BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

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In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to §4928.143, Ohio Rev. Code, in the Form of an Electric Security Plan.	:	Case No. 11-346-EL-SSO Case No. 11-348-EL-SSO
In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Approval of Certain Accounting Authority.	:	Case No. 11-349-EL-AAM Case No. 11-350-EL-AAM

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PROCEEDINGS

before Ms. Greta See and Mr. Jonathan Tauber, 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, June 6, 2012.

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VOLUME XIV

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INDEX

- - -

INDEX (Continued)

- - -

INDEX (Continued)

- - -

- - -

Wednesday Morning Session,
June 6, 2012.

- - -

EXAMINER SEE: Let's go on the record. As we have done, I'd like brief appearances of the parties, starting with the company and going around the table.

MR. NOURSE: Thank you, your Honor. On behalf of Ohio Power Company, Steven T. Nourse, Matthew J. Satterwhite, Yazen Alami, Daniel R. Conway, and Christen M. Moore.

MR. SERIO: Thank you, your Honor. On behalf of the residential utility customers of AEP, Bruce J. Weston, by Maureen Grady, Joe Serio, and Terry Etter.

MR. LANG: Your Honors, on behalf of FirstEnergy Solutions, Mark Hayden and Jim Lang.

MR. HART: Your Honors, Randy Hart on behalf of Summit Ethanol and Fostoria Ethanol.

MR. OLIKER: Good morning, your Honors. On behalf of IEU-Ohio, Sam Randazzo, Frank Darr, Matt Pritchard, and Joe Oliker.

MS. KINGERY: Good morning, your Honors. On behalf of Duke Energy Retail Sales and Duke Energy Commercial Asset Management, Amy Spiller, Jeanne

Kingery, and Philip Sineneng.

MS. KYLER: Good morning, your Honors. On behalf of the Ohio Energy Group, Michael Kurtz, Kurt Boehm, and Jody Kyler.

MR. STINSON: Good morning. On behalf of the Ohio Schools, Dane Stinson.

MR. CAMPBELL: Good morning. On behalf of Interstate Gas Supply, Andrew Campbell.

MS. KAELBER: Your Honor, on behalf of the Ohio Restaurant Association, Diem Kaelber.

EXAMINER SEE: Have you previously entered an appearance?

MS. KAELBER: Yes, your Honor.

MR. BARNOWSKI: Good morning, your Honor. On behalf of Ormet Primary Aluminum Corporation, Dan Barnowski, Emma Hand, Tom Millar, and James Rubin.

MS. KALEPS-CLARK: Good morning, your Honors. On behalf of the Exelon/Constellation companies, Lija Kaleps-Clark, M. Howard Petricoff, and David Stahl.

And on behalf of the Retail Energy Supply Association and Direct Energy, Lija Kaleps-Clark, M. Howard Petricoff, and Steve Howard.

MR. BEELER: Steven Beeler, Werner Margard, Assistant Attorneys General, on behalf of the staff of the commission.

MS. McALISTER: Good morning, your Honors. On behalf of the OMA Energy Group, Lisa McAlister, and J. Thomas Siwo.

EXAMINER SEE: Ms. Hand, Mr. Barnowski.

MR. BARNOWSKI: Thank you, your Honor. Ormet calls James Burns Riley to the stand.

EXAMINER SEE: Mr. Riley, if you'd raise your right hand.

(Witness sworn.)

EXAMINER SEE: Thank you. Have a seat.

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JAMES BURNS RILEY

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

DIRECT EXAMINATION

By Mr. Barnowski:

Q. Good morning, Mr. Riley. Could you state your full name for the record.

A. Yes. My name is James Burns Riley, R-i-l-e-y.

MR. BARNOWSKI: Is his microphone on?

Thank you, your Honor.

Q. Who do you work for, Mr. Riley?

A. I work for Ormet Corporation.

MR. BARNOWSKI: May we approach, your Honor?
EXAMINER SEE: Yes.
(EXHIBIT MARKED FOR IDENTIFICATION.)
Q. Mr. Riley, I've handed you what we have marked as Ormet Exhibit 104. Was this testimony prepared by you or at your direction for filing in this matter?
A. Yes, it was.
Q. Do you have any changes or corrections to it?
A. Yes, sir, please. On page 10, line item 12. It currently reads, starting in the prior line 11, "In fact, the actual delivered rate that Ormet now anticipates paying for 2012." Strike after that "of 39.65 per MWh" and put "before any impact of the new ESP II," and then continue, "is virtually identical."
Q. So the rest of the sentence remains the same?
A. Yes, sir.
MR. SERIO: Could we get that repeated, please?
Q. Sure. Why don't I read the sentence into the record as it's now changed and, Mr. Riley, you

tell me if I've read it correctly. "In fact, the actual delivered rate that Ormet now anticipates paying for 2012, before any impact of the new ESP II, is virtually identical to the delivered cost of the GS-4 tariff rate of 39.78 per megawatt-hour otherwise applicable to Ormet in 2009 when the Unique Arrangement was implemented." Is that accurate, Mr. Riley?

A. That is correct.

Q. With that change, is the testimony contained in Exhibit 104 true and correct?

A. That is correct.

Q. If I asked you the same questions today, would you provide the same answers?

A. Yes.

MR. BARNOWSKI: At this time, your Honors, I'd move the admission of Ormet Exhibit 104, subject to cross-examination.

EXAMINER SEE: Ms. Kaleps-Clark?

MS. KALEPS-CLARK: No questions, your Honor. Thank you, your Honor.

MS. KAELBER: No questions, your Honor.

EXAMINER SEE: I'm sorry. Tell me your name again.

MS. KAELBER: Diem Kaelber, your Honor.

EXAMINER SEE: Ms. Kaelber. Thank you.
Ms. McAlister?
MS. McALISTER: No. Thank you, your Honor.
EXAMINER SEE: Mr. Stinson?
MR. STINSON: No questions, your Honor.
EXAMINER SEE: Ms. Kyler?
MS. KYLER: No questions, your Honor.
EXAMINER SEE: Ms. Kingery?
MS. KINGERY: No questions, your Honor.
EXAMINER SEE: Mr. Oliker?
MR. OLIKER: No questions, your Honor.
EXAMINER SEE: Mr. Lang?
MR. LANG: No questions, your Honor.
EXAMINER SEE: Mr. Serio?
MR. SERIO: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Serio:
Q. Good morning, Mr. Burns.
MR. BARNOWSKI: "Mr. Riley."
Q. You said in your testimony that you're the Chief Financial Officer for Ormet Corporation. That's the parent company, correct?
A. That is correct.

Q. And you're also the CFO for Ormet Primary Aluminum Corporation, correct?

A. That is also correct.

Q. Now, do your responsibilities as CFO include all financial functions?

A. Yes.

Q. And when you refer to "Ormet Primary Aluminum," does that refer to both the smelting facility in Ohio and the alumina refinery located in Louisiana?

A. Yes. They're both divisions of Ormet Primary Aluminum Corp.

Q. And Ormet Primary Aluminum is one of a number of -- a number of wholly-owned subsidiaries of Ormet Corporation, correct?

A. It is the only active subsidiary.

Q. And as the Chief Financial Officer, you're familiar with the different financial documents that Ormet produces, correct?

A. Yes.

Q. Are you familiar with the Rule 15c2-11 information and disclosure statement for the three months ended March 31st, 2012?

A. Yes.

Q. Now, you indicate in your testimony that you report to Michael Tanchuck?

A. That is correct.

Q. And that's the same Michael Tanchuck that's listed in the Rule 15c2 document, correct?

A. He is the CEO, yes.

Q. Now, as I understand it, the Ohio smelter produces aluminum sow and is able to produce aluminum billet products, correct?

A. It produces sow and has the capability of producing billets. It is not producing them currently.

Q. And the Ohio smelter is capable of producing about 270,000 tons of aluminum per year, correct?

A. Approximately, yes.

Q. Now, the Louisiana refinery produces alumina, correct?

A. That is correct.

Q. Now, in your testimony at page 3, you indicate the state of "Economic viability to an aluminum smelter is determined by the relationship between the retail market price of the aluminum smelter's product, aluminum, and its costs, of which electricity is the largest component." Now, when you make that statement, are you referring to the

Hannibal operations?

A. That is correct.

Q. And you are familiar with the special arrangements contract that Ormet has with AEP, correct?

A. Substantially.

Q. Now, on page 3 of your testimony, the upper half of the page, you indicate that electricity is over 30 percent of the production cost; is that correct?

A. That's correct.

Q. And then it says later on that if Ormet had not received a credit from the unique arrangement, the electricity costs would have been 37 percent.

A. Yes.

Q. So the unique arrangement allows you to reduce your costs approximately 7 percent.

A. Mathematically, it's slightly different, because the 37 is on the basis if we paid the full tariff rate, so percentagewise it's slightly different, but substantially.

Q. What would the percentage be so that I can --

A. The actual reduction? I'm sorry, I don't have the numbers in front of me, but you're taking it now from a higher number.

Q. Okay. So it would be something less than 7 percent.

A. Correct.

Q. Now, the other components for Ormet's primary costs of smelting are carbon anodes, labor, and alumina, correct?

A. Those are the major ones, yes.

Q. Now, is the alumina currently used at the Ohio smelter produced at the Louisiana facility?

A. In 2012 it started to, yes.

Q. And is that the plan going forward?

A. That is correct.

Q. As I understand it, the Ormet smelter in Ohio currently has all six potlines operating today, correct?

A. That is correct.

Q. And those were fully operational as of February 2011, correct?

A. That's correct.

Q. Prior to that, only four were operational?

A. It had been -- we started up in late-2006, pushed all the way to seven -- or, six lines, had to pull back in 2009, stayed that way in '10 and in the end of '11, we brought it back up.

Q. Now, in your testimony at page 8, you indicate that the improved market conditions during the fourth quarter of 2010 resulted in your restart of the two lines. Is that what you referred to when you mean that this was "a huge success to date," that you were able to restart the two lines?

A. Please refer to the line number. I'm sorry.

Q. Sure. On page 8.

A. Right.

Q. Lines 19 and 20. You talk about the "...Unique Arrangement has been a huge success to date...." And is that because you were able to restart the two lines?

A. It applied more to the issue of, as we brought down, we were able to run at lower levels and still be functioning to employ approximately 800 people at that time.

So the unique arrangement allowed for the pulldown due to the economic conditions and the availability of alumina for us to pull back and still be operational and then provide the opportunities. The market turned around to restart the last two lines.

Q. So the success was the fact that you were able to continue production.

A. Basically, yes.

Q. Now, in your testimony you indicate that the selling price of aluminum is largely outside your control because it's set by the London Metals Exchange, the LME, correct?

A. That is correct.

Q. And you indicated that Ormet's ability to compete globally is "determined by its cash cost of production," correct?

A. Yes.

Q. Can you define for me what you mean by "cash cost of production"?

A. The total cash required to operate the company, basically. Divided by the number of tons you can produce.

Q. So the cost of electricity would be one of the total cash requirements?

A. It's the largest single item, yes.

Q. Now, when you talk about Ormet's ability to compete, are you talking about that in terms of Ormet Primary or Ormet Corporation or Ormet smelter?

A. We do not sell alumina; we sell aluminum.

So it's primarily the cost of running the smelter to sell aluminum into the marketplace.

Q. Now, the unique arrangement that Ormet has with AEP, is that with Ormet Primary or is that with Ormet Corporation, the parent company?

A. I believe it's with Primary Aluminum.

Q. And as part of the unique arrangement, Ormet pays a premium if the annual London Metals Exchange price exceeds a target price, correct?

A. That is correct.

Q. And the premium, then, would be above the AEP GS-4 tariff rate?

A. That is also correct.

Q. Now, since 2009, has Ormet paid a premium above the AEP GS-4 tariff rate?

A. No, it has not.

Q. The special arrangement runs through 2018, correct?

A. Yes.

Q. And as I understand it, the maximum discount available in 2010 was $60 million, correct?

A. That's correct.

Q. And that's the same figure for 2011?

A. Yes.

Q. Then it dropped to 54 million in 2012.

A. Yes.

Q. Then I thought it said it drops 10 million per year, so would that be 44 million in 2013?

A. Yes.

Q. 34 million in 2014?

A. Yes.

Q. 24 million in 2015, 14 million in 2016, 2017 it goes down to 4 million?

A. Yes.

Q. And then, in 2018, does it go to zero or does it stay at 4?

A. No; it's done.

Q. Now, on your testimony, page 9, lines 11 through 13, you say for each dollar increase from this case to the GS-4 tariff rates, Ormet rates will increase a dollar, correct?

A. Yes; predicated on the fact that if the LME stays at the current levels and we were receiving the full 54 million this year.

Q. So, under your assumption, your actual cost would increase a dollar.

A. That is correct.

Q. On page 6 of your testimony, line 12, you talk about an anticipation in the increase in the price of aluminum over the long term.

A. Yes.

Q. What would you define "the long term" to be?

A. I had hoped it was going to be this year. Unfortunately, what appears to be some of the economic woes that are going on in the banking system in Europe have a direct impact on the London Metals Exchange and the commodity prices.

We had originally anticipated or thought we would be in a position today where the price on the LME would have been $3,100 or more, which would have been consistent with the run on the copper commodities, even though it's been depressed, we're still not at equilibrium with them, and, unfortunately, that has not been the case.

Q. So how much of an increase would that have been over what you had -- what the price had been at the time that you made that projection?

A. It would have been about $400, so, percentagewise, 400 over, like, 2,700.

Q. Okay. Now, when the company negotiated the special arrangement contract with AEP, were you aware at the time that there were other customers in Ohio that were able to shop for electricity?

A. I do not recall.
Q. Ormet was represented by counsel during your negotiations with AEP, correct?
A. Counsel represented us in the discussions with achieving the approval from the Public Utility Commission, but the primary negotiations with AEP were done by the company.
Q. And that was the company's subject-matter experts that were involved in those negotiations?
A. Yes.
Q. Now, in the arrangement, the special contract, did Ormet specifically reserve the right to shop for electric service?
A. We gave that right up.
Q. Now, it is your understanding that the discount that the company gets, AEP's able to recover that entirely from other customers, correct?
A. It is my understanding now that not all of it, but a portion of it.
Q. Is that because of the provider of last resort, the POLR charge?
A. That's correct.
Q. Now, Ormet is not currently paying into the POLR charge, correct?
A. Well, given the GS-4 rate, I think,

includes the POLR charge, effectively it's there.

Q. Do you know what magnitude of the POLR charge is included in the --

A. I do not.

Q. -- GS-4?

A. I do not.

Q. Do you know whether the Commission eliminated the POLR charge in the GS-4 tariff?

A. No, I don't know.

Q. Now, page 12 of your testimony, you indicate that even with the unique arrangement, "Ormet is still in danger." "Danger" of what, and are you referring to Ormet Corporation or Ormet Primary?

A. I'll answer the second question, first.

Q. Sure.

A. Ormet Primary and Ormet Corp., there is really nothing else other than the primary aluminum.

And as it relates to danger, it is the -- right now it's the difference of the cost and price. As the costs continue to rise and the price hasn't, it's putting severe pressure on margins.

Q. Now, I believe that you've estimated the impact from the AEP proposal would increase electric rates to Ormet by $7.3 million annually, correct?

MR. BARNOWSKI: Object to form. I'd ask that you point the witness to the section of the testimony because that misrepresents the record.

MR. SERIO: Can I approach, your Honor?

EXAMINER SEE: Yes, Mr. Serio.

MR. SERIO: I'm not going to use this as an exhibit, but simply to refresh his recollection.

Q. The document that I just handed you, that is the Rule 15c2-11 Information and Disclosure Statement that we discussed previously, correct?

A. It appears to be, yes.

Q. And if you go to page 34 of that document, that is your signature, correct?

A. That's correct.

Q. Okay. Could you go to page 7 of that document. At the top of the page, about the sixth line down, it indicates: "A current estimate of the AEP proposal would increased electric rates to Ormet by 7.3 million annually." Do you see that?

MR. BARNOWSKI: Your Honor, I object to this question. It is misstating the record. If he reads just the previous sentence, it's a reference to the September 7th, 2011, stipulation, not the present application.

EXAMINER SEE: Mr. Barnowski, you can

take these issues up on redirect, but if you want to indicate that you object, that's fine.

A. The answer is that was relating to the one that was taken out.

Q. And then a little bit below that you indicate the estimated impact of AEP's fuel recovery proposal was a rate increase of approximately 10.3 million per year, correct?

A. That was our knowledge at that point.

Q. Have you done a similar calculation for the current proceeding?

A. Nothing that I would assume that was to a level of detail.

Q. So you don't know if the current proceeding would result in an increase larger than or smaller than the numbers that you've indicated here.

A. I look at the total cost of electricity, which includes a number of elements, including fuel costs, et cetera. I have not focused on the specific piece of this. Total cost of electricity into my plant.

Q. Now, do you know, when you made this calculation, did that include -- was that based on the company's proposal to delay implementation of the PIRR?

A. I don't believe so.
Q. Could you look at page 7, again, of the Rule 15c document?
A. Yes.
Q. The fourth line down says, "The amended ESP filed by AEP on September 7th, 2011, was ultimately rejected by the PUCO, and AEP filed another amended ESP proposal on March 30th, 2012." That would be the current proceeding, correct?
A. That's -- yes, I believe that.
Q. So then the next sentence where it says, "A current estimate of the AEP proposal would increase electric rates to Ormet by 7.3 million," that's based on the current proceeding, then, is it not?
A. I believe that was the original. I don't have the numbers in front of me.
Q. I'm sorry?
A. I don't have the numbers in front of me.
Q. Now, you restarted the Louisiana refinery bringing it back on line in November 2011, correct?
A. We started producing November.
Q. And that -- when you started production, that involved hiring 250 employees back, correct?
A. Yes.

Q. And that also included equipment refurbishing?

A. Yes.

Q. Now, in conjunction with the facility restart, did the company receive state-sponsored assistance in the form of training funding and tax relief from the state of Louisiana?

A. Yes, it did.

Q. Do you know how much it received from Louisiana?

A. Some of the things go out over a long period of time. Over 10 years, I believe the total package was north of 10 million, but I don't remember the exact number.

Q. If you look at page 2 of the Rule 15c2-11 document, the middle paragraph there, below "Financing and Restart of the Alumina" facility --

A. Right.

Q. -- that would include the terms and the dollar amounts, correct?

MR. BARNOWSKI: Your Honor, I object to counsel reading into the record a hearsay document that has not been admitted.

I also object to this entire line of questioning as substantially more prejudicial than probative. I don't see how assistance in Louisiana is relevant to the rates being charged by AEP in this proceeding.

EXAMINER SEE: Would you like to respond, Mr. Serio?

MR. SERIO: Yes, ma'am. First of all, it's not hearsay because he admitted that it's his signature on the document. He's the Chief Financial Officer and this involves financial discussions with the company.

Secondly, throughout the proceeding, Ormet has indicated that they're going to be financially harmed by this arrangement and that they're prejudiced because they can't shop.

I'm exploring items that address both of those facts and, on brief, I can tie them together and point out that perhaps Ormet's financial position isn't as grave as they're indicating. And also, to the extent that Ormet isn't shopping, it's because they gave up the right, not because the right was not offered to them in the first place.

EXAMINER SEE: The objection is overruled.

Proceed.

MR. SERIO: Thank you, your Honor.

Q. My question had been, in that paragraph below "Financing and Restart," that would talk about the Louisiana -- the assistance offered by the state of Louisiana, correct?

A. One component of it, actually.

Q. So the 1.5 million in economic development loan was only part of the 10 million that --

A. Correct.

Q. -- you've referenced previously.

A. Correct.

Q. Thank you.

Now, did the company receive any state-sponsored assistance from the state of Ohio related to the restart of the Hannibal smelter, the extra lines in the Hannibal smelter?

A. No. We received some training moneys up front. I don't know if any were involved in bringing on new employees on the restart or not.

Q. Do you know the magnitude of those training dollars?

A. I do not.

Q. Has the Louisiana refinery reached its full capacity yet, if you know?

A. Very close.

Q. Now, the objective with the Louisiana refinery is to moderate the risk associated with anode costs, correct?

A. No. With the risk associated with alumina costs.

Q. Alumina costs.

Now, in June 2011, the company reached a five-year agreement with the United Steel Workers, correct?

A. Yes.

Q. And those are workers at the Burnside, Louisiana, refinery, correct?

A. The one in June was the Hannibal plant.

Q. Hannibal?

A. I may be incorrect. We did both agreements last year. The first one we did was with the Burnside plant associated with the restart, and the second was Hannibal, and I may be off on dates.

Q. Okay.

A. But I thought June was Hannibal.

Q. Okay. Thank you.

Now, on page 10 of your testimony, line 7, you indicate: "The actual rate by Ormet has increased at an even faster rate due to the 2010 restart of the two potlines that had been idled and the phasing out of the discount." Can you break down the amount of the increase between the costs relating to the restart of the two potlines and how much was related to the phasing out of the discount?

A. The answer is yes, it's capable. I do not have the numbers in front of me.

Q. To the extent that the phasing out of the discount is involved, that would simply be the reduction -- scratch that.

In 2010, the discount was at 60 million, correct?

A. Yes.

Q. And it's also 60 million in 2011?

A. Yes.

Q. So when you talk about "phasing out," that would be longer term?

A. The current one has 54 million, so the phasing out is going from 60 to 54.

Q. So 6 million of whatever --

A. Yes. Yes.

Q. Now, did Ormet recently enter into an agreement with another company to explore joint investments in bauxite, alumina, and aluminum?

A. Yes, it did.

Q. And was that Ormet Corporation or Ormet

Primary?

A. Ormet Corporation.

Q. And the other company would be, I don't know if I'm going to say this right, "Trafigura"?

A. Trafigura.

Q. Trafigura.

A. T-r-a-f-i-g-u-r-a.

Q. Now, am I correct that the company has either new or existing sales arrangements to presell approximately 97 percent of the company's six potline production for 2012?

A. They have commitments to take quantities, yes.

Q. And those are firm sales contracts?

A. At a then-in-effect price. So the quantities are known, the pricing is not.

Q. And the pricing is based on the London Metals Exchange price?

A. Correct.

Q. And then those agreements include about 82 percent of the production for years 2013 through March of 2015, correct?

A. That's correct.

Q. And in March 2011, the company executed a term sheet with a Chinese partner relating to possibly forming a joint venture carbon anode production company in China, correct?

A. Yes, we had.

Q. And the goal there would be to produce the anode requirements for the Hannibal smelter, correct?

MR. BARNOWSKI: Objection, your Honor. I've given him a little leeway, but I think we're getting far afield here. This is not relevant. We can go through every item of Ormet's business, it doesn't change the fact of Ormet's financial position, and I think we're going far afield of the AEP application here.

MR. SERIO: Your Honor, again, this is part of the information that's included in the 15c2-11 document. And since he's the financial officer who signs the document, I think I'm entitled to ask a few questions about it.

MR. BARNOWSKI: Your Honor, may I respond?

EXAMINER SEE: No need.

Overruled.

A. Ask your question again.

Q. Sure. The purpose of that joint venture would be to try to control the anode requirement for the Hannibal smelter, correct, to mitigate the risk?

A. To reduce the price, yes.

Q. That way if there were declines in the London Metals Exchange price, you'd be better able to deal with it.

A. No; it was dealing with the issue that these are -- most of the anodes we can get are out of China, and the Chinese prices have been somewhat volatile, and the objective of this was to minimize any volatility in the price by having a portion of the action.

Q. Okay. Now, at page 9 of your testimony, at the top of the page, where you talk about cost of electricity perhaps overwhelming the benefits from the unique arrangement; it's true that if that were to occur, that would be in the later years of the arrangement when the discount decreases significantly, correct?

A. Not necessarily.

Q. It's completely based on the London Metals Exchange price, then.

A. No. It's based on what are the costs. We're getting a reduction to whatever the GS-4 rate on a delivered basis is. If the costs rise, as we said, right now we're paying approximately the same with the discount as what it was three years ago.

Q. Page 10 of your testimony, you talk about the delivered GS-4 tariff rate for Ormet having risen. Do you know what the tariff rate was when the special arrangement was approved by the PUCO?

A. It was in the thirties somewhere.

Q. You talk about the actual cost of delivered electricity.

A. Yes.

Q. How does that differ from the average cost of electricity consumed, or is it one and the same?

A. One and the same.

Q. If you could look at page 6 of Rule 15c2-11, the document --

A. Yes.

Q. -- the fourth full paragraph, the last sentence talks about an average cost of electricity of 39.69 and a cash cost of 32.85. Can you explain to me what the difference between the average cost consumed and the cash cost would be?

A. Under the unique arrangement, the credit allowed is a max of 12-1/2 percent of the annual amount. So, currently, in the first few months, it was $6,750,000. But I'm consuming it based on that would be spread out over all of the units consumed over the entire year.

Q. So the difference is the special arrangement credit between those two figures.

A. It's the accounting impact versus the cash.

Q. Okay. Now, page 12 of your testimony, you talk about objecting to costs that you're neither the cause of nor the beneficiary of.

A. Yes.

Q. Those are two separate items, whether you caused it or whether you benefit from it. Which is more important to you, that you didn't cause it or that you don't benefit from it?

A. I said I focus on the total cost of electricity. This is something that we are incurring that, in fact, we did not cause.

Q. If there were other customers that didn't benefit or didn't cause a cost, should they have to pay for it?

A. That would be subjective on my part. I'm looking at it from Ormet's perspective.

Q. So the standard that you're applying there, you're saying just from Ormet's perspective, you're not saying that standard should apply to other customers that are similarly situated.

A. When I provided this testimony, it was from Ormet's perspective.

Q. If you're forced to curtail operations, what happens to the unique arrangements contract?

A. It's still in place.

Q. Would it just go on hiatus?

A. It depends on the level of curtailment.

Q. If you were forced to curtail all operations, what would happen to it?

A. I've not analyzed that.

MR. SERIO: That's all I have. Thank you, Mr. Burns.

MR. BARNOWSKI: "Mr. Riley," for the record.

EXAMINER SEE: I'm sorry?

MR. BARNOWSKI: "Mr. Riley," not "Mr. Burns," for the record.

MR. SERIO: I'm sorry. Mr. Riley. I apologize.

EXAMINER SEE: Mr. Conway? Mr. Nourse? Okay. Who for the company is conducting cross?

MR. NOURSE: I'm sorry. We were trying to give him the mic. It's Mr. Satterwhite.

MR. SATTERWHITE: I am, your Honor.

EXAMINER SEE: Thank you.
Mr. Satterwhite.
MR. SATTERWHITE: Thank you, your Honor.

- - -

CROSS-EXAMINATION

By Mr. Satterwhite:
Q. Good morning, Mr. Riley. How are you doing?
A. Fine.
Q. My name is Matt Satterwhite. I'm counsel for Ohio Power, and I'm going to ask you a couple questions this morning. Nice to meet you.
A. Certainly.
Q. Following up on one point that Mr. Serio was touching on, it dealt with the financial impact in the disclosure statement that he put in front of you, and there was a discussion about the $7.3 million being the impact on Ormet annually. Do you remember that conversation?
A. Yes.
Q. And he read you the line of that document that referred to the previous stipulation, and then the document also described the current modified ESP that we're in now; is that correct?
A. Yes.

Q. And the statement that talks about the "$7.3 million annually," that follows up the sentence that talks about the new modified ESP being filed, correct?

A. It's part of the grammatical sentence. I thought the 7.3, in my recall, was in fact associated with the first one.

Q. But it's its own sentence, isn't it? The "$7.3 million" is a new sentence after the description of a new filing?

A. But it's following up on that.

Q. And the sentence after that indicates the company intends to challenge the proposal; is that correct?

A. Yes.

Q. And the document is a document from May 21st, 2012, correct?

A. Correct.

Q. So is this a historical look back of the events of the multiple layers of the ESP hearing that we've had?

A. It's a combination thereof, yes.

Q. But it's still your testimony that even though it's a May 21st, 2012, document that describes the rejection of the prior stipulation and the filing of a new stipulation, that the $7.3 million is still associated with the now rejected stipulation, is that --

A. That is my recollection.

Q. Okay. Well, if you'll look at the document, is that still, after looking at the document, your position?

A. That's my recollection, that the 7.3 referred to the first.

Q. What all did you review to prepare for the writing of your testimony in this case?

A. The unique arrangement and various calculations that I'd been given as to what the impact was going back originally on the ESP case, and what the charges were that I'm paying first quarter in bills.

Q. And I guess it's not too far of an assumption to say that the issues of electricity, I believe you stated earlier, are something that you deal with on a regular basis for purposes of Ormet, correct?

A. The total cost of electricity is a matter of discussion, yes.

Q. And I believe, with Mr. Serio, you talked about electricity being the principal cost for production.

A. The highest one.

Q. And you mentioned smelting, labor, and alumina as the other major drivers; is that correct?

A. The three major elements are -- electricity is the greatest. The two major elements are alumina and carbon, and then about half that amount for labor.

Q. So can you put percentages on each of those as well?

A. It's 30 percent currently on electricity, it will be somewhere in the high 20s on both carbon and alumina, and it's in the teens, mid-teens on the labor.

Q. And when you indicate "labor," does that include salary plus benefits? Is that the cost?

A. Salary and hourly with benefits.

Q. Thank you.

Now, on page 4 of your testimony, I believe on line 6 -- this is someone else's testimony. Let me get to yours.

You talk about "the Mid West Premium which represents a premium for aluminum sourced in our region."

A. Yes.

Q. Can you explain that, please?

A. The LME sets the base price for aluminum everywhere except for China, literally, in the world. And then there are local adjustments such as the Mid West Premium which is running contrary to what's happening in the aluminum prices; it's now at a higher level. And it is a price paid -- it's quoted usually on a cents-per-pound basis -- and it is at the time of shipment.

Q. Just so I understand it, does that mean that your aluminum is finer than other aluminums so it's a higher price?

A. No; it's the same. It's just geographical location.

Q. But are you receiving more for aluminum that comes out of the Hannibal facility than somewhere else; is that what this means?

A. More or less, it's really a freight equalization; it comes off of that number. So, in other words, everybody that's shipping into this area is getting the Mid West Premium, and let's say it's 10 cents a pound. Our price versus our competitor's price who is located in Kentucky will depend on the end point. It's a freight-equalization equivalent built into that.

Q. So how big is the region that gets this premium, then?

A. I know it's everybody I'm competing with in the area, because our product normally doesn't move much further than basically a day's truckload.

Q. And where is all your competition?

A. A lot of it's here, but the United States is a net importer, with a lot of it coming from Canada. So it's not -- it's not really the same competition because of the way the price is set. I mean, even the Mid West Premium is basically the same for everybody with the exception of freight equalization.

So if Century in Hawesville, Kentucky, is competing in the same area, their discount to the same 10-cent Mid West Premium would be greater or smaller depending on how close they are.

Q. So the premium -- in this answer you're discussing how the retail price is determined -- the premium helps you compete against Canadian, out of -- further-distance-away competitors, correct?

A. Well, basically we -- like everybody else, to the extent that the Mid West Premium comes to base, it's never a premium for that base; it's a discount of base if you have less freight.

Q. Do you know what the return on equity was for the company in 2011?

MR. BARNOWSKI: Object to form. I think it's irrelevant. I also am not sure this witness is going to understand what you mean by "return on equity."

MR. SATTERWHITE: If I may, your Honor?

EXAMINER SEE: Yes.

MR. SATTERWHITE: I think this is the Chief Financial Officer for the company. If he doesn't, then -- and he says that, I think that's another interesting answer, but I'd like to see if he could answer the question and move from there.

THE WITNESS: Return on equity --

MR. BARNOWSKI: I'm sorry. Mr. Riley, hold on. The Bench is entitled to rule on the objection. There is an irrelevance objection, too.

EXAMINER SEE: There is an objection outstanding; however, it appears that the witness can answer the question, so it's overruled.

MR. SATTERWHITE: Thank you.

EXAMINER SEE: Proceed, Mr. Riley.

A. One would determine that number, from my perspective, by taking the net income and dividing it by the stockholders' equity. And since -- and net income, I would subtract out one-time events in making that determination, so we would be seeing somewhere, after you backed out all of the costs, of a de minimis return, unfortunately.

Q. Isn't the traditional equation for return on equity the net income, after tax, divided by the shareholder equity?

A. Not when you have a unique situation such as we had with a tax reversal and putting an asset on our balance sheet.

Q. Right. I --

A. It would be misleading.

Q. I understand you can make differentiations in explanations for the return on equity and try to distinguish it, but -- let me try it this way: If you could take a look at page 38 of the disclosure document, it might help refresh your recollection. Some of the numbers for 2011. It's in Exhibit A.

A. I'm sorry. You're talking about the 15c document?

Q. Correct.

A. Yes. Go ahead.

MR. SATTERWHITE: Your Honor, why don't I go ahead and mark the document to make it easier for people to review.

EXAMINER SEE: Do you have copies, Mr. Satterwhite?

MR. SATTERWHITE: Yes. I believe I'm at AEP 144.

EXAMINER SEE: Yes.

MR. SATTERWHITE: May I approach?

EXAMINER SEE: Yes.

(Discussion off the record.)

EXAMINER SEE: Mr. Satterwhite, I'm going to need you to retrace your steps to the marking of this exhibit.

MR. SATTERWHITE: No problem.

Your Honor, I'd like to mark as AEP Exhibit 144 the Rule 15c2-11 Information and Disclosure Statement for the three months ended March 31st, 2012, for Ormet Corporation.

EXAMINER SEE: The exhibit is so marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

MR. SATTERWHITE: May I approach and provide it to the witness and counsel?

EXAMINER SEE: According to the record, you have already approached, Mr. Satterwhite.

MR. SATTERWHITE: Okay.

Q. (By Mr. Satterwhite) Mr. Riley, do you have in front of you what I have marked as AEP Exhibit 144?

A. Yes, I do.

Q. And is this the document that you identified with Mr. Serio earlier that has your signature?

A. I believe it is, yes.

Q. All right. And that signature certifies the authenticity of the numbers and information in the document, correct?

A. To the best of our ability, yes.

Q. I'd like to draw your attention to page 38, Exhibit A.

A. Yes.

Q. And is it true, if I'm trying to figure the unadjusted return on equity for the company, looking at this document, I could take the net income, found in the second line, which is 137,637, and divide that by the total equity summed up in line 6 that is 26,126?

A. If you could -- you were trying to make a mathematical calculation. Yes, the answer is you can make a mathematical calculation.

Q. Would you accept, subject to check, or I have a calculator here if that helps you, that if you do that mathematical equation, which is the net income divided by the shareholder equity on this page, that you would get a return on equity of 527 percent?

A. I assume you were working your mathematics, correct.

Q. Okay. And, beyond the mathematics, that would be the representation of the unadjusted return on equity, correct?

A. I think the SEC would take great exception to that.

Q. I'm just trying to look at the face of these numbers here and, based on those numbers, that would be correct?

A. I said "mathematically." I assume you're correct in your calculation.

Q. But those are the numbers that you would use for the return on equity unadjusted, without the caveats that you put in, correct?

A. I would never represent it that way, no.

Q. So that is not the net income after tax, the 137,637?

A. Per accounting GAAP, yes.

Q. Okay. And the equity is not the 26,126 represented there?

A. According to GAAP, it is.

Q. Thank you.

Now, turning to page 3 of this document, up front, it appears the company has recently sold some assets, correct?

A. Yes. We sold assets to fund the restart of the refinery.

Q. Was any of that used to reduce long-term debt?

A. No. We actually, in addition to selling the refinery -- or the terminal at the refinery, we incurred additional long-term debt on the restart.

Q. I'll try not to be redundant with what Mr. Serio talked about, but he also asked you some questions on page 4, dealing with recent contracts that the company entered into that represented 97 percent of the output for 2012, and 82 percent of the six potline production for years 2013 through 2015. Do you remember that conversation?

A. Yes. Those are commitments to purchase aluminum sows.

Q. And one of those agreements was executed on November 25th, 2011, correct?

A. I believe so.

Q. At that time you were aware of the ESP proceeding, as you've already testified today in your historical update in this section, that there was a matter open in front of the Commission dealing with pricing?

A. Yes.

Q. Now, these contracts necessitate the running of all six potlines at the Hannibal facility to fill the order, correct?

A. To make that amount, yes. But they have reductions on them, all those contracts. If we reduce operations, they proportionately go down.

Q. But the goal of, I think, of everyone in the room, is that you would be able to run full --

A. That's correct.

Q. -- and be able to provide those contracts.

A. That is our information, yes.

Q. We hope so too.

And I believe you talked about this with Mr. Serio, but, back on page 2, you discuss the restart of the company's alumina refinery.

A. Yes.

Q. Located in Louisiana.

A. Yes.

Q. And just so the record's clear for we simple attorneys and others, you use alumina to then make the aluminum, correct?

A. That is correct.

Q. And it states that you did a study to determine restarting the facility in Louisiana; is that correct?

A. We did. I don't remember saying it here, but it probably does.

Q. And what were the parameters of that study?

A. It was based on the forecasted cost of purchasing alumina versus what we could produce it for. With the precipitous drop in the price of natural gas which changed, there was a sea change in the economics of running our own refinery or restarting the refinery. And then with estimates of what were the costs associated with restarting the refinery and maintenance and capital to bring it back to capacity.

Q. And that took a long-term view, correct? It wouldn't be a year view.

A. No, it was not.

Q. -- that decision.

And, previously, you had been buying the alumina on the spot market, correct?

A. Both on contract and on spot.

Q. And I believe you stated to Mr. Serio that you restarting the refinery, sort of allows you to control the fixed costs going forward, rather than rely on the market, correct?

A. We felt it would take out, because the prices were rising in alumina significantly, that with the price of natural gas as anticipated in the longer-term curve, that it was economically a viable option.

Q. So is it your testimony that you can now provide it to yourself below what the spot market price would be?

A. On a longer-term basis, absolutely.

Q. And you stated to Mr. Serio that you do not sell alumina, you just sell aluminum, correct?

A. Currently, yes.

Q. That's my next question. Is there anything barring you from selling the alumina?

A. No.

Q. Let's go back to your testimony on page 3. On the top of that page, lines 1 and 2, you talk about the number of jobs at the Hannibal facility in Ohio.

A. Yes.

Q. You refer to "1,050 high-paying jobs" in the area, correct?
A. Yes.
Q. Do you know what the breakdown is of those jobs as far as hourly workers, salary workers, and corporate workers?
A. There's approximately 850 hourly employees, about 150 salaried in the plant, and a little over 50 in the corporate.
Q. And when you refer to "high-paying jobs," are you using that to modify all 1,050 jobs?
A. Yes.
Q. Including the hourly wages?
A. Yes.
Q. And as we talked about earlier, in paying, are you including benefits as well as salary?
A. Yes.
Q. Now, you had some discussion with Mr. Serio about the price of aluminum and the volatility recently. Is it true that prices rose, in February and March of this year, per ton?
A. Slightly. After being very low at the end of the year, yes.
Q. This might be kind of a wide-open softball question for you, but I am trying to look

for a realistic amount of what is the ideal price, other than a million dollars per ton. What's the realistic price? What are you looking for?

A. If I go to the economic forecasters, most of them are saying that the long-term price to maintain equilibrium, you know what I mean, between supply and demand, is probably between twenty-six and three-thousand dollars.

Q. So that can come from the price being set or a reduction of your costs that allow you to get closer to that as well, correct?

A. No; I'm talking about the marketplace of what the LME would be.

Q. Correct. But there could be a market price set for your product, but if you decreased your costs internally, it helps the viability of the company, correct?

A. Oh, absolutely.

EXAMINER SEE: Mr. Riley, I need you to make sure you're speaking into the mic for those of us on this side. It makes it a little difficult sometimes.

THE WITNESS: Sorry, your Honor.

Q. I was confused on page 10 of your testimony. If you can explain, on lines 7 to 9, you say, "The actual rate paid by Ormet has increased at even a faster rate due to the 2010 restart of the two potlines that had been idled and phasing out of the discount." Are you claiming that the rate went up because potlines that weren't in existence before, were now on line?

A. No. The effect -- the rate was not affected by that, the amount we paid was affected by that, because the discount was fixed. So to the extent that we consumed less electricity, the discount per megawatt was greater at the distressed period of four lines.

Q. So all of this totals up into your 58 percent increase, correct?

A. That is correct.

Q. And by your last statement, that doesn't include just an increase in the rate, that's an increase -- that accounts for your increased usage of electricity as well, correct?

A. Yes. As I said above, the actual rate went up 15 percent, the base rate under which the discount was calculated from.

Q. Mr. Serio handled a lot of my questions, so I'm just trying to cross them off here. Give me one second.

Now, there was some discussion, I believe earlier you said you were very involved in the unique arrangement that was ordered by the Commission between Ormet and the utility, correct?

A. I was an active participant, yes.

Q. Is it your understanding that Ormet proposed a reasonable arrangement versus the company proposing, or a joint contract being filed by the company and Ormet to the Commission?

A. It was three years ago. My recollection was we filed a joint, but that could be wrong.

Q. Did the company agree, all the way through the process, with the reasonable arrangement, or was there some disagreement amongst what should be in the arrangement in front of the Commission?

A. I'm sorry, I don't -- I'm trying to get in focus what you're -- I mean, I'm trying to go back three years and look at where were we.

We negotiated an agreement with AEP, we brought it forward, and then there were a set of hearings on it, and then there was a decision made.

Q. Is it your memory that, in that hearing, Ormet and the company agreed on everything?

A. I don't remember when the POLR issue came up.

Q. What do you mean by "the POLR issue"?
A. The provider of last resort.
Q. What is the issue that you're talking about?
A. The issue I think, but I don't remember the timing, was that the Commission did not give the recovery date on the POLR.
Q. And I have the Entry on Rehearing, if that will help refresh your recollection of it, or I can just ask and see if -- whatever your preference is, but is it your understanding that, or do you remember, or not, if AEP was opposed to the concept that the Commission -- let me do it this way: Let me just provide you the document.
MR. SATTERWHITE: May I approach, your Honor?
EXAMINER SEE: Yes.
MR. SATTERWHITE: I'll try to use this just to refresh recollection.
Q. And if I can draw your attention to page 7 of this document, paragraph (11), in the beginning it talks about: "In support of its first assignment of error, AEP-Ohio agrees that there is a risk that, during the ten-year term of the unique arrangement, Ormet will be permitted to shop for competitive

generation and then return to AEP." Do you see that?

A. Yes, I do.

Q. Does that help refresh your memory on the concerns that AEP had at the time of the unique arrangement being ordered by the Commission?

A. I'm sorry, I do not have a direct recollection of that.

Q. If you'll look in the very first paragraph on page 1, this might clear up what we talked about earlier. That represents Ormet filed an application to establish the unique arrangement, correct?

A. That's what it says, yes.

Q. And AEP was not the applicant; that was Ormet.

A. That is what it says, correct.

Q. And then if you look on page 3 of the testimony -- not the testimony, of the Entry on Rehearing, in paragraph (d), it states that "The Commission ordered AEP and Ormet to execute...the agreement conforming to the Commission's...Order even though AEP-Ohio did not agree with all the terms of the modified...arrangement."

A. That is what it says, yes.

Q. And is it true that this matter went

beyond the Commission and actually was appealed to the Supreme Court of Ohio?

A. I don't have direct knowledge, but I do have some recollection that there was some action taken. I don't know specifically what it was.

Q. And, during that proceeding, is it your recollection that Ormet is the one that committed to having AEP Ohio be the exclusive supplier? And if it helps, on page 11, about 11 lines up from the bottom, there's a sentence that starts "The Commission agrees." And I believe this is consistent with what you've stated to Mr. Serio earlier, that the company had given up its right to shop.

MR. BARNOWSKI: I'm sorry, your Honor. I'm just confused, I think we've got three or four questions. I don't understand what the question is.

MR. SATTERWHITE: If I may, your Honor.

EXAMINER SEE: Yeah, let's rephrase and break that up, Mr. Satterwhite.

MR. SATTERWHITE: Okay.

Q. I'll just cut to the end here. Do you remember earlier, when you were discussing with Mr. Serio, and you stated that the company had agreed to give up its right to shop as part of the reasonable arrangement?

A. That was my recollection, yes.

Q. Okay. And after reading some of the statements in this Entry on Rehearing, do you now remember that AEP Ohio had concerns with that representation and actually had appealed the order of the Commission in that case?

A. Apparently, but I did not recall that.

Q. But this document, you have no doubt this document will reflect what it reflects properly, correct?

A. That's correct.

Q. You also had a discussion with Mr. Serio about the item we just talked about, provider-of-last-resort costs, and you weren't sure if the company was still paying provider-of-last-resort costs.

A. I said I thought it was part of the GS-4 rate and that's our base rate. I believe that's what I said.

Q. So you're not familiar with a Commission proceeding that ended the provider-of-last-resort charges?

A. No.

Q. Okay. I'll ask just a couple more questions on the overall unique arrangement. I think

you covered a lot of it with Mr. Serio, previously.
A. Yes.
Q. In exchange for the discount that's provided to Ormet, Ormet's required to maintain a certain amount of jobs within the state, correct?
A. Yes.
Q. And the overall structure of the agreement isn't necessarily a discount, it's a discount if needed, but it could be a premium paid by the company as well, correct?
A. That is correct, it could exceed.
Q. But, to date, the company has not had to, when I say "the company," Ormet has not had to pay that premium, it's only received the discount, correct?
A. Fortunately, at this point, no.
MR. SATTERWHITE: Thank you, Mr. Riley. That's all I have at this time.
EXAMINER SEE: Mr. Beeler?
MR. BEELER: Nothing, your Honor. Thank you.
EXAMINER SEE: Mr. Barnowski, redirect?
MR. BARNOWSKI: May I have one minute?
EXAMINER SEE: Certainly.
(Recess taken.)

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

Mr. Barnowski, redirect?

MR. BARNOWSKI: I believe I only have one question.

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REDIRECT EXAMINATION

By Mr. Barnowski:

Q. Mr. Riley, you had an exchange with counsel for the company for AEP on return on equity?

MR. BARNOWSKI: Is it not loud enough? I apologize.

EXAMINER SEE: Is it on?

MR. CONWAY: I can hear it.

Q. Strike that. Let me start over.

Mr. Riley, you had an exchange on several questions about return on equity and why you were uncomfortable with the calculation that Mr. Satterwhite did, why you didn't think that was inappropriate, I'm sorry, why you believe that was inappropriate. Do you remember those questions?

A. Yes, sir.

Q. Can you tell me why you believed the calculation Mr. Satterwhite did on return on equity was inappropriate?

A. There were several unique things, two of which were significant that occurred in 2011, the first was with the increase in the LME that was taking place in the second half or, excuse me, the second quarter of 2011, and working with my outside accountants, Plante Moran, my auditors, we determined that it was, more likely than not, that we would use the tax credits that had been deferred as the company went into a profitable mode after it had losses for a number of years.

On that basis, under GAAP, we then reversed the reserve which created a net income number in income, even though it had no impact onto cash to the balance sheet, that was to the tune of about $102-1/2 million.

The second issue was we were fortunate to sell our terminal in Louisiana which generated an income item, even though it generated more cash, of about 24.4 million. It is nonrecurring. We sold it only once.

So as we looked at that net income for last year, it was heavily influenced by amounts that weren't going to recur or didn't have any impact on cash.

Q. The 102 million for the reversal of

deferred losses, was that pure book income?

A. Just book. It had no impact on cash.

MR. BARNOWSKI: No further questions. Thank you, Mr. Riley.

EXAMINER SEE: Ms. Kaelber?

MS. KAELBER: I have no questions.

EXAMINER SEE: Pronounce your last name for me.

MS. KAELBER: "Kaelber."

EXAMINER SEE: "Kaelber"?

MS. KAELBER: Yes.

EXAMINER SEE: Thank you.

Ms. McAlister?

MS. McALISTER: No questions, your Honor.

EXAMINER SEE: Mr. Stinson?

MR. STINSON: No questions, your Honor.

EXAMINER SEE: Mr. Oliker?

MR. OLIKER: No questions, your Honor.

EXAMINER SEE: Mr. Hart?

MR. HART: None, your Honor.

EXAMINER SEE: Mr. Lang?

MR. LANG: No. Thank you.

EXAMINER SEE: Mr. Serio?

MR. SERIO: No. Thank you, your Honor.

EXAMINER SEE: Mr. Satterwhite?

MR. SATTERWHITE: Just one question, your Honor.

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RECROSS-EXAMINATION

By Mr. Satterwhite:

Q. Mr. Riley, you just responded to your counsel about the return-on-equity conversation we had and using the numbers that were reflected in AEP Exhibit 144. Do you remember --

A. Yes.

Q. -- that correctly?

You're not saying that the numbers reported in the 15c2-11 were inaccurate numbers for 2011, are you?

A. No, I'm not.

MR. SATTERWHITE: That's all I have.

Thank you.

EXAMINER SEE: Mr. Beeler?

MR. BEELER: Nothing. Thank you.

EXAMINER TAUBER: Mr. Riley, I have one question for you.

THE WITNESS: Yes, sir.

- - -

EXAMINATION

By Examiner Tauber:

Q. When talking to Mr. Serio earlier, you indicated that you strongly object to costs being assigned for which you are neither the cause or the beneficiary of, correct?

A. Correct.

Q. And you also indicated to Mr. Serio that costs associated with the unique arrangement are picked up by other AEP Ohio ratepayers, correct?

A. That's my belief, yes.

Q. So then would it be fair to say that other AEP Ohio ratepayers paying for those costs may be paying for costs that they are neither the cause of, nor beneficiary?

A. Is the glass half full or half empty? We provide a benefit by absorbing a lot of fixed costs associated with AEP's operations with our significant steady-state load.

Q. What are some of those costs?

A. The fixed costs of operating the plant.

Q. Is the benefit -- could you elaborate more on the benefit?

A. I'm not the expert, but I know, in operating any plant, there are fixed costs of running it. And having a steady load in the aluminum business is unique. There is virtually no variation.

It's 98-1/2 percent straight line that that provides them a basis under which they can then provide the incremental benefits to other consumers based on us bearing a heavy load on the plant.

Q. So just to make sure I'm clear, you're stating that AEP Ohio ratepayers are receiving a benefit.

A. It is my belief, yes.

EXAMINER TAUBER: Thank you.

THE WITNESS: I'm sorry.

EXAMINER SEE: Why is it everybody wants to leave when it's my turn?

THE WITNESS: I'm sorry, your Honor.

EXAMINER SEE: You're not the first one to do it. It's fine.

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EXAMINATION

By Examiner See:

Q. Following up on Attorney Examiner Tauber's question. Is that the only benefit that you believe AEP's other ratepayers are receiving?

A. Direct benefit? Yes.

Q. Direct or indirect.

A. Indirect, I believe that the company provides a significant benefit to the communities in the region it's working in. Mr. Coomes will elaborate on that.

Q. Okay.

A. But we do know that -- I mean, we are the largest employer in Monroe County as far as an industrial employer. We provide a huge payroll base for them.

Q. Okay. In your testimony you discuss some of the ways that Ormet Primary has tried to control its costs.

A. Right.

Q. Other than what you've represented in your testimony, in what other ways has Ormet Primary tried to control or reduce its cost of production?

A. We're very proud of -- this is an older facility; it was built in the '50s. Aluminum, uniquely, has not had a sea change in technology, so, therefore, a 1950s facility can still be competitive based on its operating costs, which we talked about earlier.

The real key to this thing is that we've taken about $28-1/2 million out annually on repetitive costs without a lot of capital investment, just by process control. It is a unique situation. And it's dealing with the United Steel Workers working with us. We have been able to achieve records, if you go back and look, we said capacity was 263,000 tons, we're now saying it's 271,000 tons, and we're on a run rate to make or exceed that. And that's without any capital being expended; that's just pure process control and working with the people.

But that reduction in electricity being consumed, before we were looking at 4-1/2 million, now we're looking at 4.2 million producing more volume. So a longer life to our materials. So a lot of it is just a pure process improvement.

We talked about the anode facility we're trying in China which is one of the other large components, and the alumina restart with natural gas being down around $3. All of these we're attacking the top-cost elements.

EXAMINER SEE: All right. Thank you, Mr. Riley. Now you're dismissed.

THE WITNESS: Thank you, ma'am.

EXAMINER SEE: Mr. Barnowski?

MR. BARNOWSKI: Your Honor, the company -- I'm sorry, Ormet moves for admission of Ormet Exhibit 104.

EXAMINER SEE: Are there any objections

to the admission of Ormet Exhibit 104?

MR. SATTERWHITE: No objection by the company.

EXAMINER SEE: Hearing none, Ormet Exhibit 104 is admitted into the record.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER SEE: Mr. Satterwhite.

MR. SATTERWHITE: Thank you, your Honor. The company would move for admission of AEP Exhibit 144.

EXAMINER SEE: Are there any objections to AEP Exhibit 144?

MR. BARNOWSKI: None from Ormet.

EXAMINER SEE: AEP Exhibit 144 is admitted into the record.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER SEE: Who is your next witness, Mr. Barnowski?

MR. BARNOWSKI: The company calls Paul Coomes.

EXAMINER SEE: Mr. Coomes, if you would please raise your right hand.

(Witness sworn.)

EXAMINER SEE: Thank you. I'm going to need you to speak into the mic, please.

MS. HAND: May we approach, your Honor?

EXAMINER SEE: Yes, Ms. Hand.

MS. HAND: At this time I'd like to have marked as Ormet Exhibit 105 the direct testimony of Paul Coomes on behalf of Ormet Primary Aluminum Corporation and the associated exhibits.

EXAMINER SEE: The exhibit is so marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

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PAUL COOMES

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

DIRECT EXAMINATION

By Ms. Hand:

Q. Mr. Coomes, would you please state your name for the record.

A. I'm Paul Coomes. Do you need an address or anything?

Q. Yes. If you would state your address.

A. Yeah. 3604 Trail Ridge Road, Louisville, Kentucky, 40241.

Q. And by whom are you employed?

A. I work -- I'm a professor of economics at the University of Louisville, and this is freelance.

Q. I have handed you what has been marked as

Ormet Exhibit 105. Do you have -- can you identify this as your direct testimony in this case?

A. Actually, I didn't receive it, but I do -- I will recognize it.

Q. Now that you have it in front of you --

A. That's it.

Q. Okay. And do you have any changes or corrections to this testimony?

A. I don't.

Q. Was it prepared by you or under your direction?

A. Completely by me.

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

A. Yes, ma'am.

MS. HAND: With that, your Honor, I would move the admission of Ormet Exhibit 105, subject to cross-examination, and tender the witness for cross.

EXAMINER SEE: Ms. Kaelber?

MS. KAELBER: Your Honor, I have no questions for Mr. Coomes.

EXAMINER SEE: Ms. McAlister?

MS. McALISTER: No. Thank you, your Honor.

EXAMINER SEE: Mr. Oliker?

MR. OLIKER: No questions, your Honor.
EXAMINER SEE: Mr. Hart?
MR. HART: No questions, your Honor.
EXAMINER SEE: Mr. Lang?
MR. LANG: No. Thank you.
EXAMINER SEE: Mr. Serio?
MR. SERIO: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Serio:

Q. Good morning, Mr. Coomes. You indicated just now that this was "freelance." What you meant is you're a consultant under contract to the company in this proceeding, correct?
A. Yes, sir.
Q. Now, at the bottom of page 1 of your testimony, you indicate that the testimony today -- that you've testified previously for a similar case in 2009. Is the previous case that you're referring to the 09-119-EL-AEC proceeding?
A. I assume so. I don't know the numbers that you're referring to, but it was the one that resulted in the special arrangement.
Q. Okay. Now, the special arrangement proceeding where you testified previously, what is

your understanding of what that proceeding was about?

A. "Very complicated," is my first reaction. I sort of got up to speed on this yesterday, the history of the cases, and I didn't even understand that this is a rate case, where the other was a contractual case. So I'm only, in the last 24 hours, understanding the distinction between this set of hearings and the last.

So it's ultimately about electricity rates between AEP and Ormet, and really, beyond that, I don't know much about the electricity rates and the contracts.

Q. Fair enough. So when you say "similar," it's similar just to the extent that it impacted electric rates, but not with regard to everything else in both proceedings.

A. Yes, sir.

Q. Okay. Now, attached to your testimony is an economic impact study that you did, correct?

A. Yes, sir.

Q. And on page 5 of that study, you indicate that there is 1,027 employees that work at the Hannibal smelter, correct?

A. Yes, sir.

Q. Now, if I go down the list there and I add up the ones for Ohio and the ones for West Virginia and Pennsylvania, that would give me a breakdown by state, correct?

A. The state of residence of the employees at Ormet, yes, sir.

Q. So would you accept, subject to check, that of the 1,027 employees, 598 reside in Ohio?

A. Yes, sir.

Q. And that would be approximately 58 percent, correct?

A. Yes, sir.

Q. And then similarly, approximately 427 reside in West Virginia, which would be about 42 percent, correct?

A. Yes, sir.

Q. Now, you've indicated that the average salary per employee is 62,000, correct?

A. Yes, sir. Without fringes, that's simply the wages and salaries paid directly.

Q. The fringe benefits would be medical coverage, dental, things of that sort?

A. And employer contributions to payroll taxes, Social Security, Medicare, unemployment insurance, workman's compensation payments, et cetera, that the company pays that are part of the labor cost to the company and are considered a benefit to the employee.

Q. Okay. On page 12 of your study, you indicate that there's a significant amount of tax revenue received by Ormet -- received from Ormet by Ohio and West Virginia, correct?

A. Yes, sir.

Q. I think you indicated about 8.7 million for Ohio and 6 million for West Virginia?

A. Yes, sir.

Q. And if I was to get percentages, that's approximately 59 percent for Ohio and 41 percent for West Virginia, correct?

A. That sounds right.

Q. Which is pretty close to the employee breakdown.

A. Yes, sir.

Q. Now, you've also indicated in your study that the total impact of wages on the three states, Ohio, West Virginia, and Pennsylvania, if Ormet were to shut down, is 238 million annually, correct?

A. Not precisely. It's the total estimated impact on the seven-county region that encompasses the place of residence of almost all the employees. So it's not really the impact on Pennsylvania, per se. I think there's two or three employees who live in Pennsylvania, so that's very minor. It's almost all Ohio and West Virginia. But the impacts that I estimated were for the region itself.

Q. And you indicate that there would be approximately 3,117 jobs lost, correct?

A. In the region, yes, sir.

Q. And the difference between the 3,117 and the 1,027 would be other jobs that would be lost as a result of the direct employees losing their jobs, correct? It's a trickle down?

A. Roughly, what you say is correct. I would be a little more precise and say that a chunk of the nondirect -- a chunk of the impact has to do with the supplier network of Ormet buying things from other companies in the region, and they have employees, and they buy things from other vendors in the region, and their employees purchase retail items. So that's one part of any economic impact study is what's called the "Interindustry Impacts."

The second part is the household side where the wages Ormet employees get are spent in the surrounding community for retail items and doctor visits and newspapers and everything that we all purchase.

So there's two components to that. It's not just the employees of Ormet; it's the interindustry purchases among the vendor network and then also the retail purchases through employees.

Q. Now, with the vendor network, that's just in the seven-county region or did you also look at the vendor impact outside of that seven-county region?

A. I only estimated the impact inside the seven-county area. Technically, it could be done what you asked, but I didn't do it.

Q. And this calculation, that's page 12 of your economic impact study, correct?

A. Yes, sir.

Q. And that's the seven-county region. Did you do a similar study just for the impact of the Ohio counties?

A. I did not.

Q. So of the potential 3,117 total job loss, other than knowing that 598 are direct employees, we don't know how much that impact would be in the Ohio -- in the counties in Ohio, correct?

A. Not exactly.

So we know that the 1,030 direct jobs are in Ohio regardless of where people live. Jobs are counted, by most economists, on a place-of-work basis. So you've got over a thousand direct jobs in Ohio in Monroe County.

And then I didn't study this in any detail, but it isn't hard to guesstimate how much of the spin-off jobs would be in Ohio also.

So you've got roughly a thousand direct jobs and then about 3,100 total jobs, which means that there are spin-off jobs in the region of about 2,100.

Given the split on population and jobs in the region between Ohio and West Virginia, it's almost 50/50 in the region, the number of residents that live on each side of the river in the two states, and that's also true for jobs and payrolls.

So probably roughly half of the spin-off impact would be in Ohio. So I think it's fair to say that at least 2,000 jobs in Ohio are at risk here, with the other thousand being in West Virginia.

Q. Now, as part of your economic impact analysis, did you do any analysis to determine the impact of jobs lost by other companies that pay higher rates as a result of the discount that Ormet receives through its special arrangement contract?

A. I did not look at that, no.

Q. But you would agree with me that if you were going to do an analysis of the total impact, that it would be fair to look at the economic impact of higher rates for other customers as a result of any discount that Ormet gets, correct?

A. If we start with the assumption that other ratepayers will have to pay more in terms of electricity rates, that would lead to a very complicated analysis about households and how much they can absorb. Will they leave the state because of higher rates; other businesses, would they stay or would they absorb the rates. So it would be a completely different scope of analysis, and I have not pursued that.

Q. So when you did your analysis and came up with the 238 million, that figure doesn't include any analysis of the dollar impact on these other -- that other companies might experience, correct?

A. This is simply the estimated regional impact of the shutdown -- of a potential shutdown of the Ormet facility.

MR. SERIO: That's all I have. Thank you very much, sir.

EXAMINER SEE: Mr. Satterwhite?

MR. SATTERWHITE: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Satterwhite:

Q. Good morning, Mr. Coomes. How are you doing today?

A. Good morning.

Q. My name is Matthew Satterwhite, an attorney with Ohio Power. I'll be asking you a couple questions this morning.

Now, the main thrust of your testimony was to sponsor the economic impact report connected to your testimony; is that fair to say?

A. I didn't understand what you meant by "sponsor."

Q. To present, to the Commission, the results of the study you did on the economic impact of the closure of the Hannibal facility in Ohio. Correct?

A. That sounds reasonable, yes.

Q. Have you done other studies that look at this type of situation for other companies?

A. Yes. Yes, sir, many times.

Q. Can you give me some examples of other comparable studies you've done?

A. I have, two or three times in the past decade, studied aluminum smelters in Kentucky. There's one at Hawesville, Kentucky, which is in western Kentucky on the Ohio River. There's another in Sebree, Kentucky, which is about 30, 40 miles further west. One is owned by Rio Tinto, and the other, I believe, by Alcan.

And they were involved in rate cases different from this, but before the Public Service Commission anyway. And so, industries have hired me to analyze the likely economic effects of a shutdown of aluminum smelters.

I also did one, I can't remember, maybe two years ago for a plant owned by Noranda in Missouri, and that's probably the extent of my aluminum impact studies. Although, I've done many other industry impacts, you know, for other industries.

Q. And are you typically asked to do these by a company that's concerned about, I believe you said a rate case or the long-term viability of the company?

A. Sometimes it's more general than that, or maybe it's used for a rate case initially, but then it's used for more general education to the public and policymakers about the importance of the industry, sort of communicate to the development officials or to elected officials how important a facility is to a region or how important an industry is to the state.

I just finished one for the distilling industry in Kentucky that looks -- it's fascinating, and I did get to tour.

Q. Excellent.

A. So there are eight distilleries in Kentucky, and we export 95 percent of the world's bourbon, and so it brings in a lot of money to the state. And they used this to just generally communicate with elected officials on the importance of the industry, which is considered by many to be kind of a legacy industry, but, in fact, it's growing and adding production capacity, and so we documented that.

Q. And when were you asked to perform the specific study in this case by Ormet?

A. This was about a year ago. I'm thinking last June or July. I think the report I submitted was dated July 2011.

Q. So July 11th is when the final results as represented in this study -- July 11th, 2011, correct?

A. Yes, sir.

Q. If you go to page 2 of your testimony, and on line 10, where you're discussing your main findings, you talk about, at the end of the sentence there, "plus excellent fringe benefits." Do you see that?

A. Yes, sir.

Q. How do you define "excellent fringe benefits"?

A. Well, there are many companies, including many industries, that are expanding rapidly in this region that provide very little in the way of fringe benefits and in terms of pension contributions or health insurance. And I have basic estimates, per year, of what Ormet provides for both its production workers and its salaried workers, and these are quite hefty.

So I think the total -- you start out with about 60 -- $63 million in wages and salaries, but by the time you add in the fringes to the production workers and to the managerial people, you're looking at about $100 million in total labor costs. So it's almost a doubling of the wages and salaries to get to the total compensation package for the employees.

A. I would say that's generous. I've done many studies and looked at many industries and that's a very nice ratio of almost one-to-one fringe benefits wages to salaries.

Q. Would that include the studies you did of other aluminum companies, that these are -- if these are excellent, were those okay?

A. No; actually, this is very similar to the other aluminum operations I've studied.

Q. Okay.

A. They do tend to have very good benefits.

Q. And were you aware of the contract entered into between Ormet and their employees, at the conclusion of your testimony, that would lock in sort of the collective bargaining through 2015?

A. No, sir.

Q. That's not something you reviewed as part of your --

A. I'd never heard that till you mentioned it, so.

Q. You also talk on page 2, line 22, and I believe Mr. Serio asked you some questions about this as well, about the $61,000 for the average salary. You didn't do a further breakdown beyond just total number of employees versus salary, correct?

A. Actually, I do -- I'm not sure it's in the report, but I did get the data from Ormet and I did combine them to make the estimates for the region. But I do remember that they gave me a split on the salaried workers versus the hourly workers, and I think it was about 160 salaried workers versus, I'm going to guess now, about 850 hourly workers.

And they also gave me a split on the payroll and the benefits for each type of worker, and my memory is that the salaried workers averaged about, a little over $100,000 a year, and the production workers averaged, I think it was about 53 or $54,000 a year. So that's roughly the split.

Q. And "salaried workers," would that include the corporate office as well?

A. I'm actually not sure how their corporate people are assigned around the country, so I'm not sure who all is in that number. I'm assuming that the bulk of their managerial people are in that number, the salaried number.

Q. So you're not sure if the -- I believe Mr. Riley mentioned earlier there's about 50 corporate employees -- if in the numbers you looked at, that included those corporate employees as separate from the salaried employees, correct?

A. I don't know which people are in those numbers.

Q. Now, on page 3, you discuss region-specific multipliers, I believe, in talking about the analysis that you did. What region did you use for purposes of your analysis?

A. As I explained to the previous questioner, we define or defined the region to be the seven counties around Hannibal that accounted for the place of residence of almost every employee.

So the company gave me the county of residence of all their employees, and it's in a table in the report, and I could see that it was, I think, 99 percent of the employees live within these seven counties, and so I took that to be the footprint of the company's impact on the local economy.

So it was not just Monroe County. You couldn't just look at Monroe County, in and of itself, because over half the employees don't live there. So we had to zoom out to the West Virginia side and to the other surrounding Ohio counties to get, in my view, a good, clean estimate of the linkages to the regional economy.

Q. And on page 3, you talk about your modeling, and you talk about, on line 10, the region-specific economic multipliers that were obtained from your simulations. Is that a multiplier that you came up with, or does the IMPLAN already have these seven counties fit in to figure out what the multiplier would be?

A. I'll try not to give you a long seminar on this, because I do this all the time, and I have for 15 years, and you might have to stop me.

So what we do is we purchase a modeling system from IMPLAN, or I do, and then when you want to analyze a region or an industry, you purchase county-specific data on that region.

So I purchased economic data, very rich economic data on these seven counties, put it together into a region, and then had my -- the IMPLAN software construct what's called an "input/output model" which predicts the amount of purchases among each of 440 industries in the region.

It also predicts how much is imported of every commodity, how much is exported of every commodity, how much employees in the region spend on each of hundreds of hundreds of items. It's very rich.

And that's why I use the word "customize," because this is not some off-the-shelf number that you can pull down from a website. This is custom to that seven-county region, and it represents the industries that are located there, and the household income, and the retail opportunities in that region.

So it's about as custom as you can get given the state of the art of impact studies.

Q. And this is an update, is it not, to the study you did in the previous case where you performed a study for Ormet?

A. Yes, sir.

Q. And did you start from that study or did you start over again?

A. I started over again. Well, let's put it this way: I purchased new economic data that would be, what, three years more current for each of the counties, and rebuilt the model.

Q. And when did those datasets end that you looked at?

A. I can't remember. It was either, let's see, it was probably 2009 data. The raw economic data for the region.

Q. And then I noticed on page 4, now I'm in the actual study of yours, you refer to -- in the second-to-last sentence it states "Monroe's rate is likely to fall in 2011, now that the smelter is fully operating again." Do you see that?

A. Which line is that?

Q. Three lines up from the bottom. Above the chart.

A. Oh, you're back to the study.

Q. Yes. I'm sorry.

A. Which page?

Q. Page 4.

A. Okay. I'm with you.

Q. And, really, the specific sentence isn't important; I just wanted to give an example of where you talk about a prediction for 2011. Do you see that?

A. Yes, sir.

Q. And it's safe to say that any recommendation in here that deals with the economics is really limited to the data you received as a result of your customized program that I believe you stated was 2009 data?

A. Actually, those are two different issues.

Q. Okay. Set me straight.

A. Okay. Happy to. So the model that I constructed to predict the linkages between the aluminum industry and the rest of the regional economy was based upon the latest data available at that time, which was 2009. So we had rich estimates of jobs, payrolls, output of each of 440 industries for each of the seven counties, add it all up, and simulate it, okay.

These statements here on page 4 -- there's some others in here -- are more general. These are about -- these are federal data from the Bureau of Labor Statistics on the labor market in the region, and some of that is more currently available.

And so I just put -- the reason I added this chart on page 4 was to highlight how clear the relationship is between Ormet's operations and total payrolls in the county, and the unemployment rate, for that matter. The labor market conditions in the county.

So it was real clear to me, once I determined from the company when the potlines were started and stopped and so on, what a pattern it was, compared to the total wages and salaries paid in the county and to the local unemployment rate. It just lines up perfectly. They are obviously the driver for the regional economy.

Q. So the data, let me see if I state this correctly now, see if you set me straight or not.

The data on the seven-county region, the specifics and all the economics that go with that, was gathered up until 2009, that you were able to load into your data database, but there were certain federal data that you were able to use which are reflected in a number of your charts that go through 2010, so those would be 2010 data; is that fair?

A. That's fair. And also, you'll see in my testimony on the last page, I did add one wrinkle to the study. Since the hearing was coming up so much later than the study, I did go back and look at 2011 data, which is not complete, but we have, I think, through three quarters of 2011, we have data on wages and salaries in Monroe County and the unemployment rate.

And just as I expected, they've fully recovered once the six potline -- the plant was in full operation in 2011. It's very clear in the data that Monroe County's wages and salaries came back up to historic levels that, I think about 135 or 40 million dollars a year in total payroll.

Q. So that's the independent data that looked at Monroe County and saw that -- you said it went to, I'm sorry --

A. This is federal data from the Bureau of

Labor Statistics that comes out in an ongoing way, and in the course of preparing the testimony as opposed to the study I looked at the Bureau of Labor Statistics data on the region to see what has happened since I did the study.

Q. And I believe you stated, I was just looking to see exactly what you said, that now they're at historic levels within the county?

A. Yes.

Q. Now looking at the study again, on page 2, in the "Background," you show the top employers in Monroe County which include Ormet, but then below that, you explain that a lot of those are service industries that you attribute to serving the employees of Ormet, correct?

A. Well, and the population of the county and the region. What I was trying to distinguish was the difference between a company like Ormet, or most manufacturing operations that make something and ship it to other parts of the country or the world, that bring money into the region that then recirculates;

To contrast that with things like grocery stores and nursing homes that exist just to support the local population. They're valuable and important, but they don't bring new dollars in. They redistribute or they absorb dollars that are already there that are created by manufacturing operations like Ormet.

Q. And the job multiplier you talked about with Mr. Serio previously, you had two elements to it, the vendor within the -- the vendor population and the retail purchases, which I think you just described of sharing the wealth among the population because of it, correct?

A. Roughly, yes, sir.

Q. So if another growth area or growth opportunity appeared, something besides Ormet, could that pick up the loss that would be attributed to if Ormet had to close?

A. Certainly that's hypothetically true. In the few years that I've been following this, I haven't seen any indications of anybody else building anything substantial there. Seems still to be the dominant employer in the region; certainly in Monroe County.

But if the plant were to close, I'm sure we'd get the attention of economic development officials to try to find something else there to come in. But these are very, very valuable operations that no one would want to lose anywhere in the country as far as their economic contribution.

Q. So to analyze what would happen without Ormet and if a new industry moved in, is it your testimony it would have to be a substantially-sized industry to support what Ormet's supporting in the area?

A. So we're talking about a thousand employees, so that's certainly substantial. But more to the point, for it to make a comparable economic contribution, you would have to make something that it sold outside the region so that it brought dollars into the region as opposed to recirculating it.

So, for example, if you had a Wal-Mart in an area, you don't think of that as causing economic growth. You think of the Wal-Mart as absorbing economic growth through retail sales. They're just providing things that people want to spend their money on. So it might be a large employer, but you don't think of it as an economic-development prize of any kind.

So it doesn't have to be manufacturing to bring in new dollars. It could be a corporate headquarters, for example, which manages things all over the world and brings in dollars to a community. But corporate headquarters don't tend to locate in rural communities, many miles from interstate highways or large cities. So that's not -- a service sector counterpart would be hard to imagine for this region; it would be more likely something in manufacturing.

Q. So when you looked at your updated data, the Federal Statistics of Jobs, did you look to see if any other industries have grown in the area since your previous analysis?

A. Actually, I can't remember if I checked that or not. It's obvious, from the total wages and salaries paid in the county over this last decade, that when Ormet cuts back, the total payroll in the county falls concurrently; and when Ormet comes back, wages and salaries go back to where they were. So there's no indication in the aggregate data for the county level that there's any other engine in the county that is moving against this trend.

Q. But you didn't look independently to see if there was anything else developing in the area, correct?

A. Actually, I can't remember. It's been a year since I did the analysis. I may have. If I would have found anything, I would have reported it. But it's possible I didn't, you know, check in any other detail.

MR. SATTERWHITE: Your Honor, I'd like to mark as AEP Exhibit 145, a Cleveland Plain Dealer newspaper article. May I approach?

EXAMINER SEE: Yes.

MS. HAND: Your Honor, we object to the use of this exhibit on the ground that it is hearsay. It's an out-of-court statement used to prove the truth of the matter. We do not have the reporter, Mr. Funk, here to ask who his sources were, where he got his data or any of the pertinent information.

MR. SATTERWHITE: If I may, your Honor. I've not asked a single question yet, I've just marked the document.

MS. HAND: I would object to the use of the document in any way, your Honor.

MR. SATTERWHITE: I mean, we can jump to that if -- I'm sorry. We can jump to that if you want. May I speak, I should say?

EXAMINER SEE: You can proceed with cross-examination. The exhibit's been marked. We can take up objections at a later point in the proceeding.

(EXHIBIT MARKED FOR IDENTIFICATION.)

MR. SATTERWHITE: Thank you.

Q. (By Mr. Satterwhite) Mr. Coomes, do you have what I've placed in front of you as AEP Exhibit 145?

A. I do.

Q. And does this appear to be a newspaper article from Cleveland Plain Dealer, author John Funk, dated September 21st, 2011?

A. I believe it says "Cleveland.com," which I'm assuming is an internet version of the newspaper, but there's no reason to dispute it. Go ahead.

Q. And are you familiar with the shale gas investments and the Utica shale investments in Ohio?

A. Only generally. I know that there's been a lot of discoveries in Pennsylvania, and West Virginia, Ohio, Kentucky, in the mountain area, in the Appalachian region, and there's potentially a lot of gas reserves.

Q. And the title of this document is "Ohio shale gas worth billions of dollars and 200,000 jobs." Is that consistent with your understanding of what the shale gas industry is proposing in Ohio?

MS. HAND: Your Honor, we object to Mr. Satterwhite reading the hearsay into the record.

MR. SATTERWHITE: If I may, your Honor?

EXAMINER SEE: Go ahead.

MR. SATTERWHITE: First of all, newspaper articles are self-authenticating to begin with, under the federal rules, and the Commission has a wide standard with the Rules of Evidence, and I think they follow that.

Second, Mr. Coomes identified that he was somewhat familiar with the shale gas industry and the promises of what would happen in Ohio in the future. And I simply asked him whether he agreed or was familiar with the title of this and the subject matter behind it, so that we could move on and ask other questions based upon that. But I wasn't asking him to authenticate for this author.

I believe he also stated previously that he has no reason to dispute that this is an article from the Plain Dealer. He was able to identify it, looks like an online version of the Plain Dealer, and he wasn't going to dispute that. So I think he's already accepted the document for purposes of being able to ask questions.

Based on what we described earlier of part of the analysis of looking in the area of whether there's other industries that have grown in the area that could -- that hopefully wouldn't be needed, because we don't want Ormet to close, but the basis of his analysis is that the Ormet facility could close. I think it's appropriate to explore this area, other developments in the area that might contradict the testimony that he's provided the Commission today.

MS. HAND: Your Honor?

EXAMINER SEE: Briefly, Ms. Hand.

MS. HAND: Whether the document is self-authenticating or not, it's still hearsay, and we don't have the author of the document here to question about his information or his sources.

MR. SATTERWHITE: If I may, your Honor?

EXAMINER SEE: No. No. No.

I'll allow cross-examination- on this document to proceed.

MR. SATTERWHITE: Thank you, your Honor.

Could you please have the original question reread for me, please?

(Record read.)

A. I have no way to know whether the dollars and the job figures are accurate as a projection. I do know generally that the region is considered to have a great opportunity in gas shale. What that opportunity is, I don't know in enough detail to tell you whether it's billions or millions or tens of millions. I don't know. I've not studied it.

The other thing I would point out, since I never looked at this before, I see in the first paragraph, the opening paragraph, the first sentence it says "...a multibillion-dollar bonanza that could create more than 204,000 jobs...." So this is someone's projection of a potential, under certain assumptions, that may be very rosy. I have no idea to know whether the potential's that big. Certainly, it's not here today. It's a projection of a possibility.

Q. I'll ask you to turn to the second page of the document, maybe get to your study compared to the study that's relied upon in this article. And six lines down, do you see the paragraph that starts "The conclusions"?

MS. HAND: Your Honor. I object. He's asking my witness to compare his study to what another author has said about some other study that that author had read.

We seem to be getting into multiple layers of hearsay here. And my witness does not have the benefit of the study he's being asked to criticize in front of him.

MR. SATTERWHITE: If I may, your Honor?

EXAMINER SEE: Were you finished, Ms. Hand?

MS. HAND: Yes, your Honor.

EXAMINER SEE: Mr. Satterwhite.

MR. SATTERWHITE: The witness, himself, has relied upon third-party data that he bought to go into his study. So he's relied on outside sources, as well, for all of the information within his study. If this is multiple hearsay within this document, then the entire study that he's put into his testimony should also be stricken from the record.

And my question was really dealing with leading up to asking the witness whether this was the type of study that he would perform and whether these are reputable organizations that are cited in this article that did perform the study.

He's testified that numbers increased in the area based on independent data from the federal resources, but he didn't look any closer to see what it was. And I believe this article establishes what most people in Ohio know, that there's a booming industry in shale and that could also explain what's going on in the area as well.

MS. HAND: Your Honor.

EXAMINER SEE: I'm going to allow you to

proceed, Mr. Satterwhite, but make your point.

MR. SATTERWHITE: Thank you, your Honor.

EXAMINER SEE: Quickly.

Q. (By Mr. Satterwhite) Mr. Coomes, do you see the organizations that performed the study that this article relies upon as Marietta College, Ohio State University, Central Ohio Technical College, and Zane State College?

A. I see it listed, yes.

Q. Are you familiar with those organizations as universities?

A. Certainly Ohio State. I don't know the others.

Q. And, in your experience, are these type of economic studies, performed by a university like Ohio State University, typically credible?

A. In general, I would say yes. Not that any university doesn't occasionally do a weak study, but --

Q. Certainly not Louisville, right?

A. Please?

Q. Certainly not Louisville, right? They wouldn't do it.

A. Well, particularly in studies that are prospective like this, where you're projecting a possibility, you're relying much more on assumptions about things going right or wrong than if you do a study of an existing industry where you have, you know, decades of data to make an estimate on.

So I would say, in general, something that's prospective is probably less precise than something that's on the ground that you can study.

Q. But you certainly don't dispute the potential for the shale gas industry to boost the economy in this part of Ohio, correct?

A. From what I read, it's definitely considered to be an economic prize for all the states in this region. How that plays out, how much of it is extraction and pumping things out of here versus value-added manufacturing and processing, now we would get into some details about how it would impact the region. How much of the value added gets captured in the region versus added somewhere else, because the raw product was shipped out, and so that's the kind of detail I don't have here.

Q. Fair enough.

A. Yeah.

Q. But, earlier, we discussed, even though we don't want Ormet to not be in operation, it would take a large undertaking or a new large presence to fill the gap of the economic harms that you predict could occur in your study.

And so my question is: As you look at the bottom of page 2 of the article where it talks about $34 billion in exploration and development, pipelines, and other areas, and $478 million in taxes and royalties, is that the type of industry that if it were to occur, would be able to avoid the harms that could come if Ormet were forced to close?

A. Hypothetically, yes. Of course, it seems to me this study is a statewide study of the impact on Ohio, so we don't know what they're projecting or assuming as far as the -- how much of this activity would occur in that region that we're focusing on today around Hannibal, so.

Q. But are you aware of where the Utica shale is positioned?

A. Roughly, yes.

Q. And is it generally in that area that you've analyzed for your report?

A. I know it's there. How much of it's there, whether it's 1 percent, 20 percent, I've never studied it.

Q. Are you aware of jobs that have already been created in that area due to the shale development?

A. Not specifically. I mean, I wouldn't be surprised, but I don't know how much.

Q. And there's also an area called the Marcellus shale that's a higher, closer-to-the-surface area, correct?

A. I don't know.

Q. You're not aware of the Marcellus shale?

A. Sure, I've heard of it, but I don't know of the geology.

Q. But the Marcellus shale is also in that general area, including some of the states that you reference on page 5 of your study, Pennsylvania and West Virginia, that could assist the local economy as well, correct?

A. It sounds reasonable to me.

MR. SATTERWHITE: Thank you very much, Mr. Coomes.

Your Honor, that's all I have at this time.

EXAMINER SEE: Mr. Beeler?

MR. BEELER: No questions, your Honor. Thank you.

EXAMINER SEE: Redirect, Ms. Hand?

MS. HAND: If we could have just a

minute, your Honor?

EXAMINER SEE: Certainly.

(Off the record.)

EXAMINER SEE: Back on the record.

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REDIRECT EXAMINATION

By Ms. Hand:

Q. Mr. Coomes -- Dr. Coomes, I'm sorry, wouldn't it be true that -- or, would it be true that if the shale gas were to bring a number of new jobs to the seven-county region that you have studied, would it be better to have both Ormet and the new shale jobs in that region?

A. Of course. Those are the sort of thoughts I was having as he asked me the questions. The region -- I looked at the demographics of the region over the last decade, almost every county there lost population between the 2000 and 2010 Census, and that's a sign of lack of economic growth and opportunity in the region. And so you need more strong employers in the region and more economic opportunities, not less.

MS. HAND: Thank you, your Honor. That's all I have.

EXAMINER SEE: Recross, Ms. Kaelber?

MS. KAELBER: Your Honor, I have no questions.

EXAMINER SEE: Ms. McAlister?

MS. McALISTER: No. Thank you, your Honor.

EXAMINER SEE: Mr. Stinson?

MR. STINSON: No questions, your Honor.

EXAMINER SEE: Mr. Oliker?

MR. OLIKER: No questions, your Honor.

EXAMINER SEE: Mr. Hart?

MR. HART: None, your Honor.

EXAMINER SEE: Mr. Lang?

MR. LANG: No. Thank you.

EXAMINER SEE: Mr. Serio?

MR. SERIO: No questions, your Honor.

EXAMINER SEE: Mr. Satterwhite?

MR. SATTERWHITE: No questions.

Thank you, Mr. Coomes.

EXAMINER SEE: Mr. Beeler?

MR. BEELER: No. Thank you, your Honor.

EXAMINER SEE: There are no questions from the Bench.

MS. HAND: Your Honor, at this time we'd like to move Ormet Exhibit 105 into the record.

EXAMINER SEE: Are there any objections?

MR. SATTERWHITE: No objections from the company, your Honor.

EXAMINER SEE: Ormet Exhibit 105 is admitted into the record.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER SEE: Mr. Satterwhite.

MR. SATTERWHITE: Thank you.

Your Honor, the company would move AEP Ohio Exhibit 145 into the record.

MS. HAND: Your Honor, we maintain our hearsay objection to the use of that exhibit, and to the admission of that exhibit into the record.

EXAMINER SEE: I'm sorry, say that again. I heard a --

MS. HAND: We maintain our objection to the admission of this exhibit into the record as hearsay. We do not have the author of the article here to question about his information, nor do we have the study that he relied upon.

EXAMINER SEE: Mr. Satterwhite, did you want to respond?

MR. SATTERWHITE: Sure, your Honor. I believe the Bench already ruled that it was appropriate to ask the questions. The record has questions based on the article already in the record.

The witness stated he had no reason to doubt it was the Plain Dealer article, so he's accepted the authenticity. And newspaper articles are self-authenticating. And I think the Commission could admit it and give whatever weight it would want to it.

But I think it's appropriate to have in the record, to round out, the occurrences that have happened since the witness completed his study, in the developments that the entire Commission knows are occurring in that region of the state.

EXAMINER SEE: Admission of AEP Exhibit 145 is denied.

EXAMINER TAUBER: Ms. Hand, your next witness?

Mr. Barnowski.

MR. BARNOWSKI: Your Honors, we have one slightly complicating issue. Mr. Russell had to make a couple of corrections based on discovery that was provided after his report; those contain confidential information, so I don't know how you want to handle that.

What I would propose to do is just have, I guess we have to clear the court, have him read in his corrections and then -- it's only one line that's confidential, so I don't think there will be any cross on that, then we can bring everyone back for the cross after it's read in.

MR. NOURSE: Do you have a written version of the correction?

MR. BARNOWSKI: Yes, we do. We're not moving it in at this time. We will, at the close of his testimony, yes.

EXAMINER SEE: Who has cross-examination for Mr. Russell?

(Show of hands.)

EXAMINER SEE: Okay.

MR. SERIO: Your Honor, I've stayed away from the confidential stuff. I would like to see the sentence with the correction with the confidential part blacked out, at least.

EXAMINER SEE: Do you have that prepared?

MR. BARNOWSKI: I don't, but we could probably black it out. I don't see any reason why we couldn't do that in one minute.

EXAMINER TAUBER: Let's take a ten-minute recess and we can do that, and maybe we can avoid having to go into a confidential session, or at least limit it. So let's go off the record.

(Recess taken.)

(Confidential portion excerpted.)

(Open record.)

EXAMINER TAUBER: Mr. Wilson, please raise your right hand.

(Witness sworn.)

EXAMINER TAUBER: Thank you.

Mr. Barnowski.

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JOHN W. WILSON

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

DIRECT EXAMINATION

By Mr. Barnowski:

Q. Good morning, sir. Could you state your full name for the record.

A. John W. Wilson.

Q. And who do you work for, Mr. Wilson?

A. J. W. Wilson & Associates.

MR. BARNOWSKI: May we approach, your

Honor?

EXAMINER TAUBER: You may.

Q. Mr. Wilson, we are marking Ormet Exhibit 107, which is your direct testimony in this case, and I'd like you to take a look at it and tell me if you can identify it.

EXAMINER TAUBER: The exhibit shall be so marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

A. That is my direct testimony in this case.

Q. And was this prepared by you or at your direction?

A. Yes, it was.

Q. Do you have any changes or corrections to your testimony?

A. No, I do not.

Q. Is the testimony contained herein true and correct?

A. Yes, it is.

Q. If I asked you the same questions today, would you provide the same answers?

A. Yes, I would.

MR. BARNOWSKI: At this time, your Honors, I move the admission of Ormet Exhibit 107, subject to cross-examination of the witness.

EXAMINER TAUBER: Thank you.

Ms. Kaelber?

MS. KAELBER: I have no questions, your Honor.

EXAMINER TAUBER: Ms. McAlister?

MS. McALISTER: No questions, your Honor.

EXAMINER TAUBER: Mr. Stinson?

MR. STINSON: No questions, your Honor.

EXAMINER TAUBER: Ms. Kyler?

MS. KYLER: No questions, your Honor.

EXAMINER TAUBER: Mr. Oliker?

MR. OLIKER: No questions, your Honor.

EXAMINER TAUBER: Mr. Hart?

MR. HART: No questions.

EXAMINER TAUBER: Mr. Lang?

MR. LANG: No. Thank you.

EXAMINER TAUBER: Mr. Serio?

MR. SERIO: No. Thank you, your Honor.

EXAMINER TAUBER: Mr. Conway?

MR. CONWAY: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Conway:

Q. Good morning, Dr. Wilson.

A. Good morning.

Q. Dr. Wilson, could you turn to pages 5 and 6 of your direct testimony.

A. Yes.

Q. I believe at the bottom of page 5, and then going on to the top of page 6, you indicate that "...the Company's 2011 net income, after taxes and interest, exceeded 10-1/2 percent of its year-end equity capital." Do you see that?

A. Yes.

Q. And then with regard to 2010, "net income after taxes and interest was 11.68 percent." Do you see that?

A. Yes.

Q. And in 2009, "12.54 percent."

A. Yes.

Q. Do you know whether Ohio Power had any significant deferred expenses during any of those years?

A. I believe they did.

Q. And did they have significant deferred expenses -- did Ohio Power Company have significant deferred expenses in 2009 and 2010?

A. I don't know that without looking at the financial reports.

Q. And what you don't know is whether or not they were significant?

A. That's right.

Q. What would be the impact on the ROEs that you've reported in your testimony if the deferrals had not existed, but, instead, the related expenses had been treated as if they were incurred instead of deferred?

A. I don't know.

Q. You don't know whether or not the net income would have been lower if the deferrals were treated as incurred -- if the expenses were treated as deferred -- or, excuse me, if the expenses were treated as incurred instead of deferred, you don't know whether the impact would be to reduce the ROE values?

A. I really need the financial documents in order to answer that question. At times, deferred expenses are accounted for as part of the reported income even though the recovery of those expenses does not occur at that time.

Q. Okay.

A. So I just, based on what I've got here in front of me, I can't answer that question.

Q. Okay. Well, assume that the deferred expenses were treated in a fashion so that the expenses did not reduce income during the year in which they were deferred, okay?

A. By that you're saying that they were not -- the deferred expenses were not reflected on the books as a deferred expense?

Q. They were not -- they were not treated as expenses incurred during the year. Can you make that assumption?

A. Well, a deferred expense is not necessarily something that isn't incurred during the year. But you're saying -- if you're saying it wasn't put on the books at all, and did not go into the calculation of net income, I'll go along with that assumption if you want to make that assumption, but I can't verify that assumption.

Q. Okay. Well, let's go along with that assumption. What's the impact on the ROE value?

A. If that were the case, which I don't know to be a fact, I think all you're asking me is what happens if there's more expenses and nothing else changes. And if there's more expenses and nothing else changes, net income goes down.

Q. And the ROE value goes down also?

A. It would since it's net income divided by equity.

Q. In the ROE values that you report, I believe you refer to using a year-end equity capital balances; is that right?

A. Yes, I do.

Q. And is that how you typically compute ROE, by using year-end equity balances?

A. They're computed different ways, that's why I stated how I computed it, using year-end.

On some occasions, average equity balances would be used; on some occasions, I suppose beginning year equity balances could be used; but using the year-end is fairly common.

Q. And in your testimony that you're sponsoring today, in every instance where you report ROE values, are they ROE values that were calculated using year-end equity balances?

A. In every instance?

Q. Yes.

A. You mean in the statistical analysis and so on?

Q. Well, can you tell me whether there are any instances in which the ROE values were not computed using year-end equity balances?

A. There probably are some instances where average equity balances were used.

Q. Can you identify those instances where they probably were done in that fashion?

A. Not offhand, no.

Q. Why is that?

A. Well, I'd have to check. I mean, if you give me the time, I can check the calculations and tell you what I can find, but I don't have that all memorized.

Q. Can you tell me categorically where the values that you report are determined using year-end balances as opposed to average balances?

A. I can; where I have stated it. As in this case, I stated it here that I used year-end balances, and so I can say categorically that that's the case.

Q. So every place where you actually use the adjective "year-end," then we know that they're year-end equity balances. Is it the case that where you don't use the adjective "year-end," that they are average equity balances, or is it just uncertain?

A. If you give me a specific, I'd be glad to try to respond to that.

Q. Well, I don't have -- I just noticed that in some instances, you used year-end equity balances. I noticed that when you referred to them -- and I was just curious as to whether or not there was some consistency or whether there was inconsistency in the use of the equity balances.

A. In this case, I used year-end and stated that. In other instances, where I, you know, reported Value Line numbers or numbers by Fitch or numbers by another reporting agency, I really would have to look and refresh my recollection to see what they used, whether they used year-end or whether they used average year. They probably used one or the other of those.

Q. So when you've done a calculation yourself, it's a year-end equity balance that you're using, but when you're relying upon data furnished by others, it may or may not be based on the use of year-end balances of equity.

A. No; I frequently use average equity balances. In this case, I used year-end and consequently stated it.

Q. Just to be clear, I'm just talking about your testimony, not about what you may frequently do in other instances. So my question is: Are the --

A. In this case, I used year-end with respect to this particular calculation.

Q. "This" meaning the one that's on pages 5 and 6?

A. Page 6, yes.

Q. What impact does it have on the calculation when you use the year-end balance or when you use the average balance?

A. Well, since the average balance would be the average of two numbers, the ratio would be a different calculated number. You wouldn't be just using the year-end value, you'd be using the beginning-of-year value as well, and so the ratio amount would be somewhat different.

Q. So there could be a difference for a particular ROE calculation as between the result that you would get if you used a year-end balance compared to the results you would get using an average balance, correct?

A. There almost certainly would be a difference, unless year-end equity were the same as beginning-year equity, and that's -- that would be -- that would be very surprising.

Q. Do you know, offhand, whether or not the equity balances for Ohio Power Company are increasing or decreasing over time? "Over time" meaning over the 2009 through 2011 period.

A. I probably have that here.

I have here the Form 1 for the 2011 year-end which --

Q. When you say you "have here," I'm sorry, I don't mean to interrupt you, but are you referring to a spot in your testimony or --

A. No, I'm referring to page 112. Page 112 of the Ohio Power Company Form 1.

Q. Oh, okay. I'm sorry. You're referring to the FERC Form 1. All right. Go ahead.

A. Right. Which is usually where capital structure information is taken from. I noticed in this case that the company did not do that. The Form 1 follows statutory accounting as opposed to Generally Accepted Accounting Principles which are used for GAAP accounting.

And I think the company, in its exhibits, for some reason, I don't know what the reason is, it wasn't explained, used GAAP accounting in order to state what the equity balance was, as opposed to using statutory accounting which is usually used for regulatory purposes at this and other commissions.

But, on a statutory basis, it is reported the proprietary capital at the end of 2011 was 4,413,000,000 and it is reported that the prior year-end balance was 4,634,000,000, which is a somewhat higher number.

But I think you have to keep in mind here, also, that there is some adjustments that take place because this is a year-end. By that I mean the end of 2011, in which Columbus & Southern and Ohio Power were reported on a consolidated basis; whereas, the prior year, they were reported individually.

And one, probably in order to compare those two numbers, reasonably ought to look at how the consolidation was done at those two points in time because the prior Form 1 would not give that number, would not give the 4634 that's reported here, but, previously, it was a number that was reported separately for each of the two companies.

So that would be a further reason for looking at the year-end number here, I suppose, is that you had it done on a consistent basis for both of the companies post-merger, as opposed to prior periods when they were reported independently.

Q. You made the reference to the statutory information or something to that effect.

A. Yes. Statutory accounting is the FERC Uniform System of Accounts which is followed for regulatory purposes and is followed for Form 1 reporting, but that's not where Ms. Hawkins and

Mr. Allen got their capital structure information. They did not use the statutory number.

Q. I believe that what I heard you explain is that the year-end 2011 equity balance for Ohio Power was somewhere around 4.4 billion, the year-end of the 2010 was about 4.6 or thereabouts.

A. That is what is reported here. That's correct. But, as I say, again, at the end of the prior year would have been an amalgamation of two individual reports that were filed at that time.

Q. So that's a decline of roughly in the neighborhood of 200 million between the year-end 2010 and year-end 2011, subject to the caveats that you just provided, right?

A. That's right.

Q. Just in a follow-up question. Could you turn to page 21. I see some other ROE values there. My question is --

A. Now, this refers to the comparable companies?

Q. Excuse me? I'm sorry?

A. Page 21 you're talking about, the information here involving the DCF and the CAPM?

Q. Yes, I think this -- actually, my understanding is this section is actually a discussion of some discounted cash flow analyses.

A. Well, and it puts the discounted cash flow result together with the CAPM result.

Q. Okay.

A. The average is 8.32, DCF is 9.85, CAPM was 6.8.

Q. The question I have is the various values I see on page 21, basically lines 7 through 20, that paragraph. Do you know whether those are computations that rely upon year-end equity balances or are they based on average of year-end equity balances?

A. I'd have to check that.

Q. Would it take you long to check or would it -- I'm not sure I want to --

A. I guess the easy thing would be for me to provide a, you know, post-hearing exhibit. I could give you the beginning-year and year-end numbers for each of these companies.

Q. But you're not sure -- sitting here right now, you're not sure it's one way or the other; is that right?

A. I'm not certain; that's right.

Q. Could you go back to pages 7 to 8. There's a question in the bottom half of the page.

The question asks: Is strict adherence to the results of models essential to getting the rate of return on equity, quote/unquote, right in a regulatory proceeding like this? Do you see the question?

A. I do.

Q. And then I believe in the answer, which appears at the bottom of page 7 and the top of page 8, you discuss the pitfalls of strictly adhering to the results of models in arriving at an estimate of the utility's cost of equity, right?

A. Right.

Q. You note, at lines 15 through 16, that models can be either helpful or confusing, and their results are highly dependent on how they are implemented. Do you see that?

A. I said that, yes.

Q. Yes. And you believe that to be the case, correct?

A. Oh, it is. Yes.

Q. And I believe you also state in the next -- perhaps in the next couple of lines, you also state that the right, quote/unquote, ROE determination requires a substantial measure of informed judgment.

A. Are we still on page 8?
Q. Yes. I was, I think, referring to lines 16 to 18. You state there at lines 16 to 18 that the, quote/unquote, right ROE determination --
A. On page 7, yes.
Q. On page 7. I'm sorry.
Requires a substantial measure of informed judgment, right?
A. Sure.
Q. And both the DCF, the discounted cash flow method, and the capital asset pricing, or CAPM method, those are both models, right?
A. They are.
Q. And just by way of a clarification for me, could you turn to your Exhibit JW-1.3.
A. Yes.
Q. And I apologize if I miscited that. Is it "JWW" or is it "JW-1.3"?
A. I think it's -- the exhibit is JW-1.3.
Q. Okay. And that's a six-page exhibit which has a fair amount of data, and at the top it says "CAMP Cost of Equity Estimate." And I tripped over that and I just want to clarify with you, is that --
A. It should be "C-A-P-M."

Q. That helps.
A. Thank you.
Q. And if you could return back to your testimony, pages 13 to 14.
A. I'm with you.
Q. Did you say you're with me?
A. Yes, I did.
Q. Okay. At pages 13 to 14, you discuss the need to determine the expected dividend growth rate as part of the discounted cash flow modeling, right?
A. Yes.
Q. And I believe you note, at lines 12 to 14, that when you estimate an equity cost rate using the DCF model, you need to "determine what the most reasonable estimate of dividend growth expectations held by investors is...." Do you see that?
A. Yes.
Q. And then subsequently, on lines 20 to 21, you emphasize that the goal is "to determine what the dividend growth rate is that investors are expecting...." Do you see that?
A. Yes.
Q. So your view is that investor expectations are a key to accurately and fairly determining the cost of equity, then, right?

A. Well, investor expectations determine the price that they're willing to pay for common stock, and that's a fundamental input to the DCF analysis, yes.

Q. Now, in Ohio Power Company's recent distribution rate case, which I think you discuss at one point or another in your testimony, and I'm referring to the case which is No. 11-351 or 11-352. Do you recall discussion about that?

A. I do. And, essentially, my DCF and CAPM calculations are the same as the staff model that was presented in those cases, updated for more current information.

Q. So, in that case, the distribution rate case for Ohio Power Company, the Commission adopted a 10.2 percent ROE for the company's distribution business; is that right?

A. I think that was a settlement number, wasn't it, that the Commission approved and then rescinded?

Q. Well, at any rate, is your understanding that they, the Commission, adopted the stipulation in the distribution -- for the distribution rate cases which included a 10.2 percent ROE value? Right?

A. The Commission did initially adopt the --

it approved the stipulation. It did not perform an analysis, as is often the case in these instances, but simply accepted the compromise that came out of the stipulation.

Q. And so the result of that order was an authorized ROE of 10.2 percent, right?

A. I think that's right, which was then subsequently reversed in February.

Q. You think that that was rescinded or reversed by the Commission's February 23rd entry on rehearing?

A. I think the rates were, yes.

Q. Okay. So you think that the -- you believe that the distribution rate case rates that were approved in the distribution rate case order on December 14th, was then reversed or rescinded by an entry on rehearing in February?

A. It's my understanding that, in February, the Commission essentially rescinded its approval of the stipulation.

Q. Okay. Are you aware of whether there was more than one stipulation affecting the company's rate plans that was entered into and addressed back in the last quarter of 2011?

A. I'm not certain that there was more than one. There may have been, because there were various proceedings.

Q. Let me -- let me ask you regarding the -- well, first of all, the case that we're involved in here is the case that's considering the modified electric security plan for Ohio Power Company, correct?

A. Right. The modified ESP which was, I think, filed in March.

Q. Okay. And the ESP proposal, it will, if it's approved, it will establish standard service offer rates for generation service for Ohio Power Company's customers, right?

A. Standard offer service; yes.

Q. And the standard offer service is for the generation component, correct?

A. I believe so, yes.

Q. And that's a different function, of course, than the distribution function, right?

A. Yes.

Q. And so there are different rates, of course, then set for the distribution function services, compared to the rates set for the generation function standard service offer --

A. Distribution rates reflect different

facilities, different costs, different revenues than generation does, yes.

Q. And would you agree that the risks that the generation function or business faces may be different than the risks that face the distribution function or business?

A. There are differences, yes.

Q. A generation function would face different risks from environmental regulation than the distribution function, right?

A. Well, a distribution function can face environmental risks as well; I think anybody that's installed a transformer knows that. But there are environmental issues, both with respect to generation and distribution and transmission, but they often focus on different sources.

Q. And, in any event, they may each face risks from environmental regulation, but they're different risks, right?

A. Well, they're different, but they're all environmental risks, I guess. But, yes, there can be differences with respect to the type of environmental risk associated with a transmission line and the type of environmental risk associated with a distribution system and the type of environmental risk associated with generation facilities, and that risk would vary between different types of generation facilities as well.

Q. So the magnitude of the environmental risk could also differ between the functions, right?

A. It could. And sometimes it's one way, and sometimes it's another. And there are other risk differences between --

Q. Sure.

A. -- generation and transmission and distribution.

Q. Let me ask you about another kind of risk. I'll come back to the environmental aspect in a second. There's a risk of customer migration that affects the generation function in Ohio, right?

A. Well, it certainly would affect distribution and transmission too. Keep in mind that generation has a lot more flexibility in terms of reaching customers than a point-to-point transmission line.

If you've got a fixed transmission line going between point A and point B, I think you face a lot more potential risks of variation and demand for that facility than you would with respect to a generation plant that can be redispatched to serve loads at various places as times and circumstances change; that's the type of flexibility that is not associated with fixed distribution and transmission lines.

Q. So is it your opinion that AEP Ohio faces less risk from customer migration regarding its generation business than it does with regard to its distribution business?

A. By "migration" if you mean customers moving from one location to another, I would say yes.

If you're talking about regulatory risks that are associated with the way in which the regulatory authority has established revenue collection and shopping credits and shopping opportunities, for example, there obviously isn't the type of shopping alternative with respect to a distribution line, if you're at a fixed location, that you have with generation or transmission facilities.

But I think it all boils down to, you know, what's the cost of capital. And if you look at what the regulator of transmission has determined, which is essentially FERC, they certainly have found, in recent years, that the required ROE for transmission investments to get the kind of RTOs, development of PJM, and the other things that they want in the structure of the transmission business, they've given much higher cost-of-capital allowances for equity for transmission investments at the FERC level than is typical with regard to distribution and generation facilities at the retail level.

Q. So your opinion is that the equity risk that the transmission business of AEP Ohio faces is greater than the equity risk that its generation business faces.

A. It's complicated by the regulatory process. You can take almost any investment in generation, transmission, or distribution, and if you -- if you implement a regulatory determination that revenues are going to be recovered, investment bankers call it a "hell or high water provision," which often exists these days with regard to, especially project financing, you can make any of these investments. From an investor perspective, very, very low risk simply because of the regulatory guarantees.

So you've got to be careful when you're talking about the risk of these investments. Are you talking about the inherent risk of a fixed facility, a wire running between points A and B; that can be risky and it can be subject to all kinds of risks with respect to changes in customer demands, customer relocation, the kind of risks that railroads faced over the last century.

But with the kind of regulatory guarantees that are provided with respect to the recovery of those costs, those risks, from an investor's perspective, can be substantially moderated. And I think, to a large extent, that has occurred.

And we've sort of come to think about and talk about these things within the context in which there are certain regulatory provisions that are very important that sort of, in many cases, overtake the inherent physical or business or economic risks that would be associated with the property itself. In other words, the risk has been transferred from the utility to the utility's customer in that case.

Q. I think you indicated, at the outset of the answer, that the answer to my question is complicated because of complex regulatory factors that affect the different functions; is that right?

A. Because of regulatory factors that can control the assuredness of the recovery of costs.

Q. And let me see if I can bring it back to closer to the ground level here. I'm, of course, referring to AEP Ohio and the Ohio regulatory structure, and my question is: Do you have an opinion about whether, in Ohio, with the current regulatory structure and with regard to AEP Ohio, whether the risks faced from a regulatory standpoint by the generation function, the generation business of AEP Ohio, is different than the risk, the regulatory risk, faced by the function or the business of the distribution side?

A. I tried to answer that, and the risks are different. I think you start from a position in which the risk of a fixed transmission or distribution line running from point A to point B is quite high.

The regulatory process, however, has transferred a good deal of that risk. That is, the certainty of the need for that line or the traffic that would be on that line, has transferred that risk from the investor to the consumer and has, to a larger extent, assured the recovery of those costs. That would be the case for a generation plant in a market-rate environment, for example.

Q. Okay. So the regulatory factors in Ohio have mitigated, as I understand your testimony, the migration risk that otherwise would affect the distribution business, right?

A. I'm not sure exactly what you mean when you say "migration risk," but the risk of changed demands, changed needs, changed circumstances over time, to a large extent that has been -- that has been mitigated by the regulatory process. The risk hasn't been changed; it's been shifted from the investor to the customer.

And it's my understanding that the RSR approach that's being implemented in this case will, to a large extent, for Ohio Power, not for independent generators but for Ohio Power, reduce that risk for generation as well.

Q. And let me go back to the environmental regulatory risk that the distribution function or business faces compared to the generation function or business of AEP Ohio. Do you have an opinion as to whether the magnitude of the environmental regulatory risk that the generation function or business faces is greater or lesser than that faced by the distribution business?

A. Now are you talking about coal generation? Gas generation?

Q. I'm talking about the generation

business, the generation function of AEP Ohio.

A. Which is comprised of many different kind of risks.

Q. Well, I'm talking about it in a composite sense, just as I am talking about the distribution function business in a composite sense. Do you have an opinion, if you don't, that's fine, I'll move on, but do you have an opinion as to whether or not the risk faced by the generation business or function is greater or lesser than that faced by the distribution function of the business?

A. Well, I think, historically, in the way in which risks have been redistributed between investors and customers, there has been a tendency to reduce risks to a larger extent with respect to transmission and distribution, more so than the risks associated with generation.

I think that, certainly, to the extent that you have revenue recovery programs and revenue recovery plans that have been implemented more in very recent years, this has tended to reduce the risks of the generation function as well.

But, historically, I would say that, particularly for coal generation, for nuclear generation, I would have said that there's somewhat greater risks, under our regulatory fabric, for generation than for transmission or distribution; although, you know, we really didn't see that at FERC.

Q. And would you or do you know whether the AEP Ohio-owned generation is primarily coal-fired?

A. I know they have a lot of coal-fired generation --

Q. So then --

A. -- more than gas. They have some nuclear, too.

Q. Excuse me?

A. I think they have some nuclear too.

Q. You think AEP Ohio has some nuclear also?

A. Well, AEP traditionally, I'm not sure how that has been spun off or what's been done with it, but it had numerous nuclear plants.

Q. Okay. So your understanding is that AEP has had nuclear generation in the past, at least, but you're not sure of what the current status of that is, right?

A. Some of that may have been sold; yes.

Q. And do you know -- do you know with regard to AEP Ohio specifically, Ohio Power Company, what its involvement and ownership of nuclear generation has been or is?

A. I believe -- I've been involved in AEP cases for a long time, 40 years, and circumstances have changed over that time. I think that Ohio Power did have interests in nuclear. I don't know, as I sit here now, whether that's the case today. That would be something we could look up in the Form 1 if you have it here.

Q. Okay. I want to turn to a different topic. Dr. Wilson, since the Commission issued its order last December adopting the stipulation in the distribution rate cases and, thereby, at that point at any rate, the 10.2 percent ROE for Ohio Power Company for the distribution business, I think your testimony is that since then, interest rates or cost of money have declined. Did I get that right?

A. My testimony is that since the time the staff did its study and made its recommendations in that case, money costs have come down and come down substantially. In recent months, they have come down, but they've come down significantly over the course of the last year.

Q. So they've come down significantly over the course of the past year and then, also, more recently, they've also declined over the last several months as part of that decline?

A. That's true. You've got long-term 30-year government bonds now under 3 percent, you've got 10-year bonds under 2 percent, you've got 30-year home mortgages under 4 percent. These are all historic lows in terms of money costs.

Q. So some of those residential mortgage loans have even gone down lower than 4 percent, haven't they?

A. That's what I just said; that they are under 4 percent.

Q. Some of them have gone down to 3-3/8 percent. I'm just kidding.

A. Not for a 30-year fixed. Maybe for a 5-year adjustable. But even for a 30-year fixed, it is under 4.

Q. I was just -- I didn't mean to sidetrack us. I just refinanced, Dr. Wilson.

A. Congratulations.

Q. So I know you can get a 15-year loan for 3 and 3/8 at this point.

A. You may have been better off going for the 30.

Q. Well, I can guarantee you that whatever I do, I would have been better off doing something different. That's been my experience.

A. Absolutely. That's good advice for everybody here.

Q. So now the interest rates, they are -- I'm sorry.

A. Excuse me.

Q. Okay. So now interest rates have declined to historically low levels, right?

A. Yes.

Q. And stock prices, over the last several months, have also declined, right?

A. It went up a lot over the last couple of years. But, yes, over the last month or so, they've come down so that there are, at this point, no gains in 2012.

Q. So they went up in January, but then they came back down at some point in the recent past, right?

A. Well, they went up in more than January. If you go back to 2008, many of the indexes doubled, so they went up very, very substantially. And then in the last couple of months there's been a, maybe a 10 percent retraction.

Q. Okay. So 10 percent or thereabouts decline in the last two months in stock prices and, during the same last couple months, a further decline in interest rates, right?

A. That's true, but I don't think that correlation implies causality.

Q. I didn't quite catch what you said.

A. I'm not sure there's a cause and effect between those two things, you know, over that same period of time.

Q. Okay.

A. My tomatoes got bigger, but that's unrelated to that.

Q. There's a correlation, not necessarily a --

EXAMINER TAUBER: Gentlemen, can we keep the question and then answer, just so we don't cross over each other for the record.

Q. Okay. So there's a correlation, over the last couple months, between stock price decreases and interest rate declines --

A. And the growth of my tomato plants.

Q. -- but not necessarily, in your view, a causal connection between the two, right?

A. Between the three; that's right.

Q. Nevertheless, causation aside, and even if it's simply a correlation, dividends and PE ratios

-- dividend yields and PE ratios for stocks have been going up over the last couple months, while interest rates have been going down, right?

A. For those companies that have maintained or increased their dividends, that would be correct, with respect to the dividend yield. With respect to the PEs, in most cases, actually, the PEs have come down.

Q. Your understanding is that PE ratios --

A. Other things equal, when the price declines, the PE ratio goes down.

Q. Would you agree that what has happened over the last two months or so is that capital for investment has been flowing into the bond markets? There are net in-flows into the bond markets in the U.S.

A. I don't know that. I'm not licensed to give advice on that. But I certainly wouldn't advise folks to put a lot of money in long-term bonds at less than a 3-percent yield; that seems to be risky.

Q. So you don't know whether or not there's been net in-flows into the bond market in the U.S. over the last two months or so.

A. Offhand, I don't know. There may have been some in-flow into the bond market. I would expect that that in-flow was more in a holding nature with respect to short-term as opposed to long-term, but I don't know.

Q. I mean, if there had been net in-flows, you think that those net in-flows are of a short-term variety, or are you saying that the net in-flows are into short-term bonds?

A. I really don't know. I would expect that under current circumstances, with bond yields the way that they are, you wouldn't find a lot of smart money going into long-term bonds.

Q. Okay. So you don't know -- you don't have any anecdotal or other information on any other analytical basis that informs you as to whether or not, over the last two months or so, there have been net in-flows into the U.S. bond markets.

A. In the long-term bonds?

Q. Okay. Long-term bond market.

A. I don't know.

Q. How about short-term bond markets?

A. I'll have to say I don't know.

Q. Okay. How about if I varied the question and asked you whether or not you're aware whether there have been net in-flows into the U.S. markets for federal debt, U.S. Treasury bonds?

A. I think the Treasury has been able to sell bonds. Whether the -- and the national debt is higher than it was historically, so I guess there has been some in-flow.

Q. And I'm not really -- okay. And then how about for already-issued Treasury bonds, do you know whether the demand has been such that there has been net in-flows of money into bonds, into U.S. Treasury bonds, over the last couple months --

A. Well, I know the demand has not bid the price up. So it's at least not overwhelming.

Q. You think that the demand has not bid the price up of the Treasury bonds recently?

A. I'll take that back. The price is higher because the yield is lower, that's right.

Q. What I'm getting to is whether or not you have an opinion as to whether or not investor funds have been flowing out of the riskier asset classes, including equities, and into the U.S. and U.S. -- U.S. bond markets or the U.S. Treasury securities markets.

A. I'm not aware of that.

Q. And if it were the case that that has been happening over the last several months, would you agree that that indicates or could indicate that the risk premium for equity securities would lead to either less risky asset classes or --

THE REPORTER: Excuse me. Can I ask you to repeat that.

Q. Would you agree with me that if that has happened, there have been net-in flows into the bond, U.S. bond markets, the U.S. Treasury markets over the last two or three months, that that could indicate that the risk premium for equity securities has been increasing over the last two or three months?

A. Certainly in the term -- in the way in which we talk about risk premiums in cases like this, I would not -- I would not offer that conclusion.

There are all kinds of short-term phenomenon that can cause that type of short-term fluctuation that I would not attribute to a risk premium.

Q. And is it possible, though, that it is a reason for or it is a consequence of such net in-flows from equities to debt securities?

A. I suppose there could be arguments on that, but I would not conclude that that shows a higher risk premium. Certainly, over what has happened over the last two months, no.

Q. Dr. Wilson, I noticed in your testimony that you refer to the gross national product primarily, but you also, at some points, refer to the gross domestic product.

A. And I think I observe that they're very closely connected to each other.

Q. And I noticed that predominantly you refer to gross national product. And so the thought struck me is that you preferred that measure as opposed to the gross domestic product measure; is that right?

A. No. I have a discussion of this at page 26 of the testimony, but I'm not expressing a preference for either. I discuss the relationship between the two. And I showed in the footnote, on page 26, that if you did the calculation in Schedule JW-1.9 with GDP instead of GNP, it would only cause a change from 6.51 to 6.52, so it's virtually the same index.

Q. Okay. As I was reading your testimony, my recollection was that we -- "we" meaning the country, the people who talk about such things -- switched from gross national product to gross domestic product sometime back in the early-'90s; is that right or not?

A. No. We still refer to both. And staff used gross national product, I believe, in its most recent DCF analysis.

Q. So, in your view, it's appropriate to use either one, or do you have a preference for which one?

A. I don't have a big preference, no.

Q. Now, getting back to the DCF calculation, which I believe you report on the results of your analyses at or about page 21.

A. It begins at page 18.

Q. It begins at page 18 and then you get to the results at page 21; is that right?

A. Yes, that's the conclusion.

Q. And then the results of your analysis, you also report on those results at schedule JW-1.1a.

A. Well, 1a is the summary.

Q. I've got to tell you, I was a little -- I confused myself a couple times going through your schedules and exhibits.

A. I followed the same format here in the schedules and so on that were -- or I tried to, that was in the Staff Report, and it incorporates both DCF and CAPM analyses. The DCF estimates are in JW-1.4.

Q. Well, I got that. I got that impression that you preferred the -- you preferred the numbers that came up in the Staff Report compared to the numbers that came out in the Commission's order back on December 14th; is that fair?

A. The Staff Report was based upon a specific analysis. There was an evaluation -- an analytical approach that was used there, and it was a very standard DCF and CAPM approach.

The 10.2 that you're referring to is a stipulation and it's pretty much an unexplained compromise, I presume, between two points of view.

But I thought that the staff analysis was a very good starting point. I did have a couple of questions about it, which I mention and discuss here in the testimony, but I thought it was a pretty impressive piece of work.

Q. We're all very proud of our staff here in Ohio. Thank you.

There was other evidence submitted in the distribution rate cases that supported a higher value than even the 10.2 percent, right?

A. Yes, I did see some of that.

Q. The company presented testimony in support of a value approximately 11.15 percent; is that your recollection?

A. You're referring to Dr. Avera's

testimony?

Q. Yes.

A. I know him. I know his work; I've rebutted it in many cases.

Q. But the point being that the 10.2 is between what the staff had in its report and what the company's position was supported by its testimony, correct?

A. Sounds traditional.

Q. In the end of the day, the authorized ROE for Ohio Power Company was the 10.2 percent value, right?

A. That's what was authorized. That was the stipulated amount.

Q. And it was authorized by the Commission, right?

A. The Commission approved the stipulation, that's right.

Q. In your analyses that's reflected in your testimony and your exhibits and schedules, do you show, anywhere, what the most recently authorized ROEs are for the companies that you look to for guidance in your analyses?

A. I don't. I think that basing an allowed rate of return based upon what some other commission found is pretty circular, and so that's not one of the methodologies that I would recommend for determining a fair rate of return.

Q. Okay.

A. But I'm aware of allowed rates of return; the fact that they've come down substantially over the last decade. There is a survey that's published in Public Utilities Fortnightly every year that tend to lag a little bit, but I think that the last survey, which was published in November of 2011, which reflected cases in 2010 and early-2011, showed that a lot of rates of return had trended down from around 11 to around 10, with quite a few in the 10 percent range, and others in the 10 to 11 percent range.

And I think that they continue to trend downward as commissions have become more aware of reduced money costs and the importance and commitment of the federal government to keep those money costs low.

Q. And, in Ohio, they've trended down to the 10.2 percent level recently; is that right?

A. You're asking whether there was a -- again, you're asking about that 10.2 from --

Q. Last fall, last winter.

A. I'm aware of that number, yes.

Q. Okay.

MR. CONWAY: Thank you very much, Dr. Wilson.

Your Honors, I've completed my examination.

EXAMINER TAUBER: Thank you.

Mr. Margard? Mr. Beeler?

MR. MARGARD: No. Thank you, your Honor.

EXAMINER TAUBER: Mr. Barnowski, redirect?

MR. BARNOWSKI: No, your Honor. Thank you.

EXAMINER TAUBER: Thank you, Dr. Wilson. You may be excused.

THE WITNESS: Thank you.

MR. BARNOWSKI: Your Honor, Ormet moves for the admission of Ormet Exhibit 107.

EXAMINER TAUBER: Are there any objections to Ormet 107?

MR. CONWAY: No, your Honor.

EXAMINER TAUBER: Hearing none, it shall be admitted into the record.

(EXHIBIT ADMITTED INTO EVIDENCE.)

MR. BARNOWSKI: Your Honors, can I

suggest that -- maybe we're all ready to go; I know we're coming on lunch. Can we put in the confidential part before we all break for lunch and then, when we come back from lunch, everyone can come into the room? It will only take five minutes, I think.

EXAMINER TAUBER: Yeah, let's do that actually, and then we'll break for lunch after the confidential portion and we'll pick it up after the Commission meeting.

MR. STINSON: Your Honor, if I could ask when we will reconvene for those of us who will be out of the room for the confidential portion?

EXAMINER TAUBER: We'll reconvene at 1:45.

MR. BARNOWSKI: Your Honor, can you help me remember, did we swear the witness in?

EXAMINER TAUBER: Yes.

MR. BARNOWSKI: Did we get his name?

EXAMINER TAUBER: Off the record.

(Discussion off the record.)

(Confidential portion excerpted.)

Wednesday Afternoon Session,
June 6, 2012; (Open record.)

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

We'll begin cross-examination of Mr. Russell.

And we'll begin with Mr. O'Brien. Do you have any questions?

MR. O'BRIEN: No questions, your Honor.

EXAMINER TAUBER: Ms. Kaelber?

MS. KAELBER: No questions, your Honor.

EXAMINER TAUBER: Ms. McAlister?

MS. McALISTER: I do.

EXAMINER SEE: Ms. McAlister.

MS. McALISTER: Sure. Thank you.

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CROSS-EXAMINATION

By Ms. McAlister:

Q. Good afternoon, Mr. Russell.

A. Good afternoon.

Q. My name's Lisa McAlister, and I'm here on behalf of the Ohio Manufacturers Association.

In your testimony you describe a number of problems with the RSR, and that's at pages 2 through 3, and then also 14 through 15 of your testimony, and you even conclude that it's "too expensive" and "fundamentally flawed."

Is it your opinion that the Commission should reject the RSR altogether and what is in your testimony as an alternative proposal?

A. My primary purpose here is to relieve Ormet from paying the RSR charge. If it's not going to be rejected, which would be preferable, then I recommend a separate rate design which doesn't penalize high-load factor customers in the collection of the RSR charge.

Q. Okay. So it is your preference that the RSR be rejected.

A. Yes.

Q. But in the event it's not, you're --

A. I'm not sure I said that specifically, but yes.

Q. Okay. Your recommendation that's in your testimony is that the RSR not be collected from customers who cannot shop, including Ormet; is that right?

A. Correct.

Q. Now, when you say "customers who cannot shop," are you referring to any customers, other than those like Ormet, who have approved reasonable arrangements that include provisions that require the customer to stay with AEP Ohio?

A. I think it includes them. If there is another class of customer that is forbidden to shop or -- then I would -- my logic would apply to them similarly.

Q. Would that also include customers who are effectively prohibited from shopping because of the economics of it?

A. Give me an example. I'm not sure I understand.

Q. Are you familiar with the tier 1 and tier 2 proposals --

A. Oh, yes.

Q. -- of capacity prices? If there are customers that never make it into tier 1 and, because of usage and load characteristics, they may never have the economic opportunity to shop, would your proposal exclude the RSR from those customers?

A. I hadn't refined it that much, but no, I wouldn't say -- they were offered the opportunity and if the shopping is not an appealing or cost-effective option for them, that's the design of the RSR and the tier 1 and tier 2.

Q. Okay. And you're also not talking about other reasonable-arrangement customers who may not have the same obligation in their arrangement to stay with AEP Ohio?

A. You're saying a unique arrangement that does not -- is not precluded from shopping?

Q. Yes.

A. And the question about them is?

Q. Would they be excluded from collection of the RSR?

A. No. They have an opportunity and they decided not to exercise it, I would not exclude them. Now, this is kind of a fallback position because, you know, the RSR, itself, is unpalatable to me.

Q. All right. I'm glad that's your primary position.

If you know, how many of AEP Ohio's customers have reasonable arrangements that prohibit shopping?

A. I understand there are at least two, but I don't know them in detail.

Q. Do you mean two other than Ormet, or two total?

A. Ormet, plus I've heard Eramet is in a similarly -- similar situation. I have not read their agreement.

Q. Okay. And Ormet's contribution to the RSR would be in excess of about $22 million over the three years; is that right?

A. Over the three planning years, yes.

Q. Is it fair to say, then, that you don't know what the total impact on the RSR of your proposal is, if you haven't read Ormet's agreement and know what their usage is, or if you know --

A. Oh, I see. I see. No, I don't have their billing determinants and I can't say.

Q. Okay. Is it your recommendation that the total amount of the RSR be reduced proportionately to the amount that would otherwise be collected from the customers who cannot shop, or that the other AEP Ohio customers pick up the difference?

A. May I have that again, please?

Q. Sure. I'll rephrase it.

It's not clear to me if your recommendation is the RSR is not collected from Ormet and that amount is pushed to other customers for collection, or if the total RSR is reduced by that amount.

A. If Ormet is relieved from the RSR, that is the primary objective in the absence of cost causation.

With respect to whether AEP decides not to collect the revenues foregone from Ormet, or which the Commission may order not to be collected from Ormet, or whether those RSR charges fall to others is less of a consequence.

Now, the way I've calculated the benefits to other customers, I include a full payment by Ormet, as you may recall.

Q. Okay. You talked a minute ago about the customers with reasonable arrangements who didn't elect to stay with AEP, and those customers who may not have the economic ability to shop or advantage to shop. Are you aware that the customers that do have reasonable arrangements entered into them voluntarily?

A. I presume they were negotiated arrangements, yes.

Q. And they included the obligation to remain with AEP Ohio in exchange for other valuable consideration, namely the avoidance of the provider of last resort charge; is that fair?

A. Probably so, but, had anyone told them at the time they negotiated the deal, like Ormet, that there was going to be a punitive RSR superimposed upon them as a result of opting not to shop or conceding that they were not going to shop, I think there's a little bit of notice and opportunity missing there.

It's not a -- you can't go back now that -- you can't go back and re-create the situation with the RSR superimposed. We might have had a very different deal. Ormet might have had a -- by "we," I mean both of the customers might have had a different deal. So it's hard to say.

Q. Okay. That's fair.

The RSR, though, as proposed, is a nonbypassable charge. So wouldn't what you just say apply to all shopping customers as well? I mean, they shopped without the knowledge that there may be an RSR that applied to them going forward.

A. I'm not sure how they're prejudiced if they shopped and then the RSR came along. They got the benefit. If this is a cost or a balance that the Commission feels equitable to impose, they're in a very much more preferable position than Ormet would be with no option.

Q. Do you think it would be possible for Ormet to shop and receive the price from the market that they're receiving under the reasonable arrangement?

A. Possibly.

Q. Likely?

A. It all depends on where energy and alternative prices go, but it's possible. Certainly would be good to have the option.

Q. Okay. On pages 2 through 3, and then also 18 through 19, you note that the RSR would guarantee AEP Ohio revenue from more than 36 percent of customers who left AEP Ohio or have given a notice of intent before the ESP II application was even filed.

And then you recommend that the target revenue would be reduced to reflect the lost revenue associated with the load that was already committed to leave, but you don't recommend that those customers, who exit and had nothing to do with the application, be exempted from the RSR, right?

A. I hadn't gone to that degree of refinement and I simply hadn't thought that through.

Q. Well --

A. But my primary purpose in this demonstration was that the RSR is targeted to the 929 million associated with 2011 revenues, and there was a very substantial ramp up in shopping over the course of the year which began even before the stipulation was signed, before the Commission signed -- approved the stipulation, and certainly well before the ESP II Modified came into place.

And so it seems to me that if the Commission were to go with an RSR, they ought not to lock in a revenue which is unduly high, because it doesn't reflect all the people who have previously committed to leave. And so that's my primary disagreement with that -- selection of that 929 million.

Q. And, under Ormet's reasonable arrangement, Ormet's received a discount of roughly 120 million over the 2010 and '11 period; is that right?

A. Yes.

Q. And they're anticipated to receive additional benefits through 2018, right?

A. We don't know. If the LME turns around, Ormet is committed to pay above the GS-4 rate; the only customer I know of in that situation. So unless Ormet stays and plays out the whole contract, we can't say where they -- where the net benefit plays out.

But the purpose of my table on page 14,

and I presume we're working off the redacted one, yes, the purpose of my table on page 14 is to show that in spite of the revenues, the discounts that had been provided, in the next three planning years the customers are going to receive a benefit, even after the discounts are taken into account.

You see, I've subtracted out the discounts, the ratepayer paid discount, in line 2 of that tabulation. And so the Ormet nonfuel generation payments, plus the RSR, and then, in later years, the PIRR benefit more than offset the discount.

Q. Okay. But it is true that other AEP Ohio customers paid and will continue to pay for the amount of the discount if there is one; is that fair?

A. As compared to what? In other words, as compared to Ormet leaving? Or as --

Q. Assuming Ormet stays.

A. Okay. If Ormet stays, the other customers benefit, as I've testified. Because if Ormet left, the company would have energy freed up for sale on the off-system sales market for which the customers would receive no credit. But because Ormet stays, the other customers get a benefit.

Q. But they also pay for the portion of the discount that Ormet's receiving under the reasonable arrangement.

A. Yes, but I've netted that out in arriving at my demonstration of a net benefit to the other customers.

Q. Understood.

A. Okay.

Q. On page 12 you describe some of the benefits that we've just talked a little bit about, to other customers of Ormet existing, and that includes not having to pay Ormet's share of the RSR. But if your recommendation is adopted by the Commission, other AEP Ohio customers would lose that benefit, right?

A. If Ormet is relieved of paying the RSR, which I think is justified, if you go to that same table on page 14, we're showing a $106 million benefit in the revised table. And if you remove the RSR payment, the other customers would still benefit by about 82- or $83 million.

So even if Ormet is removed and the other customers have to absorb the cost, overall customers will still continue to benefit. There's enough margin in there to cover the loss of RSR revenues from Ormet.

MS. McALISTER: Okay. I believe that's

all I have. Thank you, Mr. Russell.

EXAMINER TAUBER: Mr. Stinson?

MR. STINSON: Thank you.

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CROSS-EXAMINATION

By Mr. Stinson:

Q. Mr. Russell, my name's Dane Stinson. I represent the Ohio Schools in this proceeding. I just have a few other questions.

I believe on page 16, the second Q and A --

A. Are we on 106-B? Are you on the redacted?

Q. I'm on the redacted.

A. You're on the redacted.

Q. Yes, I am on the redacted.

A. Page 16?

Q. Yes.

A. Okay.

Q. The second Q and A, where I believe you have another recommendation as to how to recover the revenues from the RSR, and I believe that recommendation is they should be collected on a per kilowatt basis as opposed to a kilowatt-hour basis?

A. Only for those customers who would have paid on a kilowatt basis, absent their leaving to shop. In other words, the RSR is going to be imposed on all customers under the company's proposal. When the revenues disappear as a result of giving them credit on the capacity costs, the tier 1 and tier 2, the customers who are relieved of those charges would otherwise have paid on a kilowatt basis.

Now, the ones that paid on a kilowatt-hour basis would remain the same and that's mostly the residential classes. But for the GS classes and the larger classes that pay on a demand basis, I would take their allocated share and recover that based upon their kilowatt billing demands instead of on kilowatt-hours, because it makes a substantial difference to a high-load factor customer like Ormet.

Q. So for the GS-2 and GS-3 classes, you would change the allocation for recovery from a kilowatt-hour to kilowatt basis.

A. For all of the customer classes which are billed on a kW basis, yes.

Q. What effect would that have on those customers' charges if that change remained?

A. Well, the low-load factor customers would be -- absorb a higher share, and the high-load factor customers would absorb a lower share. In Ormet's case, it's about a $3 million difference versus the 7 million.

Q. I'm sorry. I interrupted. Are you finished?

A. Yes.

Q. So the commercial class customer, the low-load factor customer, commercial class, GS-2, GS-3, would experience a rate increase under your proposal?

A. If they are billed on a kilowatt basis, yes, because that's the way they would have paid for this lost revenue in the absence of the shopping.

Q. Have you done any quantifications as to how much that increase would be over AEP's current proposal?

A. It would be the same total revenue requirement. But customers that are billed on the basis of kilowatt-hours would continue to do so. It would be no change for them.

But for the customers who have a demand energy rate, there will be a shift back to the kind of costs they would bear absent the shopping. In other words, they keep their same share of the fixed charges which had been no longer recovered.

Q. I'm looking at the rates that would be applied to the GS-2/GS-3 customers, and I thought we established before that there would be a shift of more responsibility to the GS-2/GS-3 who had demand billing.

A. I haven't made those calculations.

Q. Thank you.

A. But the general trend is if it's a low-load factor customer with a kW demand energy rate, they would bear more of the cost than they would on a flat energy allocation.

MR. STINSON: Thank you. No other questions.

EXAMINER TAUBER: Thank you.

Ms. Kyler?

MS. KYLER: No questions, your Honor.

EXAMINER TAUBER: Mr. Oliker?

MR. OLIKER: No questions, your Honor.

EXAMINER TAUBER: Mr. Hart?

MR. HART: No questions.

EXAMINER TAUBER: Mr. Lang?

MR. LANG: No. Thank you.

EXAMINER TAUBER: Mr. Serio?

MR. SERIO: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Serio:

Q. Good afternoon, Mr. Russell.

On page 2 of your testimony, you indicate that the ESP II increase, as filed, would result in a 50 percent increase in the GS-4 rate since 2007. Do you know how much of that 50 percent increase was offset by the special arrangement contract?

A. Well, it's the discounts that have been received. It's on page -- you mean since --

Q. Since '07.

A. Since '07, okay.

Q. You said there's been a 50 percent increase in the GS-4 rate.

A. Yes.

Q. My question is: If you take out the special arrangement discount, what is that 50 percent number? What number takes its place?

A. Well, the -- you're asking what number, what dollar amount has been paid in discounts?

Q. Let me try again.

A. Is that what you're saying?

Q. You're saying there's been a 50 percent increase in rates since 2007 for the GS-4, correct?

A. Yes.

Q. My question is: If you factor in the discount from the special arrangement contract, how much is the actual increase to Ormet?

A. Well, Ormet actually paid a higher rate in 2007 and 2008 than the GS-4. How did you want me to handle that?

Q. You did the calculation for the 50 percent.

A. Yes.

Q. So Ormet also received discounts of 60 million in 2000 --

A. '10 and '11.

Q. -- '10 and '11.

A. Yes.

Q. So there's $120 million in credits there. So my question is: How much was the actual increase that Ormet has experienced since 2007?

A. Well, let me read you the numbers. The ratepayer paid discounts. Now, 2007 and 2008 was a very unusual situation because Ormet paid a rate above the GS-4, but below the marginal cost. And because of that situation in 2007 and 2008, the Commission decided that the other ratepayers should bear the difference between the rate Ormet paid above GS-4 and the even higher market rate. But don't lose -- don't lose track of the fact that Ormet was paying above the GS-4 rate for those two years.

Now, the ratepayer, the other ratepayers were charged 13.918 million in 2007; and 44445 in 2008; in 2009, it was 14 million 358; in 2010 and 2011, it was 54 million each year. But that situation in 2007 and 2008 was distinct because Ormet paid above the GS-4 rate.

Q. Is what happened in '07 and '08 captured in your 50 percent increase? The anomaly?

A. Well, the 50 percent increase in the GS-4 rate is without regard to the discount.

Q. I understand. And the discount reduced the impact of that increase, correct?

A. As compared to the target or as compared to the GS-4? See, I'm trying to get you to focus on 2007 and 2008.

Q. Well, I understand that, but your comparison is to the GS-4, right?

A. Okay.

Q. So I'd like the same comparison for the GS-4 rate --

A. Oh, okay.

Q. -- but taking into account the discount from the special arrangement.

A. Okay. Ormet had a special -- Ormet paid 49.39 in 2009, that's $49.39 per megawatt-hour in 2007, and the GS-4 rate was 35.65. So Ormet paid about $14 a megawatt-hour times about 3,000 gigawatt-hours. So that's like 3 million gigawatt-hours, times 14, is like 42 million above the GS-4. Was that the number you're looking for?

Q. I'm looking for a percentage. Your first full answer says: "If ESP II is approved as filed, GS-4 rates will have increased 50 percent from 2007."

A. Yes.

Q. Has Ormet paid 50 percent higher rates since 2007?

MR. BARNOWSKI: Objection, your answer -- I'm sorry. Objection, your Honor. The question has been asked and answered. I don't think that counsel understands that when you compare 2007 GS-4 to 2012 GS-4, you can't ask the question as to Ormet because Ormet didn't pay the GS-4 in 2007.

So I think what counsel needs to ask to get the answer he's seeking is how much has Ormet's bill gone up since 2007 not counting the discount. Then I think he can get what he's looking for.

EXAMINER TAUBER: Mr. Serio?

MR. SERIO: Well, if it's not applicable

to Ormet, then I wonder why it's in the testimony. But I'm just trying to get a number to compare to the 50 percent. I just want an apples-to-apples comparison.

And I've asked it a couple of different ways but I don't think I've gotten a percentage answer yet. I've gotten raw dollars, but the statement in the testimony isn't in dollars, it's in a percentage, so I'm trying to get the comparative percentage from the witness.

EXAMINER TAUBER: Mr. Russell, could you answer the question?

THE WITNESS: I'm sorry, I've tried to explain why his question is not reducible to an easy number.

A. If you want me to say the rate Ormet paid in each year as compared to the rate it is now paying, or if you want me to tell you what the GS-4 rate is in each year as compared to what the GS-4 rate is now, I can tell you.

But the discount, there was a negative discount vis-a-vis GS-4 in 2007 and 2008, because Ormet paid more than the GS-4 rate. Am I communicating? I'm sorry. I'm not trying to be evasive.

Q. Okay. Let's go on to something else.
If Ormet gets -- if AEP increases rates to Ormet, Ormet can either absorb the cost or they can pass the cost along in their product, correct?
A. No, I disagree, and I think Mr. Riley told you why this morning. The LME sets what Ormet can get for its product. And Ormet is too small a player to control that market or dominate -- or affect that price, as I understood his testimony and the situation generally.
Q. Okay. You had a discussion with Ms. McAlister about the fact that Ormet cannot shop, correct?
A. Correct.
Q. And Ormet cannot shop because Ormet made the decision to sign the special arrangements contract, correct?
A. That's true; but at the time Ormet made that decision, it was not told it was going to have to pay for other people to shop through an RSR charge. That was a future event of which they had no knowledge.
Had they known at the time that there was going to be an RSR imposed, then it would have been a very different kind of negotiation and probably a

different deal.

Q. Do you know if Ormet put terms into the contract that would give them the right to reopen it if unexpected costs came along down the road like the RSR?

A. I don't recall a reopener for that impact.

Q. Do you know if Ormet suggested having any kind of clause in there so that if costs come down the road that weren't anticipated or known at the time, that they could address those costs?

A. I don't know. I was not present at the negotiations and, really, Mr. Riley would have been the witness on that. So I can't help you on what was in play as part of the negotiations.

Q. So --

A. We do know what the final deal is.

Q. So you don't know if Ormet, in fact, asked for terms like that and they were rejected, do you?

A. That's correct. I wasn't there.

Q. So it's possible that those terms were asked for and were rejected, and Ormet signed the contract anyways.

A. What terms were suggested?

Q. Terms that would allow Ormet to go back and renegotiate the contract if other charges, like an RSR, came down the road later on.

MR. BARNOWSKI: Objection, your Honor. He's stated -- it calls for pure speculation. He stated he wasn't there and he doesn't know anything about what was said.

MR. SERIO: Your Honor, he's also speculated that if Ormet would have known about the RSR, then we would likely have a different deal. So if we're going to speculate, both sides get to speculate.

EXAMINER TAUBER: I'll allow the question.

MR. SERIO: Thank you.

A. Okay. May I have the question again, please?

Q. Okay. So it's possible that Ormet asked for reopeners or clauses like that, they were rejected, and they went ahead and signed the contract anyways, correct?

A. Everything's possible.

Q. You're familiar with the special arrangements contract, correct?

A. The Ormet agreement, yes.

Q. You've read it?

A. Yes.

Q. And on page 8 of your testimony, your question at the top of the page quotes language from the special arrangements contract, correct?

A. Yes.

Q. And that's the language that you believe prohibits Ormet from being able to shop, correct?

A. Yes.

Q. And Ormet also believes that it prohibits them from shopping, correct?

A. I so understood.

Q. And you understand that from conversations with Ormet?

A. I understand it from reading the contract and I haven't been -- I haven't been corrected otherwise.

MR. SERIO: Can I approach, your Honor?

EXAMINER TAUBER: You may.

MR. SERIO: I'd like to mark, for purposes of identification, OCC Exhibit 116.

EXAMINER TAUBER: The exhibit shall be so marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

MR. BARNOWSKI: Counsel, do you have a

copy for over here?

Q. I've handed you a document that we've marked for purposes of identification as OCC Exhibit 116. Do you have that?

A. I have it.

Q. And you're familiar with this document.

A. I don't know that I've read this recently. I may have glanced through it.

Q. If you go to Attachment A, I believe it's about ten pages into the document, is this the power agreement that you're familiar with?

MR. BARNOWSKI: Objection, your Honor. This is a draft power agreement. This is not the agreement that was agreed to by AEP and Ormet that was approved by the Supreme Court or by this Commission.

MR. NOURSE: Your Honor, I would just add, based on Mr. Barnowski's comment, that I don't think there was an agreement that AEP agreed to. They were ordered to enter into an agreement through the Commission's decision in that case.

EXAMINER TAUBER: Mr. Serio.

Q. (By Mr. Serio) Are you familiar with this document at all, sir?

A. Not specifically.

Q. You haven't read this particular document?

A. I don't recall seeing --

Q. Could you turn to page 8 of this document?

A. I will turn to page 8.

Q. OCC Exhibit 116.

A. I have it. Page 8 of the cover or page 8 of the agreement?

Q. Page 8 of the agreement.

A. Oh, the agreement. The draft agreement?

Q. Yes, it's Article Two.

MR. BARNOWSKI: Your Honor, objection to this line of questioning. The witness has stated that he's never seen this document before. To ask him questions on a document he's never seen before is substantially more prejudicial than probative.

EXAMINER TAUBER: We'll note the objection and allow the line of questioning, and if we need to address it later on, we'll do so.

Q. Do you see Article Two, Scope and Term, 2.01, at the bottom of the page?

A. I see it.

Q. Is this similar to the 2.01 article that you cite in your testimony on page 8?

A. Just a second, I'm looking at the contract.

I'm looking at my copy of the special contract and comparing Sections 2.01 of each agreement. They look to be identical from the original to final.

Q. Now, you indicated that you were looking at a final version of the agreement?

A. Yes.

Q. Has that final version ever been filed with the PUCO?

A. I don't know. I thought -- I don't know.

My counsel is nodding yes.

MR. BARNOWSKI: Move to strike.

Q. Now, on the next page, page 9, under paragraph 2.02, "Term."

A. Yes.

Q. It indicates the term is from January 1, '09, through December 31st, 2018, correct? And is that consistent with your final version?

A. No. The term's different.

Q. What's the different term, sir?

A. Okay. The term in your draft you show, this power agreement shall be effective from January 1, 2009, subject to Section 203 -- 2.03 and

Article Three, close quote.

Whereas the final agreement says, quote, this power agreement shall be effective from the filing date of this executed contract through December 31, 2018, subject to Article Three.

Q. So the difference is the starting date?

A. That's one of the differences. The other difference is the mention in the draft of Section 2.03 and Article -- yes. There are two differences at least.

Q. If you could turn to page 21 of the draft.

A. Of the draft copy.

Q. Paragraph 13.07.

A. I see it.

Q. "Representations and Warrantees." Specifically, I'd like you to look at (b), (c), and (d), and tell me if those are the same as your final agreement.

A. It appears to be the same, yes.

Q. And if you could look at the next page, paragraph (h), and make the same comparison.

A. They appear to be the same. That is, the two versions of subparagraph (h).

Q. Okay. Thank you.

Now, pages 11 through 14 of your testimony, you talk about the benefits that ratepayers get from Ormet continuing operations, correct?

A. Yes. Let me just check those pages. 11 through --

Q. 14.

A. 14, yes.

Q. And then at the top of page 14 is where you have your chart.

A. I do.

Q. How did you determine the "Ratepayer paid Discount" for the period shown there?

A. It's for the planning year. It's a -- and, as you know, the planning year straddles the contract years, so I took the average of the two discounts. In other words, the 2012 discount and the 2013 discount, I averaged the two to get 49; one is 44 and one is 54. Actually it's 49,777.

And similarly for planning year 2013-2014, and 2014-2015.

Q. Okay. Now, the column entitled "PIRR Benefit," are you assuming that the company's PIRR, as proposed, be adopted in your chart?

A. You said "column." You meant "row," I think.

Q. "Row," yes.

A. Yes. This shows that if Ormet survives and pays the PIRR, that would be a benefit to the other ratepayers, yes.

Q. But the number that you have listed for the PIRR, that's assuming that it goes forward as proposed by the company, without any changes, correct?

A. That's correct. That's the $3 rate.

Q. So to the extent that the Commission might reduce the carrying charges or the amount, then that amount, in turn, would go down, correct?

A. Yes. It was shown 26.4 million in benefit out of the 106. So even if it went down, the RSR were eliminated, we'd still have some ratepayer benefits.

Q. So the numbers flow through, for example, if the PIRR was modified, you would modify the annual benefits and the cumulative benefits also.

A. Correct.

Q. Okay.

A. Sure.

Q. Now, you've indicated that if the Commission were to approve the RSR, Ormet should not have to pay because Ormet does not have the right to shop.

A. Correct.

Q. And I believe Ms. McAlister asked, but customers that wanted to shop, but because they got shut out of the first phase, it became uneconomic to do so, and I believe you indicated they should still have to pay for it because they at least had the right, correct?

A. Yes, they had the option.

Q. So Ormet gave up its right to shop when they signed the special arrangement contract, and that's a different waiver of right than a customer who gets shut out of Phase I and then finds that it's uneconomical to shop under Phase II, correct?

A. Yes; but it's a different situation with Ormet. Even if it gets extremely attractive to shop, Ormet can't go. The customer you have hypothesized whose economics won't allow him to shop today may well get the economics he needs to shop tomorrow and he's free to do so. Ormet can't shop in either event; in no event.

Q. But that's because Ormet gave that right up, correct?

A. They are forbidden to do so in the

contract.

Q. Right. And just so we're clear, there's nothing in Senate Bill 3 or Senate Bill 221 that would have prevented Ormet from shopping, correct?

A. I don't know of anything, but I'm not sufficiently -- not that I know of; let me say it that way.

Q. And, to the best of your knowledge, there's nothing in the Revised Code or the Administrative Code that would prevent -- that would have prevented Ormet from shopping but for their entering into the agreement, correct?

A. Well, I'm not pretending to be an expert on your statute. I have read through SB 221 and the wonderful guides to that prepared by the legislative service, but the answer, again, is not that I know of.

Q. Okay. Now, on page 15 of your testimony, the question at the middle of the page, your answer indicates that the cost-causation principle that costs should not be borne by customers that did not cause the cost or customers that did not derive a benefit. Do you see that?

A. Correct.

Q. Those are two separate reasons that you give, correct?

A. Right. That's basically a paraphrase of the Seventh Circuit decision in Illinois Commerce Commission v. FERC, if I recall.

Q. So if a customer does not cause a cost, but benefits indirectly, you believe they should have to pay the same amount of costs as someone who caused it and benefited directly, correct?

A. May I have that reread, please?

Q. Sure. I'll reask it.

So if I'm a customer that did not cause a cost but only gets an indirect benefit, I should still have to pay the same amount as a customer that caused the cost and got a direct benefit, correct?

A. Are you talking about the person whose economics foreclose him from making use of the shopping today, but is not forbidden to do so if things change? Is that one of the --

Q. I'm talking about a customer that does not contribute to causing the cost, for whatever reason. I did not contribute to a cost and I only get an indirect benefit. Customer B did not contribute to the cost and got a direct benefit. Should we pay the same amount?

A. That's the way this RSR is structured, if that's what you're asking.

Q. Is that your recommendation; that the charge should be the same in both instances?

A. No; I'd get rid of the RSR. But, in particular, I would get rid of it for Ormet who's even more -- is even more disadvantaged by its application.

Q. If the Commission doesn't get rid of it and wants to recover it from ratepayers, a rate payer that did not cause it and gets an indirect benefit, under your recommendation, would pay the same amount as a ratepayer that did not cause it and got a direct benefit, correct?

A. Your phrasing is so amorphous, can you tell me the two customers you're talking about here?

Q. Okay. We have two customers.

A. All right.

Q. Neither customer contributed to the cost.

A. Neither.

Q. Neither one.

A. Okay.

Q. One customer gets a direct benefit, one gets an indirect benefit. Do they pay the same amount under your recommendation if the Commission approves the cost?

A. Maybe you can -- under the RSR, I'm not sure. As proposed, I'm not --

Q. As you recommend the Commission go forward if they allow the RSR.

MR. BARNOWSKI: Your Honor, I object just to the vagueness of an indirect benefit. I don't know what he means and I think the witness doesn't either.

EXAMINER TAUBER: I'm not sure what you mean either, Mr. Serio. If you could rephrase your question.

Q. Is it your testimony that there's no benefit from the RSR whatsoever?

A. Well, I'm -- not that I can see. It's -- one of its primary faults is that it's supposed to be transitioning to competition and increasing the ability of generators to compete, but one of the principal competitors doesn't have to compete because even when he loses a customer, he still gets revenue.

I think it's kind of a hold harmless for the company the way this RSR is designed.

Q. Now, your table on page 14, does it take into account any potential harm caused to customers as a result of other potential commercial customers that have to lay off employees or might go out of business because they have to pay higher rates as a result of Ormet not paying their full rate?

A. I'm not following your thought. If solely because Ormet is relieved of an RSR --

Q. No.

A. What are you saying?

Q. Ormet, today, has a special arrangements contract, correct?

A. That's correct.

Q. And the discount that Ormet gets is paid for by other customers, correct?

A. Yes.

Q. Does your table capture any negative impact on the remaining customers of having to pay the discount that Ormet receives?

A. The point of my exhibit in this table is that because Ormet is here, even with a discount, the other customers are benefited. Now, you're asking me to assume the opposite?

Q. Is it possible that there would be customers that, because they had to pay higher rates as a result of the Ormet discount, couldn't pay their bills and went out of business?

MR. BARNOWSKI: Objection, your Honor. The witness has made clear that they're actually paying lower rates because of Ormet, so I think it misstates the record and the testimony.

EXAMINER TAUBER: Mr. Serio.

MR. SERIO: Your Honor, it's a fact that under the discount today, customers are paying more than they would otherwise. If Ormet wasn't paying, we don't know for fact what those costs would be; that's pure speculation.

However, to the extent that customers are paying more today for the discount, that's an absolute given. So I think it's a fair question to put to the witness.

EXAMINER TAUBER: I'll allow the question.

A. Okay. What you've hypothesized is a lesser discount, okay, is that right?

Q. No. What I'm saying is if I'm a customer of AEP, and I pay higher rates as a result of the discount that Ormet gets, and because of that higher rate I had to close my business, does your chart capture that cost to the other customers and ratepayers?

A. I don't know how to frame an answer. The other customers are benefiting because Ormet is there. Without the discount, Ormet, in all likelihood, would not be there. So I think the customers are better off with Ormet there with the discount than they are with Ormet gone and no discount. The discount goes away if Ormet goes away, but the customers end up losing.

Now, I'm trying to understand your question. You're saying if Ormet paid a dollar less, paid -- let me start over.

If Ormet receives a dollar less of discount, would the amount contributed by the other customers go down by a dollar? The answer is yes.

And then you're asking me to assume that that's enough to put a customer out of business. And it just -- it's a really extreme hypothetical.

Q. Ormet received a $60 million discount in '09, correct?

A. No; '10 and 11.

Q. That's $120 million. So in '10 and '11 other customers paid $120 million more than they would have otherwise, correct?

A. I think it's 54 million, because 6 million was absorbed by the company.

Q. There were not two years of $60 million discounts?

A. There were two years of 60 million

discounts, but the customers only bore 54 million.
Q. Okay. 60 and 54 is 114 million; is that right?
A. Let me just check that. I'm pretty sure that's correct.
Yes, the ratepayer paid discount was 54 million in each of 2010 and 2011. The other 6 million was borne by the company, subject to recapture later on, as I understand the facts.
Q. Okay. So two years at 54 million is 108 million, correct?
A. Correct.
Q. So if, as a result of that $108 million that ratepayers paid more than they would have, is it possible that there's customers out there, small commercial customers that went out of business because their rates were higher than would have been otherwise?
A. Should I assume that Ormet survives when the discount disappears, or should I assume that Ormet just pays $54 million more in answering your question?
Q. Well, Ormet actually got the discount during those two years.
A. Yes.

Q. So during those two years when it actually happened, is it possible that there's small commercial customers that had to close their doors because their rates went up to help pay for that discount?

MR. BARNOWSKI: Objection, your Honor. It misstates what the witness has said, I think, ten times, that they're actually paying lower rates, not higher rates, because of Ormet.

MR. SERIO: It's the same objection, your Honor. I'm trying to get a distinction between what actually happened and what would happen if Ormet doesn't exist at all. And, right now, I'm just asking under the discount that was received and the higher rates that ratepayers paid, is it possible that any small commercial customers had to shut down because their costs were too high.

MR. BARNOWSKI: But that's the point; they're not paying higher rates. The witness has explained to him, ten times I think, that they're paying lower rates because of the other contributions made to the rate structure of AEP.

And so when he keeps asking the witness wouldn't these customers have -- isn't it possible that the customers have gone out of business because of higher rates, he's misstating the testimony. The fact is that they're paying lower rates because of Ormet's existence even including the discount.

EXAMINER TAUBER: I'll allow the witness to answer the question, but I'm going to ask, Mr. Serio, that we begin to move on, because I'm not sure I've heard as answer to that question as posed.

But with that clarification, we'll direct the witness to answer the question.

A. All right. Let me see if I can answer it this way, your Honor: You've asked me to assume that a customer disappeared because the rates were higher as a result of the discount.

Q. Yes.

A. Okay. Let's assume the other situation, that there was no discount and Ormet disappeared. Even more customers would probably have incurred higher rates and shut down. That's the point I'm trying to get here.

Q. Do you know it's an absolute fact that if Ormet shuts down tomorrow, the numbers on your chart are going to be correct and accurate, or is it possible that those numbers would change? The chart on page 14.

A. The chart on page 14. I think the

situation -- for the conditions assumed, for the PIRR as it is, for the RSR payment pegged at $1.69, yes, these would be the numbers. I don't see anything that would change here given my assumptions.

Q. So it is based on your assumptions in order to be a factor.

A. Yes, of course. There is -- we all know that the RSR could go higher or lower. We all know that if the intervenors prevail in the PIRR, that may end up lower on the ADIT and those other issues.

So, but for the facts I have assumed, these will be the Ormet nonfuel generation payments, and absent a very, very marked increase in the LME price that -- this is what's -- this is what we expect to transpire, yes. Nothing's guaranteed, but this is what we -- our best guess, our best estimate.

MR. SERIO: Thank you.

That's all I have, your Honor.

EXAMINER TAUBER: Thank you.

Mr. Nourse.

MR. NOURSE: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Nourse:

Q. Good afternoon, Mr. Russell.

A. Hi, Mr. Nourse.
Q. Steve Nourse with Ohio Power. You'll be happy to know a bunch of my questions were already answered; thank you for that.
Let's go back to start on page 2 of your testimony.
A. Are we on 106-B?
Q. Sure.
A. Okay.
Q. Page 2, middle of the page, the 50 percent figure.
A. Yes.
Q. You had some questions about that earlier. Does that 50 percent calculation include a full fuel clause?
A. Yes.
Q. Does it include other riders such as the POLR rider?
A. Yes.
Q. Okay.
A. To the extent it was paid and -- yes.
Q. Now, you're comparing 2012 GS-4 rates to 2007 GS-4 rates; is that correct?
A. 2000 -- say again.
Q. I'm sorry, are you comparing -- your

baseline here is GS-4 tariff rates as of 2007, correct?
A. Yes.
Q. And then you're comparing the proposed GS-4 rates to that, correct?
A. Yes, as of -- for the June 2012-May 2013 with a fixed FAC.
Q. Okay. And so since Ormet was paying above tariff in 2007, and they're paying below tariff now, is it fair to say that the comparable number for Ormet for this period would be much less than 50 percent?
A. Not if we're looking at the GS-4.
Q. Okay. Well, I'm translating this statement to Ormet, okay, sir? Do you understand my question?
A. All right. You're asking what did Ormet pay in 2007 versus --
Q. No.
A. -- what does Ormet pay now?
Q. No. You're making a statement here about the relative change in GS-4 rates --
A. Yes.
Q. -- and I want to talk about Ormet now and ask you: Since Ormet was paying above tariff in

2007, they're paying below tariff now, is it fair to say that the relative change for Ormet was flat or much smaller than 50 percent?

A. Well, let me tell you the rates.

Q. Can you answer my question? I didn't ask you to read the rates into the record.

MR. BARNOWSKI: Your Honor, I object. The witness was answering the question and he was interrupted.

THE WITNESS: The rate --

EXAMINER TAUBER: We'll allow the witness to answer the question.

A. The rate Ormet paid in 2007 was above the GS-4.

Q. Did you understand my question?

A. If you're asking me for the rate in 2007 versus the rate today, the rate today for the second half of 2012 would be 40.89, and the cost of power to Ormet in 2007 was well above GS-4 at 49.39.

Q. So it was actually a reduction from 2007, correct?

A. Yes.

Q. Thank you.

Now, you talk about, further down page 2, this is where you start talking about the RSR. And your proposition, I think you stated a couple times today, is that you believe the RSR makes the company whole for shopping, adverse financial impacts of shopping; is that correct?

A. Among other things, yes.

Q. Among other things, okay.

And your statement here, I believe, is -- it carries over to page 3, is that the shopping financial impact you believe the RSR remediates has nothing to do with, or had already happened, has nothing to do with the modified ESP, correct?

A. Well, yes, in essence. Not nothing to do with. What I'm saying is this: You've targeted the RSR to the revenue received for generation in 2011, which includes revenues from customers who are already slated to leave and were not leaving because of ESP II or ESP -- excuse me, not leaving because of ESP II Modified.

Q. Okay. Do you know what the shopping level was for AEP Ohio prior to the stipulation being entered into on September 7th, 2011?

A. I have that here somewhere. Let me see. What date?

Q. The August figure for August 2011 total.

A. 9/1/2011, the shopping was 11.63 percent.

Q. That's the September 1st date?

A. Yes. And I have, let's see, that's split pretty heavily.

Q. I just asked you about the total number. So it's 11.63 percent, prior to the stipulation; is that your understanding?

A. Yes. And I'm reading from the response to Ormet-INT-3-002.

Q. Okay. Now, is it your understanding, from Company Witness Allen's testimony, that the baseline that you talked about, the baseline revenue calculation, 929 million for the RSR -- you're familiar with that, correct?

A. Yes.

Q. Okay. And was that developed based on 2011 financial results for AEP Ohio or was there an adjustment that was made first?

A. The 929 reflects an adjustment for a lower rate of return from 12.06 down to 10.5.

Q. Okay. And so do you know what the financial impact of shopping at the 11.63 percent level would have been at the time the stipulation was filed?

A. In September?

Q. Yeah.

A. I think that's a number we just talked about. We have a 9/1/2011, 11.63 percent total.
Q. Okay. No; what I'm asking you is do you know what the financial impact of shopping at that level was at that time, prior to the stipulation being entered into?
A. Annualized or -- I'm not sure I understand your question.
Q. Annualized is fine.
A. Well, it had risen from 5.4 to 11.63, so you got half a year at 11.63 and another half -- excuse me. I'm not sure -- I'm not sure I understand your question.
Q. You haven't done the -- okay.
A. I haven't done the weighting of the megawatt-hours if that's the question.
Q. Okay. You're stating that the RSR recaptures or makes the company whole for the financial results or financial impact of shopping that occurred prior to the stipulation; are you not?
A. I'm saying it's capturing shopping that occurred prior to ESP II and the institution of the RSR.
Q. Okay.
A. In other words, you're acquiring back

customers that had already committed to leave.

Q. Yes, and that would include customers who shopped prior to the stipulation, correct?

A. Correct.

Q. Do you know what the adjustment from 12 percent down to 10-1/2 percent, prior to establishing the RSR revenue requirement, how much that was worth?

A. 107 million as I recall.

Q. And do you believe that the financial impact of 11.63 percent shopping is more or less than 107 million?

A. I haven't made the calculation, but my logic is it should be both. Whatever it is, it should be added and subtracted from the 929 target because it's not anything to do with ESP II Modified.

Q. Okay. But you recognize that ROE for 2011 was adjusted downward by more than a hundred million prior to establishing the RSR revenue requirement, correct?

A. I so understand, yes.

Q. Okay. Now, is a customer that shops and avoids or bypasses nonfuel base rates, does that customer's revenue go away relative to the RSR calculation?

A. The customer who shops, yes, his --

Q. Okay. So the customer who shops is going to be taking generation service from a CRES provider, correct?

A. Yes.

Q. Do you know if the RSR revenue that's measured against the 929 includes any revenue associated with that customer?

A. I so understood that the lost revenue is what we're trying to capture here; the lost generation revenue.

Q. Okay. Now I want to make sure --

A. In addition, there's an offset for $3 a megawatt-hour for the AEP energy that's freed up by losing the customer for sales -- for AEP to sell in the wholesale market.

Q. Are those -- so when we have our 929 million, we're looking each year to see if that's been met under the proposed RSR. It's your understanding that we look at base G revenue, right? Nonfuel revenue, number one.

A. Well, I think you compare the 355 to the tier 1 or tier 2 discount that's offered, and that is the -- we total your revenues, your nonfuel generation revenues from the remaining customers.

Q. Yeah.

A. You add back the revenues you got from the CRES provider when you bought your capacity, and then there's a credit for shopped load.

Q. Okay. So the revenue from CRES providers, that relates back to that shopping customer we discussed, right?

A. Yes.

Q. Okay. So it's not the case that all these -- all the revenue associated with a shopping customer is lost or made up in the RSR, is it?

A. All the revenue from the shopping customer? No. That's correct.

Q. Okay. Now, would you agree that the harm that you're saying -- the harm of shopping is made up through the RSR, correct?

A. The differential between the capacity cost claimed by the company and the tier 1 and tier 2 capacity price adjusted for capacity revenues from the CRES provider and the credit for shopped load, yes, that's the way it works.

Q. Okay. So the financial harm to AEP Ohio that we're talking about here, in part, is a function of the below-cost capacity charge; is that accurate?

A. Well, I think many of the intervenors would dispute that 355 is AEP's cost. So -- but if I assume that 355 is AEP's cost, and it discounts it to 255 or 145, yes, that's part of what's being captured here.

Q. Now, in other words, if AEP got their cost-based rate, there wouldn't need to be that part of the RSR at all, correct?

A. That's the basis for the alternative option as I understand it, yes.

Q. So now at the bottom --

A. The RSR disappears if you get the 355 that you contend -- your client contends is its cost.

Q. Okay. So, again, just to clarify, your thesis that the RSR is dealing with harm from shopping is simply another way of saying if there's a discount, a discounted capacity rate, then there will be a revenue impact for AEP Ohio, correct?

A. No. You mean in isolation? Yes. But with the RSR, no.

Q. Okay. You also agree that the -- that there are other factors that drive the RSR, the revenues that are considered under the RSR, correct?

A. Yes. Revenues lost for any reason such as someone taking IRP-D. Rider IRP-D. As you know, your client has proposed that the credit is going to be increased and it's 12- or $13 million is going to be lost on existing customers, existing interruptible customers that convert to rider IRP-D. And then any new customers, any increase -- let me say any more demand that gets the $8.21 credit will also be recovered through this RSR.

Q. Okay. So it's unfair to link the RSR directly to shopping; would you agree?

A. I think I said it was predominantly. I haven't asked you to take me back to the testimony, but my recollection was that I said it was predominantly or largely driven by shopping.

Q. Now, at the bottom of page 2, you're talking about these revenues associated with more than 36 percent of customers who had already left AEP Ohio. Do you see that?

A. Yes.

Q. So your objection here is that you believe that shopping has occurred, it's already water under the bridge, so it shouldn't be addressed in the RSR. Is that fair?

A. That's right. It's already baked into the --

Q. Okay. But, again, we're talking about your understanding of the RSR is that it's a prospective rate mechanism, essentially a generation revenue decoupling proposal, correct?

A. That's how it's been described, yes.

Q. Okay. And there's nothing about the shopping that occurred in the past that AEP Ohio would be made whole or erase any financial impact that's already occurred to date, correct?

A. There was -- I disagree. My bone of contention is that the 929 reflects a lot of customers who had committed to leave. And you can tell, by the way the shopping ramped up during 2011, that the full annualized effect by all the decisions made by the end of 2011 had not been felt but were known and measured. And so there's been no adjustment to the 929 to reflect the fact that those customers had already left.

Q. Okay. So is it your contention that the fact that shopping has tripled since the time the stipulation was entered into, that the current shopping levels have nothing to do with the stipulation, Commission subsequent orders under the stipulation, or the current two-tiered capacity pricing?

A. I wouldn't say they had nothing to do with it, but they don't have anything to do with

ESP II Modified. They all occurred and locked in before that was put in place with the RSR.

The RSR, as I read it, is going to reach back and recover some of the lost revenues that were attributable to decisions that were locked in by year-end 2011.

Q. Well, let's talk about your knowledge about whether it's locked in or not, okay? First of all, what do you mean by "locked in"?

A. The shopping was ramping up throughout 2011. Commitments had been made in 2011 to go forward through 2012 that had not impacted the results in 2011. What I am saying is the effect of the RSR is to reach back in time and recover some of those lost revenues through the RSR.

Q. Your understanding is that the RSR is going back for revenues that had been lost in the past, compensating the company going forward.

A. That's, in effect, what happens by using the year-end 2011 results, right.

Q. Okay.

A. Because 2011 results only reflect a partial year of shopping by the customers who had left at that time.

Q. Well, we'll get back to that.

Is it your contention that the tripling of the shopping levels for AEP Ohio, since the time the stipulation was entered into would have occurred at the same levels regardless of any stipulation or any Commission decision in the prior phase of this case?

A. No, I'm not saying that. I'm saying it probably helped increase the shopping. But the shopping seemed to be related, in large part, to the -- shopping seems to be related, in large part, to the decline in the alternative energy price in the market.

Q. Okay. Now, with respect to your contention that customers are locked into a rate, are you speaking to individual retail contracts with CRES providers?

A. No. I'm just saying commitments to shopping.

Q. And you agree that the capacity charge dispute has been pending for some time and, upon a decision by this Commission, there may be a change in the capacity charge that's levied on CRES providers going forward, correct?

A. That's possible, yes.

Q. Okay. And so customers of AEP Ohio,

including wholesale customers such as CRES providers, are not locked into the existing rates for capacity, correct?

A. I presume that's correct. If the rate is determined to be lower than the 145 and 255, yes, they would get the lower rate.

Q. Same with the higher rate, correct?

A. The same what with the higher rate?

Q. Your statement applies to the -- if the Commission establishes a higher rate than the current rate or rates, that would also hold, correct?

A. If the CRES providers pay a higher rate than you've already offered; is that what you're saying?

Q. If the Commission approves the capacity charge that's higher than the current rate that's in effect today, or rates, no customer, no CRES provider, is locked into the rate that existed yesterday; are they?

A. Not that I know of.

Q. I'll skip the questions for areas that are already covered here. Let me just briefly ask you about your recommendation that's listed on page 4, and it's near the top of the page, item No. 2. Do you see that?

A. Yes.

Q. I don't find -- maybe I missed it. Is there a section later in your testimony that talks about this concept?

A. I think so, yes.

Page 19, lines 13 to 20.

Q. Okay. There it is.

Now, your proposal here would be to have an on-peak and off peak FAC?

A. Yes.

Q. Okay. Now, is it your understanding or your presumption in this recommendation that fuel costs are lower during off-peak hours?

A. Yes, they tend to be.

Q. Okay. So if that's incorrect, then the recommendation would not make sense, correct?

A. Fuel plus purchased power and LMPs will tend to be lower off-peak.

Q. Do you believe fuel costs at night would be cheaper than fuel costs during the day?

A. Well, no. Well, let me just refine what I'm saying here. Costs of a kilowatt-hour during the off-peak hours is usually associated with a lower heat rate, lower incremental heat rate.

Q. Meaning the costs -- the cost is higher.

A. The cost is lower off peak. You back down the high-cost units, you're relying on lower-cost units.

Q. Okay. Well, is it your understanding that coal plants get turned off at night?

A. No. Not necessarily.

Q. Okay. So, again, if your presumption is incorrect that off-peak fuel costs are lower, this recommendation would not be something that you would want to pursue, correct?

A. Correct.

Q. Okay. All right. Can you turn to page 8. Okay. We may have covered this earlier, but, at the bottom of the page, you list a GS-4 rate -- I'm sorry.

A. Let me correct that prior answer. The incremental cost of serving an off-peak load is lower than the incremental cost of serving an on-peak load. That's what I'm driving at here. Not that the average cost including startups and shutdowns and no load fuel is necessarily lower off peak, but when a customer adds load during the off-peak period, he lowers the cost typically for all other customers; as opposed to adding a load on peak.

Q. Okay. Well, that's your understanding.

A. Yes, it is.

Q. All right. Turn to page 9. You've got the table at the top of the page. I guess it's just an indented series of numbers for FAC costs.

A. Yes.

Q. Do you see that?

Now, those numbers reflect actual fuel costs that AEP Ohio incurred during those periods, correct?

A. Yes.

Q. Did customers, including Ormet, actually pay the full fuel costs listed here?

A. I understood the FAC includes the full charge that came through to Ormet, yes.

Q. The FAC component?

A. Yes.

Q. Okay. The customers actually pay in the fuel adjustment clause from 2009 through 2011 these FAC costs?

A. I so understood. I think that's what our bills show; the Ormet bills show.

Q. Okay. So there was no reduction in FAC rates based on the phase-in and rate cap components of the ESP I order?

A. These represent the charges seen by Ormet in the FAC in the relevant time periods. I understand that the rate cap caused some fuel costs to be accumulated for later recovery in the PIRR.

Q. Okay. Yeah, again, so this would not have changed AEP Ohio's margin relating to fuel at all. These changes were actual changes in costs, right?

A. These were changes in the FAC.

Q. Fuel costs.

A. They were changes in the fuel costs passed through to Ormet. This is what Ormet is concerned about is the increase in that cost as a component of its total charges.

Q. Okay. Now, moving down the page, page 9, you make a statement, it's in the indented paragraph, that starts: "Under the proposed ESP II rates, the GS-4 rate applicable to Ormet would increase by approximately 10.5 percent over the 2011 average GS-4 rate." Do you see that?

A. Yes.

Q. So your baseline for the 10.5 percent is the 2011 average GS-4 rate.

A. Yes.

Q. Okay. Do you know how much of the -- well, first of all, so you're referring to, essentially, 2012 proposed rates in the first part of the sentence, right?

A. Yes. I'm referring to the FAC for April and May of 2012, yes.

Q. I'm sorry. We may not be on the same place. Okay.

A. Are you talking about the GS-4?

Q. Yes.

A. I'm sorry. Let me just find this in my prior testimony. I'm sorry. If you'll give me a second.

Q. Sure.

A. Okay. May I have your question again, please?

Q. Let me start it this way: In this answer, the first paragraph of the answer, you're describing the unique arrangement. And is it true that under the unique arrangement, as part of the package deal that's been in place all along, there will be a $10 million reduction in the discount starting in 2013 and following in subsequent years?

A. Yes.

Q. Okay. So that part of the increase is what Ormet signed up for all along, correct?

A. That's correct.

Q. So you're not complaining about that part of the increase in your testimony, are you?

A. No. I'm saying that that figures into the extraordinary impact that this rate filing has upon Ormet.

Q. So regarding -- so the rate impact you're presenting here is not incremental to the agreement that Ormet proposed, is it?

A. The 10.5 percent is attributable to the GS-4, and the additional amounts are attributable to the diminution of the discount.

Q. Okay. So when you say, a couple lines down, that the rate Ormet will pay in 2012 would increase by 18 percent over 2011, a significant portion of that is based on the declining discount that Ormet proposed as part of the package deal all along, correct?

A. I don't know that Ormet proposed it, but it is attributable to a diminution in the discount, yes.

Q. Now, with respect to your 2011 baseline rate that you used, did you include -- was that the end-of-year rate, or did you do an average rate for 2011?

A. For 2011, the GS-4 rate is 28.94. It's an average for the year.

Q. Does that reflect the remand -- are you familiar with the POLR termination starting in November of 2011?

A. I am not.

Q. Okay.

A. I'm not familiar with the details of that. I know it's not showing up on the new -- in the new rate schedules.

Q. Okay. So you don't know whether your 2011 average rate calculation reflected that end-of-year level throughout the calculation?

A. I will have to check. I can check that and give you an answer later.

Q. So you don't know is the answer right now.

A. That's the answer right now. I know there was a POLR. I know the POLR is not in the ESP II Modified. To the extent -- I don't know the extent to which the 2011 rate includes the POLR.

Q. Your 2011 baseline rate.

A. Yes.

Q. Okay.

A. GS-4.

Q. Correct.

Okay. Page 13 of your testimony, sir --

A. Now, I will --

Q. Turn to page 13.

A. Let me tell you -- let me tell you this --

Q. There's no question pending, so let's not --

A. I think I have an answer.

Q. If you want to do redirect with your counsel --

MR. BARNOWSKI: I would ask that Mr. Russell be allowed to complete his answer.

EXAMINER TAUBER: There's no question pending, so we'll ask --

THE WITNESS: Okay.

EXAMINER TAUBER: If you could just respond to the questions.

THE WITNESS: I was trying to correct the prior answer.

EXAMINER TAUBER: You'll have an opportunity on redirect.

Q. (By Mr. Nourse) On page 13, the paragraph starts "In summary." Do you see that? Are you there?

A. Yes.

Q. You say, at the end of that paragraph, "...AEP would be able to sell the energy and capacity freed up as a result of Ormet's curtailment or shutdown and to retain all profits...." Do you see that?

A. Yes.

Q. Is it your understanding that AEP Ohio retains a hundred percent of off-system sales margins under the AEP pool?

A. Not until 2014. I understand that they have an MLR share until the GenCo commences operation on a stand-alone basis.

Q. So if and when the pool agreement terminates, they -- depending on what replaces it, they may be able to retain a hundred percent; is that your testimony?

A. My testimony is that I don't see why they wouldn't. They're going to be a stand-alone company dealing separately with PJM from the pool. I think they'll get whatever the margin is.

Q. And --

A. That's AEP GenCo.

Q. -- is it your understanding today, based on what we actually do know, that AEP Ohio retains a hundred percent of off-system sales margins?

A. As I said in my prior answer, I understand that they are allocated -- the off-system sales profits are allocated to the operating companies in proportion to their MLR; member load ratio.

Q. So the answer is "no"?

A. Correct.

Q. Thank you.

Okay. Can you turn to page 14.

A. I'm there.

MR. NOURSE: I may have covered this.

That's all the questions I have.

Thank you, your Honor.

EXAMINER TAUBER: Mr. Margard?

MR. MARGARD: No questions. Thank you.

EXAMINER TAUBER: Mr. Barnowski, redirect?

MR. BARNOWSKI: Can we have one minute?

EXAMINER TAUBER: Sure. Let's go off the record.

(Discussion off the record.)

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

Mr. Barnowski?

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REDIRECT EXAMINATION

By Mr. Barnowski:

Q. Mr. Russell, just a couple questions for you. There were some questions about the increase in Ormet's price. What was Ormet's price per megawatt-hour in 2009; do you know?

A. 2009, it was $35.83.

Q. What will it be if -- putting aside the projected fuel adjustment clause rates that we talked about in the confidential session, just take that, put it in a box, and let's not talk about that because I don't want to have to clear the courtroom.

So putting that aside, what is the rate going to be if this GS-4 -- I'm sorry, if this ESP is approved in 2012 for Ormet?

A. 40.25.

Q. What's it going to be in 2013 with the same caveat that we're putting aside the projected FAC?

A. Oh, putting aside the -- in 2013?

Q. Yes.

A. 43.

Q. Okay. So that's a $9 increase in two years, $9 over original base of 34. What's the percentage increase from 2011 to 2013, putting aside the FAC?

A. We've got 43.29 --

Q. I'm trying to make it really quick. Can you and I agree that a $9 increase on a $43 rate is over 25 percent?

A. Yes.

Q. Now, if you could turn to your table on page 14. I have a couple questions about that.

A. Okay.

Q. My first question is a simple one: Are ratepayers going to pay higher or lower rates because of Ormet being a customer of Ohio Power?

A. I estimate here it would be $116 million less over the three planning periods shown.

Q. Does that include the discount?

A. That is net of the discount.

Q. Okay. And does that include any of the benefits that Mr. Coomes talked about this morning, in terms of jobs being lost and taxes paid and things like that?

A. No. Those would be in addition.

Q. So these are just rates.

A. Yes.

MR. BARNOWSKI: No further questions,

your Honor.

EXAMINER TAUBER: Thank you.

Recross, Ms. Kaelber?

MS. KAELBER: I have no questions.

EXAMINER TAUBER: Ms. McAlister?

MS. McALISTER: No questions, your Honor.

EXAMINER TAUBER: Mr. Stinson?

MR. STINSON: None, your Honor.

EXAMINER TAUBER: Ms. Kyler?

MS. KYLER: No questions, your Honor.

EXAMINER TAUBER: Mr. Darr?

MR. DARR: No questions.

EXAMINER TAUBER: Mr. Hart?

MR. HART: No questions.

EXAMINER TAUBER: Mr. Lang?

MR. LANG: No. Thank you.

EXAMINER TAUBER: Mr. Serio?

MR. SERIO: No. Thank you, your Honor.

EXAMINER TAUBER: Mr. Nourse?

MR. NOURSE: Just briefly.

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RECROSS-EXAMINATION

By Mr. Nourse:

Q. Mr. Russell, you mentioned to counsel, just now, the Ormet rate for 2009. Do you know what

the GS-4 rate was in 2009?
A. Yes. In 2009, the GS-4 rate was 39.78.
MR. NOURSE: Thank you.
That's all I have.
EXAMINER TAUBER: Thank you.
Mr. O'Brien, I missed you. Do you have any questions?
MR. O'BRIEN: No, your Honor.
EXAMINER TAUBER: Mr. Margard?
MR. MARGARD: No, your Honor. Thank you.
EXAMINER TAUBER: Mr. Russell, you may be excused. Thank you.
MR. BARNOWSKI: Your Honors, Ormet moves for the admission of Ormet Exhibits 106-A and 106-B at this time.
EXAMINER TAUBER: Are there any objections to Ormet Exhibits 106-A which is the public testimony, and 106-B which is the -- or the other way around, I'm sorry. 106-A which is the confidential testimony, and 106-B which is the redacted public testimony?
MR. NOURSE: No objection, your Honor. I just want to make sure 106-A is entered under seal.
EXAMINER TAUBER: It will be.
MR. NOURSE: Thank you.

EXAMINER TAUBER: Both shall be admitted into the record.

(EXHIBITS ADMITTED INTO EVIDENCE.)

EXAMINER TAUBER: Mr. Serio.

MR. SERIO: Thank you, your Honor. I'd move admission of OCC Exhibit 116.

EXAMINER TAUBER: Are there any objections to OCC Exhibit 116?

MR. BARNOWSKI: No objection, your Honor.

EXAMINER TAUBER: Hearing none, it shall be admitted into the record.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER TAUBER: Mr. Hart.

MR. HART: Thank you, your Honor. Summit Ethanol and Fostoria Ethanol, both of them dba POET, call Gary Swanson.

EXAMINER TAUBER: Mr. Swanson, raise your right hand.

(Witness sworn.)

EXAMINER TAUBER: Thank you.

MR. HART: May I approach?

EXAMINER TAUBER: You may.

MR. HART: I'm going to hand the witness what we've marked as Summit Ethanol and Fostoria Ethanol dba POET Exhibit 101.

EXAMINER TAUBER: It shall be so marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

MR. HART: If it would help, we can refer to them as "POET." It would be easier.

EXAMINER SEE: Let's go with "POET."

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GARY A. SWANSON

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

DIRECT EXAMINATION

By Mr. Hart:

Q. Please state your name and address.

A. Yes. Gary Alan Swanson from Chanhassen, Minnesota.

Q. Who are you employed by?

A. Energy Management Solutions.

Q. We've marked for identification POET Exhibit 101; can you tell us what that is?

A. It's a testimony that I put together regarding the impact that the ESP would have on the two POET plants.

Q. Did you prepare that?

A. Yes.

Q. And do you have any changes to it?

A. Two minor changes that have no impact on the results.

Q. Can you explain that?

A. Certainly. The first is a typo, basically, on the RSR rate. It is listed in this report as ".0016848."

EXAMINER SEE: Excuse me, Mr. Swanson.

EXAMINER TAUBER: What page and line is that?

A. That's in Exhibit 1A, I apologize. So this is the same in Exhibit 1A and 1B.

Q. Why don't you point out exactly where it is on that page.

A. Okay.

EXAMINER SEE: Just a moment.

EXAMINER TAUBER: The Bench doesn't have a copy of Exhibit 1A and 1B.

MR. ALAMI: Could we get a copy of Mr. Swanson's exhibits?

MR. HART: It should be the last couple pages, but I have another copy.

Q. Why don't you point out where those changes were.

A. Yes. Under Exhibit 1A, this is for POET Biorefining Fostoria. It is the same for 1B for Leipsic. The rate that is under line item No. 8 for the "Rate Stability Rider" should be ".0016948" as opposed to what's stated as ".0016848." The net result only influences the results two-hundredths of a percent. So instead of 3.26 percent increase, it's 3.28 percent increase.

And the other minor change has to do with Exhibit 1B for Leipsic. Under No. 6, the "Transmission Cost Recovery Rider," the rates that are shown are shown for the G-4 sub-transmission rate. Leipsic's actually would be a G-4 primary, but the net result is the same. It's the exact same number for the increase; the .33 percent. That's all.

MR. HART: Do you have that noted? Did you guys find it?

EXAMINER SEE: So we're talking for the first two lines of item 6, the "Transmission Cost Recovery Rider."

THE WITNESS: Yes, that is correct.

Q. Mr. Swanson, with respect to the testimony that's contained within your Exhibit 101, if I were to ask you the same questions today, would your answers be the same?

A. Yes, they would.

MR. HART: At this point POET moves in

Exhibit 101, subject to cross-examination.

EXAMINER TAUBER: Thank you.

Mr. O'Brien?

MR. O'BRIEN: No questions, your Honor.

MR. ALAMI: Your Honor, sorry to interrupt. Would this be an appropriate time to address the motion to strike?

EXAMINER TAUBER: Yes, I apologize.

There's an outstanding motion to strike by the Ohio Power Company relating to the PIRR provision, and we're going to deny the motion to strike as we feel it does relate to this ESP proceeding.

So now we'll begin cross-examination.

Mr. O'Brien?

MR. O'BRIEN: Still no questions, your Honor.

EXAMINER TAUBER: Mr. Barnowski?

MR. BARNOWSKI: No questions, your Honor.

EXAMINER TAUBER: Ms. Kaelber?

MS. KAELBER: No questions.

EXAMINER TAUBER: Mr. Siwo?

MR. SIWO: No questions, your Honor.

EXAMINER TAUBER: Mr. Stinson?

MR. STINSON: No questions, your Honor.

EXAMINER TAUBER: Ms. Kyler?

MS. KYLER: No questions, your Honor.

EXAMINER TAUBER: Mr. Darr?

MR. DARR: No questions.

EXAMINER TAUBER: Mr. Lang?

MR. LANG: No. Thank you.

EXAMINER TAUBER: Mr. Serio?

MR. SERIO: No questions. Thank you, your Honor.

EXAMINER TAUBER: Mr. Alami?

MR. ALAMI: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Alami:

Q. Good afternoon, Mr. Swanson.

A. Good afternoon.

Q. You stated earlier in your cross-examination that your primary purpose for your testimony is to present to the PUCO the impact AEP Ohio's ESP would have on the POET plants; is that correct?

A. Correct.

Q. And when I say "the POET plants," your understanding is that refers to both Summit and Leipsic; is that correct?

A. Yes. Fostoria and Leipsic, yeah. Summit is Leipsic, so, yes, that is correct.

Q. And in presenting the impact to the PUCO in your testimony, you touch on a number of the proposals contained within the modified ESP proposal; is that correct?

A. Yes.

Q. I'd like to start on the -- well, I guess, let me start with some of your background. Is this your first time presenting testimony before the PUCO?

A. Before the PUCO, yes. I had presented in front of other public utility commissions in other states.

Q. Minnesota, or what?

A. Minnesota and Iowa.

Q. And what did you do to prepare before submitting your testimony in this case?

A. I reviewed the rates and tariffs that were in place before the proceedings, and reviewed the various testimonies that were submitted by AEP.

Q. Looking to page 1 of your testimony now, at lines 14 through 17, you state there your relationship to POET, and I believe you said that you've been an outside energy consultant for POET now for over four years; is that correct?

A. Yes.

Q. And said you've assisted -- typically, assisted POET as it explored and researched new locations for its ethanol plants; is that correct?

A. Yes.

Q. And did you assist POET in exploring and researching the location for the Summit and Fostoria plants?

A. No. I came on right after they had already worked with the various utilities on those.

Q. And around what time period would POET have been exploring the location for those two plants?

A. Those two plants were built in 2008, and so they would have been exploring locations and talking to utilities about the rates up to six months or a year before that.

Q. And when you say "talking to utilities," what would that discussion have centered around?

A. They're trying to find out what type of rates that the utilities would be charging, what kind of anticipated future rates that they might have, so they can plan and see if this would be a proper site for them to build a plant and be profitable.

Q. Again, you weren't involved in selecting the location for the two POET plants --

A. Correct. I'm sorry, I'll let you finish.

Q. That's all. Thank you.

Moving now to your discussion of the capacity charge. I believe you begin that discussion on page 4 of your testimony. Now, on page 4, lines 20 through 21, you state that the capacity charge is not fair in that it allows "some customers to shop while other customers are prohibited from doing so." Is that an accurate statement of your testimony?

A. Yes.

Q. And what do you mean by "customers are prohibited from doing so"?

A. With the amount of shopping credit at $255 a megawatt-day, that adds so much costs to someone trying to shop that it's just about impossible for them to be able to shop and take advantage of the lower rates in the marketplace. It's a high barrier that is an added cost that if they were shopping freely, they wouldn't have to pay.

Q. And is it your understanding that the company charges the $255 a megawatt-day capacity rate directly to customers?

A. That fee can be charged to the customers or it could be paid by the marketers or whoever they're going to be buying power from, as I understand. Ultimately, they have to pay that fee if it's charged directly or they're going to pay it through the marketer.

Q. But it's your -- well, you tell me, is it your understanding a customer who chooses to shop and receive services from a CRES provider, would that customer be billed the $255 per megawatt-day rate, or would the CRES provider be billed the $255 per megawatt-day rate from the company?

A. I'm not sure if they would be billed that fee directly or not. I think the CRES provider would possibly be billed that, but they would still have to be paying that or overcome that in the rate savings.

Q. And are you assuming that in the scenario where the CRES provider -- AEP Ohio is actually billing the CRES provider the capacity charge, are you assuming that the CRES provider passes on 100 percent of that charge in the rate it provides to its customer?

A. Yes.

Q. Would you agree, Mr. Swanson, that it's a possibility that a CRES provider may be able to offer a rate that doesn't include 100 percent of the

capacity charge to a shopping customer?
A. I'm not quite sure.
Q. Well, would you agree that a CRES provider may consider a number of factors when offering a rate to a shopping customer, including length of contract, for example?
A. I'm not sure that they provide a discount. If you're saying provide a discount for a long-term contract, a discount would be a discount regardless, which some people do charge. Now, whether that would come off of the capacity charge or off of their other rates, it's hard to say.
Q. Well, let me back up and ask you: Are the POET plants currently shopping or considering shopping, if you know?
A. Yes, they are.
Q. Which one? I messed that up, that question, by asking two questions. Are the POET plants currently shopping?
A. Yes, they are currently shopping.
Q. When did they begin shopping?
A. About two months ago.
Q. And without going into the specific details of the contract with the particular CRES provider, do you know what rate they're paying for

capacity under that contract?

A. Yes, I do know the rate, but that's something I can't divulge.

Q. Understood.

Going back to page 4, at lines 22 through 23, you said the capacity charge of the $255 per megawatt-day for Tier 2 customers makes it impossible for customers to have fair and -- free and fair access to the market when others can shop at $146 per megawatt-day; is that correct?

A. Yes.

Q. What do you mean by "fair and free access to the market"? Do you just mean the ability to shop?

A. Yes, just the ability to shop.

Q. When making that statement there did you consider the fact that the company was already experiencing customers shopping at the $255 per megawatt-day rate?

A. Yes; some are.

Q. So is it still your testimony that it's impossible for customers to shop at $255?

A. I think it's very difficult for them.

Q. But not impossible.

A. No.

Q. I kind of touched on this earlier, but from the CRES provider perspective, would a customer consider more than just the price of capacity when making a decision to shop or not shop?

A. Can you elaborate on that? On what other -- what other decisions. Cost obviously is important. Do you have something else?

Q. Sure. Length of contract, other services or options that are offered by a CRES provider.

A. Yes; there could be other options that could weigh into that -- into that decision. Price, obviously, is the most important.

Q. Moving to page 5, at lines 8 through 10, you state that you don't believe that AEP's capacity charge today is $355 per megawatt-day; is that correct?

A. Yes.

Q. And have you done any analysis to support this belief?

A. I base that off of the fact that other utilities are not charging the capacity charge. To me, it seems like it's a high -- high cost.

Q. Well, you haven't done any analysis to dispute the $355 embedded cost figure?

A. No.

Q. And would you agree, Mr. Swanson, that different companies could have different levels of costs?

A. Yes.

Q. Would you agree that all other things being equal, a company that invests in generation -- generating units, would have higher costs than a company that doesn't invest in generating units?

A. It depends. The costs could be higher if you're buying everything on the market at a higher rate. If you invested in cheap nuclear or coal plants, you might have lower rates even though you have a higher investment.

Q. I thought I took those considerations out of the equation by prefacing the question with "all other things being equal." So I'll ask that again.

All other things being equal, just looking at the costs related to generating units, would you agree that a company that has invested in generation would have higher costs as opposed to a company that hasn't invested in generation?

A. I think it's too open of a question, because you can invest in generation, but what type of generation, when did you invest, what was your cost. So it's hard to say "all things being equal."

I don't think I can answer that question.

Q. On page -- also on page 5, at lines 11 through 19, this is where you provide -- are these your proposed "fair solutions" to the capacity charge situation as you label it?

A. Yes.

Q. And looking at your three options here, Option No. 1 states that -- under your Option No. 1, you would propose that all customers pay the same capacity charge; is that correct?

A. Yes.

Q. And what charge would that be?

A. I don't know. What I'm -- what I'm searching for here is something that's fair for all customers. I do not believe it's fair to have two tiers and have both customers in both tiers have to pay the same costs.

Q. When you say "all customers," do you mean both shopping and nonshopping customers?

A. Yes.

Q. Have you considered the impact of the shopping -- strike that.

Would you consider the -- I'll move on to Option No. 3, then. Under Option 3, you propose to continue the old rates without allowing for the two utilities to be combined; is that correct?

A. Yes.

Q. And are you aware that this Commission has approved the merger of -- well, let me back up and say: When you say "two companies," are you referring to Columbus Southern Power and Ohio Power Company?

A. Yes.

Q. Are you aware that the Commission has approved the merger of those two companies?

A. Yes; but what I was referring to here are the costs, all the costs being combined from the two different utilities.

Q. Are you aware that in approving the merger the Commission found that it would not adversely impact any customer class in either company?

A. I think that's an untrue statement. Maybe they made that decision, but it obviously has an impact on all customers in both utilities.

Q. So you're saying you don't agree with the Commission's determination there?

A. I'm saying that by combining all the costs it's unfair for the various customer classes.

Q. And, in making your proposals, the three options you have there on page 5, do you consider the financial impact on the company under any of those options?

A. Yes.

Q. And in what way?

A. Well, Option 3, I assumed that if all things were well before the merger or before the ESP was started, that AEP could live with the old rates. I think that's an option if you can't come to a conclusion here.

Option 1, you'd have to come up with a capacity charge that's making you whole if you're going to charge the same capacity charge, so that would make you whole as well.

And, Option 2, it seems easy to allow, at least people who are shopping, to be able to access the market today and in the future. And you'd have to take a look at what other rates that you're charging to see if you're made whole on that as well.

Q. So, under Option 1, when you propose that all customers, including shopping and nonshopping customers, pay the same capacity charge, you understand or agree that such capacity charge would have to make whole -- make the company whole; is that correct?

A. Yes. I understand that you'd want to charge a capacity charge to offset those costs. However, knowing what all the other utilities are charging and not charging for capacity charges, I still question that a capacity charge is needed at all.

Q. But you did state earlier that you agreed different companies have different cost structures.

A. Absolutely.

Q. Moving on, then, to your discussion of the RSR on page 5. There at the bottom, on lines 22 through 23, you state that -- and this, I believe, you indicated earlier -- that it's not fair for some customers to pay the RSR and not receive the same benefits; is that correct?

A. Yes.

Q. And when you say "the same benefits," what do you mean by that?

A. Some can shop and some can't shop.

Q. That's the only benefit you're referring to there?

A. That's the main benefit.

Q. Are you aware of any other benefits, as a result of the company's proposal in this case, to both shopping and nonshopping customers?

A. There are a lot of -- certainly, a lot of benefits and probably detriments, but I haven't really given it a lot of thought.

Q. Would you agree that the company's proposal to offer capacity at a price less than its fully embedded cost would benefit some customers?

A. I would agree that if the fully embedded cost was true and accurate and you offered it at less that would benefit them, yes.

Q. Would you agree that freezing base generation rates, as part of the proposal, would provide some benefit to customers?

A. Don't know. It really comes down to what's the ultimate cost. If you freeze some costs and you raise other costs and it's higher to them at the end of the day, no.

Q. Would you agree that transitioning the company to a competitive market quicker than required under the law is a benefit to some customers?

A. I think transition to the free market is a good thing. But I do believe it should be done on a fair basis, so all customers have access at the same time.

Q. And if these benefits that we just went through, and by no means is it meant to be a full recounting of the benefits of the proposal, if they were only possible with the presence of the RSR, would you agree that the RSR helps provide some benefits to AEP Ohio's customers?

A. I don't believe so.

Q. And why is that?

A. In my mind, I think the customers are better off with the old rates than having to pay these added charges. The RSR will benefit the people who can shop, but -- or the people who can't shop, certainly, aren't going to be benefited and they certainly have to pay for the RSR charges.

Q. So your own testimony is that if the RSR allows for the shopping, increased shopping to occur, you don't believe that that's a benefit.

A. I don't believe that the RSR is necessary. I believe it's an added cost that is not needed. And I don't believe it should be a cost that should be charged.

Q. Is that because you believe that AEP will not be financially harmed as a result of its proposals in this modified ESP?

A. I don't know.

Q. Well, you state there, on line 23 of page 5, that "AEP will not be harmed financially"; what do

you mean by that statement?
A. I don't believe that AEP needs this charge and needs to charge that.
Q. What is your understanding of the purpose for the RSR?
A. As I understand it, the RSR is what AEP needs to offset costs, additional costs, that they have to allow people to shop; that they're going to lose money with as a result of people shopping.
Q. And when you say -- I'm sorry, were you finished?
A. Yeah. I'm sorry.
Q. And when you say "lose money," is that another way of saying "financially harmed"?
A. It depends where all the other pieces fall in. I don't know all the other details of where money is charged and not charged.
Q. But you did say that you understand the RSR is to offset the costs to allow people to shop?
A. Yeah, I believe what I said, I believe that's what AEP has intended for that, or that's what I meant to say. I'm not sure that that is really needed.
Q. Now, earlier, you indicated that in preparation for submitting testimony you reviewed

testimony submitted by the company; is that correct?

A. Yes.

Q. And did you review Company Witness Allen's testimony?

A. Yes.

Q. And are you aware that Company Witness Allen quantified the amount of loss attributable to providing capacity at a price less than the company's embedded cost?

A. Yes, I recall him saying something to that effect.

Q. And that, do you recall, it's approximately 989 million over the term of the ESP?

A. That sounds about right from my recollection.

Q. And you understand that that's a loss of revenue to the company as a result of promoting shopping through the ESP proposal; is that correct?

A. I don't believe it, but I understand that's the understanding.

Q. And, with that understanding, would you agree that that loss of revenue is financially harming the company?

A. I'm not sure it's a true loss, so I can't answer that.

Q. What do you mean by it's not a true loss? You're not sure it's a true loss?

A. I'm not sure those are truly losses that AEP is going to incur by allowing people to shop.

Q. Is it your proposal that the Commission not adopt the RSR?

A. Yes.

Q. And if the Commission does not adopt the RSR, do you consider those -- that 989 million, true losses under that scenario?

A. I don't know.

Q. Continuing on, at the bottom of page 5, on line 23, you state, "Otherwise," and continuing on onto page 6, line 1, "would not be in a position to allow customers to shop in 2015." And I might be summarizing, but I think this is where you're continuing on in your statement that AEP will not be financially harmed because it's your opinion that if it didn't allow customers -- well, let me just, instead of trying to testify for you, ask you.

A. Let me testify.

Q. Yeah, ask what you mean by that.

A. My thought here is that according to your testimony, AEP's testimony, is that in 2000 -- after this three-year period is over, AEP will no longer have to charge for the RSR and it will allow all of the customers to shop. And it will allow access to all the customers.

I guess, in my mind, if you were financially harmed by allowing people to shop, how could you allow everyone to shop and not charge another fee? That was my reasoning there.

Q. Are you aware of AEP Ohio's obligation as an FRR entity?

A. No.

Q. Are you aware of a change occurring within the company with respect to being an FRR entity in 2015?

A. No.

Q. Are you aware of what FRR is or a fixed resource requirement entity is?

A. No, not totally.

Q. What's your limited understanding of the term?

A. Can you explain what it is?

Q. I'm asking you.

A. I am not sure what it is.

Q. When I asked you are you aware of FRR, you said "no, not totally." So I'm asking what is your limited understanding.

A. As a fixed resource, my understanding is that you are going to try to fix -- fix your resources, keep the resources where they're at. I don't know the full details.

Q. Okay. Moving on to your discussion of the DIR, the distribution investment rider, that begins on page 7 of your testimony. And it's your testimony that, again, the DIR is not needed; is that correct?

A. Yes.

Q. And what's the basis for that conclusion?

A. Right now, any distribution investments that you make, you're recovering through normal rate cases and rate changes. I do not see the need to have a separate DIR that is a separate line item that is another mechanism that you're already collecting your capital investments from.

Q. And when you say in your answer the company is already "recovering through normal rate cases and rate changes," are you referring to the recent distribution case?

A. I'm just saying in general. Normally, utilities recover the distribution investments through the rate cases that are allowed by commissions at whatever the rate of return is that's required -- that's allowed.

Q. So are you not aware of the company's most recent distribution case, that the Commission approved the stipulation reached in that case just late last year?

A. No, I do not know about that.

Q. And if you were -- if, in that case, there was a date certain established, beyond which investments the company makes would not be recovered as part of the rate set in that case, would you agree that any investments made, subsequent to that date certain, would need to be recovered?

A. Again, I don't know all the details associated with that, so it's hard for me to answer.

Q. Sure. I'm asking you to assume that there was a date certain established in the company's most recent base rate -- distribution rate case beyond which the company -- investments beyond that date the company would not be recovering in those rates. Are you following me?

A. I think I am, but are you saying, then, there's no other mechanism to recover rates, then, from distribution investments?

Q. Well, I'm saying that the company is proposing the DIR as that mechanism. And, as a result, would you agree that the DIR is, in fact, needed?

A. I would say the company has a -- needs a mechanism for recovering the rates for distribution investments. My thought was that I just think it's -- keep it under the same system as was in the past is a better system than having a whole separate rider for that.

Q. So you do agree, generally, that the company should recover its distribution investments through rates; is that correct?

A. Yeah, I believe that prudent distribution investments should be able to be recovered, as that provides better reliability for the customers.

Q. And to the extent future distribution investments are not recovered through distribution rates, you would agree that there should be some mechanism to recover those prudent investments.

A. I would say every utility out there has a way to recover those investments.

Q. And if the DIR were AEP Ohio's way of recovering those investments, would you agree that the DIR is needed?

A. I still contend not having separate rates complicating, separate riders is a better way, keeping things simpler as far as the rates are involved.

Q. Is that based on your general aversion to riders?

A. It's based on my experience with rates and tariffs throughout the country. It's easier for customers to understand things and keep things simple.

Q. Are you aware that if the DIR is approved by the Commission, the company has agreed to not seek a base distribution rate increase for the term of the ESP?

A. I'm not sure.

Q. And if that was the case, would you agree that the DIR provides some benefit, whether it be in the form of cost savings and time savings associated with litigating a base rate case, distribution base rate case?

A. I would think that there's going to be rate cases, regardless, and I don't think there's going to be any added cost to just do distribution only; there is always other factors involved. So I really don't think there's going to be additional costs that AEP would be incurring. And I still contend, as I testified, that it's simpler and easier to keep things on the base rates as opposed to having separate riders.

Q. And that's notwithstanding investment costs increasing in the future with respect to distribution?

A. I don't believe I understand. Can you rephrase that again?

Q. Sure. You testified a moment ago that it's simpler and easier to keep things on the base rate as opposed to having separate riders; is that correct?

A. Yes.

Q. And I asked you earlier, and you said you weren't aware of the company's distribution rate increase, but I asked you to assume that investments made subsequent to the base distribution rates being set, whether those investments should be recovered through rates, and your answer was "yes"; is that correct?

A. Well, I guess it depends on what is negotiated between the utilities and the PUC. If you negotiate, you're not going to raise rates and charge for investments in exchange for something else. It's a whole different deal.

Q. On page 7, line 16, and I think this

touches on your point that you just made, you say that "All rate increases and requests have to go through the PUCO"; is that correct?

A. Yes.

Q. And do you believe that if the DIR were approved, the costs charged under the DIR would not be -- would not have to go through the PUCO?

A. I can't recall the exact language, but I thought that the DIR provision, that you had the ability to charge, on a quarterly basis, money to that account, or increase or change those rates on a quarterly basis. And I'm not sure, then, all of the charges would be then approved by the PUC. I'm not sure how the whole thing would work.

Q. But you do understand that on a quarterly basis, the costs charged under the DIR provision would be reviewed by the Commission.

A. I would hope so.

Q. Are you aware that is the company's position, that absent approval of the DIR, the company would seek -- need to seek a base distribution rate increase?

A. I'm not aware of that.

Q. If that was the case, would you consider that the DIR provides some benefit in the form of a stay-out, quote/unquote?

A. No.

Q. Moving on to your discussion of corporate separation, it's also on page 7, on line 22, in response to the question on line 20, you state that it is not necessary to sell all the generating assets as part of corporate separation; is that correct?

A. Yes.

Q. And why is that your conclusion or your opinion? Why do you believe that, I suppose?

A. Well, as I understand it, selling off the generation assets, you'd be selling them off at book value. I don't understand why you wouldn't sell them off at market value. And what would be the implication of the energy that would be coming from those plans. So there are a lot of questions that I had in addition to this, which is why I don't think it's necessary to sell off the generation assets.

Q. Going on, the questions that you had on page 8, at lines 4 through 7, this is where you get into -- this is where you testify that it's important to look at both the book value and market value; is that correct?

A. Yes.

Q. And are you aware that there was an

entire other docket wherein the Commission addressed those very issues and corporate separation in general?

A. I knew there was some other things that took place. I had not -- I have not reviewed any of those.

Q. Do you know if the company is required to corporately separate its generation assets from its other lines of businesses?

A. I do not know.

Q. Moving on to your discussion of the PIRR on page 9, lines 20 through 22. You state that it would be more equitable to charge the PIRR over a period of time, correct? And, in fact, you suggest on page 10, line 1, a five-year term; is that correct?

A. Just another option. What I was unclear on is how long that PIR rate were to be charged. I understand you put it off for a year. Is this going to be charged for only a year? Is it charged for three, four, five years?

What some utilities have done when that has been at a very high cost is they have put it off over -- charged it over a number of years to help reduce the immediate impact of that rate increase to various customers.

Q. Am I to take from that answer, then, that you are not aware that it was the company's position and the Commission approved recovery of the PIRR over a number of years?

A. I did not see that in the testimony that it was going to be recovered over a number of years.

Q. And are you aware that there is, again, an entire docket dealing with issues surrounding the PIRR, addressing many of the issues that you raise here?

A. I understand there's been previous discussion on that, yes.

Q. Now, this goes back to your earlier statement about unifying costs of the two companies. And is it, generally, your testimony that unifying costs -- what is your testimony with respect to unifying costs of the two companies, generally?

A. Generally, it's good to keep the costs with the various utilities. Sometimes unifying costs may make sense depending on the circumstances.

Q. Are you aware that, under the company's proposal, unifying the FAC and the PIRR at the same time will roughly create offsetting increases and decreases for the Ohio Power rate zone and the

Columbus Southern Power rate zone, such that the increase or decrease that any customer under either rate zone sees is minimal?

A. I understand that is AEP's testimony. However, not knowing how long the PIR would be charged; it was difficult to do that analysis. If, for instance, the PIR is charged over a two-, three-year period, or a one-year period, that FAC added cost to the Ohio Power customers is still there. So I still contend that is unfair.

Q. And, again, you're not aware of the Commission's approval to recover the PIRR over a number of years.

A. I understand that the Commission approved the recovery of that. I have not seen anything that shows how many years that's to be recovered under, nor did I see, in the testimony, how many years you planned on charging that PIR.

Q. Moving on to your discussion, then, of the GRR, the generation resource rider. And that's on page 10 of your testimony.

A. Okay.

Q. And, again, what's your understanding of the GRR?

A. This is a "generation rider," as it's called, generation resource rider, that would be used to offset various potential future renewable projects. There was some mention about a solar project, possibly wind that could be put into this as a rider; that's my understanding.

Q. And is it your understanding that the GRR is just a placeholder as proposed by the company in this proposal?

A. Yes; but that concerns me not knowing what that cost impact might be to the customers.

Q. And you're aware, however, that the Commission will examine those costs again in another proceeding?

A. Yes, I understand that.

Q. On page 10, at lines 15 through 16, you state that the question the PUCO needs to answer with respect to the GRR is: "'What is the net cost of energy with any resource over the life of the equipment compared to other conventional sources'?" Is that correct?

A. Yes.

Q. And is that the only consideration or question the PUCO needs to answer with respect to the GRR?

A. No; there will be many questions

associated with the cost and energy that's produced; the savings, how clean it is, there's a multitude of questions that would go around if these are resources that AEP truly needs and what that cost is going to be to customers over a long period of time.

Q. In your opinion, should the Commission also consider statutory benchmarks related to renewables?

A. What do you mean by "statutory benchmarks"?

Q. Are you familiar with Ohio's statute requiring electric distribution utilities to procure and supply a percentage of its power generated from certain renewable resources?

A. Yes. I am familiar with that, and that a certain portion of that needs to be from Ohio approved sources as well.

Q. So you would agree, then, that consideration, under the GRR, should also include renewable benchmark requirements under the statute?

A. I would say for any renewable source that AEP is considering, they have to take and meet the requirements that are given to them from the state and from the PUC. And that it is, then, the PUC's job to understand which of those resources makes the most sense. Is solar better? Is wind better? Are other renewable sources better? There's a lot of things to look at, and people just throwing in, saying solar, may not be the best option.

Q. But it's your testimony that it's -- all these considerations are a matter for the Commission in its discretion in reviewing the GRR and any projects the company proposes to recover under the GRR?

A. Yes. The Commission needs to review that, needs to be an open process as, you know, you normally would do for trying to get everyone's input as to this being a fair resource and a fair cost to the customers.

Q. On page 11, at lines 7 through 9, you have a statement there that says "Similar companies within the state, especially including those within the same or related industries, need to be treated in the same" -- "need to be treated the same in the state in order to be able to compete fairly"; is that correct?

A. Yes.

Q. Do you agree that statement would equally apply to the companies within the electric utility industry?

A. Yes. I believe that the electric utilities should be treated the same.

Q. I just had a couple of questions on your exhibits and that will be all.

A. Sure.

Q. First looking at -- and I believe they're the same.

A. Just minor changes based on the rate difference, you can look at one and that should impact both of them.

Q. Okay. With respect to the FAC, the F-A-C?

A. Yes.

Q. And that appears at the bottom of both Exhibit 1A and 1B, the second row there is "Proposed Increase in FAC Rates, November 2011 through March 2012"; is that correct?

A. Yes.

Q. And under the -- over there on the far right, under the column "2012," you have a 24.14 percent increase; is that correct?

A. Yes, it is.

Q. Hold on one second. Let me just back up for a second. These exhibits are meant to show the AEP ESP impact on the POET plants; is that correct?

A. That is correct.

Q. And so going back to my earlier question on the FAC rates for November 2011 and March 2012, where are you getting that -- how do you get that calculation, that 24.14 increase?

A. Yes; we used a November 2011, the fuel cost adjustment, the FAC was, for POET, of 2.61 a kilowatt-hour. We have then what you proposed for 2012 for that rate, which is 3.24 a kilowatt-hour. That difference is shown under the "Rate Difference" of 6.3 mils.

Then we look at that, we multiply that by the total kilowatt-hours used by those plants, and then we divided that by the total costs that they had in November of 2011.

The total cost was an average from October 2011 going back 12 months, so we used that as the average cost, and we looked at this and showed that there was a 24.14 percent rate increase as a result of the FAC.

Q. Is that 24.14 rate increase as a result of the company's proposals in its modified ESP, or as a result of the ESP I proceeding and the FAC rates resulting therefrom?

A. This is just the result of what you had proposed for 2000 -- in the modified ESP rate that is in the proceeding here. So I'm basing that off of what you're proposing for 2012, which are in the rates.

Q. Mr. Swanson, are you aware of the treatment of fuel costs the Commission approved in its ESP I order for the company?

A. I'm familiar with the -- that it's a very, very complicated formula that you go through for determining those fuel costs. But I've not been able to, nor have I heard of others being able to fully understand how those costs come about.

My contention here is that this fuel cost adjustment is a huge increase where, at the same time, the market has gone down by 6.7 percent. And, at the end of the day, if we compare November 2011 to what you're proposing, POET and other similar customers are going to see a 30 to 45 percent rate increase.

Q. Are you aware that in the ESP I order. The Commission approved rate caps and deferral for fuel costs?

A. I don't have any details on that on the rate caps or deferrals.

Q. Are you aware that as part of the ESP I order, customers, such as POET, weren't paying the full cost of fuel as a result of the measures taken by the Commission to lessen the impact on customers of the fuel costs?

A. No, I don't have any details on that.

Q. Moving on, then, to the total increase for 2012, that's listed on both Exhibit 1A and 1B as 31.62 percent for Fostoria and 31.60 percent for Leipsic; is that correct?

A. Yes, that's correct.

Q. And are you aware of the combined plants' kilowatt-hour monthly usage?

A. I know on a yearly basis that, combined, they use about 140 million kilowatt-hours, I think, roughly.

Q. Would you agree, subject to check, that the combined plants' kilowatt-hour monthly usage is approximately 12 million, then?

A. That sounds about right.

Q. 12 million kilowatt-hours per month.

In your review of the company's testimony to submit your own testimony in this case did you review testimony submitted by Company Witness Roush?

A. Yes, I did.

Q. And are you aware under what tariff the

POET plants take service under?

A. Yes. Fostoria is under rate 323. Leipsic was under rate 322. Where the new rates would be G-4 sub-transmission and primary.

Q. You said "G-4"?

A. "G-4," correct.

MR. ALAMI: Your Honor, may I approach? I believe this is my last line of questioning.

EXAMINER TAUBER: You may.

Q. Mr. Swanson, I've just handed you an Exhibit DMR-6 which accompanied AEP Ohio Exhibit 111, subject to check, in any event, the direct testimony submitted by Company Witness Roush in this proceeding. Do you see that?

A. Yes, I'm looking at it right now.

Q. And DMR-6 shows the percentage increases at various monthly usages for each major tariff schedule. And, earlier, did you indicate that -- you said the POET plants are currently shopping?

A. Yes, they are.

Q. Okay. Then I think you're going to have to look at DMR-7, which will show the typical bills for each rate classification, rate tariff in Ohio Power rate zone for shopping customers. And, in particular, the G-4 tariff sub-transmission appears on page 9 of 11 on Exhibit DMR-7.

A. Okay.

Q. And if you look under the level of usage, which is Column B, and under the GS-4 tariff, if you look at a level of usage of about 12 million kilowatt-hours per month, which is what we agreed earlier was the approximate level of the combined plants' usage level -- is that correct?

A. Yes.

Q. -- if you could look over and read the percent increase which is the fifth column.

A. It says "3.83 percent."

MR. ALAMI: Thank you.

I believe that's all the questions I have, your Honor.

THE WITNESS: I can follow up on this because there's some information unclear here.

MR. ALAMI: I think that's an opportunity that you can have with your counsel on redirect.

THE WITNESS: Okay.

EXAMINER TAUBER: Thank you.

Mr. Margard?

MR. MARGARD: No questions. Thank you, your Honor.

EXAMINER TAUBER: Mr. Hart, redirect?

MR. HART: I wasn't planning on it, but now I guess I will.

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REDIRECT EXAMINATION

By Mr. Hart:

Q. Sir, you said there was information that was unclear; can you please describe that?

A. Yes. If I look at the chart under Exhibit DMR-7, page 9 of 11, it does not represent the load factor that POET has. It shows a 20-megawatt level along with a 12 million kilowatt-hours. So it's -- these numbers are not at all comparing apples to apples.

Q. Do you see any numbers there that would allow you to do that?

A. No, I do not.

MR. HART: Thank you.

Nothing further.

EXAMINER TAUBER: Thank you.

Recross, Mr. O'Brien?

MR. O'BRIEN: No questions, your Honor.

EXAMINER TAUBER: Mr. Barnowski?

MR. BARNOWSKI: No questions, your Honor.

EXAMINER TAUBER: Ms. Kaelber?

MS. KAELBER: No questions.

EXAMINER TAUBER: Mr. Siwo?

MR. SIWO: No questions, your Honor.

EXAMINER TAUBER: Mr. Stinson?

MR. STINSON: No questions, your Honor.

EXAMINER TAUBER: Ms. Kyler?

MS. KYLER: No questions, your Honor.

EXAMINER TAUBER: Mr. Darr?

MR. DARR: No questions.

EXAMINER TAUBER: Mr. Lang?

MR. LANG: No. Thank you.

EXAMINER TAUBER: Mr. Serio?

MR. SERIO: No. Thank you, your Honor.

EXAMINER TAUBER: Mr. Alami?

MR. ALAMI: Just a second, your Honor. Very briefly.

EXAMINER TAUBER: Sure.

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RECROSS-EXAMINATION

By Mr. Alami:

Q. Mr. Swanson, looking at page 9 of 11 of DMR-7, under the GS-4 tariff class, is there a particular level of demand -- we're in the same agreement that the level of usage is around 12 million kilowatt-hours per month approximately, correct?

A. Yes, that's approximate.

Q. And are you able to find where the POET plants would fit in under this GS-4?

A. No, there's really nothing that's close.

Q. Are you aware of the level of demand for the POET plants?

A. Yes, I am.

Q. And what is that?

A. It's about 15 megawatts.

Q. Is that 15,000 kilowatts?

A. That is correct.

Q. Is 20,000 kilowatts there, in the level of demand, the closest approximation to 15,000 kilowatts shown in the chart?

A. Yes, that's the closest.

Q. Just a last question, Mr. Swanson. If you could look at the percent increase column again, under the GS-4. Do any of the percent increases for any of the level of demands or level of usage under the GS-4 come close to the 31.62 percent for 2012 that you projected for the POET plants?

A. No, they do not. But it's impossible to tell what he has included in his analysis for this analysis, has he included the transmission cost recovery change, the changes to the distribution investment, changes to the actual rates themselves, and there are many other rates and riders that are being proposed that we don't know what that true impact is going to be, so it's hard to know if we're really comparing apples to apples.

MR. ALAMI: Thank you.

That's all the questions I have.

EXAMINER TAUBER: Mr. Margard?

MR. MARGARD: Nothing. Thank you, your Honor.

EXAMINER TAUBER: Thank you.

Mr. Swanson, you may be excused. Thank you.

THE WITNESS: Thank you, your Honor.

EXAMINER TAUBER: Mr. Hart?

MR. HART: At this time, POET moves in Exhibit 101.

EXAMINER TAUBER: Are there any objections to POET Exhibit 101?

(No response.)

EXAMINER TAUBER: Hearing none, it shall be admitted into the record.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER TAUBER: Let's take a ten-minute recess. Let's go off the record.

(Recess taken.)

EXAMINER SEE: Ms. Kaelber.

MS. KAELBER: Yes, your Honor. The Ohio Restaurant Association calls Richard Mason.

EXAMINER SEE: Mr. Mason, please raise your right hand.

(Witness sworn.)

EXAMINER SEE: Thank you.

Please speak into the mic.

MS. KAELBER: Your Honor, I request permission to approach.

EXAMINER SEE: You may.

MS. KAELBER: Thank you.

Your Honor, I request permission to submit ORA Exhibit 101 titled the "Direct Testimony of Richard Mason."

EXAMINER SEE: The exhibit is so marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

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RICHARD MASON

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

DIRECT EXAMINATION

By Ms. Kaelber:

Q. Mr. Mason, can you please take a look at this exhibit and identify the document for the record, please.

A. This is the direct testimony of Richard Mason on behalf of the Ohio Restaurant Association.

Q. And, before we move further, can you please state your place of employment, Mr. Mason?

A. The Ohio Restaurant Association.

Q. What is your title with the Ohio --

A. I'm the Director of Government Affairs.

Q. Thank you.

Mr. Mason, did you prepare this document, Exhibit 101, or was it prepared at your direction?

A. Yes.

EXAMINER SEE: Could you check and verify that your mic is on? Tap it.

Q. Mr. Mason, is this an accurate copy of your direct testimony? Do you have any changes?

A. I do not.

Q. And if I were to ask you the same questions contained in this document today, would any of your answers or responses change?

A. No.

MS. KAELBER: At this time, your Honor, I would like to move to allow in ORA Exhibit 101, subject to cross-examination.

EXAMINER SEE: Cross for this witness?
Mr. O'Brien?
MR. O'BRIEN: No questions, your Honor.
EXAMINER SEE: Ms. Kaleps-Clark?
MS. KALEPS-CLARK: No questions, your Honor. Thank you.
EXAMINER SEE: Mr. Barnowski?
MR. BARNOWSKI: No questions, your Honor.
EXAMINER SEE: Mr. Siwo?
MR. SIWO: No questions, your Honor.
EXAMINER SEE: Mr. Stinson?
MR. STINSON: None, your Honor.
EXAMINER SEE: Ms. Kyler?
MS. KYLER: No questions, your Honor.
EXAMINER SEE: Mr. Darr?
MR. DARR: No. Thank you.
EXAMINER SEE: Mr. Lang?
MR. LANG: No. Thank you.
EXAMINER SEE: Mr. Serio?
MR. SERIO: Thank you, your Honor. A couple of questions.

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CROSS-EXAMINATION

By Mr. Serio:

Q. Good afternoon, Mr. Mason.

A. Good afternoon.

Q. You represent the restaurants, correct?

A. Correct. The Restaurant Association.

Q. The Association. And it's made up of various restaurants.

A. Correct.

Q. Now, to the extent that restaurants get rate increases from the company and they're not able to absorb those rate increases, that's passed on to their customers, correct?

A. Correct.

Q. And those customers are residential customers, correct?

A. Well, they're individuals as opposed to corporations that purchase food and restaurants, if that's your question.

Q. Yes.

A. Yes.

MR. SERIO: That's all I have, your Honor. Thank you.

EXAMINER SEE: Mr. Alami?

MR. ALAMI: Just a few questions, your Honor. Thank you.

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CROSS-EXAMINATION

By Mr. Alami:

Q. Good afternoon, Mr. Mason.

A. Good afternoon.

Q. On page 2 of your testimony, the last sentence on that page, you state that "...the PUCO should facilitate complete deregulation as soon as practical"; is that correct?

A. Correct.

Q. And what do you mean by "as soon as practical"? What considerations would you have the PUCO consider in determining what is practical?

A. We didn't offer any parameters for that decision. It's just our general belief that deregulation, sooner rather than later, is a good thing for electric consumers. So we're just encouraging the PUCO to move as quickly as practical in that direction.

Q. But by using the word "practical," you understand that there are some limitations or considerations with respect to moving to deregulation?

A. I do.

Q. And would you agree that a particular consideration would be the financial interests of the company?

A. I do.

Q. Moving on to page 4, under Roman numeral V there, you state that the modified ESP in this case "will delay Ohio's transition to a free market in the electric utility industry"; is that correct?

A. That's correct.

Q. Are you aware of the time in which the law requires an electric utility to transition to competitive market?

A. I'm not.

Q. Are you aware of -- are you aware that AEP Ohio's plan results in a faster transition to market than required under the law?

A. I'm not aware of that.

MR. ALAMI: That's all the questions I have. Thank you.

EXAMINER SEE: Mr. Margard?

MR. MARGARD: No questions, your Honor. Thank you.

EXAMINER SEE: I assumed you were finished, Mr. Alami.

MR. ALAMI: Yes, your Honor. Thank you.

EXAMINER SEE: Any redirect?

MS. KAELBER: No, your Honor.

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EXAMINATION

By Examiner See:

Q. Mr. Mason --

A. Yes.

Q. -- on page 3 of your testimony, under item 4 --

A. Yes.

Q. -- you calculate an average rate increase of 12 to 15 percent for restaurant customers?

A. Yes.

Q. How did you determine that increase?

A. We asked one of our members, who happens to be a purveyor member that's in the business of providing electric consulting services to small businesses, for their estimate, and this is the estimate that they provided.

Q. And do you have the background details of that calculation?

A. I do not.

Q. May I ask who that individual is or the company?

A. The company's name is Summit Energy.

Q. Would it be the same Summit Energy that has offered testimony in this proceeding?

A. Not to my knowledge. That is ironic, but

I don't believe so.

EXAMINER SEE: Thank you, Mr. Mason.

THE WITNESS: Thank you, your Honor.

EXAMINER SEE: Ms. Kaelber?

MS. KAELBER: Yes, your Honor. At this time ORA moves for the admission of ORA Exhibit 101 into the record.

EXAMINER SEE: Are there any objections to the admission of Ohio Restaurant Association Exhibit 101 into the record?

(No response.)

EXAMINER SEE: Hearing none, ORA Exhibit 101 is admitted.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER SEE: Mr. O'Brien?

MR. O'BRIEN: Thank you, your Honor. At this time I would call to the stand Reed Fraley.

EXAMINER SEE: Mr. Fraley, if you would please raise your right hand.

(Witness sworn.)

EXAMINER SEE: Thank you.

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R. REED FRALEY

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

DIRECT EXAMINATION

By Mr. O'Brien:

Q. Please state your name and address for the record.

A. My name is R. Reed Fraley, and the business address is 155 East Broad Street, 15th floor, Columbus, Ohio. The zip is 43215. And that makes a correction to the address from "150" to "155."

Q. We'll get to that in just a second.

MR. O'BRIEN: Your Honor, at this time, I would ask that the direct testimony of R. Reed Fraley be marked as OHA Exhibit 101.

EXAMINER SEE: The exhibit is so marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Mr. Fraley, do you have before you the document that is entitled "Direct Testimony of R. Reed Fraley"?

A. I do.

Q. Was this document prepared by you or under your direction?

A. Yes.

Q. Do you have any additions or corrections to make, and could you please state with specificities where those might be?

A. I have a technical correction to make and that would be in line 5, where it indicates the business address, and the business address should be correctly written "155 East Broad Street, 15th floor, Columbus, Ohio 43215," rather than "150 East Broad Street."

Q. And that means it's on the south side of the street and not the north side.

A. I believe that would be correct.

Q. If I were to ask you the questions that are contained in this document today on the stand, would your answers be the same?

A. Yes.

MR. O'BRIEN: Your Honor, with that, I would move OHA Exhibit 101 into evidence and tender Mr. Fraley for cross-examination.

EXAMINER SEE: Ms. Kaleps-Clark?

MS. KALEPS-CLARK: No questions, your Honor. Thank you.

EXAMINER SEE: Mr. Barnowski?

MR. BARNOWSKI: No questions, your Honor.

EXAMINER SEE: Mr. Siwo?

MR. SIWO: No questions, your Honor.

EXAMINER SEE: Mr. Stinson?

MR. STINSON: No questions, your Honor.

EXAMINER SEE: Ms. Kyler?

MS. KYLER: No questions, your Honor.

EXAMINER SEE: Mr. Darr?

MR. DARR: No. Thank you.

EXAMINER SEE: Mr. Lang?

MR. LANG: No. Thank you.

EXAMINER SEE: Mr. Serio?

MR. SERIO: Just a couple, your Honor.

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CROSS-EXAMINATION

By Mr. Serio:

Q. Good afternoon, Mr. Fraley.

A. Good afternoon.

Q. To the extent that hospitals see rate increases as a result of this proceeding, they're not able to absorb the cost of those increases, they would be forced to pass those on to patients that come to the hospitals, correct?

A. That is partially correct. They'd be -- they would make their rate changes and it would depend upon who the payer is. In the context of Medicaid and Medicare, it is highly unlikely those will be passed on because they are fixed and established by the appropriate government institutions; if there -- there are other groups of patients which they actually do not pay; And then there's a third group in terms of a high-level group that would typically be either in organizations or commercial insurers and it would depend upon whatever the contractual statements are.

That last group represents approximately less than 30 percent of the individuals who pay.

Q. And those individuals that end up paying, those are residential customers, correct?

A. They may or may not be. It depends upon who the contract was with or who the insurance company is.

Q. And to the extent that you have customers that aren't able to -- patients that aren't able to pay, are some of those costs defrayed by charging other patients higher costs?

A. In the context of which -- if I understand your question correctly, in the context of which someone is not able to pay, clearly the cost of that service is absorbed by someone who can pay.

In terms of passing that -- passing that payment on in terms of an adjusted charge, once again, though, it depends upon -- it's a requirement in terms of how rates are established. Once again, it depends upon the capability -- the existence of the contract and what that contract says.

MR. SERIO: Thank you.

That's all I have, your Honor.

EXAMINER SEE: Mr. Alami?

MR. ALAMI: Thank you, your Honor. Just a few questions.

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CROSS-EXAMINATION

By Mr. Alami:

Q. Good afternoon.

A. Good afternoon.

Q. Mr. Fraley, are you aware of print ads running lately, by FirstEnergy Solutions, listing Ohio organizations against AEP Ohio's proposal in this case?

A. I'm aware of one ad.

Q. And in that one ad are you aware that OHA was listed as one such association?

A. I have been advised of that, yes.

Q. And are you aware, if you know, did OHA give its permission to be listed as an organization in that ad?

A. To the best of my knowledge, OHA did not give permission for that, for their name to be associated with that ad.

Q. And is that because, as I understand your testimony, while the OHA, even you as submitting testimony on behalf of the OHA, have concerns with respect to AEP Ohio's proposal, you aren't necessarily against AEP Ohio's proposal; is that correct?

A. It is my intent in terms of the testimony that we've prepared and what I'm here today to affirm is that OHA has a desire, on behalf of its hospitals, to advise the Commission that the rate increase does cause concern because of the very difficult environment that hospitals are in right now in terms of the unpredictability of any ability to raise their rates in the future.

MR. ALAMI: That's all the questions I have. Thank you.

THE WITNESS: Thank you.

EXAMINER SEE: Mr. Margard?

MR. MARGARD: No questions, thank you, your Honor.

EXAMINER SEE: Redirect, Mr. O'Brien?

MR. O'BRIEN: No questions, your Honor.

EXAMINER SEE: Thank you very much, Mr. Fraley. The Bench appreciates you being willing to be on call.

THE WITNESS: Thank you.

MR. O'BRIEN: Your Honor, at this time, I would renew my motion for the admission of OHA Exhibit 101.

EXAMINER SEE: Any objections to OHA Exhibit 101?

(No response.)

EXAMINER SEE: Hearing none, OHA Exhibit 101 shall be admitted into the record.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER SEE: I indicated this morning that I would address the motion to strike Mr. Fleeter's testimony in its entirety sometime today. Given that this is the end of the day, I'm going to rule on it now. And, after consideration, the Bench is going to deny that motion to strike Mr. Fleeter's testimony in its entirety.

If there's nothing else --

MR. SATTERWHITE: Your Honor, there was one issue at the end of the day yesterday --

EXAMINER SEE: And I am aware of the fact that I have not ruled on Mr. Bowser or Mr. Soliman's testimony. The Bench will get to it.

MR. SATTERWHITE: Very good.

EXAMINER SEE: If there's nothing further, we're adjourned until 8:30 a.m. tomorrow morning.

And the witnesses for tomorrow are Wallach, Johnson, that's OMAEG's Witness Johnson, Walters, Baker, Scheck, Cleaver, and IGS Parisi is a hopeful. Not necessarily in that order. Wallach is a date-certain witness.

With that, we're adjourned.

(Thereupon, the hearing was adjourned at 5:17 p.m.)

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CERTIFICATE

I do hereby certify that the foregoing is a true and correct transcript of the proceedings taken by me in this matter on Wednesday, June 6, 2012, and carefully compared with my original stenographic notes.

____
Maria DiPaolo Jones, Registered
Diplomate Reporter and CRR and
Notary Public in and for the
State of Ohio.

My commission expires June 19, 2016.

(MDJ-4025)

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