18 A. There is no criteria.

19 Q. And there's no criteria with respect to  
20 whether they have certain environmental attributes or  
21 not in terms of whether they can or can't be in the  
22 FRR plan, correct?

23 A. Well, that gets into an area about  
24 whether you can count it as capacity or not, if it  
25 can or cannot meet EPA regulations.

1           Q.   Well, assuming they can, there's no other  
2 criteria with respect to whatever environmental  
3 equipment it has or how it's been -- environmental  
4 requirements, correct?

5           A.   As long as it can qualify as a capacity  
6 resource, there's no order of listing.

7           Q.   Regarding the document that's been marked  
8 as Exhibit 103-C and the passage that you read, and  
9 there's a reference to the word "cost," correct?

10          A.   Will compensate AEP for the cost to  
11 satisfy its FRR capacity obligations.

12          Q.   Uses the word "cost," correct?

13          A.   Yes.

14          Q.   Doesn't use the term "embedded cost,"  
15 correct?

16          A.   It also doesn't use the term "incremental  
17 cost."

18          Q.   But it doesn't use the term "embedded  
19 cost," correct?

20          A.   Nor does it use "incremental."

21          Q.   The answer to my question is yes,  
22 correct?

23          A.   It does not used embedded or incremental  
24 cost.

25          Q.   Embedded costs -- well, one moment.

1 Does this document refer to the word  
2 "embedded" -- the term "embedded costs" at all?

3 A. Give me just a second.

4 Q. Sure.

5 A. I don't see either "embedded" or  
6 "incremental cost" in the document.

7 Q. Does this document -- this document  
8 doesn't say anything, does it, in terms of the PJM  
9 reversing its policy to promote robust competition?

10 A. That sounds like a question I'm expected  
11 to draw a conclusion to PJM's position.

12 Q. Well, sir, you read this and commented on  
13 it.

14 A. Yes.

15 Q. And my question to you is did you see  
16 anything in this document where PJM was reversing the  
17 purpose of the RAA which was, as you said to  
18 Mr. Randazzo earlier, in part, to develop a robust  
19 competitive market? They weren't going back on that,  
20 were they?

21 A. I saw -- I saw no reference to anything  
22 in this document for reversing or robust market or  
23 anything. I see nothing in this document that talks  
24 about that.

25 MR. KUTIK: Thank you. I have no further

1 questions.

2 Thank you, your Honor.

3 EXAMINER SEE: Ms. Kingery.

4 MS. KINGERY: Nothing, thank you, your  
5 Honor.

6 EXAMINER SEE: Mr. Randazzo?

7 - - -

8 RECROSS-EXAMINATION

9 By Mr. Randazzo:

10 Q. With regard to the designation of  
11 specific capacity resources, can a solar farm qualify  
12 as a capacity resource?

13 A. Yes, it can.

14 Q. And is it -- is the capacity credit or  
15 capacity for a solar farm derated by PJM?

16 A. Yes. There's a percentage applied to its  
17 name plate capacity.

18 Q. And why is that?

19 A. Because the PJM rules indicate that there  
20 needs to be a percentage multiplier to account for --  
21 until there is a history of performance at an  
22 individual unit whether it's wind or solar, there's a  
23 percentage applied for what the expectation might be  
24 for peak availability.

25 It's a -- it's just within the tariff

1     until such time as that unit can submit enough  
2     performance data.

3             Q.     Okay, and that derating process is a  
4     byproduct of the fact that you mentioned solar and  
5     wind. They have intermittent production  
6     characteristics, correct?

7             A.     Yes.

8             Q.     And are not dispatchable, correct?

9             A.     Oh, wind can be partially dispatchable,  
10     some of the newer winds.

11            Q.     Now, as part of your capacity resource  
12     designation plan, have you included Turning Point  
13     Solar?

14            A.     I don't know.

15            Q.     Well, who would know?

16            MR. CONWAY: Your Honor, at this time  
17     I'll just interject an objection. This is beyond the  
18     scope of my redirect. I didn't ask him anything  
19     about these matters.

20            EXAMINER SEE: The objection is  
21     sustained.

22            Q.     The March 15th filing by PJM, do you know  
23     who Craig Glaser is?

24            A.     Who are you asking?

25            Q.     You.

1           A.    You were looking over there.

2           Q.    I'm sorry.  I'm sorry.  So former  
3 chairman of the PUCO?

4           A.    Yes, I believe he was.

5           Q.    Do you think he knows about Senate Bill  
6 3?

7           A.    He probably does.

8           Q.    Do you think he might know about Chapter  
9 4928?

10          A.    I don't know.  I don't know what Chapter  
11 4928 is.

12          Q.    And in page 3 -- thank you.  Page 3, the  
13 fourth line from the bottom before the "respectively  
14 submitted," towards the end of that line you see  
15 "benefit market participants in Ohio"?

16          A.    Yes.

17          Q.    Who's a market participant?  In PJM  
18 lingo.

19          A.    In PJM lingo the market participant is a  
20 broad range of categories.  It can -- includes  
21 end-use customers, it includes generators, it  
22 includes --

23          Q.    Consumer advocates?

24          A.    Transmission people.

25          Q.    Consumer advocates?

1           A.     Why I'm hesitating on the consumer  
2 advocates is I don't know if the consumer advocates  
3 actually have a vote stakeholder process. I believe  
4 they do, but I'm not a hundred percent certain on  
5 that.

6           Q.     So the market participants that PJM  
7 suggests maybe benefit includes end-use customers,  
8 competitive suppliers, everybody, right?

9           A.     That's the general understanding of  
10 market participants. It's a pretty broad range.

11          Q.     And in PJM lingo the scope of market  
12 participant would include all the signatory parties  
13 or all the members that are listed as part of the  
14 open access transmission tariff, correct?

15          A.     Yeah, I would say so.

16          Q.     Okay. And to the extent that that list  
17 of members includes consumer advocates such as the  
18 Ohio Consumers' Counsel, then we could turn to that  
19 document to answer the question as to whether or not  
20 the market participants include consumer advocates  
21 acting on behalf of residential customers, right?

22          A.     I don't know. I don't know if consumer  
23 counsels are signatories to either of the RAA or the  
24 tariff. So I don't know how to make the extension in  
25 your argument.

1 Q. It's not an argument.

2 MR. RANDAZZO: May I approach the  
3 witness?

4 EXAMINER SEE: Yes.

5 Q. Do you know what the PJM operating  
6 agreement is?

7 A. Yes.

8 Q. Mr. Horton, I will represent to you that  
9 I'm handing you what is known as Schedule 12 of the  
10 PJM operating agreement. Will you accept, subject to  
11 check, that's the schedule that lists all the members  
12 of the PJM?

13 A. Well, all I see is a Schedule 12 PJM  
14 member list and page -- starting on page 520.

15 Q. Right.

16 A. So.

17 Q. Would you accept, subject to check,  
18 that's the members that are identified in the PJM  
19 operating agreement?

20 A. Subject to check.

21 Q. All right. Now, if I can look over your  
22 shoulder, please.

23 A. Can I put this up here?

24 Q. That's great. Not too close?

25 A. No, no.



1           Q.    Let's turn to page 523, Columbus Southern  
2   Power is listed as a member, right?

3           A.    Yes, I see that.

4           Q.    Duke Energy Ohio?

5           A.    I see that.

6           Q.    All right.  Let's turn to page 527.

7           A.    All right.

8           Q.    Indiana Michigan Power Company --

9           A.    Yes.

10          Q.    -- member?

11                How about the Industrial Energy Users of  
12   the Ohio?

13          A.    Yeah, I see that.

14          Q.    Would we be a market participant?

15          A.    Market participant isn't even capitalized  
16   in this --

17          Q.    So you don't know what that means?

18          A.    -- going back to the document.  I know  
19   what it means in general PJM discussions.

20          Q.    So if we're a member based upon the PJM  
21   operating agreement, "we" being the Industrial Energy  
22   Users of Ohio, would we be a market participant?

23          A.    Would that be a capital letter or small  
24   letters?

25          Q.    Small letters, the way the letters appear

1 in the document that your counsel brought up with you  
2 in redirect.

3 A. Probably draw that conclusion that the...

4 Q. Okay. And how about we talked a little  
5 bit about consumer advocates. How about the page  
6 531, the Ohio Consumers' Counsel is listed, right?

7 A. Okay. Yes, it is.

8 Q. How about Ohio Edison?

9 A. Ohio Edison Company is listed.

10 Q. Cleveland Electric Illuminating? Will  
11 you accept, subject to check, that Cleveland Electric  
12 Illuminating company is listed?

13 A. It's listed.

14 Q. So when PJM is speaking about doing  
15 things to benefit market participant, you will agree  
16 with me that PJM as far as you understand it is  
17 referring to the broader range of interests and not  
18 AEP specifically?

19 A. Yes. Yes.

20 Q. Did the Public Utilities Commission of  
21 Ohio respond to what has been marked as AEP Ohio  
22 Exhibit 103-C? Do you know?

23 A. I don't know for certain if they did or  
24 not. I believe so but I don't know.

25 MR. RANDAZZO: Okay. Thank you very

1 much. That's all I have.

2 EXAMINER SEE: Mr. Kurtz?

3 MR. KURTZ: Thank you, your Honor. I'll  
4 try to be brief.

5 - - -

6 RECROSS-EXAMINATION

7 By Mr. Kurtz:

8 Q. Mr. Horton, let me just sort of review  
9 the bidding on where PJM stands on this case. We  
10 have IEU Exhibit 110 which was their answer to the  
11 AEP Section 206 FERC complaint where PJM says the  
12 complaint should be denied and that was issued in  
13 April of -- that was filed in April, 2011?

14 A. Yes.

15 Q. Then we have PJM weighing in on March 15,  
16 2012, which is Mr. Kollen's Exhibit 2 is AEP  
17 Exhibit 103-C, and your counsel showed you that at  
18 the beginning of your redirect. Do you recall that?

19 A. Yes.

20 Q. Okay. He read you the section where PJM  
21 says PJM has no reason to doubt that the PUCO  
22 ultimately will adopt a final state compensation  
23 mechanism that, consistent with the intent of section  
24 10.D, will compensate AEP for the cost to satisfy its  
25 FRR capacity obligations associated with load

1 reflected in AEP's FRR capacity plan that has instead  
2 chosen to be served by CRES providers. Did I read  
3 that correctly?

4 A. Did you say 10.D? My copy here says  
5 Section D.8.

6 Q. Yeah, D.8, I misread it, sorry. But  
7 other than that did I read it correctly?

8 A. Yes.

9 Q. So PJM is telling FERC they have no  
10 reason to doubt the Commission will ultimately adopt  
11 a state compensation that will compensate AEP for the  
12 cost. So that is -- that's essentially what PJM said  
13 most recently, correct?

14 A. Yes. Most recently just within the last  
15 month.

16 Q. Then we have again to finalize the  
17 bidding here on where PJM -- we have the Ohio  
18 Commission weighing in on March 22, a week after PJM,  
19 this is OEG Exhibit 101. You heard me cross-examine  
20 on that exhibit?

21 A. I believe so. I don't have that on me or  
22 anything.

23 Q. Here's what the Ohio Commission says on  
24 page 4: Contrary to PJM's allegations would intimate  
25 that the state determined capacity charge shall be

1 set pursuant to cost, none of the Ohio commissions'  
2 actions regarding these matters have been  
3 inconsistent with the RAA FRR tariff provisions.  
4 Indeed the Ohio Commission is unaware as to where in  
5 the PJM RAA FRR tariff a state established cost-based  
6 requirement is set forth.

7 That's in the record. Were you aware  
8 that's what the Ohio Commission told FERC a couple  
9 weeks ago? A month ago?

10 A. What was the date on that?

11 Q. March 22, 2012.

12 A. Yes, I'm aware in general and of that  
13 filing being made, and I believe I've seen that. I'm  
14 not sure the context of the section you read, but.

15 Q. And then you've been here earlier when I  
16 cross-examined witnesses and repeatedly throughout  
17 this document in three places the Ohio Commission  
18 says we're going to have this, a balance where we  
19 promote competition yet at the same time ensure  
20 incumbent electric utility providers ability to  
21 attract capital investment to meet its FRR  
22 obligations.

23 That balance that the Commission said  
24 essentially there's no cost requirement we're going  
25 to set a state compensation mechanism that promotes

1 competition and recognizes the utility's financial  
2 requirements essentially.

3 A. Well, we're getting into an area that  
4 sounds more like a policy area that is really outside  
5 of my expertise.

6 Q. Let's just close out this sort of PJM  
7 line. Now, we have staff a couple days ago filing  
8 cost-based testimony that concludes that AEP Ohio's  
9 cost-based price for capacity is \$144 a megawatt day,  
10 not the \$355 a megawatt day, Dr. Pearce calculated.

11 MR. RANDAZZO: For the record I'll object  
12 to the clarification, but understand.

13 Q. Is that --

14 A. I haven't -- I knew they filed, I have  
15 not read that, the filings made by the PUCO here in  
16 the last two days.

17 MR. KURTZ: I guess that's where we are,  
18 I guess. Thank you, your Honors.

19 EXAMINER SEE: Mr. Yurick?

20 MR. YURICK: No further questions, your  
21 Honor.

22 EXAMINER SEE: Ms. Thompson?

23 MS. THOMPSON: No questions, your Honor.

24 EXAMINER SEE: Ms. Kern?

25 MS. KERN: No questions.

1 EXAMINER SEE: Mr. Jones?

2 MR. JONES: No questions, your Honor.

3 EXAMINER SEE: Commissioner Porter?

4 COMMISSIONER PORTER: Just quickly.

5 - - -

6 EXAMINATION

7 By Commissioner Porter:

8 Q. I want to avoid being repetitive but  
9 there's a couple of things I haven't understood from  
10 some of the testimony.

11 On redirect your counsel provided you AEP  
12 Exhibit 103-C which was the PJM interconnection  
13 response to the AEP motion for integrated rulings.  
14 You have that?

15 A. Yes, sir.

16 Q. On page 2 I think I believe your counsel  
17 had you read the first sentence of paragraph  
18 number -- the second full paragraph.

19 A. Yes.

20 Q. You see that sentence and it says "PJM  
21 has no reason to believe" -- "no reason to doubt that  
22 the PUCO ultimately will adopt the final state  
23 compensation mechanism that, consistent with the  
24 intent in Section D.8, will compensate AEP for the  
25 cost to satisfy its FRR capacity obligations

1 associated" and so forth. Let me stop there.

2 A. Yes.

3 Q. You see the sentence. And referring back  
4 to Section D.8, the name of the document is the  
5 Reliability Assurance Agreement, which is marked as  
6 FES Exhibit 110, I believe A, you have that as well?

7 A. Yes.

8 Q. This is a section, you're familiar with  
9 this, this is a section that's referred to in that  
10 response. If you go to page 111 of that exhibit. So  
11 D.8 is on page 111 of the FES exhibit. What I'm  
12 searching for here is I'm trying to find a place --  
13 you agree that Ohio's adopted retail compensation.

14 A. Yes.

15 Q. Would you agree that there's been a state  
16 compensation mechanism established?

17 You're having trouble handling that one.

18 A. Well, I am because I'm not sure at what  
19 point in time you're thinking of when a state  
20 compensation mechanism.

21 Q. So there is a December 2, 2010, entry  
22 from the Ohio Commission that establishes a state  
23 compensation mechanism. Would you agree with that  
24 point in time there was a state compensation  
25 mechanism established?



1           A.     Based on my limited knowledge of Ohio.

2           Q.     Let's say there's a question about where  
3     that agreement established a state compensation  
4     mechanism. Assuming that there is a state  
5     compensation mechanism established going forward,  
6     wherein this Section D.8 is the Ohio Commission  
7     required to approve the costs requested by AEP as the  
8     FRR entity?

9                     Let me point you to a section before you  
10    answer. In section D.8, I believe it's second full  
11    sentence, it says "In the case of load reflected in  
12    the FRR capacity plan that switches to an alternative  
13    retail LSE where the state regulatory jurisdiction  
14    requires switching customers to compensate the FRR  
15    entity for its FRR capacity obligations, such  
16    compensation mechanism will prevail." Where is the  
17    cost mentioned there?

18          A.     I don't see it.

19          Q.     You don't see cost mentioned there? Are  
20    you aware that it's mentioned somewhere else? If you  
21    could just point me to -- maybe you don't have the  
22    document in front of you, but if it's mentioned  
23    somewhere else or if there's some other controlling  
24    agreement or rule that would require the Ohio  
25    Commission to approve costs for the FRR entity, maybe

1       you can just let me know of that provision.

2               A.     I guess we've always thought that the  
3       last part of that Section 8 always provided for  
4       whatever there was a state recovery mechanism in  
5       place or an RPM there was always the cost-based  
6       option that AEP could -- or the FRR entity, not AEP,  
7       could file. So that's where we pick up the cost  
8       base.

9               Q.     And by the last section of that section  
10       you mean the sections following the sentence that we  
11       just read that ends with "state compensation  
12       mechanism will prevail," there's then a section that  
13       follows that. And in that section there is a  
14       reference to cost. I'm sorry. In that section do  
15       you believe there's a reference to cost?

16              A.     If I could just read the sentence, I'm  
17       looking at provided that the FRR entity may at any  
18       time make a filing with FERC under Section 205 of the  
19       Federal Power Act proposing to change the basis for  
20       compensation to a method based on the FRR entities  
21       cost or other such basis shown to be just and  
22       reasonable.

23              Q.     Uh-huh.

24              A.     So that's where we've always thought that  
25       the cost-based thought was always on option.

1           Q.     But how do you get there? Do you only  
2 get there after it's demonstrated that there is no  
3 state compensation mechanism?

4                     If you read the sentence, it's in the  
5 middle of that paragraph, it says "In the absence of  
6 a state compensation mechanism," then it continues on  
7 to the sentence that you were referring to. So if  
8 there is no state compensation mechanism, would you  
9 agree that then you could do the things that you just  
10 referenced in your prior statement?

11           A.     Yes. And I don't know what to say on the  
12 if there's a state compensation mechanism already in  
13 place. I don't know if that's a legal interpretation  
14 or it's beyond -- it's beyond my expertise on that.

15                     COMMISSIONER PORTER: Well, this has been  
16 effective, thank you. That's all I have.

17                     EXAMINER SEE: Mr. Horton, if you could  
18 return the Bench's copy of Exhibit 103-B, you can be  
19 excused.

20                     THE WITNESS: Thank you.

21                     EXAMINER SEE: Thank you.

22                     Mr. Conway?

23                     MR. CONWAY: Thank you, your Honor. The  
24 company would move for the admission of Mr. Horton's  
25 direct testimony, Exhibit 103, as well as Exhibits

1 103-A, B, and C, which have previously been marked,  
2 PUCO staff document.

3 EXAMINER SEE: Are there any objections  
4 to the admission of AEP Exhibit 103, 103-A, 103-B,  
5 and 103-C?

6  
7 MR. DARR: Objection on the motion to  
8 strike, your Honor.

9 EXAMINER SEE: So noted. Then AEP  
10 Exhibit 103, 103-A, 103-B, and 103-C shall be  
11 admitted into the record.

12 (EXHIBITS ADMITTED INTO EVIDENCE.)

13 MR. KUTIK: Your Honor, at this time FES  
14 moves for the admission FES Exhibits 110-A through D  
15 and 111-A through D.

16 EXAMINER SEE: Are there any objections  
17 to the admission of FES Exhibit 110-A through D and  
18 111-A through D?

19 Hearing none, FES Exhibits 110 and all  
20 the subparts and 111 and all those subparts are  
21 admitted.

22 (EXHIBITS ADMITTED INTO EVIDENCE.)

23 MR. KUTIK: Just for the record there is  
24 no 110 or 111.

25 EXAMINER SEE: FES 110-A, 110-B, 110-C,

1 110D, 111-A, 111-B, 111-C, and 111-D are admitted  
2 into the record.

3 MR. KUTIK: Thank you.

4 EXAMINER SEE: Mr. Randazzo.

5 MR. RANDAZZO: We would move items 109  
6 and 110. 109 is the IMM, independent market monitor,  
7 IEU 110 is the PJM answer to the 206 complaint. And  
8 just to make sure, Commission has taken  
9 administrative notice of the open access transmission  
10 tariff, the full open access transmission tariff, and  
11 also the advisory opinion procedures.

12 EXAMINER SEE: We already did that  
13 earlier. And we did both of those.

14 MR. RANDAZZO: Just housekeeping, thank  
15 you.

16 EXAMINER SEE: Are there any objections  
17 to the admission of IEU Exhibit 109 and IEU  
18 Exhibit 110?

19 Hearing none IEU Exhibits 109 and 110 are  
20 admitted into the record.

21 (EXHIBITS ADMITTED INTO EVIDENCE.)

22 EXAMINER SEE: We'll reconvene tomorrow  
23 at 9 o'clock.

24 (Thereupon, the hearing was adjourned at  
25 7:22 p.m.)

CERTIFICATE

I do hereby certify that the foregoing is  
a true and correct transcript of the proceedings  
taken by me in this matter on Wednesday, April 18,  
2012, and carefully compared with my original  
stenographic notes.

\_\_\_\_\_  
Karen Sue Gibson, Registered  
Merit Reporter.

\_\_\_\_\_  
Julieanna Hennebert, Registered  
Merit Reporter.

(KSG-5512)

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**in**

**Case No(s). 10-2929-EL-UNC**

Summary: Transcript of Commission Review of the Capacity Charges of Ohio Power Company and Columbus Southern Power Company hearing held on 04/18/12 - Volume II electronically filed by Mrs. Jennifer Duffer on behalf of Armstrong & Okey, Inc. and Gibson, Karen Sue Mrs.