BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

\- - -

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

In the Matter of the :
Application of Columbus :
Southern Power Company : Case No. 11-349-EL-AAM
and Ohio Power Company : Case No. 11-350-EL-AAM
for Approval of Certain :
Accounting Authority. :

\- - -

PROCEEDINGS

before Ms. Greta See and Mr. Jonathan Tauber, Attorney Examiners, at the Public Utilities Commission of Ohio, 180 East Broad Street, Room 11-A, Columbus, Ohio, called at 8:30 a.m. on Friday, June 15, 2012.

\- - -

VOLUME XVII - REBUTTAL

\- - -

ARMSTRONG & OKEY, INC.
222 East Town Street, Second Floor
Columbus, Ohio 43215-5201
(614) 224-9481 - (800) 223-9481
Fax - (614) 224-5724

\- - -

APPEARANCES:

American Electric Power Service Corporation
By Mr. Steven T. Nourse
Mr. Matthew J. Satterwhite
and Mr. Yazen Alami
One Riverside Plaza, 29th Floor
Columbus, Ohio 43215

Porter, Wright, Morris & Arthur, LLP
By Mr. Daniel R. Conway
and Ms. Christen Moore
41 South High Street
Columbus, Ohio 43215

On behalf of the Ohio Power Company and Columbus Southern Power Company.

AEP Retail Energy Partners, LLC
By Mr. Jay E. Jadwin
155 West Nationwide Boulevard, Suite 500
Columbus, Ohio 43215

On behalf of the AEP Retail Energy Partners.

FirstEnergy Service Company
By Mr. Mark A. Hayden
76 South Main Street
Akron, Ohio 44308

Jones Day
By Mr. David A. Kutik
North Point
901 Lakeside Avenue
Cleveland, Ohio 44114

Jones Day
By Ms. Allison E. Haedt
325 John J. McConnell Boulevard, Suite 600
Columbus, Ohio 43215

Calfee, Halter & Griswold LLP
By Mr. James F. Lang
and Ms. Laura C. McBride
1400 KeyBank Center
800 Superior Avenue
Cleveland, Ohio 44114

APPEARANCES: (Continued)

Calfee, Halter & Griswold, LLP
By Mr. N. Trevor Alexander
Fifth Third Center, Suite 1100
21 East State Street
Columbus, Ohio 43215

On behalf of the FirstEnergy Service Corporation.

McNees, Wallace & Nurick, LLC
By Mr. Frank P. Darr
Mr. Samuel C. Randazzo
Mr. Joseph E. Oliker
and Mr. Matthew R. Pritchard
Fifth Third Center, Suite 1700
21 East State Street
Columbus, Ohio 43215-4228

On behalf of the Industrial Energy Users of Ohio.

Taft, Stettinius & Hollister
By Mr. Zachary D. Kravitz
and Mr. Mark S. Yurick
65 East State Street, Suite 1000
Columbus, Ohio 43215

On behalf of the Kroger Company.

Office of the Ohio Consumers' Counsel
By Ms. Maureen R. Grady
Mr. Terry L. Etter
and Mr. Joseph P. Serio
Assistant Consumers' Counsel
10 West Broad Street, Suite 1800
Columbus, Ohio 43215

On behalf of the Residential Ratepayers of Columbus Southern Power Company and Ohio Power Company.

APPEARANCES: (Continued)

Mike DeWine, Ohio Attorney General
By William Wright, Section Chief
Public Utilities Section
Mr. Steven L. Beeler
Mr. John H. Jones
and Mr. Werner L. Margard, III
Assistant Attorneys General
180 East Broad Street, 6th Floor
Columbus, Ohio 43215-3793

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

Ice Miller, LLP
By Mr. Christopher L. Miller
Mr. Gregory J. Dunn
and Mr. Asim Z. Haque
250 West Street
Columbus, Ohio 43215

On behalf of the Association of Individual Colleges and Universities, City of Upper Arlington, City of Grove City, and City of Hillsboro.

Boehm, Kurtz & Lowry
By Mr. Michael L. Kurtz
Mr. Kurt J. Boehm
and Ms. Jody M. Kyler
36 East Seventh Street, Suite 1510
Cincinnati, Ohio 45202

On behalf of Ohio Energy Group.

Bricker & Eckler, LLP
By Mr. Thomas J. O'Brien
100 South Third Street
Columbus, Ohio 43215-4291

Ohio Hospital Association
By Mr. Richard L. Sites
155 East Broad Street, 15th Floor
Columbus, Ohio 43215

On behalf of the Ohio Hospital Association.

APPEARANCES: (Continued)

Duke Energy Ohio, Inc.
By Ms. Jeanne W. Kingery
155 East Broad Street, 21st Floor
Columbus, Ohio 43215

Duke Energy Ohio, Inc.
By Ms. Amy B. Spiller
Ms. Elizabeth Watts
and Mr. Rocco D'Ascenzo
139 East Fourth Street
Cincinnati, Ohio 45202

Thompson Hine, LLP
By Mr. Philip B. Sineneng
41 South High Street, Suite 1700
Columbus, Ohio 43215

On behalf of the Retail Sales and Duke Energy Commercial Asset Management.

Eberly McMahon, LLC
By Mr. Robert A. McMahon
Ms. Elizabeth Watt
and Mr. Rocco D'Ascenzo
2321 Kemper Lane, Suite 100
Cincinnati, Ohio 45206

On behalf of Duke Energy Ohio.

Bricker & Eckler, LLP
By Mr. Thomas J. O'Brien
100 South Third Street
Columbus, Ohio 43215-4291

Ohio Hospital Association
By Mr. Richard L. Sites
155 East Broad Street, 15th Floor
Columbus, Ohio 43215

On behalf of the Ohio Hospital Association.

Bell & Royer Co., LPA
By Mr. Barth E. Royer
33 South Grant Avenue
Columbus, Ohio 43215

On behalf of Dominion Retail, Inc.

APPEARANCES: (Continued)

Bricker & Eckler, LLP
By Ms. Lisa Gatchell McAlister
and Mr. J. Thomas Siwo
100 South Third Street
Columbus, Ohio 43215-4291

On behalf of Ohio Manufacturers Association.

Vorys, Sater, Seymour & Pease, LLP
By Mr. M. Howard Petricoff
and Ms. Lija Kaleps-Clark
and Mr. Stephen M. Howard
52 East Gay Street
P.O. Box 1008
Columbus, Ohio 43216-1008

On behalf of the Exelon Generation Company, Constellation NewEnergy, Inc., Constellation Energy Commodities Group, Inc., Retail Energy Supply Association, Direct Energy Services, and Direct Energy Business, LLC, The Compete Coalition, and PJM Power Providers Group.

Eimer, Stahl, Klevorn & Solberg, LLP
By Mr. David M. Stahl
and Mr. Scott C. Solberg
224 South Michigan Avenue, Suite 1100
Chicago, Illinois 60604

On behalf of Constellation and Exelon Generation Company, LLC.

Covington & Burling, LLP
By Mr. William Massey
1201 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

On behalf of The Compete Coalition.

APPEARANCES: (Continued)

Ohio Poverty Law Center
By Mr. Joseph V. Maskovyak
and Mr. Michael Smalz
555 Buttles Avenue
Columbus, Ohio 43215

On behalf of Appalachian Peace and Justice Network.

Keating, Muething & Klekamp PLL
By Mr. David A. Meyer
One East Fourth Street, Suite 1400
Cincinnati, Ohio 45202

Keating, Muething & Klekamp, PLL
Ms. Holly Rachel Smith
HITT Business Center
3803 Rectortown Road
Marshall, Virginia 20115

On behalf of Wal-Mart Stores East, LP, and Sam's East, Inc.

Bricker & Eckler, LLP
By Mr. Christopher L. Montgomery
Mr. Matthew Warnock
and Mr. Terrence O'Donnell
100 South Third Street
Columbus, Ohio 43215

On behalf of Paulding Wind Farm, LLC.

SNR Denton US, LLP
By Ms. Emma F. Hand
Mr. Thomas R. Millar
and Mr. Daniel D. Barnowski
1301 K Street NW
Suite 600 East Tower
Washington, D.C. 20005

On behalf of Ormet Primary Aluminum Corporation.

APPEARANCES: (Continued)

EnerNOC, Inc.
By Mr. Gregory J. Poulos
471 East Broad Street, Suite 1520
Columbus, Ohio 43215

On behalf of EnerNOC.

Kegler, Brown, Hill & Ritter, LPA
By Mr. Roger P. Sugarman
Capitol Square, Suite 1800
65 East State Street
Columbus, Ohio 43215

On behalf of National Federation of Independent Business, Ohio Chapter.

Bailey Cavalieri, LLC
By Mr. Dane Stinson
10 West Broad Street
Columbus, Ohio 43215

On behalf of the Ohio Association of School Business Officials, Ohio School Boards Association, Buckeye Association of School Administrators, and Ohio Schools Council.

Whitt Sturtevant, LLP
By Mr. Mark A. Whitt
Ms. Melissa L. Thompson
and Mr. Andrew John Campbell
PNC Plaza, Suite 2020
155 East Broad Street
Columbus, Ohio 43215

Interstate Gas Supply, Inc.
By Mr. Matthew White
6100 Emerald Parkway
Dublin, Ohio 43016

On behalf of the Interstate Gas Supply, Inc.

APPEARANCES: (Continued)

Vectren Source
By Mr. Joseph M. Clark
6641 North High Street, Suite 200
Worthington, Ohio 43085

On behalf of Direct Energy Services and Direct Energy Business.

Thompson Hine, LLP
By Ms. Carolyn S. Flahive
Ms. Stephanie M. Chmiel
and Mr. Michael Dillard
41 South High Street, Suite 1700
Columbus, Ohio 43215

On behalf of Border Energy Electric Services, Inc.

Williams, Allwein & Moser
By Mr. Todd M. Williams
Two Maritime Plaza
Toledo, Ohio, 43604

On behalf of the Ohio Business Council for a Clean Environment.

William, Allwein & Moser
By Mr. Christopher J. Allwein
1373 Grandview Avenue, Suite 212
Columbus, Ohio 43212

On behalf of the Natural Resources Defense Council.

Dayton Power & Light Company
By Ms. Judi L. Sobecki
1065 Woodman Drive
Dayton, Ohio 45432

On behalf of Dayton Power & Light.

APPEARANCES: (Continued)

Ohio Automobile Dealers Association
By Mr. Charles C. Howard
and Ms. Sarah Bruce
655 Metro Place South, Suite 270
Dublin, Ohio 43017

On behalf of the Ohio Automobile Dealers Association.

Hahn, Loeser & Parks, LLP
By Mr. Randy Hart
200 Huntington Building
Cleveland, Ohio 44114

On behalf of Summit and Fostoria Ethanol.

Matthew Cox Law, Ltd.
By Mr. Matthew Cox
4145 St. Theresa Boulevard
Avon, Ohio 44011

On behalf of the Council of Smaller Enterprises.

The Behal Law Group, LLC
By Mr. Jack D'Aurora
501 South High Street
Columbus, Ohio 43215

On behalf of the University of Toledo.

Buckley King
By Ms. Deim N. Kaelber
One Columbus
10 West Broad Street, Suite 1300
Columbus, Ohio 43215

On behalf of the Ohio Restaurant Association.

\- - -

INDEX

- - -

- - -

INDEX (Continued)

- - -

- - -

Friday Morning Session,

June 15, 2012.

- - -

EXAMINER TAUBER: Let's go on the record. Let's begin this morning with brief appearances and we'll start with the company and work our way around the room and catch up in the back if we need to.

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.

MS. GRADY: Thank you, your Honor. On behalf of the residential customers of the Ohio Power Company, the Consumers' Counsel, by Maureen R. Grady, Joseph P. Serio, and Terry L. Etter.

MR. SMALZ: Yes, your Honor. On behalf of the Appalachian Peace and Justice Network, Michael R. Smalz and Joseph V. Maskovyak.

MR. LANG: For FirstEnergy Solutions, Mark Hayden, David Kutik, and Jim Lang.

MR. DARR: On behalf of IEU-Ohio, Frank Darr, Sam Randazzo, Joe Oliker, and Matt Pritchard.

MS. KINGERY: On behalf of Duke Energy Retail Sales and Duke Energy Commercial Asset Management, Amy Spiller, Jeanne Kingery, and Philip

Sineneng.

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

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

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

And on behalf of RESA and Direct Energy, Lija Kaleps-Clark, M. Howard Petricoff, and Steve Howard.

MR. O'BRIEN: On behalf of the Ohio Hospital Association, Rick Sites and Tom O'Brien.

MR. McNAMEE: On behalf of the staff of the Public Utilities Commission, Vern Margard and Steven Beeler.

EXAMINER TAUBER: Are there any other parties here this morning?

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

EXAMINER TAUBER: All right. Mr. Nourse.

MR. NOURSE: Mr. Conway, please.

EXAMINER TAUBER: Mr. Conway.

MR. CONWAY: At this time AEP Ohio calls William Avera.

(Witness sworn.)

EXAMINER TAUBER: Thank you.

- - -

WILLIAM E. AVERA

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

DIRECT EXAMINATION

By Mr. Conway:

Q. Dr. Avera, could you state your full name for the record, please.

A. William E. Avera.

Q. And by whom are you employed?

A. I am the president of FINCAP, Incorporated, in Austin, Texas.

Q. And did you prepare or supervise the preparation of rebuttal testimony for this proceeding?

A. Yes, sir, I did.

Q. And do you have a copy of your rebuttal testimony with you today?

A. I do.

MR. CONWAY: Your Honor, at this time I'd like to mark as, I believe AEP Ohio Exhibit No. 150, Dr. Avera's prefiled rebuttal testimony.

EXAMINER TAUBER: It shall be so marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Dr. Avera, do you have any additions or corrections that you'd like to make to your prefiled testimony on rebuttal which has been marked as AEP Ohio Exhibit No. 150?

A. I do not.

Q. And if I were to ask you the questions contained in your prefiled testimony this morning, would your answers be the same as they appear in that document?

A. Yes, Mr. Conway, they would be.

Q. And are those answers true and correct to the best of your knowledge and belief?

A. Yes, sir.

MR. CONWAY: Your Honor, at this point I would move for the admission of AEP Ohio Exhibit No. 150 and Dr. Avera is available for cross-examination.

EXAMINER TAUBER: Thank you.

MS. KINGERY: Your Honor, we would move to strike the entirety of the testimony of Mr. Avera on the grounds that it's irrelevant to this proceeding.

EXAMINER TAUBER: Thank you.

Mr. Conway, do you have a response?

MR. CONWAY: Your Honor, Dr. Avera's testimony is responsive to testimony by, specifically, Mr. Kollen on behalf of OEG and Dr. Wilson on behalf of Ormet, and, in addition, he also comments on the nature of the consequences and the quality of the recommendations made by other parties in this case with regard to their impacts on the company, and so I think it's proper rebuttal testimony.

If the testimony of Dr. Wilson and Mr. Kollen is admissible, and it has been admitted, then I think it's fair for us to have an opportunity to respond to it, and I think it is germane to the issues that are before the Commission in this case.

EXAMINER TAUBER: Ms. Kingery.

MS. KINGERY: Yes, your Honor. I would note two things: First of all, under Section 4928.143, ROE is not an issue that should be considered by the Commission in granting or denying this application.

In addition, this is information that certainly could have and should have been presented in the case in chief.

EXAMINER TAUBER: Thank you.

Mr. Conway, do you have something to add?

MR. CONWAY: Well, just to point out that the company has submitted pro forma information in this case that bears upon the impacts of its proposals, if adopted, on the company's pro formas from an ROE standpoint. I think the -- which is required under the filing requirements.

I think that we have testimony from other parties, again, as I just mentioned, which would drive this company to the brink, and I think it's appropriate to have a balanced and complete presentation regarding what a fair cost of equity is for this company, both for purposes of the Commission's consideration on an overall total company basis as well as in connection with the specific proposals that the company has made, particularly with regard to the retail stability rider and the other riders that depend, in part, on ROE values in their formula.

And I would just also notice that -- or observe that Mr. Kollen's proposal on behalf of OEG relies upon ROE values to come up with a dead band within which he believes the company would be adequately compensated, and Dr. Avera's testimony rebuts that directly, and he relies upon his expertise and a fair presentation of what a reasonable ROE value would be both to rebut the testimony and to explain what the draconian results are of these proposals that we have been presented by the other parties come to pass.

So I think it's very relevant. The Commission should have the information in front of it before it goes forward with its decision-making in this case so that it knows what it is about to do to this company if it considers seriously these proposals.

MR. RUBIN: On behalf of Ormet, since the testimony's offered exposing rebuttal to the testimony to be represented under the ROE for the RSR, we would join in the motion because we -- our witness testified as to the ROE for the RSR portion which was responsive to Mr. Allen's testimony. And we never testified about -- put on direct testimony about the ROE ultimately for AEP or the consolidated companies in the case, which is what Dr. Avera testifies to. So he's rebutting points that we didn't actually make in our testimony.

EXAMINER TAUBER: Thank you.

MR. CONWAY: Your Honor, just briefly --

EXAMINER TAUBER: We're fine, Mr. Conway. At this time the Bench is going to deny the motion to strike. We think the Commission should at least be able to review this testimony and so we'll deny the motion to strike, and if we need to address anything later on, we'll do so.

So let's begin cross-examination, we'll do so with Ms. Grady.

MS. GRADY: No cross, your Honor.

EXAMINER TAUBER: Mr. Smalz?

MR. SMALZ: No cross, your Honor.

EXAMINER TAUBER: Mr. Lang?

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

EXAMINER TAUBER: Mr. Darr?

MR. DARR: Yes, sir.

\- - -

CROSS-EXAMINATION

By Mr. Darr:

Q. Dr. Avera, in your testimony starting at page 3, you indicate that -- you refer to "AEP Ohio," "the Company," and "Ohio Power," and you use those terms interchangeably, I believe. When you are referring to "Ohio Power" or "AEP Ohio," are you referring to the company in performance of all of its functions or just as the distribution company?

A. I believe my analysis and that of Dr. Wilson and Mr. Kollen relate to the whole company. Of course, the impact of distribution, transmission, and generation makes up the ultimate company results. As I understand, there are various proposals which would affect generation, but they have a large affect on the whole company given the magnitude of the generation.

Mr. Allen's testimony, following Commission rules as I understand them, has outlined the pro forma effect of proposals on the whole company.

Q. Actually, I believe it was Dr. -- Mr. Sever's testimony, but let's, and Mr. Allen has outlined some concerns.

Are you aware that Ohio law limits the role of the electric distribution company to that of default provider of generation supply and leaves to competitors the provision of generation supply otherwise?

A. Generally. I'm not an attorney and I wouldn't give a legal opinion, but my understanding is that the distribution company provides the wires and then customers are allowed to shop for the provider of service.

Q. And then the EDU, or electric distribution utility, is the default provider if the customer chooses not to go with a competitive retail electric service provider, correct?

A. That is correct. The ultimate responsibility for providing for service still rests with the default provider.

Q. Are you aware that competitive bidding processes have been used by other EDUs, or electric distribution utilities, here in Ohio, to provide the default service?

A. I am not personally aware of what the EDUs have done here, sir.

Q. Let me ask you to assume that for a moment. Would you agree, Dr. Avera, that through the use of the competitive bidding process, it would be possible to transfer or allocate the business and financial risks associated with providing generation supply to nonshopping customers to a third party?

A. It would -- it's conceivably possible. I think whoever is the default provider has what investors view as volume risk that you don't know what your commitment to provide service would be because the customer has the option of staying with the default provider or going with an alternative provider.

Q. But you would agree that that would be a way of transferring the business and financial risks associated with the default service; that is a competitive bid.

A. It is a method, but it has to be within a framework that, among other things, assures that there is adequate economic incentive to build the capacity necessary to keep the lights on now and in the future.

Q. Is it your belief that the EDU has a responsibility of keeping the lights on in the future?

A. I believe this Commission has the obligation and the public interest to keep the lights on. In order to do that it has to structure the market such that there is an assurance by consumers that electricity will be available, and that can be done in any variety of ways, and different states, my state of Texas, Virginia, Ohio, Pennsylvania, California, have all chosen different routes, but the ultimate obligation is that the whole system be structured to serve the customer and protect the customer.

Q. I understand that. But the point of your testimony is, is that there is business and financial risks associated with providing the default service,

correct?

A. Well, there's business and financial risk in providing electric service whether you are an EDU, a competitive retail provider, or an integrated utility. The risk is there is business risk there. Now, when you have the default obligations, there is an additional burden which is you are obliged to stand ready to make power available, but the customer is not obliged to take it.

Q. Exactly. And one way of shifting that risk would be through a competitive bid, correct?

A. That is one way of shifting the risk, but the competitors -- the risk doesn't go away.

Q. I understand that.

A. And the competitors would have that risk and they would have to price their services sufficient to compensate them for that risk.

Q. Are you aware that AEP Ohio or its affiliates have been successful bidders in these auctions in other service territories within Ohio?

A. Again, I don't have personal knowledge of exactly what's happened in the market. My understanding is that a market has developed with competitive providers as well as AEP Ohio.

Q. Now, if AEP used a -- AEP Ohio, I'm

speaking now specifically of the EDU, used a competitive bidding process to obtain generation supply to meet the requirements of nonshopping customers, would you agree that AEP Ohio would not need to attract generation-related capital to meet the generation supply needs of its nonshopping customers?

A. Well, I think that depends if AEP Ohio is confident that, through competitive bidding, there would be adequate capacity available. I think this Commission and AEP Ohio, anybody that has that awesome responsibility of making power available 24/7, would have to be sure the market is going to be forthcoming in sufficient depth and economical prices and sufficient reliability to meet their obligation to the customers. And I think if they weren't sure of that, it would be necessary and prudent for them to raise capital and invest in their own generation.

Q. So you would have them duplicate or backup the systems that are in place to provide -- that would otherwise be provided by competitive bidding; is that what you're suggesting?

A. I don't think it necessarily duplicates. If AEP Ohio was convinced that the market was rich enough in choices so that they could meet their obligation to their customers, they wouldn't have to build generation, but I think it would only be prudent for them to have generation available to the extent they are not that confident in the depth and quality of the market.

Q. Now, as part of your testimony you've indicated repeatedly that, I believe, the markets give an idea through either comparable analysis, comparable earnings -- or, comparable risk analysis or DCF or -- I understand if you're not a big fan of some of the other methods touted around here; would you say that these rates of return or returns on equity adequately reflect all the known information?

A. That is the assumption of the method. When you look at capital markets, you assume that investors are rational and that they are informed. And when they are willing to pay $38 for a share of AEP stock, they have in mind all the relevant risks and prospects of AEP or any other stock.

Q. Would you agree that a bidding process would also incorporate that kind of known information into the bidding prices?

A. I'm not sure, because the capital markets are huge global markets with enormous liquidity, transparency, trillions of dollars changing hands every day. Energy markets are not the same level of development.

There is not the same ability to migrate. You know, capital can migrate from Europe to Asia to the United States at a click of a mouse, but you can't move electricity across the country with a click of a mouse. You have to have adequate transmission. And we found in lots of parts of the country that transmission constraints have made markets not effective.

Q. Are you aware of any transmission constraints here in Ohio, other than the ATSI region, that would affect the flow of power?

A. Well, I think the constraints are a function of the level of transmission, so, in general, my knowledge, and we've done a lot of work in transmission, the transmission system was originally built for reliability, not for interregional transfers.

As the rate and level of interregional transfers increase, transmission that was adequate in the last decade becomes inadequate in the next decade. So there is a regional constraint on competitive markets.

Several years ago I was named by the

Governor of Texas to a committee to look at interregional transfers and what we found was that they are limited without billions of dollars of additional investment.

The Federal Energy Regulatory Commission has recognized that and has created a regime of incentives to build more transmission, but the transmission isn't built yet, and the ability to transfer power in and out of Ohio or from the west coast or east coast to the gulf coast to Ohio is finite and limited.

Q. You're aware that this ESP period is for three years, correct?

A. Yes.

Q. Are you aware of any transmission constraints within the Ohio region of PJM or within the PJM region other than ATSI and the MAAC region that would affect the ability of power to come into or out of this region?

A. I am not an engineer and I'm not -- I can't speak with authority on constraints in Ohio.

Q. So the answer to my question is that you're not aware of any; is that correct?

A. I'm not aware of any, but I would also note that as the level of transfers increases, transmission that had been unconstrained becomes constrained.

Q. Are you aware of whether or not AEP Ohio has any plans to issue common stock during the next three years?

A. Well, AEP Ohio does not issue common stock; it is issued at the parent, AEP. In 2009 AEP had the largest utility stock issue in the history of the world. They had a very heavy investment in all of their jurisdictions. So I don't think it's remote that there would be issues in the future, but I don't know of any specific plans.

Q. The question was are you aware of whether or not AEP Ohio has any plans to issue common stock in the next three years?

A. And the answer is AEP Ohio would not issue common stock; they would get an equity infusion from their parent, AEP, who, if necessary, would issue common stock.

Q. Now, you indicate at page 16 of your testimony that investors are not likely to be reassured by the non-AEP recommendations in this proceeding. Would you agree that investors, based on the assumptions that you've indicated previously, are aware of such recommendations and have taken them into account?

A. I think they're generally aware. They have, I mean, they don't have detailed specific knowledge that somebody that's been in this room for the last month would have, but I think they are generally aware that this proceeding is going on, I think they're generally aware that some of the proposals are fairly extreme.

Q. At page 20 of your testimony you refer to a NARUC survey of utility regulatory policy in the U.S. and Canada covering a period of 1995 and 1996. Would you agree that since 1996, regulatory policy here in the state of Ohio and at the U.S. federal level has increasingly favored market-based approaches to determining compensation for generation-related services?

A. There has been more reliance on competition. Now, this survey related to a cost-of-equity methodology, I believe, not generation markets per se.

Q. But the question is you're aware that the generation markets here in Ohio and at the federal level, in terms of the regulatory approach, that regulatory approach tends to favor use of competition, correct?

A. Yes, it does favor competition with regulatory responsibility to the outcome that benefits consumers.

Q. You raise, at pages 20 and 21 of your testimony, the treatment of the state of Virginia and a Virginia methodology, you state, "...is entirely consistent with the economic rationale underpinning my expected earnings approach."

Are you aware of anything in the State of Ohio statutes that you believe to be entirely or even partially consistent with your expected earnings approach concerning the pricing of an ESP?

A. I am not aware of anything inconsistent. I understand that some of the statutes in Ohio talk about avoiding confiscation and avoiding financial impact, negative financial impact -- I'm trying to remember the word in the statute. Financial emergencies.

So I think the Ohio statutes follow generally the guidance of Hope and Bluefield, the constitutional requirement that when this Commission has authority over the assets of a utility, it has to make sure there's an opportunity to earn a fair return.

Q. Again, my question was: Are you aware of anything in the Ohio statutes that adopts the expected earnings approach that you say is apparent in the Virginia statutes?

A. Well, I thought, sir, your question was is it inconsistent.

Q. I asked whether or not you were aware of any provisions.

A. And --

Q. And, again, my question --

A. -- I am not, but I believe that the requirements in the statutes of Ohio that you avoid negative financial impact, that you assure the ability to raise investment capital is consistent with the expected earnings approach.

Q. Are you aware of whether or not that reference to -- strike that.

Sir, if AEP Ohio's prices for generation-related services are above market, is it your testimony today that the PUCO needs to intervene to make sure that AEP nonetheless earns a reasonable return on equity?

A. Yes. I think if AEP has an obligation to serve and is under the control of this Commission, then this Commission has an obligation not to take -- that's the word I was trying to remember.

"Confiscation," I believe, is in the Ohio statutes. This Commission has a responsibility to make sure it does not confiscate AEP Ohio's property by allowing an inadequate return.

Q. And for purposes of making that determination, do you think it would be relevant to the Commission that as required by the company's FERC Form 1s for 2001 through 2011 for the company, now I'm speaking about the Ohio Power Company and Columbus Southern Power Company or those two companies together, exceeded 10.5 percent for extraordinary items on an individual or merged basis on 18 of the 21 reports made between 2001 and 2011?

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

EXAMINER TAUBER: You may.

MR. DARR: Let me do it again because I --

EXAMINER TAUBER: That's fine.

MR. DARR: It was a little rough.

Q. Would it be important, do you think, to the Commission to take into consideration whether the electric utility had been recovering returns on equity, as reported by the company's FERC Form 1 reports for 2001 to 2011, that reported that in that period the amounts of return exceeded 10-1/2 percent in 18 of the 21 reports?

A. I think the Commission might be interested in that number, but this Commission, in my understanding, does not do retroactive ratemaking. So the past earnings cannot be confiscated or considered in setting the opportunity to earn a fair return in the future.

Q. And would it be relevant, in your mind, that the return on equity exceeded 15 percent for Ohio Power and CSP on an individual or merged basis in 12 of the 21 reports from 2001 to 2011?

A. I'm accepting your numbers. Is that based on year-end or average equity because --

Q. Based on the FERC reports, the end-of-year FERC reports.

A. But it's the end-of-year book value divided by earnings during the year?

Q. Yes, sir.

A. Okay. Well --

Q. Net income divided by the stock value.

A. Well, that value is not the one that's used in Virginia and it's not the one that's used by investors. Investors, as Dr. Wilson testified in his cross, generally reference a mid-year equity return on mid-year investment.

Q. You're aware that the Commission is setting the RSP -- well, let me go back. If that was the way the manner -- if that was the manner which that calculation was made, would that affect your response in any regard?

A. It wouldn't affect the response, but I think to the extent the Commission considers past earnings, it should, as the Virginia commission does, look at ROE on average equity.

Q. Are you aware of the Commission's decisions in the rate stabilization plan cases where the Commission permitted rate increases of 3 and 7 percent annually for three years over the period 2006 through 2009 -- 2008, excuse me?

A. I'm generally familiar. Again, the details of those proceedings and the outcomes, I couldn't recite, but I'm aware of the process that's going on.

Q. And are you aware that in those decisions, the Commission explicitly determined that the return on equity was not a relevant consideration in determining whether the resulting rates met applicable statutory requirements?

A. I really can't respond to my personal knowledge.

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

EXAMINER TAUBER: Thank you.

Ms. Kingery?

MS. KINGERY: Nothing. Thank you.

EXAMINER TAUBER: Mr. Boehm?

MR. K. BOEHM: No questions, your Honor.

EXAMINER TAUBER: Ms. McAlister?

MS. McALISTER: No questions, your Honor.

EXAMINER TAUBER: Ms. Thompson?

MS. THOMPSON: No questions, your Honor.

EXAMINER TAUBER: Mr. Yurick?

MR. YURICK: No questions.

EXAMINER TAUBER: Mr. Barnowski?

MR. BARNOWSKI: Mr. Rubin.

EXAMINER TAUBER: Mr. Rubin.

- - -

CROSS-EXAMINATION

By Mr. Rubin:

Q. Good morning, Dr. Avera.

A. Good morning.

Q. Dr. Avera, you're testifying in this case as a rebuttal witness on the issue of ROE for AEP, correct?

A. Yes. And the financial effect on AEP of the proposals.

Q. You were not asked to provide direct testimony in support of AEP's desired ROE in this proceeding, were you?

A. No, sir.

Q. In fact, you didn't provide any direct testimony on that very issue.

A. That is correct.

Q. You did not play a role in establishing the ROE that AEP is seeking for its RSR; is that correct?

MR. CONWAY: Objection. It's a misleading question. The company's not seeking an ROE out of its RSR. That's just a -- that's a false premise and misleading.

EXAMINER TAUBER: Could you rephrase your question, Mr. Rubin.

Q. Are you familiar with the RSR?

A. Yes, sir.

Q. Are you familiar with the determination for the RSR that AEP is seeking a 10.5 percent rate of return equity for the years of the RSR?

A. That is not my understanding. My understanding is that for the purposes of designing the RSR, a 10.5 benchmark was used, but, in fact, it is not expected to actually realize, on a company basis, 10.5. So it's not the same as an -- the 10.2, for example, in the D case, which is an allowed return and the rates are designed to achieve that return.

Q. Thank you for the distinction.

My question refers to the first part, the benchmark, the 10.5 benchmark. My question is: Did you play a role in establishing that 10.5 benchmark used for that proceeding?

A. Not directly. I understand that part of the decision-making from talking to officials at AEP Ohio was my testimony in the D case of the 11.15 required ROE and also the 10.2 settlement result of the D case.

Q. And were you asked to consider the financial impacts of the RSR on consumer rates in Ohio?

A. I was asked to consider the financial impact on AEP Ohio of proposals that would drive the ROE substantially below the 10.2 or any reasonable number. So to look at the impact, as Mr. Allen in his rebuttal has documented, some of the plans of the staff would go to 4-5 and some would go to 1-5.

Q. But you did not consider in your testimony in this case the impact of the ROE benchmark for the RSR, did you?

A. Well, I considered the impact on AEP Ohio of various levels of earnings. Again, the 10.5 was a tariff feature in designing the RSR. It was not an allowed return. But, as this Commission considers the alternatives that have been put on the table, it is legitimate to consider the financial impact as Mr. Allen has documented and feeds into my testimony as to why it's not good public policy.

Q. So your answer is you considered the impact on AEP.

A. Yes.

Q. I asked about the impact on the consumer.

A. That is correct.

Q. Let me -- you mentioned the distribution case, so let me turn to that for a few minutes. You mention, at page 3 of your testimony, that you testified in the retail distribution service rate case as to what you believe was a reasonable ROE for the two companies that are now AEP about March of 2011, correct?

A. Yes.

Q. And you also submitted supplemental

testimony in October of that year, 2011, to rebut what the PUCO staff had determined to be a reasonable ROE for that distribution case, correct?

A. Yes.

Q. Now, you didn't provide testimony in this case, however, direct testimony in this case about what would be a reasonable ROE for the integrated utility in 2012, did you?

A. No, sir.

Q. And you didn't do that for 2013 either.

A. Not direct testimony.

Q. So the same answer for 2014 and 2015.

A. Yes, sir.

Q. Are you familiar with what was marked in the direct testimony as OJS-2, Dr. Sever's financial projections?

A. I am generally familiar those projections were put forward.

MR. RUBIN: May I approach the witness?

EXAMINER TAUBER: You may approach.

MR. RUBIN: Your Honors, I'm going to hand the witness what is a portion of, I believe, AEP 150, which is simply the OJS-2 charts of Dr. Sever.

EXAMINER TAUBER: Dr. Sever's direct testimony?

MR. RUBIN: Yes.

EXAMINER TAUBER: AEP 150 is Dr. Avera's testimony.

EXAMINER SEE: I believe what he's referring to was AEP Ohio exhibit -- what has been marked Exhibit 108.

MR. RUBIN: 108? I'm sorry.

EXAMINER SEE: Sever's direct testimony.

THE WITNESS: I think what was handed to me was from my testimony.

MR. RUBIN: That might be true. It is. You might as well hang on to it.

My apologies. We're now handing the witness what is the AEP 108, OJS-2.

Q. (By Mr. Rubin) Dr. Avera, have you seen this document before?

A. No.

Q. You haven't. So you didn't play any role in the development of the financial projections on that?

A. No, sir, I did not.

Q. Now, if you look at that document, you'll see that Dr. Sever projected an ROE of 9.5 for the integrated utility in 2012. Do you view this projection as sufficient, in your words, to provide

AEP Ohio an opportunity to earn return commensurate with other investments of comparable risk?

A. Yes.

Q. So you wouldn't consider this rate confiscatory.

A. Well, because of the circumstances, as I understand the proposal, that the revenue would be fixed, and what these forecast -- these are not what we would call "budgeted forecasts," these are forecasts based on a test year level of cost.

The reason that AEP Ohio would have an opportunity to earn a compensatory return is that, over time, they can cut costs or take other actions to achieve a higher return than is built into the benchmark.

And, secondly, from an investor perspective, the benefit of resolving the uncertainty that has been created here in Ohio about the future structure of the market would be beneficial and comforting to investors, so they're willing to go, I believe, to go into a situation where the pro forma earnings are less than 10 or 11 percent which would be required because there is the opportunity to cut costs and there is the possibility of better visibility in the future.

Q. I appreciate that. So whatever ROE the panel decides on here, they would have -- AEP would have the opportunity to cut costs to attract more investors, you're saying.

A. That's correct. And do other things. To make themselves achieve higher returns, but the onus would be on them. It's not set into the plan.

Q. Now, let me ask you the same question with regard to 2013. If you look on the chart, there's a projection in 2013 of 7.5 percent. My question is: Would you consider this would be a reasonable, an opportunity to earn a return commensurate with other investments at comparable risk?

A. It would not if this were a rate case and we were setting rates based on 7-1/2. Or, as Mr. Kollen has proposed, we somehow lock in the 7 percent return that he proposed as a bottom.

But in the context of a plan which allows Ohio -- AEP Ohio the flexibility to manage their business and the possibility of resolving this uncertainty, I think that is an acceptable and nonconfiscatory return in this context.

Q. And you also see that after 2012, 2013, 2014, and 2015, just for the wires-only business, that ROE is expected to go up to -- is projected to go up to 10.5.

A. Yes.

Q. What, in your mind, would cause the rise from 7.5 to 10.5, given the company goes into transitional mode?

A. My understanding is the company is currently anticipating that it would have a separation, right now it's kind of an administrative separation, but a physical separation of the wires business from the other transmission -- from the generation. So that that separation, then, makes it possible to track what the wires return is independent of the generation return.

Q. And is your opinion that the generation return would be higher than the wires-only return or the other way around?

A. I think it would depend on how the world works out. As I understand the policy of this Commission and the intention of the company's proposal is there would be a transition to a more competitive market over time, and when that transition is accomplished, then the return is whatever the market allows. As we were discussing earlier, there is a favoring of markets for generation in this country and in this state, but you have to get there from here, and the company has proposed a transition to do that.

Q. Thank you.

Now, I'm going to turn to your actual testimony, your rebuttal testimony in this case. Now, you criticized Dr. Wilson for, quote, mechanically inserting inputs into models that the staff had presented in the distribution case, correct?

A. Yes.

Q. And you, yourself, provided supplemental testimony in that same case that found fault with the PUCO staff's analysis, correct?

A. Yes.

Q. So it's not a surprise, then, that you would be essentially using the same criticisms of Dr. Wilson you did of the PUCO staff in the distribution case.

A. If it was wrong then, it's still wrong.

Q. Of course.

MR. RUBIN: Again, may I approach the witness, please?

EXAMINER TAUBER: You may.

MR. RUBIN: I'm going to have the witness handed what is going to be marked as Ormet Exhibit 108, which is Dr. Avera's direct testimony in the distribution case of March 2011, and Exhibit 109, which is the supplemental testimony provided in that same case dated October 2011.

Q. I'm not going to ask you to read the whole thing, so don't worry.

A. I love these words.

(EXHIBITS MARKED FOR IDENTIFICATION.)

Q. Now, Dr. Avera, you recognize these two documents?

A. Yes.

Q. So the document we've marked as Ormet 108 appears to be your testimony, your direct testimony in the distribution case?

A. Yes, sir.

Q. And Exhibit 109 appears to be the supplemental testimony provided in the distribution case?

A. Yes, sir.

Q. Now, if you look at the -- please look first at your supplemental, Exhibit 109, and if you have -- do you have your testimony with you, as well, from this case?

A. I do.

Q. So if you look at the supplemental, excuse me, your rebuttal testimony in this case on page 4, where you offer some very general conclusions about this case, these are relatively the same conclusions that you reached in your supplemental testimony; is that correct? I would direct you, if you want, to page 2 of your supplemental.

A. We're on page 3 of the supplemental versus page 5.

Q. It's page 4 of your rebuttal now versus page 2 of your supplemental.

A. Yes.

Q. It's not verbatim. It's -- they're similar, aren't they?

A. That's right. The numbers are different because I used the numbers that Dr. Wilson used because he updated the numbers from the Staff Report.

Q. And turning you now to your rebuttal testimony in this case on page 5, lines 3 to 21, you offer a summary of some of your criticisms of Dr. Wilson. And these, I can go through each one of these, but these are generally the same criticisms you offered of the PUCO Staff Report in the supplemental testimony; isn't that correct?

I'll refer you particularly to page 3 and

4 of your supplemental. Again, they're not verbatim, they are similar.

A. They are similar. Again, we did update some of the risk measures change so the risk of the proxy group is actually a stronger, now, criticism than it was then because some had been upgraded even further away from AEP Ohio.

Q. I understand. I mean, fair to say that in many instances in your rebuttal testimony in this case you use language that is identical or nearly identical to your prior testimony in the transmission case?

A. That is correct; because what Dr. Wilson did is plop down the staff model and plugged in current numbers. So what I did is started from my supplemental testimony, put in new numbers, and also referenced statements in Dr. Wilson's testimony where he actually proposed principles that are inconsistent with what he did when he followed the staff.

Q. That's why you were able to get a report done, so quickly after the case in chief was over, I assume. You were basically cutting and pasting what you did before but adding new numbers and new concerns in the Dr. Wilson --

MR. CONWAY: Objection.

A. New concerns --

EXAMINER TAUBER: Hang on one second. There's an objection --

MR. CONWAY: Mischaracterized what the witness did and so I object to it.

EXAMINER TAUBER: I'll allow the witness to finish answering the question.

A. Okay. What I did in the days of data processing, I started from my supplemental testimony, but I took into account Mr. Kollen, who was not in the supplemental testimony.

Q. Right.

A. I took into account what Dr. Wilson said in his direct, and I took into account what Dr. Wilson said on cross and in response to your Honor. So, yes, I started with the Staff Report just like he did, but I took into account what Dr. Wilson put in his testimony and what he testified from this stand before this Commission.

Q. And I won't belabor this, but I'll observe, I guess I'll ask the question, sentences, you did take whole sections from the report and didn't even change the word "Staff Report" to "Dr. Wilson"; is that correct?

A. Well, because the reference was correct to the Staff Report, so I went through carefully to make sure that everything I said about the Staff Report was relevant to Dr. Wilson. And in some cases I'm actually referring to the Staff Report because there are differences in the staff and Dr. Wilson.

Q. Well, let me ask you to turn to page 40 of your rebuttal testimony. That would be page 40, lines 14 to 41 -- continuing over into page 41 to line 3.

A. 40 to 41.

Q. Yeah. The question is, did these criteria provide a reasonable basis upon which to determine a proxy group for AEP Ohio?

A. Yes.

Q. Dr. Avera, isn't this verbatim from your past report such that Dr. Wilson's name is not even mentioned in this paragraph?

A. That is correct, because Dr. Wilson used exactly the same proxy group as the Staff Report. So it was not comparable, it was not an adequate or robust basis for coming up with a proxy group then and since Mr. -- or, Dr. Wilson just used the same companies without even re-examining their risk; in fact, some of their risk has decreased for these other companies relative to where it was when the staff chose those companies.

Q. I see that in your testimony. Let me ask you one more question on this. I'll turn you to page 42, lines 18 through 26, and continuing on page 43, lines 1 through 13.

A. Yes.

Q. Again, this is a verbatim statement from the past report without mentioning Dr. Wilson or Mr. Kollen at all, correct?

A. Exactly; because Dr. Wilson just says I'm going to use the staff proxy group. So you don't -- he didn't even explain why the way the staff chose the proxy group was a good way to select it. So you have to go back to the Staff Report to see how the staff selected the proxy group, because Dr. Wilson doesn't inform us, he just says if it was good enough for the staff then, it's good enough for me now.

Q. Did he actually say that or did he just use the Staff Report as a basis to make a comparison to something? I mean, did he say why he used it? Do you recall that?

A. He said --

MR. CONWAY: Excuse me. Can I have --

A. Let me --

MR. CONWAY: Excuse me. Can I have the

question read back, please?

MR. RUBIN: I rephrased it in the middle, so I can ask the question again, because I . . .

Q. You said he just says he's not asking you what the panel did, it's good enough for him. He didn't actually say that in his report, "It's good enough for me"?

A. Let me check what -- I mean, I know in the case of GNP he said he didn't really agree with what the staff did, but he was going to do it anyway.

Q. And he has other criticisms, as well, of the staff in his report, doesn't he?

A. Yes.

I'm not able to find where he uses the proxy group. I know that he does, he just uses the staff proxy group.

Q. My question wasn't whether he used the proxy group or not. My question was did he say "I'm going to use this proxy group because it's good enough for me"? I just wanted to make it clear what your understanding was of his testimony. I can move on.

A. Okay. Here's what he says: "I've used the same models that were employed by the Utilities Department of the Commission staff in preparing the rate of return section in the Staff Report in the recent Columbus & Southern Power/Ohio Power distribution service case before this Commission."

Q. Thank you.

Now, in your current rebuttal testimony you reference the fact that the Staff Report in the distribution case concluded the range of the ROE should be about, not about, should be 8.59 percent to 9.6 percent, correct?

A. Yes.

Q. Now, you testified in that same case that the ROE for the combined companies should be more on the order of 10.55 to 11.55 percent, correct? That's your direct testimony.

A. Let me get there to refresh my recollection.

Q. If you'll look, it's on page 5 of your direct testimony.

A. Okay. Yes. By the way, that reading from Dr. Wilson's testimony was on page 8.

Q. Thank you.

Now, in this current case, your rebuttal testimony, you testify that a corrected range, in other words the range you would correct for Dr. Wilson, would be in the 10.24 to 11.26 percent, correct? It would be your testimony on page 6.

A. Yes. But I want to make sure that -- that is using the methods he used corrected. Using his proxy group, which I don't agree with.

Q. Right.

A. So I kind of did what Dr. Wilson did which is take the proxy group as a given and the methods as a given, but did the implementation in the way that's consistent with the models.

Q. I understand. Thank you.

And you did conclude in your testimony that the current conditions and other factors taken into account would support a 10.5 ROE; is that correct?

A. At least. I didn't sponsor an ROE. What I did is show that Dr. Wilson's analysis, when properly corrected, supports a 10.5, and that Mr. Kollen's analysis does not support any ROE.

Q. Now, in the distribution case, the parties stipulated, ultimately, to a 10.2 percent ROE, correct?

A. Yes.

Q. And that's considerably lower than an 11.15 ROE?

A. It is.

Q. In fact, it's at the lower end of the range of which you opined in that case, correct?

A. Yes, it's below the range that I proposed.

Q. Now, it's -- and it's lower than the 10.5 percent at issue in this case here.

A. Yes. But, again, it's apples and oranges a little bit because we're talking a 10.5 as part of a transition plan, not as a regulated allowed return the same way the 10.2 is.

Q. I'm a little confused on that. When you're making a distinction of an unregulated plan, are you referring to the 10.5 benchmark for the RSR or are you talking about for the entire integrated company?

A. What I'm talking -- the analysis that I did for the rate case was for the integrated company. The analysis that the staff did for the rate case was the integrated company. The analysis that Mr. Kollen did was for the integrated company. The analysis that Dr. Wilson did was for the integrated company.

So when we talk about these numbers, the benchmark is the integrated company, or the reference point is the integrated company. Now, as I understand the way the 10.5 was used was in designing the RSR, it was not an authorized return.

Q. Thank you for the clarification.

Now, on that same subject, the 10.2 ROE that was stipulated in the distribution case, that was below an ROE you would find reasonable in your testimony in this case.

A. Yes. I think if you apply the methods that Dr. Wilson applies properly, the outcome would be something higher than 10.2.

Q. And you didn't do your own analysis to figure out what the ROE would be for the whole facility, you're responding to Dr. Wilson's, correct, testimony?

A. That's correct; I was rebutting Dr. Wilson. I think to the extent that this Commission finds those methods informative, my rework, which I think is correct and accurate, accurately reflects the proper application of the models would be informative to the Commission.

But if I were asked to, from zero, to develop an analysis, I would probably come up with a higher number than 10.5 as a recommended ROE.

Q. You would have to do that analysis. You haven't done that analysis, correct?

A. I haven't done that analysis. But, you know, we're involved with cases for other companies and other AEP subsidiaries so, you know, we're generally aware of what the methods that we prefer are yielding.

Q. Going back to the 10.2. So the parties stipulated to that and PUCO, at one point, adopts the order of -- the stipulation, correct?

A. Yes. And, my understanding, that's still in place.

Q. So you're not aware that the PUCO rescinded the stipulation?

A. Well, now I'm not a lawyer and I haven't been here for months, but -- as, unfortunately, you all have, but my understanding is that the D case is done. The part -- there were other, many moving parts to the stipulation that were rejected by this Commission, but my understanding is the 10.2 in the distribution case is intact, but -- that's my understanding and I believe that's kind of investors' understanding, but I'm not here to personally say that's so from my personal experience.

Q. That's fair. Thank you.

Now, in your testimony you describe, quote, the myriad of challenges and uncertainties, unquote, that investors have faced this year in the overall market, including the threat of U.S. default, the battle of the debt that happened last summer, you saw the debt crisis, you talked about other economic issues, correct? That's part of what you consider the economic turmoil over the last year.

A. Yes, and that thing in Europe.

Q. The thing in Europe.

And your point, isn't it, that things have just gotten riskier for investors since last year?

A. I think the perception of risk has gone up. I think that is indicated by the spread between Treasury yields and other yields. It's indicated by the volatility in the markets. It's indicated by measures such as the VIX. So I think what we have is a lot of sensitivity to risk and, therefore, investors are willing to accept extraordinarily low returns on Treasury bonds just to be sure they'll get their money back as opposed to putting money in corporate bonds or in corporate stocks.

Q. So given this perception of risk, your opinion, the ROE for AEP shouldn't go down below 10.2 percent that was at least agreed at one point last year.

A. Yes. I don't believe that, if you look at objective indicia in the marketplace, they tell you that the cost of money, as Dr. Wilson says, has clearly gone down.

I think the cost of money, one thing we can agree on, the cost of money to the federal government has gone down, but I think the cost of money to private borrowers, and my son just tried to get a mortgage, the cost of money to private borrowers has not gone down.

MR. RUBIN: I'm tempted to make a reference to your last mortgage statement from two weeks ago, but I won't ask.

Q. It's also your opinion that comparable earnings are now higher than they were before, a year ago?

A. Let me confirm.

Q. Sure.

A. Looking at the --

Well, the Value Line electric is the same. For the staff proxy group, the expected earnings has gone down from 10.86 to 10.46.

Q. Thank you.

Now, in light of this volatility, AEP is not the only company impacted by the volatility, correct?

A. That is correct.

Q. The volatility and uncertainty you described would impact any investment in the United States, not just a utility in Ohio, correct?

A. Well, any risky investment, especially corporate stocks as opposed to treasuries.

Q. And it would present specific risks to those sectors that are not -- whose rates aren't set by regulation, correct? You mentioned riskier.

A. That's correct. But there are companies, and I identify some in my testimony, who are not rate regulated, but, by all objective measures, are less risky; companies like PepsiCo., Coca-Cola, Wal-Mart.

Q. I'll get to that in a few minutes. Thank you.

Let me ask a few more questions about your distinction between the public cost of money and the private cost of money. You suggest on pages 14 and 15 of your testimony that money costs have dropped significantly since the PUCO staff analysis, while equity costs have actually risen, correct? Referring to pages 14 and 15.

MR. CONWAY: Can you provide a line reference?

MR. RUBIN: It's more general but I'll

try to find the actual language.

Q. Let me, so I don't waste time looking for the actual words, let me ask you the question again. Is it your testimony that money costs, at least public money costs have dropped fairly significantly?

A. I would say Treasury costs, U.S. Treasury bonds, German government bonds, those kinds of investments have dropped in yield. Spanish government bonds, other riskier bonds have not followed suit; in some cases they're higher.

I think my testimony would be, and I think what I'm saying here is that the dramatic drop in treasuries, which Dr. Wilson says means money costs have gone down, that's not correct.

Now, I'm not sure that I would say that money costs for stock has unambiguously gone up. I think you can say it's about the same or it may have gone down a little or up a little, but it is not dramatically different than it was. And if we look at the staff rewrite in our supplemental testimony and now, some of the numbers are a little higher, some of the numbers are a little lower.

So I think objective measures of investors' required return is there hasn't been much change, but what I'm rebutting is Dr. Wilson's notion that because we see treasuries go down, that means money costs have gone down for AEP Ohio, and that is an incorrect inference.

Q. Well, let me just ask you the question on this subject before moving on. Referring you to your chart, your graph on page 14, Figure WEA-1 which purports to show the yield spread (basis points), between BBB utility bonds and 30-year Treasury.

Now, I believe your testimony is this rather large slope, the steep slope occurring around August 2011 from about 140 to 220 shows there is a, while there's a decrease in Treasury, there is not necessarily a decrease in utility bond values.

A. Well, actually, utility bonds have gone down some, but the spread has increased. And then, as I observed, when we talk about stock, we're further out the risk spectrum, so if the spread has gone up for utility bonds, it has probably gone up even more for common stocks.

Part of the capital asset pricing model that's very useful in teaching finance is the capital market line that Dr. Wilson talks about, and that is anchored at the Treasury, but it has a varying slope depending on how much risk concern there is among investors.

And what we have had since last summer, when we thought we were coming out of the problems, is the anchor has gone down, we're further down the axis, but we're steeper sloped.

Q. Thank you.

Let me ask you now to turn to page 15, lines 12 through 21. You also mention it's an additional risk factor to AEP the uncertainty created by PUCO's actions regarding the ESP that have been approved in December 2001, correct?

A. Yes.

Q. All right. So are you suggesting, then, that PUCO should consider, as a rationale for setting a higher ROE, the impact the agency actually had on AEP in this proceeding?

MR. CONWAY: Could I have the, excuse me, could I have the prior question read back. Starting out, "Let me ask you now to turn to page 15." Could you read that question back?

EXAMINER TAUBER: Sure.

(Record read.)

MR. CONWAY: I can't recall specifically whether you said "2001" or "2011," but just so the record's accurate, did you mean "2011"?

MR. RUBIN: Yes, I did. If I said

"2001," I misspoke. Thank you.

A. I think investors' reaction is a fact and that changes the investors' risk perception. Now, what the Commission should do about that I think depends on the Commission's judgment.

As I say on the next page, that if the Commission seriously considers proposals like the staffs' and other intervenors' that would drive the opportunity to earn way down, that concern will be more significant. Perhaps so significant that AEP Ohio will not be able to raise capital.

So I think the Commission should properly be on notice that the investment community is concerned, and that means that to put money in this company investors need higher compensation. And if their concerns become more pronounced, it could, in the extreme, lead to an inability to raise funds to make the capital investment that customers need in order to keep the lights on.

Q. Let me now turn you to the expected earnings method you've testified about and been asked about this morning. Now, you testify in your direct that it would be appropriate to use the expected earnings method to determine benchmarks for the ROE, correct?

A. Yes.

Q. And by inference, then, you feel Dr. Wilson and the PUCO staff should have used that as a benchmark as well?

A. Well, I think Dr. Wilson did. He references, on page 5, what the ROE has been using end-of-year values, and in his cross-examination before this Commission he talked about earned rates of return. So I think Dr. Wilson has referenced earned rates of return just as Mr. Kollen did when he talked about the earned rates of return of other AEP subsidiaries being in the 7 percent range. So I think all the witnesses that have talked about ROE have talked about earned rates of return.

Q. Excuse me. So you say he talked about it. Did he use these ROEs as benchmarks in the same way you're proposing to do?

A. He did not formally use them in the analysis. The Staff Report did report ROEs, and I report those ROEs in my rebuttal testimony here. Dr. Wilson didn't look at those ROEs, but he does reference the company's ROEs in past years.

Q. And in your statements about benchmarks, you're not saying that PUCO should use comparable earnings analysis as a main methodology of determining an appropriate ROE, are you?

A. You mean in this case or any case?

Q. Yes, in this case. In this case.

A. I think the Commission ought to reference those because I think that is the most correct comparison for whether you're meeting the Hope and Bluefield requirements. Investors have choices, and if AEP Ohio is earning significantly less than other enterprises of the same risk, then investors are not going to choose to put capital in AEP Ohio. So I think actual earnings are important.

Q. I understand.

I think you already testified that you're not aware of a direct statutory requirement that PUCO used that particular test; you talked more about the importance of making sure there's a fair rate of return, correct?

A. That's correct. I think my recollection is there are terms like "takings" and "confiscation" and "financial distress" in the Ohio statutes, and, of course, Ohio is part of the United States, so Hope and Bluefield apply.

Q. And you still believe that the DCF and the CAPM, the C-A-P-M, are, if correctly used, are appropriate tools for the PUCO of Ohio to use to determining ROE.

A. Yes; but I do believe, as I say in my rebuttal and I said in my supplemental and direct, that at this point I agree with the Florida commission staff that the CAPM ought to get less weight because of the extreme movements in Treasury yields that are driven by events and policies unrelated to the cost of capital for private corporations.

Q. Thank you.

Now let me get more into the details of your expected earnings figures which you used to derive your Exhibit WEA-2. For your expected earnings approach you take the expected earning return figures projected by the Value Line Investment Survey 2015-2017, correct?

A. Yes.

Q. And Value Line is a commercial service that evaluates financial risks and other factors for various companies and industries, correct?

A. Yes.

Q. It's not the only such service that does that, it's just one of them.

A. No; it is generally regarded as the largest and it is independent in that it does no other business that might conflict with its objectivity as an investments advisory service.

Q. So it's not a governmental official document.

A. It's not a governmental, but it's not associated with a brokerage firm or hedge fund or a bank or anybody else. It's an independent evaluator of risk and prospects.

Q. While I'm on this question I'll ask you the same thing about the AUS monthly report that you also address in your testimony, that's also a commercial publication looking at risk and other factors in the economy?

A. Yes. It's a little bit different or considerably different from Value Line in three respects: First, Value Line is huge. It's in every library in the country, every commission, every brokerage office around the world. So it is huge.

It is for investors. It is not for litigation.

And it is printed so there is quality control. The companies that are covered by Value Line can look at their Value Line sheet and if something's wrong, they can tell Value Line "You got bad data."

AUS is a much more boutique. It is published by a consulting firm. It is focused only on the regulatory arena. And it is generally subscribed to by consultants like me, some commissions, and a few investors, but it is a much smaller, much less subscribed resource, and it is primarily used for the purposes of rate cases.

Q. Thank you.

And either one of these documents, the Value Line or the AUS, they're reporting on the parent companies of these utilities, correct, they're not breaking it down to the AEP Ohio level?

A. That is correct. They're looking at the level of the stock issuer.

Q. Now, in your calculations of expected earnings, you used the expected earning -- expected earned return listed by Value Line for companies in 2015 to 2017, correct?

A. Yes.

Q. And these figures represent the rate of return on book value of equity capital, correct?

A. Yes.

Q. You don't use market value of equity in your calculations.

A. No, I do not. Not these calculations.

Q. Would you agree that market value is a relevant consideration for an investor who is seeking a specific return on his or her investment?

A. Well, I think investors deal in market values. You buy and sell at market values. Commissions deal in book values; they deal in rate base that -- all the numbers that Dr. Wilson cited that were cited earlier from the Form 1, those are book value returns and that's why they're apples to apples, because we're talking about an authorized return which is a return on book value and, therefore, the relevant analog in the investment literature is book value return.

Q. But you said it was -- you admit it was relevant for investors to look at market value.

A. For certain purposes. And I think investors do look at market value.

Q. And one of the key features of the DCF and the CAPM test focused on investor expectations, correct?

A. That's correct; they are market approaches. The comparable earnings is not a market approach; it is a more direct apples-to-apples approach.

Q. You said more direct for the public

utility commissions.
A. That's right; because it deals in the same metric that the public utility commission deals in.
Q. Now, the book value to market value can be very different, correct?
A. Yes.
Q. All right. For example, if a market price, the double book value, the actual return to an investor is actually half the return of book value, right?
A. Well, that's not true, because the investor doesn't get the earnings. What the investor gets is the dividends and growth. So the investor looks at earnings because they tell them what the future of dividend and growth is, but investors do not get the earnings of the company. The company's assets are held in common and the only cash flow to the investor that the DCF looks at is the dividend yield and growth.
Q. Is your testimony the DCF uses book value?
A. No. It uses market value, but it doesn't use earnings on market value. It uses what the investor gets, and what the investor gets is

dividends and growth.

MR. RUBIN: Break for a moment, please? Just short.

EXAMINER TAUBER: You may.

MR. RUBIN: Thank you very much. Back on the record.

Q. Let me ask some questions about your consideration of a nonutility proxy group. You also testify in this case that it's -- the comparable nonutilities are a valuable benchmark for ROEs, correct?

A. Yes.

Q. And you consider companies with comparable risks to AEP Ohio to be companies like Pepsi, Coke, Wal-Mart, Kellogg.

A. Well, it's not what I considered. The investment community, Value Line and the bond rating agencies, consider these comparable in risk to AEP.

Q. And PUCO staff in the distribution case didn't consider these nonutility groups, correct?

THE REPORTER: Excuse me.

Q. Did not consider --

EXAMINER TAUBER: Hang on one second.

THE REPORTER: Did not consider the non?

MR. RUBIN: Nonutility groups.

Q. And the companies that you mentioned in your nonutility proxy group, they're not regulated by PUCs or any other organizations that set the rates, correct?

A. That is correct. They don't have the obligation of a utility; they can change their prices, they can move in and out of markets. So they don't get the benefit of regulation and they don't get the burden of regulation.

Q. In fact, they can be in lots of markets, right? They can be in markets in the United States and overseas.

A. Yes; and from a Hope and Bluefield standpoint, I think all of these companies do substantial business in Ohio, so they're in the same geographic area as AEP Ohio.

Q. But they're also in other states in the United States and overseas.

A. Yes.

Q. And they're subject to international currency fluctuations.

A. Yes, they are. They can hedge and they do, but they have substantial international interests, some more than others.

Q. And they face, it's oftentimes intense competition for the goods of each other; Coke and Pepsi for example.

A. Yes, but only Coke can make Coke, and only Pepsi can make Fritos.

Q. Let me turn to a couple other points on different areas. I think there was some testimony earlier this morning about the use of the figures from the middle of the year, average rates versus end-of-the-year rates, correct?

A. Yes.

Q. And I think you said that -- what was -- let me rephrase that question.

Do you recall why Dr. Wilson used end-of-the-year rates?

A. Well, on cross-examination he says he sometimes uses both, and this time he just happened to use year-end. But he says he often uses mid-year as well.

Q. So he didn't express a preference one way or the other.

A. Let me check. I may have that part of the transcript with me here.

Q. Only if you know. You made a statement, I believe before, that it sounded like he was valuing one way or the other, but I think you've answered that he didn't, you said he said I used one or the other depending on the circumstances, correct?

A. Yes. He may have been a little stronger than that, but he certainly said he used both. And he said he used year-end here, but in other occasions he's used mid-year. And as I sit here now, I guess the transcript will speak for itself as to what he said.

Q. That's right.

Now, another thing you mentioned today about GNP and GDP, you state in your testimony on page 30, lines 16 through 18, that Dr. Wilson agreed in his cross-examination that, in contrast to GNP growth rates relied on by the Staff's non-constant DCF model, GDP has been the predominant measure of economic activity since 1991, correct?

A. What page?

Q. Page 30, lines, I'm reading from lines 16 to 18.

A. I believe that's -- I believe the question was asked about -- I know the question was asked in his cross about GDP and GNP, and I know that GDP has been the official U.S. measure since '91. I thought he agreed that that was the case. He certainly agreed that GDP was widely used.

Q. Would it surprise you if I suggested that he said either way, "I've used it either way, it doesn't really matter"?

A. I don't remember -- I know that he has a footnote in his testimony that looking backwards they're almost the same. Looking forwards, and he said you ought to look forward, I don't think you're going to be able to find GNP forecasts. The only forecasts that he or anybody else references these days are Gross Domestic Product because of the problem of international companies that are not domiciled in any particular country.

Q. I'm not really focused on what you're attributing to Dr. Wilson. Would you want to withdraw your statement that Dr. Wilson said that the Gross Domestic Product was the predominant measure?

A. If he didn't say it, he didn't say it. And I'm sorry. But I will say that it is the predominant measure; that is a fact.

Q. Let me ask a few more questions and I'll be done. Back generally, Dr. Avera, how many times have you testified on behalf of AEP Ohio or any of its parents or subsidiaries?

A. Including states and FERC?

Q. Yes, on behalf of AEP in any of its

proceedings.

A. I would guess around 25. That's -- well, that may be too many. Probably the number is more in the upper teens.

Q. And over what period of time?

A. Probably beginning in the late-2000s. I did a number of cases against AEP early in the game, so it took a while for us to get to be friends again.

Q. That's why they started to hire you.

And how many nontestifying engagements have you done for AEP?

A. None.

Q. Now, can you estimate how much you and your company have been paid for the teens amount of work you've done for AEP?

MR. CONWAY: Objection. Relevance.

MR. RUBIN: Your Honor, it goes to bias. This is a witness who is regularly testifying on AEP's behalf. I just want to know --

EXAMINER TAUBER: The objection is sustained.

MR. RUBIN: All right. Thank you.

EXAMINER SEE: Mr. Avera, in regard to one of the questions asked by Ormet's counsel, you indicated there's -- "indicated by measures such as

VIX." Define the term "VIX" for the record, please.

THE WITNESS: "VIX" is V-I-X and it's called the "Volatility Index." And what it is is a measure using the relationship between option prices and the underlying index.

So if you look at the option price on Standard & Poor's index, there is an implicit volatility built into the option price, and in the last several years you can actually buy VIX calls and puts.

So it's a number that, generally, if it's below the 15, it means that investor sensitivity to risk is not very great. If it's over 20, which it is now, it indicates that investors are very sensitive to risk because they -- they have a much more preference for options where you don't put up as much capital versus the underlying index. But that's -- I hope that's helpful. It's a fairly complicated calculation.

EXAMINER SEE: Thank you.

THE WITNESS: But it's used so much --

EXAMINER SEE: Thank you, Mr. Avera.

Mr. Howard?

MR. HOWARD: Yes, your Honor. Thank you.

\- - -

CROSS-EXAMINATION

By Mr. Howard:

Q. Good morning, Dr. Avera. My name is Steve Howard and I have just a few questions for you this morning.

Isn't it true that whether a regulatory commission establishes an authorized return on equity or were to approve a benchmark return for the RSR, it provides the subject utility an opportunity to earn that return but not a guarantee?

A. That is correct. The opportunity is the key, not a guarantee, because the company has a responsibility to manage its business.

Q. Subsequent to the establishment of such a authorized return on equity or approval of a benchmark return on equity, does that subject electric utility face certain risks in achieving that return?

A. Yes. And the degree of risk depends on the nature of the regulatory framework, but one of the risks of owning utility stock is the authorized return may not be achieved. It may be overachieved. It depends on management and events beyond management's control.

Q. Would one of those risks be weather

conditions?

A. It could be. Increasingly, around the country, most utilities operate under some kind of weather normalization or decoupling mechanism so that variations in volumes that are driven by weather are buffered in terms of the revenue and earnings.

Q. To the extent there was not such a decoupling mechanism, would moderate or temperate weather tend to make it more difficult for the electric utility to achieve its authorized return on equity or approved return on equity?

A. It could. Again, depending on the rate design and how the utility's fleet of resources is structured, I mean, sometimes at lower levels of demand, your costs go down faster. So, in general, the variations in volume have an effect, but it's kind of utility specific.

Q. Would economic conditions be another risk factor that would affect an electric utility's ability to achieve its authorized return on equity or approved benchmark return on equity?

A. Yes. The service area economy does impact usage and payments and bad debts and lots of things which affect the utility.

Q. Are any of the companies that you

utilized in your comparable earnings analysis subject to the risk of economic conditions?

A. Some -- they are to various degrees. Most of these companies have some kind of mechanisms to adjust for unexpected variations in usage, such as decoupling, but they are affected by the economy to a greater or lesser extent.

Q. Are any of the companies that you used in your comparable earnings analysis subject to the risk for weather conditions?

A. Well, again, these companies, and I'm familiar with all of these companies because I've done work for them, have adjustment mechanisms in the most part that buffer the effect of weather; some more than others. Many of these operate in multiple states, likes Xcel Energy, so in some states they have full decoupling, other states they don't.

Q. Could you turn to page 15 of your rebuttal testimony, please. And I'd like you to look at the last sentence on that page, starting at line 19 and running through line 21. You state there, "Both Moody's and S&P observed that prolonged deterioration in the regulatory environment or suppressed returns could result in lower credit ratings." Do you see that sentence?

A. Yes, sir.

Q. Do you know, did Moody's or S&P actually lower credit ratings for AEP or AEP Ohio since February 23, 2012?

A. I don't believe they have.

Q. Have you studied AEP Ohio's or Ohio Power Company's actual rates of return in the past?

A. I have seen some reference to them, but I didn't study them for the purposes of my testimony here.

Q. Do you know if Ohio Power Company earned more than a 12 percent rate of return last year -- let me strike that.

Do you know if Ohio Power Company earned more than a 12 percent return on equity last year whether it be mid-year or end of year?

A. Let's see. Dr. Wilson, on page 6, I finally found this, said the 2009 result was 12.54 on year end. I don't see a reference to 2011.

Q. Okay. Assuming that Ohio Power did earn more than a 12 percent return on equity last year, is it your testimony today that the benchmark return on equity for purposes of this case should be less than 12 -- less than what Ohio Power earned as a return on equity last year?

A. Yes. I think, going forward, a benchmark of 10.5 is consistent with the numbers I've looked at, especially in the context of a transition that removes the cloud of uncertainty.

MR. HOWARD: Could I have just a moment, please?

EXAMINER TAUBER: You may.

MR. HOWARD: Thank you, Dr. Avera. I have no more questions.

EXAMINER TAUBER: Mr. O'Brien?

MR. O'BRIEN: No questions, your Honor.

EXAMINER TAUBER: Mr. Stinson?

MR. STINSON: No questions, your Honor.

EXAMINER TAUBER: Mr. Margard?

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

EXAMINER TAUBER: Mr. Conway, redirect?

MR. CONWAY: Your Honor, may we have just a few minutes to collect our thoughts and report back to you?

EXAMINER TAUBER: Sure. Let's take five minutes.

We'll go off the record.

(Recess taken.)

EXAMINER TAUBER: Let's go back on the

record.

Mr. Conway.

MR. CONWAY: Thank you, your Honor.

- - -

REDIRECT EXAMINATION

By Mr. Conway:

Q. Dr. Avera, do you recall questions from Mr. Darr regarding the option of managing the risk of being the SSO supplier by conducting auctions?

A. Yes, sir, I do.

Q. Okay. And is it your understanding that whether or not AEP Ohio conducts an auction for purposes of procuring supplies to serve the SSO customers is a matter, at this point, of AEP Ohio's choice?

A. That's my understanding, that they can elect an auction path or others to get supply.

Q. And is it also your understanding that, for the time being, at this point AEP Ohio still owns substantial generation assets?

A. Yes. It has built its fleet under the assumption that it had an obligation to serve and those assets are on the ground.

Q. And they're being used to furnish, at least in large part, the SSO service for which

AEP Ohio is responsible, right?

A. Yes, that's my understanding.

Q. And is it your understanding that those generation assets have been included in AEP's FRR plan to PJM that they're dedicated, those assets are dedicated to serving the native load of, among other places, AEP Ohio?

MR. DARR: Objection.

EXAMINER TAUBER: Mr. Darr?

MR. DARR: Outside the scope.

MR. CONWAY: Your Honor, I'm just laying a foundation for the question.

EXAMINER TAUBER: I think you've exceeded the scope of cross-examination, Mr. Conway.

MR. CONWAY: Okay.

Q. (By Mr. Conway) Dr. Avera, let me try it a different way. Dr. Avera, what is the risk impact of -- would the risk impact on AEP Ohio be from shifting to a procurement through an auction process for generation supplies to serve the SSO load while still owning the generation resources that it currently owns?

A. The impact on AEP Ohio is that it would have resources that it has to pay for and has paid for that, but it wouldn't have a means to recover if the capacity were obtained through an auction.

So the burden, the financial burden of those assets would not disappear, so the risk of owning those assets would not vanish. That's why it's important and investors are concerned that there be a rational transition from where we are now to where the Commission wants to be that allows all the participants to redeploy assets, to bring assets to bear to be effective in whatever market configuration occurs in the long run.

MR. CONWAY: Your Honor, that's all I have. Thank you.

EXAMINER TAUBER: Thank you.

Recross-examination, Ms. Grady?

MS. GRADY: No questions, your Honor.

EXAMINER TAUBER: Mr. Smalz?

MR. SMALZ: No recross-examination, your Honor.

EXAMINER TAUBER: Mr. Lang?

MR. LANG: No thanks.

EXAMINER TAUBER: Mr. Darr?

MR. DARR: Just a couple things, your Honor.

\- - -

RECROSS-EXAMINATION

By Mr. Darr:

Q. Dr. Avera, we were talking earlier and during the redirect there was an issue about whether or not . . .

Let's start this again. In the redirect examination you discussed with Mr. Conway the risks associated with AEP going to a generation auction. Are you aware of whether or not any of the other companies that have gone to auction still own generation here in Ohio?

A. I am really not familiar enough with other companies' situations to know what they did and what their obligations to their RTOs or others were.

Q. And with regard to the notion that these resources, these generation resources, have to be paid for, are you familiar with the fact that, with regard to the energy market, that PJM is responsible for directing the dispatch of those resources?

A. Yes.

Q. And are you aware of the percentage of generation assets of AEP Ohio that are currently not clearing in the forward energy markets because of the particularly low cost of natural gas at this time?

A. I don't know the particulars. I am aware that one of the phenomena of the extremely low gas prices is that coal plants are being displaced in the dispatch order. Whether that's a permanent situation or not, no one knows.

MR. DARR: Thank you. That's all I have. Thank you.

EXAMINER TAUBER: Ms. Kingery?

MS. KINGERY: Yes, just one question, Mr. Avera -- Dr. Avera.

- - -

CROSS-EXAMINATION

By Ms. Kingery:

Q. Since you're not familiar with the other EDUs in Ohio, isn't it still true, however, that you cannot dispute that other Ohio EDUs that own generation and have FRR obligations are using competitive bid plans to acquire resources?

A. I cannot dispute. I think my testimony is about what the impact would be on AEP Ohio of such a move.

MS. KINGERY: Thank you.

EXAMINER TAUBER: Mr. Boehm?

MR. K. BOEHM: No questions, your Honor.

EXAMINER TAUBER: Mr. Stinson?

MR. STINSON: None, your Honor.

EXAMINER TAUBER: Ms. McAlister?

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

EXAMINER TAUBER: Ms. Thompson?

MS. THOMPSON: No questions, your Honor.

EXAMINER TAUBER: Mr. Rubin?

MR. RUBIN: No further questions.

EXAMINER TAUBER: Mr. Howard?

MR. HOWARD: No questions, your Honor.

EXAMINER TAUBER: Mr. O'Brien?

MR. O'BRIEN: No questions, your Honor.

EXAMINER TAUBER: Mr. Margard?

MR. MARGARD: No. Thank you.

\- - -

EXAMINATION

By Examiner Tauber:

Q. Dr. Avera, I just have a question for you. In your testimony you said credit ratings affect the ability for a company to attract capital, correct?

A. Yes.

Q. And these credit ratings are based on analysts -- based, in part, on analysts looking out on future predictions, future forecasts?

A. Yes.

Q. Are you aware of the capacity case that's

currently pending before the Commission?
A. I'm aware of it, yes.
Q. Case 10-2929. Is it possible that the outcome of that case, one way or the other, that the analysts may revise these forecasts and the credit rating could either go up or down?
A. I think so. I mean, I think if you look at the credit rating reports that I reference, they are focused on the whole set of cases that is going through in Ohio and how that all settles.
And I believe that's why there was a question earlier had there been bond downgrade, and there has not been, because I think the rating agencies and the investment community generally are taking a wait-and-see attitude on how all of these cases that have various impacts on the company shake out.
Q. What if there's a bond upgrade?
A. That could be an outcome if the rating agencies judge that the risk has gone down because of their assessment of the regulatory environment here in Ohio.
Q. So then, hypothetically, if there was a bond upgrade, would your recommendation change -- your recommendation for the 10-1/2 percent being

proposed here in your testimony?

A. Probably not; because, as I point out in my testimony, most of these customers already have, in the proxy group that the staff used and Dr. Wilson used, already have higher bond ratings than AEP Ohio, so an upgrade would just bring them into line with the proxy group.

Q. One more question, then. So, hypothetically, if there was a downgrade, would this change, the recommendation?

A. Yes, the downgrade, we're a BBB now, there's one more notch, Triple-B-minus, and then we go into junk. So a downgrade would be a significant event which I think would shuffle the deck for investors. There are some Triple-B-minus utilities in the country, but not many. But if AEP Ohio were to join them, that would limit the ability of the company to raise power -- excuse me, to raise capital.

EXAMINER TAUBER: Thank you, Dr. Avera. You may be excused.

THE WITNESS: Thank you.

MR. BARNOWSKI: Your Honors, Ormet would renew the motion to strike for the following reason: Dr. Avera just made very clear in his cross-examination that all he is offering is ROE testimony, ROE recommendation, as to the total company. The only ROE testimony offered in Ormet's case was as to how the ROE should be set for one little rider, the RSR, and what should be considered in setting that.

The RSR is not mentioned anywhere in Dr. Wilson's testimony. We just saw cross-examination -- I'm sorry, Dr. Avera's testimony. We just saw cross-examination and all he testified about in response to every single question is what should be done for the whole company and how it will impact the whole company if the whole company's ROE is set too low.

He is not rebutting anything in anyone's testimony. They're introducing a new element into this case, the total company ROE, and no party now has the opportunity to offer any testimony in response to it.

MS. KINGERY: And we join in that motion.

EXAMINER TAUBER: Mr. Conway.

MR. CONWAY: Thank you, your Honor. Well, I think you've already ruled on the motion to strike, correctly in our view.

The testimony that Dr. Avera has

presented on rebuttal is designed to meet Dr. Wilson's testimony, Mr. Kollen's recommendation, and also to cast some light on what the consequences would be if some of the proposals, recommendations that have been offered by other parties were adopted by the Commission.

So it met the, you know, the cases of the other parties and it's direct and explicit rebuttal, so we would ask for the testimony to be admitted and the Commission give it due consideration.

EXAMINER TAUBER: And the Bench's earlier ruling stands, the motion to strike shall be denied.

Mr. Conway.

MR. CONWAY: Your Honor, we move for the admission of AEP Ohio Exhibit 150.

EXAMINER TAUBER: Are there any objections to AEP Ohio Exhibit 150, noting that the Bench already ruled on the motion to strike?

(No response.)

EXAMINER TAUBER: Hearing none, it shall be admitted into the record.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER TAUBER: Mr. Rubin.

MR. RUBIN: Your Honor, Ormet moves for the admission of Ormet Exhibits 108 and 109.

EXAMINER TAUBER: Are there any objections to Ormet Exhibits 108 and 109?

(No response.)

EXAMINER TAUBER: Hearing none, they shall be admitted into the record.

(EXHIBITS ADMITTED INTO EVIDENCE.)

EXAMINER SEE: AEP's next witness.

MR. NOURSE: Your Honor, AEP Ohio calls William Allen.

EXAMINER SEE: Raise your right hand, Mr. Allen.

(Witness sworn.)

EXAMINER SEE: Thank you. Have a seat. Please use your microphone.

\- - -

WILLIAM A. ALLEN

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

DIRECT EXAMINATION

By Mr. Nourse:

Q. Mr. Allen, do you have -- are you the same William Allen that testified earlier in this case?

A. Yes, I am.

Q. Okay. And did you prepare or cause to be prepared rebuttal testimony that was filed on June 13th in this docket?

A. Yes, I did.

MR. NOURSE: Your Honor, I'd like to mark Mr. Allen's prefiled rebuttal as AEP Ohio Exhibit 151.

EXAMINER SEE: The exhibit is so marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Mr. Allen, you have the document we just marked as AEP Ohio Exhibit 151?

A. Yes, I do.

Q. Okay. And this was prepared by you or under your direction, correct?

A. Yes, it was.

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

A. Yes, I have one correction. On page 8, starting on line 1, the sentence starting after the word "No," the words "both of these" should be deleted. The "witnesses" should be revised to read "witness." After the word "witness" the name "Lesser" should be included.

On line 2, after the comma, the words "neither of them" should be replaced by the word "he." And the word "any" should be replaced by the word "no," such that the sentence now reads: "Although Witness Lesser made claims that OSS margins were not included in the 2011 earnings, he presented no evidence that off-system sales margins were not included."

Q. Thank you, Mr. Allen.

With that change, with those changes, if you were asked the same questions today, would your answers be the same?

A. Yes, they would.

MR. NOURSE: Thank you.

Your Honor, I would move for admission of Exhibit 151 subject to cross-examination.

EXAMINER SEE: Ms. Spiller.

MS. SPILLER: Thank you, your Honor. Duke Energy Retail and Duke Energy Commercial Asset Management respectfully move to strike various portions of Mr. Allen's rebuttal testimony. I will identify generally the basis for the objection and then, if the Bench would allow, I will identify the particular portions within the testimony at issue. Or would you prefer the reverse?

EXAMINER SEE: Let's flip the order. I want the specific sections of the testimony first.

MS. SPILLER: Certainly.

Page 2, your Honor, beginning on line 1, all of the testimony concluding on -- beginning on page 2, line 1, through page 3, line 22.

Turning to page 4, line 1 of the testimony, testimony that runs through page 7, line 23.

EXAMINER SEE: I'm sorry, the last one, one more time.

MS. SPILLER: Page 7, line 23, your Honor.

Page 7, line 24, through page 8, line 4.

EXAMINER SEE: Now, wait a minute. Wait just a minute. Ms. Spiller, start again, you said page 2, line 1.

MS. SPILLER: Page 2, line 1, through page 3 line 22.

EXAMINER SEE: Okay.

MS. SPILLER: Page 4, line 1, through page 7, line 23.

EXAMINER SEE: Okay.

MS. SPILLER: A different argument and, hence, a different identification, page 7, line 24, through page 8, line 4.

Page 9, line 9, through page 10, line 2.

And, finally, your Honor, page 10, line

4, through the end of that page 10; the line numbers are somewhat truncated because there is a table at the end of that page.

EXAMINER SEE: But you're also requesting removal of the table?

MS. SPILLER: Yes. Yes, your Honor.

EXAMINER SEE: Okay. And the --

MS. SPILLER: And the reason, if I may just generally identify the basis for these objections, further detailing them in more specific particular passages, the purpose of rebuttal testimony, as our Ohio Supreme Court has instructed, is to identify matters that were first raised in the intervenors' or defendants' case.

The plaintiff or applicant here is not required to preemptively determine that which may be raised by their adversaries, but rebuttal cannot serve to identify matters that should have been raised in the plaintiff's or applicant's case in chief. Furthermore, rebuttal can't be used to combat a difference of opinion.

And throughout Mr. Allen's testimony we have both of those things occurring which we believe render his testimony, in part, fatal.

And if I may, for example, your Honor,

page 2, line 1, through page 3, line 22, Mr. Allen reiterates his prior testimony as well as prior testimony of other company witnesses in the guise of rebuttal when, in fact, that testimony is intended only to counter the opinions of intervenors' other testimony.

Furthermore, he brings up statements about a proposed return on equity. That is a matter that should have been brought up in the company's case in chief to the extent the company is pursuing a particular ROE or riders predicated upon a benchmark ROE. This is not new evidence that Mr. Allen is offering to rebut that which he could not have preemptively determined or anticipated.

Similarly, page 4, line 1, through page 7, line 23, is an entire discussion about the relationship between the ROE used to calculate the RSR and an overall ROE. Clearly, an overall ROE should be an issue that would have been identified in AEP's case in chief.

Page 7, line 24, through page 8, line 4, again, simply a difference of opinion; impermissible rebuttal testimony. AEP Ohio attempts here to counter differences of opinion when issues as to whether or not an intervenor witness testified as to the inclusion of off-system sales is simply a matter for brief. We cannot now allow AEP to elevate their opinions on that particular issue through rebuttal testimony.

Similarly, page 9, line 9, through page 10, line 2, again, a difference of opinion. AEP Ohio proffered their distribution investment reliability rider, staff disagrees with respect to some components of that rider; this is nothing more than a difference of opinion.

The same could be said, your Honors, for page 10, line 4, through the end of page 2 [verbatim] whether or not FES, through their witness Mr. Banks or Teresa Ringenbach, think the tiered-capacity pricing structure is confusing. It's simply a difference of opinion as to the application and interpretation of a plan, a tiered pricing plan, offered by AEP Ohio. Thank you.

EXAMINER SEE: Response, Mr. Nourse.

MR. NOURSE: Thank you, your Honor.

You know, I believe, as a general matter, the reason testimony is so extensive in these cases and in utility cases generally, it's often a battle of experts, it's often a battle of debate of opinions and recommendations, and complex policy matters that involve interrelated regulatory policy, legal and regulatory requirements.

So, you know, my children often ask me why would you have a witness that's on the stand for eight hours in your case, they think we should be talking about facts only, and that's what they see on TV. That's not what goes on in these cases, and the testimony of every witness in this case is about opinions and dueling recommendations, the implications of what those recommendations are and would be in the future, and how they relate to other witnesses and other recommendations in the slate of 67 witnesses we've had in this case. Your Honor, I think the opinion is clearly appropriate in general.

Now let me turn to the specifics of the motion to strike.

As to the RSR section on pages 2, 3, you know, again, this is not just a matter of opinion. He's explaining his recommendation and the mechanics of how it works, how it was originally proposed, how parties have misunderstood it and misportrayed it, so it's perfectly appropriate rebuttal to reinforce the original recommendation, explain the mechanics and the implications.

As to the ROE point that Ms. Spiller made on page 3, I believe, Mr. Allen did select and assume a 10.5 ROE in developing the RSR. He stated that in his original testimony. He was obviously criticized by certain parties in this proceeding and he's reinforcing his use of that number in context of AEP Ohio's proposed RSR. Again, perfectly appropriate rebuttal.

As to the question that begins on page 4, this is, again, this is an elaboration tying back to the prior Q and A that, again, is all about explaining the actual relationship of the RSR's use of an ROE for developing a target revenue and the relationship of that to the total company ROE and the fact that there are two different things. Mechanically, he has an illustration here that supports that same concept which was misunderstood, misportrayed by other witnesses as indicated.

I believe the next one was on -- that actually carried through, that carried through with additional discussion on page 6 and 7 of Mr. Kollen's testimony. Obviously, these are very specific points responding to Mr. Kollen's claims that he made in testimony.

As to the Q and A that begins on line 24 of page 7 and ends on the top of page 8, this is a very short point but this does happen to be a factual matter right here, and Mr. Allen is indicating a specific dollar amount of OSS margins that were included in his exhibit and refuting a specific factual statement made by Dr. Lesser as documented on page 7, line 24, to the contrary.

I believe the final motion to strike -- I guess there were two more. As to the DIR on page 9 and carrying over to page 10, again, the purpose of this Q and A, Mr. Allen is indicating the implications in relationship to the distribution case settlement, the implications of Witness McCarter's recommendation regarding ADIT in this case. So, again, reinforcing the original recommendation, explaining the implication, and asserting rebuttal testimony in support of the proposal.

And I believe the last one was on page 10, as to a matter of opinion, again, yes, there are many differences of opinion in this case and I would submit that that is the vast bulk of the pages of testimony that have been entered into the record here.

This is a specific criticism that is made on the company's two-tiered capacity pricing that is a key part of the modified ESP proposal, and

Mr. Allen is reinforcing the facts that occurred here relative to the additional shopping, the stimulating effect that this two-tiered capacity pricing has had on preserving and expanding shopping in AEP Ohio's territory.

So, again, I think this is all proper rebuttal, narrowly tailored to address testimony of other witnesses. I think it speaks volumes to the fact that we were very narrow in doing rebuttal to the 67 witnesses in this case to have such narrow rebuttal testimony.

Thank you, your Honor.

EXAMINER SEE: Are there any other motions to strike?

(No response.)

EXAMINER SEE: At this time, DECAM's motions to strike various portions of Mr. Allen's testimony are denied.

MS. SPILLER: Thank you, your Honor.

EXAMINER SEE: Let's begin cross.

Ms. Grady or Mr. Etter, who will be conducting cross?

MS. GRADY: I will, your Honor.

EXAMINER SEE: Ms. Grady.

\- - -

CROSS-EXAMINATION

By Ms. Grady:

Q. Good morning, Mr. Allen.

A. Good morning.

Q. Mr. Allen, you testified to the credit for shopped load under the company's modified ESP plan; is that correct?

A. Yes, I do.

Q. And this credit exists for the primary plan and not the alternative proposal that the company has made; is that correct?

A. Yes, that's correct.

Q. Now, your testimony on the energy credit for off-system sales begins on page 5 of your -- of Company Exhibit 151, does it not?

A. That's when I begin to discuss my rebuttal of Witness Kollen's claims, yes.

Q. Now, your testimony is, Mr. Allen, that the $3 megawatt-hour credit for shopped load is appropriate; is that correct?

A. Yes.

Q. Now, that credit serves to reduce the amount that AEP Ohio proposes to collect through its RSR; is that correct?

A. Yes, it's used as an offset to the RSR collections.

Q. Now, you state that the $3 a megawatt credit is a margin and not the full price for sales of megawatt-hour freed up by shopping load, correct?

A. That's correct. Because when a customer shops, they also avoid the company's fuel cost, and so in looking at the credit that can be provided, one has to compare the total cost of the sale being made into the market as compared to the revenues that are obtained in the market from that sale and that's the margin that I discuss.

Q. Now, in your testimony on page 5, you refer back to WAA-R2 which is an exhibit to your testimony. Do you see that reference?

A. Yes, I do.

Q. Let's go back to that exhibit, if you will, Mr. Allen. And let's start with page 1 of that exhibit. This exhibit was based upon a response to OCC Interrogatory 7-146, correct?

A. That's correct.

Q. And if we go to WAA-R2, page 1 of 2, we see that that's the first page of the company's response to OCC Interrogatory 7-146.

A. That's the company's response and then there was an attachment to that response.

Q. And that attachment to your response would be page 2 of 2.
A. That's correct.
Q. Now, Mr. Allen, this response was prepared by Witness Sever, was it not?
A. Yes, it was.
Q. Now, if we look at the question asked in that response, it references OSS net margins for 2011 and 2012 identified in response to OCC Interrogatory 3-46, doesn't it?
A. Yes, that's correct. And Interrogatory 3-46 was related to the presentation that the company made to investors in February of this year.
Q. You're jumping ahead a bit. You're anticipating where I'm going.
With respect to Interrogatory 3-46, is it your understanding that that document was entered into evidence as FES Exhibit No. 109?
A. I don't recall the exhibit number, but my recollection from being at the hearing is that it was at least presented, I don't know if it was admitted.
Q. Would you accept, subject to check, that the company's response to OCC Interrogatory 3-46 was entered into evidence as FES 109?
A. I'll accept that subject to check.

Q. Thank you.
And you, in response to -- in anticipating my questions, you indicated that the interrogatory referred to an AEP slide presentation called the "Japan Road Show"; is that what you were referring to?
A. Yes.
Q. And, specifically, FES 109 referenced page 18 of that document. Is that your recollection?
A. I'll have to accept that subject to check. I don't recall.
Q. Thank you.
Now, would you also accept, subject to check, that the Japan Road Show AEP slide presentation, in part, was entered into evidence as FES Exhibit No. 108?
A. I can accept that subject to check.
Q. Do you have that document in front of you, Mr. Allen?
A. I do not.
MS. GRADY: If I could ask that counsel provide a copy of that document to Mr. Allen.
MR. NOURSE: I don't have it handy. We might have it in the cabinet if you want me to take a few minutes to dig through. It will take some time.

MS. SPILLER: I have it here, Maureen.

MS. GRADY: I've got it. Thanks.

May I approach the witness, your Honor?

EXAMINER SEE: Yes.

Q. (By Ms. Grady) Now, Mr. Allen, you have in front of you a document that was, in part, marked and identified as FES Exhibit No. 108, and I'm going to direct you to page 18, the document entitled "2012 Ongoing Earnings Guidance." I'm sorry, "Detailed Ongoing Earnings Guidance." Do you have that in front of you?

A. I do.

Q. And if we look at line 1 of that document, we see that that shows the AEP East regulated utilities' gigawatt-hour sales, correct?

A. That's correct.

Q. And if we look at line 2 of that document, we see the Ohio companies. Do you see that?

A. Yes, I do.

Q. And is the Ohio companies' figure on that document a subset of line 1, the AEP East regulated utilities?

A. No, it is not.

Q. It is an additive, then.

A. The East regulated utilities represent the East Utilities excluding AEP Ohio, so it would be Wheeling Power, APCo, I&M, and Kentucky Power.

Q. Now --

A. And Kingsport Power, I'm sorry.

Q. I'm sorry. Can we compare what you have presented in your rebuttal testimony as WAA-R2 to this page 18 of FES 108.

A. Yes, they can be compared. The comparison would be the line titled "Total System Sales - by Region," Exhibit WAA-R2, page 2 of 2.

Q. Yes.

A. You see for 2011, the value is $343 million, and if you refer to page 18 of the exhibit you've provided, the "Detailed Ongoing Earnings Guidance," and you refer to line 5, going over to the middle of the page where you see "2011 Actual," you'll see $343 million on that line. So that's the comparison that you would use.

Q. Thank you.

Now, on WAA-R2, where the title is used "EEI Line 5 - OSS Back Up," what does "EEI" stand for?

A. It's the Edison Electric Institute. That's an organization. The reason the company uses that terminology in describing line 5 is that this format of presenting the company's earnings was first presented at an EEI conference a number of years ago and so we've kept that moniker with it to distinguish this method of presentation where certain items are netted within certain lines and other items may be gross values, but this is a consistent description from presentation to presentation. The netting is different than you would see in a FERC Form 1, for instance.

Q. And the reference to "Line 5," does that refer to line 5 of FES Exhibit 108?

A. Yes. Line 5 is the net off-system sales margins after sharing, so it addresses the different sharing mechanisms that exist within the various states.

Q. Now, when you said -- you used the term "net of sharing." By that you mean that the off-system sales margins on that line, line 5, excludes the portion that is shared with retail customers through various mechanisms within the AEP East organization -- or, AEP East utilities; is that correct?

A. No, not exactly. It includes the AEP West utilities as well and the trading function of

AEP on behalf of its regulated utilities, but there's a distinction. In some states there's a mechanism where there's an actual sharing where, on a regular basis, over/underrecoveries are considered on the off-system sales margins. In other states the off-system sales margins may be provided through base rates.

And so this is just, when we do the net of sharing, those are the ones that have active mechanisms where the change in off-system sales margin has an earnings impact to the company is what we're trying to show on a ongoing basis.

Q. Now, Ohio, in Ohio there's no sharing of off-system sales margins; is that correct?

A. When we refer to "sharing," that's an active mechanism. In Ohio I would argue that the off-system sales margins earned help support the overall earnings of the company and help determine what level of rates need to be charged to retail customers in order to ensure that AEP Ohio maintains stable finances and has reasonable returns. So from that regard the margins in off-system sales do have an impact on the rates charged to retail customers.

Q. There is no sharing mechanism for Ohio which would directly offset base rates, for instance, of the company by margins produced by off-system sales.

A. That's correct, there's no active sharing mechanism.

Q. And with respect to the remaining AEP East companies, all of those companies have active mechanisms for sharing the profits from off-system sales, correct?

A. No.

Q. And which ones don't?

A. Kingsport does not have an active sharing mechanism. The Indiana jurisdiction, the level of off-system sales are below the level included in base rates. So, from that perspective, Indiana customers are not sharing in any off-system sales margins.

Q. And those are the --

A. Wheeling Power would be the other entity.

Q. Okay. So those are three of approximately ten other AEP East companies that do not have what you consider an active sharing mechanism.

A. There are only six AEP East operating companies. The others are West operating companies.

Q. Within the AEP West operating companies, are there others that have active sharing mechanisms for the profits from off-system sales, if you know?

A. The level of off-system sales in our western utilities is much less significant than it is in the eastern side of the system, so it's not something that I've focused on.

Q. Now let's go back to your written testimony for a moment. On page 5, starting on line 11. Now, here you're talking about the East physical margins, and for 2011 those were the actual physical margins, correct?

A. That's correct.

Q. Okay. And you state that the actual East physical margins were 262 megawatt-hours that were generated by the sales of 22,343 gigawatt-hours?

A. My testimony states it's $262 million.

Q. Yes.

A. I think you stated "megawatt-hours," but it's millions of dollars generated by the sale of 22,343 GWH.

Q. Yes. I'm sorry. Thank you for that correction.

So just to be clear, this is AEP East and not necessarily AEP Ohio?

A. That's correct.

Q. Now, the $262 million figure was derived by taking, for 2011, the total East physical margin of 317 million, subtracting out the CRES capacity payments of 54.7 million; is that correct?

A. That's correct, because those receipts aren't related to GWH sold, they're related to capacity sales.

Q. And for 2011, the CRES capacity revenue payment was based on the RPM clearing price; is that correct?

A. It would have been based upon the interim state mechanism that the Commission established which was tied in the interim to the RPM rate.

Q. And do you know what that RPM rate would have been for 2011?

A. For the first five months of 2011, the rate would have been approximately $174 a megawatt-day, dropping to $146 a megawatt-day in June of 2011, and remaining at that level throughout the remainder of calendar year 2011.

Q. Now, in addition to the CRES capacity revenues which make up 55 million of the $262 million, what other -- let me strike that.

In addition to the CRES capacity revenues which make up $55 million of the total $317 million in off-system sales margins, what are the other components?

A. As indicated on the exhibit, those are physical sales into the market.

Q. Yes.

A. So that's sales of generation of AEP's generation into the market.

Q. Do we know how much energy that equates to?

A. Yes. That's the 22,343 GWH that I referred to on my testimony and that is shown on Exhibit WAA-R2.

Q. Do we know how much of the off-system sales revenue's related, for instance, for charges to ancillary services?

A. My recollection is ancillary services are not included in line 5.

Q. Do you know what else, besides energy costs, would be included on line 5?

A. Line 5 includes trading as well, so that would include energy trading, coal trading, that type of thing would be included in trading on line 5.

Q. Is there anything else that you know of that would be included on line 5?

A. Those are the significant ones and those are ones that I can think of as we sit here today.

Q. Now, going back to your East -- AEP East physical margin calculation, you calculate an average margin of 11.73 a megawatt-hour; is that correct?

A. $11.73 a megawatt-hour, that's the average market, that's correct.

Q. And you get to that figure by dividing the $262 million by the 22,343 gigawatt-hours; is that mathematically what you're doing?

A. That's correct.

Q. And, again, that is an actual number as opposed to an estimate.

A. That's correct.

Q. Now, on lines 22 and 23 of your testimony, you explain that as a member of the AEP pool, AEP Ohio retains 40 percent of the off-system sales margins created, correct?

A. That's correct; in exchange for the 3- to 400 million dollars of capacity revenues that AEP Ohio receives from other members of the pool, one of their obligations is that the off-system sales margins created by the pool are shared such that AEP Ohio receives its MLR share which is 40 percent.

Q. And when you say the MLR share is 40 percent, are you speaking of historically or that is the current MLR share?

A. The MLR varies from year to year due to seasonal weather patterns and the specific peaks observed by the various operating companies of the AEP system, but the normal MLR for AEP Ohio based upon the current customer group that exists within the AEP system today, both shopping and nonshopping, maintains a level of approximately 40 percent on a consistent basis.

Q. And when you say "current," you're speaking of as of 2012?

A. Yes, that's correct. And the MLR, when we discussed that it moves around a little bit, the MLR for AEP Ohio can range from a level of maybe 39 percent to 42 percent in any given year, so the range of variability is rather small.

Q. Now, on page 8 of your testimony, on lines 3 through 4, you state that the actual AEP Ohio 2011 earnings of 537 million, which you used to determine the revenue target for the RSR, that those earnings included $204 million in off-system sales margins, correct?

A. That's correct. And that would include all the elements of off-system sales that are included in EEI line 5 that we were previously discussing.

Q. Can you tell me how AEP Ohio's 2011 earnings included approximately 78 percent of the actual East physical margins when, under the pool, AEP Ohio only retains 40 percent of the off-system sales margins?

A. The first thing that you need to recognize is that the 204 million, as we previously discussed, includes the $55 million of CRES capacity revenues that are shown on Exhibit WAA-R2, so the first step would be to remove the 54.7 from the 204.

Q. Yes.

A. That would result in a level of 149 million.

Q. Yes.

A. For the AEP Ohio system. Or the AEP Ohio companies.

Q. And the next step?

A. You would compare that to the total sales, the total physical margins of 317 million.

Q. Yes. And that's the end of your answer? You believe that that's -- there's consistency there and that you are flowing through the actual sharing at 40 percent with that figure?

A. You would also have to include the trading margins, the 103 million that you see further down on Exhibit WAA-R2, that 103 million.

Q. Yes.

A. Okay. So you would have to add that 103 to the 317, and you'd have to make a distinction between how much of that trading occurred on the East part of the system versus the west part of the system, and we don't have that breakout here, but you would -- my recollection is that typically a very large share of that 103 million would be related to trading that's done on behalf of the East companies, but a portion could be done on behalf of the western companies.

Q. Now let's talk about 2012 for a moment. For 2012, in your testimony you have projected a ESP physical margin, correct?

A. If you want, I think I can answer your last question, Maureen, with the exact math. So you would take the 317 million, add the 103 million to that. You would -- that would take you to 420 million. From that you would remove the 54.7 million of CRES capacity revenues, and so that's going to take you to 365 million.

Q. 366 million?

A. And then would you divide the 149 million into that 365.3 million, you'll see the percentage that results from that is 40.7 percent, so that is consistent with the 40 percent we are discussing.

Q. Thank you.

Now let's go to the 2012 period. In your testimony on page 5, lines 13 through 14, you show, for 2012, an AEP East projected margin, correct?

A. Yes.

Q. And to get that projected East physical margin of 153 million, you took the total 197 East physical margin from WAA-R2 and you subtracted out the CRES capacity revenue payment of 43.9 million, correct?

A. That isn't the math that I did. I actually took the margins that we projected -- oh, I'm sorry. I was going further than where you were. To get to the 153 million, I took the 197 million, subtracted out the 43.9 million, that's correct.

Q. Now, in 2012 you estimated that the margins from the CRES capacity revenue payments will be -- let me strike that.

In 2012 you've estimated that the CRES capacity payments will be 43.9 million, correct?

A. Yes, that's correct.

Q. And can you tell me how that number was calculated? How did you determine that it would be

43.9 million? What capacity rate did you use?

A. I didn't present that Japan Road Show analysis, so I don't know with certainty how it was calculated, but my assumption is that it would have been calculated consistently with the December 14th Commission order.

Q. Do you know how much capacity was assumed for purposes of the 2012 projection?

A. I do not.

Q. Do you know, Mr. Allen, in calculating or in presenting the off-system sales projected margin for 2012, what level of customer switching was used to calculate the 24,721 gigawatt-hours shown?

A. I do a lot of the forecasts for the company, this isn't one I did, so I don't know what was in there. Company Witness Sever who actually did that calculation would have been the appropriate person to ask that question of.

Q. As far as you know did Company Witness Sever present projected East physical margins for purposes of this proceeding for 2012?

A. They would have been included in his Exhibit OJS-2 as part of the overall earnings of AEP Ohio and that would have been done consistent with the shopping assumptions that I provided in my testimony and all other elements of the ESP as proposed.

Q. Let's back up for a moment. Did Mr. Sever present AEP East off-system sales margins or did he present AEP Ohio off-system sales margins?

A. He would have shown the AEP Ohio off-system sales margins which are an MLR share of the off-system sales margins of the East; that's how it's done. With the exception of the CRES capacity payments.

Q. So he wouldn't have shown what you are showing, the East physical margins projected for 2012.

A. The average margin excluding CRES capacity payments that would have been derived from the analysis that Company Witness Sever presented for AEP Ohio would have been the same as those for AEP-East because the GWH of sales are MLR'd using the same MLR that's used to allocate the margins. So it would produce exactly the same result as the East system.

Q. We will get to that shortly.

Now, in your projection, in presenting your projections you divide the $153 million of projected East physical margins by the 24,721 gigawatt-hours and that produces an average margin of $6.19 a megawatt-hour, correct?

A. That's correct.

Q. And this represents, as you present it, the AEP East average physical margins projected for 2012.

A. That's correct.

Q. And you state in your testimony, Mr. Allen, that the projected AEP East physical margins are declining between 2011 and 2012 as a result of depressed prices for energy; do you not?

A. Yes, I do. Energy margins have declined over the last year.

Q. So you are projecting, for purposes of your rebuttal testimony, that AEP East physical margins will decline in 2012 from the 2011 actual margins.

A. To be clear, I'm not the one projecting it. What I'm doing is presenting the results of those projections. And those results do show that it's declining.

Q. Is it possible, Mr. Allen, that the market conditions could change and that AEP could actually see an increase in the average off-system sales margin by the end of 2012?

A. Based upon the information that I'm aware of with regard to the energy markets as they sit today, that would not be my expectation due to the continued depressed nature of the economy and the abundance of shale gas, the market prices of power are projected to remain low throughout the remainder of 2012 into 2013.

Q. Mr. Allen, would you have reason to believe that AEP Ohio margins would be any different from the AEP East margins on an actual or on a projected basis?

A. As I indicated, due to the functioning of the pool, once you exclude the CRES payments which aren't really off-system sales in the traditional sense, the margins of AEP Ohio would be the same on a dollar per megawatt-hour basis as the margins for the other East companies.

Q. Now, you state on page 5, lines 17 through 20, that in order to determine the off-system margin benefit created when a customer shops, that you need to consider the effect of two factors; is that correct?

A. That's correct.

Q. And the first factor is the AEP pool or the MLR share that you've referred to, the

40 percent.

A. That's correct.

Q. And the second factor is that you are alleging that a reduction in retail load does not equal a one-for-one increase in the off-system sales.

A. I'm not alleging, I'm stating that it's a matter of fact that a reduction in load to serve a retail customer does not result in a one-for-one increase in off-system sales.

Q. Let's talk for a moment about the first of those assumptions. You take the 2011 margin that you calculated and you reduce that 2011 margin by 40 percent and then you arrive at a $4.69 charge, correct?

A. I reduced it by 60 percent.

Q. I'm sorry.

A. The retained amount is the 40 percent.

Q. The retained amount is 40 percent.

And, in making that adjustment, you actually take the AEP East physical margin for 2011 down to the AEP Ohio share of that margin, correct?

A. That's correct. The way the pool functions is that when there's an incremental sale into the market, whether it be from AEP Ohio or one of its sister companies, that that incremental sale is MLR'd across the operating companies.

Q. After the pool terminates, AEP Ohio will retain all of the revenues associated with the off-system sales; will it not?

A. That's correct. And one of the items in the pool that AEP will no longer receive after the pool is terminated are those capacity payments that we previously talked about that are received from the other operating companies, it's a capacity equalization payment that ranges in the 3- to 400 million-dollar range.

Q. Those are capacity payments from primary energy sales to other affiliated parties within the pool, correct?

A. No. Primary energy is separate and distinct from the capacity equalization payments. Those payments are made by the other operating companies. The capacity equalization payments, I'm referring to now, are made to AEP Ohio because those other operating companies are relying upon the capacity of AEP Ohio to serve some of their customers.

And when we've done all the calculations we've been discussing throughout this case and the capacity case around the appropriate capacity charge for CRES providers, we've included that credit that's received from the other operating companies in the determination of that capacity rate.

Q. The capacity that is sold to -- let me strike that.

When we talked about the primary energy sales, we have capacity as well as energy being sold to affiliated parties within the pool, correct?

A. Your distinction about capacity being sold to the other operating companies may not be precisely what's done. The other companies compensate AEP Ohio for their -- for AEP Ohio's long position in the pool related to capacity as compared to the short position of some of the other companies within the pool for capacity.

There's a separate and distinct calculation done for primary energy, so a company such as Kentucky Power that may be short for capacity in the pool that's long in energy in the pool could be making a primary energy sale into the pool and also making a purchase of capacity. So they're separate and distinct items depending on the nature and operation of the generating assets of each one of the individual operating companies.

Q. And AEP Ohio has been making primary

energy sales to the other nonaffiliated parties within the pool, correct?

A. That's correct. And AEP Ohio also makes primary energy purchases from the pool from time to time.

Q. Now --

A. And the former CSP made significant energy purchases, primary energy purchases from other pool members over recent history and past history.

Q. Let's talk about the market price assumption. Let me strike that.

Let's talk about the second adjustment that you make to the margin, the East physical margin calculation. You make an adjustment from the 469 margin to recognize that only 50 to 80 percent of the reduced retail sales result in additional off-system sales, correct?

A. That's correct.

Q. And that brings the margins down to $1.24 a megawatt-hour to 1.98 a megawatt-hour. That's your range.

A. That's correct.

Q. And then, after coming to that range, you conclude that the $3 megawatt-hour energy credit is appropriate and conservative because it's greater than the margin range of $1.24 to $1.98 a megawatt-hour, correct?

A. That's correct. So what that demonstrates is that as customer shopping increases and the company provides a $3 a megawatt-hour credit in the RSR, the margins retained by AEP Ohio would only be in that $1.24 to a $1.98 range, and the company is seeing some harm as shopping increases, even with the RSR in place.

Q. Okay. Let's talk about the assumption that only 50 to 80 percent of the reduced retail sales result in additional off-system sales for a moment. You would agree, Mr. Allen, that the more customers shops -- the more customers shop, the more it frees up energy to be sold as off-system sales.

A. Directionally that's correct. But what you have to recognize is that some of the energy used to serve retail customers is related to market purchases of energy, so the company is making a market purchase in the situation where that market purchase is less costly than AEP's internal generation, so in the situation where that megawatt-hour is freed up, it's just returned to the market and there's no margin on it.

Q. Now, as more customers shop, does it free up capacity to be sold as off-system sales?

A. No, it does not. As we've discussed here at length, AEP Ohio is an FRR entity, independent of a customer's choice to be served by a CRES provider or by AEP Ohio as an SSO customer, AEP Ohio has an obligation and responsibility to provide the capacity to serve that customer. Irrespective of the level of compensation the company may receive.

Q. Now let's go to 2011. In 2011 there was 4,935 gigawatt-hours freed up from reduced retail load, correct?

A. Can you repeat that question, please?

Q. Let me try to rephrase it or I can repeat it. In 2011 there was 4,935 gigawatt-hours freed up from reduced retail load, correct?

A. Can you point me to a reference?

Q. That would be FES 109, the response to OCC Interrogatory 3-46.

A. Do you have a specific page reference?

MS. GRADY: May I approach the witness, your Honor?

EXAMINER SEE: Yes.

Q. Mr. Allen, I've handed you what was marked and identified and moved into evidence as FES Exhibit No. 109 and ask you to look at Subsection C, and now can you answer my question which is: In 2011 was there 4,935 gigawatt-hours freed up for reduced retail load?

A. Yes, that's correct.

Q. And 3,960 gigawatt-hours was able to be sold off-system, correct?

A. That's correct; that would be 80 percent of the 4,935.

Q. Yes. Was the approximately 1,000 gigawatt-hour differential attributable to energy that came from purchased power?

A. That's one potential. It also could have been impacted by a change in how the, some of the AEP units were dispatched, but generally I would look to some of the market purchases as a primary cause.

Q. So given that figure, would you assume that for the thousand megawatt-hours -- or thousand gigawatt-hours, that AEP was able to purchase those on the market at a cheaper price than it could generate and, therefore, there was no one-to-one correlation between shopping and freeing up energy to sell off-system sales?

A. That's generally correct. And as energy markets continue to decline and as we've seen in 2012, the level of -- the market price for 2012 is less than it was in 2011, so that relationship will get larger such that as additional shopping occurs, the company will be able to provide less incremental sales into the market.

Q. For 2011 what happened to the 20 percent of energy that was freed up and not sold off-system sales?

A. As we indicated, those are purchases that would have occurred, but that did not occur because customer switching happened. These are estimates. It's -- you have to do a back cast to determine what would have happened to all of the sales by AEP Ohio had those customers not been switched as compared to those customers that did switch.

So you've got to do two scenarios, one with reality, which is the customers switching, and one with an assumption that they didn't switch, to determine what would have happened absent those customers switching.

Q. So you're saying that the number of megawatt-hours or the number of gigawatt-hours that you indicate in response to FES 109 was an estimate of gigawatt-hours freed up from off-system sales and not an actual figure; is that your testimony?

A. Mr. Sever prepared this response, but generally, from my experience doing financial forecasting for a number of years and working in that department, that's how I would have prepared the analysis, but I don't know what Witness Sever did.

Q. Now let's go to your testimony on page 3, lines 7 through 9. There you're discussing OJS-2; do you see that reference?

A. Yes, I do.

Q. And you indicate that OJS-2 is a pro forma projection of AEP's earnings based upon all elements of the company's proposed ESP including the RSR.

A. That's correct.

Q. And when you say "AEP's earnings," are you talking about AEP Ohio's earnings?

A. As I state, it's AEP Ohio's in line 7. So those are AEP Ohio earnings.

Q. Thank you for that clarification. I just didn't see the "Ohio" when I read that.

Now, you indicate, on lines 13 and 14, that "No party has questioned the accuracy of these total company earnings...." Do you see that?

A. Yes, I do.

Q. So let's talk for a moment about those unchallenged OJS-2 pro forma projections. Do you have OJS-2 in front of you?

A. I do not.

MS. GRADY: Can your counsel provide you with a copy of OJS-2; if you could.

MR. NOURSE: Yes.

A. I have that.

Q. Now let's focus on the years 2012 and 2013 where the projections are based on the integrated utility. Do you understand that the integrated utility is what exists today and not post corporate separation?

A. That's correct.

Q. So that would be generation, distribution, and transmission facilities?

A. Yes, that's correct.

Q. And let's focus now for a moment on line 3, the sales of electricity. Is it your understanding that that is where Mr. Sever included revenues from off-system sales?

A. Yes.

Q. And the cost of off-system sales would be listed on line 7, correct?

A. The costs associated with those sales would be a component of the value shown on line 7.

Q. Just as the revenues from off-system

sales were a component of line 3.

A. That's correct. And the detail supporting each of those values is provided in the workpapers that Mr. Sever filed in the case or responded to in discovery.

Q. Now, embedded in those projections, and we're going to focus at least for the moment on 2012, embedded in the projections for 2012 is AEP Ohio's member load ratio share of the gigawatt-hours associated with off-system sales, correct?

A. Yes, that's generally correct.

Q. Is it specifically correct?

A. The reason I bring up the distinction is that certain transactions may be direct assigned to AEP Ohio just like we talked about with the CRES payments. So the physical off-system sales that we were previously discussing, that component would have been MLR'd.

MS. GRADY: Can I have his answer reread, please?

(Record read.)

Q. Now, the AEP Ohio member load ratio share of off-system sales that was included in the projection for 2012 is 12,700 gigawatt-hours, is it not, Mr. Allen?

A. You're going to have to provide me a reference to that number.

Q. Yes, Mr. Allen, that would be the transcript at 915 of Mr. Sever.

A. I don't have a copy of that in front of me.

MS. GRADY: Do you have a copy?

MR. NOURSE: Electronically. What volume are you in?

MS. GRADY: Volume III. Can you provide a copy to your witness because this is the only copy I have.

MR. NOURSE: Same here. What page are you on?

MS. GRADY: 915.

EXAMINER SEE: Ms. Grady, is it possible for you to take that page out of your notebook and stand next to the witness so he can address this and we can move on?

MS. GRADY: Yes, your Honor.

Q. (By Ms. Grady) I'll give you a moment to review that if you could, and then I'll pose my question again.

A. I see the reference you're providing.

Q. So did Mr. Sever testify that the

AEP Ohio member load ratio share of off-system sales included in the projection OJS-2 for 2012 is 12,700 gigawatt-hours?

A. That's what's indicated in the transcript.

Q. Thank you.

And, Mr. Allen, the total off-system sales gross margin for 2012, as reflected in OJS-2, is 411 million, and that is revenues minus the cost of sales, correct?

A. That's what's indicated in the transcript.

Q. And that would be Mr. Sever's testimony, correct?

A. That's correct.

Q. And the CRES capacity payments projected for 2012 amounts to 264 million, correct?

A. That's correct.

Q. So if we take the $411 million and subtract out the CRES capacity payments of 264 million, we end up with gross margin revenues from off-system sales attributable to AEP Ohio's MLR share of 147 million, correct?

A. You stated "147 million"?

Q. Yes.

A. That's correct.

Q. Then, Mr. Allen, if we wanted to determine the specific off-system sales margin on a megawatt-hour basis that is built into the 2012 AEP Ohio pro formas, we would divide the 147 million in revenues by the 12,700 gigawatt-hours, correct?

A. That's for all sales, and this is the distinction that I made in my testimony. You have to distinguish between the average for all sales and the margin created from an incremental sale. But if you do that division, you get, it's like $11 a megawatt-hour.

Q. $11.57 a megawatt-hour, correct?

A. That's correct. And that's nearly the same as the 11.73 that we talked about previously for 2011 actuals. And you would take that value and you'd have to take those two steps that we talked about previously where you'd have to look at, for an incremental sale, that only 40 percent is retained by AEP Ohio, and then you would take the next step of adjusting for the amount that can be sold into the market when there's an incremental opportunity due to a customer shopping.

So you would end up with the margin associated with an incremental sale being approximately, it would be a dollar 98 a megawatt-hour.

Q. But, Mr. Allen, didn't Mr. Sever present AEP Ohio's share after MLRing? Wasn't that his testimony, that OJS-2 was based upon Ohio -- AEP Ohio after the MLR sharing?

A. That's correct. That's the margin that AEP Ohio receives after sharing. It should stay -- the rate for off-system sales should stay relatively constant as customer shopping increases or decreases.

What we have to focus on, though, is converting that dollar per megawatt-hour for those sales back into a dollar impact and look at how those dollars are retained by AEP Ohio or provided to an affiliate company, or not sold into the market at all.

Q. Now, we would not have to reduce that margin, would we, to recognize that only a portion of reduced retail sales results in additional off-system sales?

A. You would have to do that. That's what we -- what I just discussed.

Q. Why would you have to do that if these are projections for 2012 after the MLR sharing has occurred for AEP Ohio as opposed to AEP East?

A. That's what I was trying to distinguish. The difference between a rate -- so when the sales from AEP Ohio, when customers shop, there's some number of GWH that are available to sell into the market, and we can use the 80 percent figure for illustrative purposes.

When that sale occurs, the number of megawatt-hours that stay with AEP Ohio are MLR'd just like the dollars are. So AEP Ohio would retain 40 percent of the incremental GWH due to MLRing and they would -- and only 80 percent of that megawatt-hours would be sold into the market.

So it's probably easiest if I start from a complete example. If a hundred GWH of retail sales switched to an alternate provider such that AEP Ohio no longer needs to serve those customers, 80 percent of that hundred megawatt-hours would be available to sell into the market so we'd have 80 megawatt-hours that were sold into the market.

When we look at the functioning of the pool, AEP would retain 40 percent of those megawatt-hours, so 40 percent of the 80 that we were just discussing would be 32 megawatt-hours. AEP Ohio would also retain 40 percent of the margin that are associated with those, which are dollars.

When you divide those dollars by the megawatt-hours, it results in the same average rate for AEP Ohio, but the dollars were MLR'd.

Q. Built into Mr. Sever's projections presented for 2012 are his -- let me strike that.

Mr. Sever's projections in 2012 projected on OJS-2 would show AEP Ohio's share of its projected GWH sales, correct?

A. It would reflect AEP Ohio's 40 percent share of the total off-system sales of the AEP East system.

Q. Let's go to 2013 in OJS-2. Embedded in those projections for 2013 is AEP Ohio's member load ratio share of gigawatt-hours associated with off-system sales, correct?

A. Can you repeat the number?

Q. I'm not sure that I said a number. I didn't get to that yet.

A. He would have reflected AEP Ohio's off-system sales margins.

Q. So would it be AEP Ohio's member load ratio share of gigawatt-hours associated with off-system sales?

A. Yes, he would have included that.

Q. And AEP Ohio's member load ratio share of off-system sales that's included for 2013 in the projections shown on OJS-2 are 12,212 gigawatt-hours as testified to by Mr. Sever at the transcript page 915.

A. That's correct.

Q. And the total gross margins for 2013 as reflected in OJS-2, is 589 million, correct?

A. That's correct.

Q. And the CRES capacity payments projected for 2013, according to OJS-2, amounted to 439 million.

A. That's correct.

Q. And if we take the 589 million, subtract out the CRES capacity payments of 439 million, we end up with gross margin revenues from off-system sales attributable to AEP Ohio's MLR share of 150 million.

A. That's correct.

Q. And then if we wanted to determine the specific off-system sales margin on a megawatt-hour basis that is built into the 2013 AEP Ohio pro formas, we would divide the 150 million in revenues by the 12,212 gigawatt-hours, correct?

A. That's correct.

Q. And that would result in an average margin of $12.28 a megawatt-hour, correct?

A. That's correct. And then you'd have to do the same exercise we previously discussed of looking at the percent that can be sold into the market and what's retained by AEP Ohio I think, and this is fairly complicated how all this works, but what you have to track are not the dollars per megawatt-hour, but what you have to track are the actual dollars. So what you're looking at here are the dollars that AEP Ohio is keeping and the GWH that AEP Ohio is assigned its MLR share.

What you don't have in this analysis that we're going through here is what the effect of an incremental megawatt-hour shopped is. So you'd have to do a before and after scenario to determine that impact.

Q. Let's go to WAA-6, and that was in your -- that was the schedule contained in your original testimony. Do you have that in front of you?

A. I should.

I have that.

Q. And that shows a calculation of the retail stability rider, correct?

A. Yes.

Q. And on the third line of the top box you

show a credit for shopped load, correct?
A. Yes, I do.
Q. And that credit is based on the energy credit of $3 a megawatt-hour multiplied by the shopping load of 4,935 gigawatt-hours, correct?
A. Yes, that's correct. Consistent with how we proposed to do it for the future years of the ESP.
Q. And if the credit for shopped load were to increase from the $3 a megawatt-hour to a $12 a megawatt-hour credit, can you explain to me the flow-through effect on the retail stability rider? We would take the $12 a megawatt-hour and multiply it by the 5,000 gigawatt-hours and show a $60 million credit for shopped load, correct?
A. First, the $12 a megawatt-hour would be inappropriate, but based upon your premise that I don't agree with the value would be 60 million.
Q. And that would increase the total revenues to 1 million -- or, 1,093,000,000 as opposed to 1,036,000,000?
A. It would be 1,081,000,000.
Q. I'll accept that subject to check.
So what then happens in the second and third box of WAA-6, assuming what we have so far, that the credit for shopped load is 60 million

instead of the 15 and it's based on a $12 a megawatt-hour credit?

A. The value of 929 million would be increased by $45 million.

Q. Okay.

A. So the earnings at 10.5 percent would stay the same, the revenue reduction of 107 million would stay constant, but since you increased the 1 billion 36, taking the new number 1081 and subtracting 107, you would get 974 million would be the new RSR target in that scenario.

Q. So the RSR target would increase if you increased the revenue credit for shopped load.

A. That's how the RSR would function, but you have to make sure that you have an appropriate rate that you're using to determine that credit.

Q. So is it your testimony, Mr. Allen, that if you increase the credit for shopped load above the $3 a megawatt-hour that you propose, that customers would pay a higher rate stability rider charge?

A. That's not my testimony. My testimony is that the revenue target in the RSR would increase.

Q. And what happens to the retail stability rider itself under the scenario where a larger credit for shopping is used as opposed to the $3 a megawatt-hour credit that you propose?

A. It would reduce the revenues recovered through the RSR.

Q. Does it reduce it on a dollar-for-dollar basis?

A. You'll have to explain what you mean, on a dollar-for-dollar basis.

Q. Under your calculations using a $3 credit per megawatt-hour for shopped load you calculate that the RSR will recover $284.1 million over a three-year period; is that correct?

A. That's correct.

Q. And if we assumed a $12 credit for shopped load, regardless of whether we believe that is appropriate or not, can you tell me what the level of retail stability rider would be collected from customers under that scenario?

A. Under that scenario the RSR revenues would be negative and the earnings projections presented in OJS-2 would see a significant negative impact such that the 7-1/2 percent return that Mr. Sever presented for 2013 would be substantially below that level, possibly as much as 4 to 5 percent on equity.

Q. When you say "negative," does that mean there would be no need for a retail stability rider?

A. The retail stability rider would be negative, so, as we discussed previously, if the formulaic construct of the RSR mechanism produced revenues for the company of greater than $929 million, the RSR would be negative and the company would refund those.

So the operation of the RSR as proposed, if you change that credit, would create a significant financial harm for AEP Ohio.

Q. Have you done different runs assuming different credits for shopped load to determine the level of RSR to be proposed by the company?

A. Under the scenario that you provided of a $12 credit, the impact on pretax earnings of AEP if you did that, which would be the revenue impact, for planning year '13-'14 would be $265 million, on an after-tax basis it would be $172 million, and the ROE impact of your proposal would be to reduce the ROE in that year by 3.7 percent.

MS. GRADY: Your Honor, I would move to strike. That answer was not responsive to the question I asked.

MR. NOURSE: Your Honor, I believe Mr. Allen was elaborating on his prior answer to make it a -- to complete the record.

EXAMINER SEE: Motion to strike that response is granted. Listen to the question, Mr. Allen, and respond thereto or indicate otherwise.

THE WITNESS: Can you reread the question?

(Record read.)

A. Other than the run I just did here as we sat on the stand, I did not previously do any scenarios. I was trying to help you to understand what the impact would be.

Q. Now, on page 12 of your testimony, on lines 3 through 16 you indicate that if the PUCO determined AEP Ohio's capacity cost to be 146 megawatt-hour per day and determined that AEP Ohio should charge capacity at the RPM rate, then the level of the RSR would increase to $5. Correct?

A. That's correct.

MS. GRADY: At this time, your Honor, I would like marked for identification purposes as OCC, I believe it's Exhibit 118, a single page entitled "Capacity Revenue at 146 per Megawatt-day Workpaper-1," Mr. Allen's rebuttal workpaper. One of his rebuttal workpapers.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Mr. Allen, do you recognize what has been marked for identification purposes as OCC Exhibit No. 118?
A. Yes, I prepared this document.
Q. Does it appear to be a true and accurate copy of your workpaper?
A. Yes, it appears to be.
Q. And the $5 that you refer to in your testimony is the $5 megawatt-hour RSR shown on your workpaper under fiscal year, or PY -- that's not fiscal. Planning year 12/13?
A. That's correct.
Q. Now, the RSR shown on your rebuttal workpaper arises due to the difference created between the revenue collected at RPM rate versus the 146 megawatt-hour rate?
A. Versus the $146 a megawatt-day rate, that's correct.
Q. I'm sorry, megawatt-day.
And the total revenues on this workpaper do not total the $929 million target that AEP is proposing, do they?
A. No, that's correct, that's why I showed the financial harm that would be produced based on staff's proposal. This is just showing what the

revenues would be based upon the testimony of Witness Fortney.

Q. Now, the RSR shown on your rebuttal workpaper would collect $457.2 million for three years as shown?

A. That's correct.

Q. Now, the RSR on your rebuttal workpaper reflects no credit for shopped load related to possible energy margins?

A. That's correct. Because the capacity rate that the staff has proposed, the $146 a megawatt-day, already has embedded in it a credit for off-system sales margins.

Q. Now, in calculating the RSR on your rebuttal workpaper what did you assume was the capacity price AEP Ohio would charge to winning bidders in the auction for the SSO supply for January through May of 2015?

A. My recollection is it would have been the $146 -- or, I'm sorry it would have been RPM.

Q. Now, Mr. Allen, on page 10, we're going to move along to another topic, the last topic, at least for me, and that is your two-tiered capacity pricing mechanism. Now, that testimony begins on page 10 and there you discuss, starting on line 10, you discuss the level of shopping -- customer shopping over the last nine months. Do you see that reference?

A. Yes, I do.

Q. And when you speak to the nine-month period, are you referring to the time beginning with the signing of the stipulation on September 7th, 2011, through the day your rebuttal testimony was filed?

A. I'm discussing the nine months from September 1st, 2011, which is the date that we did our most recent -- or, did our analysis of shopped load that's most closely aligned to the date that the stipulation was signed, through May 31st, 2012, which is the closest date to when we made the filing in this case.

Q. Now, you state on line 9 that the two-tiered capacity plan was proposed in the stipulation. Do you see that?

A. Yes, I do.

Q. Was the two-tiered capacity plan proposed in the stipulation actually in effect before the Commission's December order?

A. No, it was not.

Q. So how was capacity priced before the

December order, if you know?

A. Throughout 2011, capacity was priced at the state compensation mechanism, the interim state compensation mechanism, which was pegged to the RPM clearing price.

Q. And, for 2011, what was the RPM clearing price?

A. I think, as we previously discussed, for the first five months of the year it was $174 a megawatt-day, and for the second half of the year, the last seven months of the year, it was $146 a megawatt-day.

Q. What was the two-tiered capacity charge recommended in the stipulation, if you know?

A. The first tier capacity was priced at RPM and the second tier capacity was priced at $255 a megawatt-day.

Q. And that, Mr. Allen, was what was in place from December through March 7th, 2012; is that correct?

A. It would have been effective January 1st, 2012, through the date that the Commission rejected the stipulation in March.

Q. Now, on lines 13 and 14 of your testimony you state that customer shopping has continued to grow in a significant manner while the two-tiered structure has been proposed or in effect. Do you see that?

A. Specifically I state "proposed or in place."

Q. And, on lines 14 through 18, you dispute the assertions regarding confusion that the two-tier pricing plan would cause, correct?

A. That's correct.

Q. And, on lines 14 through 16, you state that the two-tiered structure is -- that "The assertion that the two-tiered structure is confusing is not supported by the results measured by actual customer behavior"; do you not?

A. Yes, I do.

Q. Now, you provide, Mr. Allen, switching data, by customer class, in the table shown on page 10, and there you show that 14.31 percent of residential customers had switched as of May 31st, 2012, with another 1.27 percent pending, correct?

A. That's correct.

Q. So that's a total of 15.57 percent for residential customers?

A. Right. And that's indicated in my table.

Q. And that percentage is less than the

21 percent threshold that the Commission has established for RPM-priced capacity for 2012, correct?

A. The Commission currently, as we sit here today in June, the interim price for the first 21 percent isn't RPM, it's $146 a megawatt-day. But the 15 percent is, in fact, less than 21 percent.

Q. So 15.5 percent of residential customers who are shopping would be getting capacity at RPM pricing, correct?

A. No. As I previously indicated, it's $146 a megawatt-day, not the current RPM price.

Q. So the residential customers that are shopping are not -- are not being affected by the second tier at this point, correct?

A. No; residential customers are paying the second-tiered price for capacity, that's correct.

Q. They're just paying the one-tier price at this point.

A. They're all paying the tier 1 price.

MS. GRADY: Yes.

That's all the questions I have. Thank you, Mr. Allen.

EXAMINER SEE: Let's go off the record.

(Discussion off the record.)

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

Mr. Smalz.

MR. SMALZ: Yes. Thank you, your Honor.

- - -

CROSS-EXAMINATION

By Mr. Smalz:

Q. Mr. Allen, just following up from where you left off during the cross-examination by OCC's counsel, as was noted, you state in lines 16 through 18 that "The important fact in determining if there is no detrimental confusion is that the two-tiered system has supported continued shopping in the AEP Ohio service territory well beyond where it was previously."

Would that statement, your statement, apply equally to all classes of customer: Residential, commercial, and industrial?

A. Yes.

Q. And is it your contention specifically that residential customers have not been confused by the two-tier system?

A. Based upon customer behavior, as I provided here, customers, residential customers are still shopping with the two-tiered structure in place; that may be due to good communication from the CRES providers describing to them how the two-tiered structure works, or a discussion with them about which tier they would expect to receive capacity under.

One thing to recognize in the residential class, for a -- the CRES only knows what they're serving, so they're making determinations about where the total level of shopping is and estimating what other suppliers are doing as they make these offers. So CRESs are still making offers to residential customers with the two-tier system in place.

Q. Is it possible that many individual residential customers do not even know there is a two-tier system in place?

A. I would expect that's probably correct.

Q. And for those individual customers who may know there is a two-tier system, would they necessarily know which tier they fall in?

A. I would expect that's information that their CRES provider or their potential CRES supplier would inform them of.

Q. So your understanding is that the CRES suppliers are informing them at this point in time you fall in this tier, one of these two tiers?

A. The CRES suppliers would be informing the customer through the price offering they make to those customers.

Q. And they're making this specific price offering to individual retail residential customers.

A. Offerings are out there and available for individual customers as well as through aggregation programs in various communities.

Q. Would the fact that the level of switching is, indeed, as was pointed out in your earlier testimony, much lower for residential customers than for other classes, suggest that residential customers do not have as sophisticated an understanding of the two-tiered pricing system as customers in other classes?

A. It's really hard to determine what residential customers -- what's in the mind of a residential customer as they make this choice. One of the decisions may be that the savings being offered to them aren't worth their effort, maybe that they really like AEP Ohio and don't want to switch, there's a variety of reasons that a residential customer may choose not to switch.

Q. So just to conclude, is it indeed your testimony, Mr. Allen, that you believe there is no confusion among residential customers as to the current pricing structure?

A. I think with the proceedings that are going on for any residential customer that's been following it, there's uncertainty as to what the outcome of the proceedings will be, but I can't speak to whether or not, you know, any individual customer has confusion. But the important point, as I mention in my testimony, is that customer shopping is still occurring with this in place.

The expectation is with a two-tiered system, initially parties, including CRES providers, may not understand how the system works, and that's to be expected with any new system that's put in place. But over time, and we've had over five months that the two-tiered system's been in place, CRES providers and customers gain an understanding of how a system works and the confusion that may have initially existed can be reduced through experience.

MR. SMALZ: I have no further questions, your Honor.

EXAMINER SEE: Then let's take a lunch recess until 1:35.

(At 1:01 p.m. a lunch recess was taken until 1:35 p.m.)

Friday Afternoon Session,
June 15, 2012.

- - -

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

Mr. Kutik.

MR. KUTIK: Thank you, your Honor.

- - -

CROSS-EXAMINATION

By Mr. Kutik:

Q. Mr. Allen, I want to go back to something that I thought I heard you say to Ms. Grady, and that is that there was no active sharing for Wheeling, correct?

A. That's correct.

Q. And isn't it true, though, that in West Virginia, 100 percent of the off-system sales gets credited to customers?

A. Through Appalachian's fuel mechanism, Wheeling Power has no generation, so, as such, Wheeling Power has no off-system sales. For regulatory efficiency in West Virginia, rate cases for Wheeling Power and Appalachian's West Virginia customers for their utility business are combined for that purpose.

Q. So Wheeling's customers get a credit for all of the off-system sales, correct?

A. They get a credit for all of the off-system sales that APCo generates.

Q. You also said something in response to Mr. Smalz's question, something to the effect that, I'm reading from my notes so I may not have this down exactly correct, it's hard to determine what's in the customer's -- what's in the mind of the residential customer, or that you can't speak about whether an individual customer's confused. Do you remember making those statements?

A. Generally.

Q. And those statements are true; are they not?

A. For an individual customer, without polling every residential customer, it would be difficult to determine if any customer is confused, but what I based my conclusions on are the behaviors of those customers.

Q. So we don't have before us, do we, any customer surveys of whether customers are confused about the two-tiered pricing system, correct?

A. That's correct. And it's important to recognize that the person that actually pays the capacity price is the CRES provider, not the customer directly.

Q. We'll get to that in a minute. But we don't have any customer surveys about confusion in this case, do we?

A. That's correct. Neither FES Witness Banks or RESA Witness Ringenbach presented any evidence of customer confusion.

Q. And it would be fair to say that you base your opinion on -- you based your opinion about there being no customer confusion by citing the shopping statistics; fair to say?

A. What I state in my testimony is that the important fact in determining if there's any detrimental confusion is that the two-tiered system has continued shopping -- has supported continued shopping in the AEP Ohio service territory. So if there is any customer confusion, it's not manifesting itself in customers not shopping.

Q. So let's get back to my question. My question is: You based your conclusion on the fact that there is no customer confusion by citing the shopping statistics, correct?

MR. NOURSE: Objection. I don't think that properly characterizes his testimony.

MR. KUTIK: Well, I'm not sure that's a proper objection, your Honor. This witness is more than able to respond to my questions and to tell me if I'm misrepresenting him.

EXAMINER SEE: The objection is noted and I'll allow Mr. Allen to respond to the question.

THE WITNESS: Can you reread the question, please?

EXAMINER SEE: Sure.

MR. KUTIK: I'll just say it again, your Honor.

Q. Isn't it true that you base your conclusion that there is no customer confusion on citing the shopping statistics?

A. No, that's not my testimony. My testimony is not that there is no customer confusion. And I think when I talked to the previous attorney, Mr. Smalz, I indicated that customers may be confused based upon the status of these proceedings, but that the CRES provider can provide information to those customers that can resolve that confusion.

And I think we have a number of CRES providers here that are very sophisticated, and I would expect that they are fully capable of understanding the company's two-tiered proposal and can communicate that, as needed, to customers.

Q. So you're --

A. What I state regarding that is that if any confusion exists, it has not manifested itself in changes in customer shopping. What we've seen is, while this has been proposed or in place, customer shopping has continued to grow.

So what I've put in my testimony are the results that we're seeing, and making a conclusion that any confusion that may exist, that we don't know that any does exist, but any that may exist is not having a detrimental effect on shopping.

Q. So you're not testifying that there's no customer confusion, correct?

A. That's correct. There may be some customer confusion.

Q. And your view that if there's any -- your view is that if there is any customer confusion, it hasn't manifested itself because there still continues to be shopping, correct?

A. What we've seen is shopping has continued to grow during the pendency of these proceedings, which demonstrates that if any confusion exists, it's still allowing shopping to continue to grow, and we're over 32 percent currently.

Q. So you're basing the fact that any confusion hasn't manifested itself in the marketplace on the shopping statistics, correct?
A. That's my conclusion based upon the switching statistics that we've seen and the continued growth over time.
Q. Okay. And the figures that you cite are on page 10 of your testimony, correct?
A. I present figures on page 10 of my testimony; that's correct.
Q. And would it be fair to say that the shopping statistics that you show on page 10 of your testimony, as of May 31st of this year, are the lowest shopping statistics of any EDU in the state?
A. I haven't looked at all the other shopping statistics for the other EDUs recently.
Q. All right.
MR. KUTIK: Well, may I approach, your Honor?
EXAMINER SEE: Yes.
Q. Mr. Allen, I'd like to show you what has been previously marked and admitted into this case as FES Exhibit 114.
Mr. Allen, do you remember this exhibit?
A. Yes.

Q. This is a summary of shopping statistics as of December 2011, except for the averages that are posted by -- on the PUCO website, correct?

A. Yes.

Q. And would it be fair to say that in terms of total shopping, if we compare the numbers that are on this page as of December 2011, AEP would be currently still the lowest in the state?

A. On a total basis, that's correct, but if you'll notice, even for the residential class, AEP Ohio is seeing a higher level of shopping than Dayton Power & Light, and those, we could all agree, are probably your least-sophisticated customers, and we're seeing shopping at higher levels than at least one other utility in that class, and I would expect that shopping levels in our service territory are going to be somewhat slowed while we wait for resolution of these cases.

Q. Okay. So your next-to-last in shopping for residential customers, correct?

A. That's correct.

Q. And you're last in shopping for commercial and industrial, correct?

A. Yes, that's correct.

Q. And you're last in total shopping,

correct?

A. We have the lowest level of shopping --

Q. Thank you.

A. -- of the other EDUs.

Q. In fact, not only last, but you're less than -- you're 40 percent lower than the average of all the other companies on a total basis; are you not?

A. Approximately, yes.

Q. Now, you also previously provided shopping figures to us in this case; did you not?

A. I've presented quite a few sets of shopping figures over the course of the proceedings.

Q. Okay. And in your direct testimony you had an exhibit, WAA-1. Do you have that in front of you, sir?

A. I have that.

Q. And you gave us, in that exhibit, switching statistics as of March 1st, 2012, correct?

A. That's correct.

Q. And you provided us with information about customers that had switched, customers who had pending switches, and customers that had noticed switches, correct?

A. That's correct; and the notice would be either a 90-day notice or an affidavit.

Q. Now, turning to page 10, and I want to talk to you about both of these numbers, you didn't provide us, in the table on page 10, any information about noticed switches, correct?

A. That's correct.

Q. All right. Now, if we compare the totals of both of these, would it be fair to say that comparing the commercial, it's about the same?

A. No. What I would indicate, if we look at the commercial class, to do a like-for-like comparison, you would see that the switched and pending is approximately 43.7 percent as of March 2012, and that level has increased to 48.7 percent over the past few months.

Q. I asked you about the totals. If you look at the totals, both of the tables for commercial customers, as of March 1, the total was 48.09 percent and, as of March 31, the total information you gave us was 48.69 percent, correct?

A. Those are the values on those pages. Those are not apples-to-apples comparisons because, as we -- as you indicated, one includes a category of noticed customers and the other one does not include those customers. So it's not an apples-to-apples comparison.

Q. I just want an answer to my question. The totals are approximately the same, are they not?

A. The totals for your values that are not apples-to-apples comparisons are close to the same.

Q. Okay. And with respect to industrial customers, would it be fair to say that the total you show on page 10 of your testimony is less than the total you show on WAA-1, correct?

A. As I previously stated, it's because you're not including the noticed column. When you make that same comparison, you see that adding switched and pending, such that you're doing a like-for-like comparison, the industrial class had 31 percent switched or pending, 31.18 percent as of March, and that level has grown to 33.09 percent as we sit here today.

Q. We can agree, Mr. Allen, that you wrote your testimony, I didn't, correct?

A. I definitely wrote my testimony.

Q. Okay. And we can also agree that you chose what should be put in here, I didn't, correct?

A. That's correct. And I'm providing to you the appropriate comparisons since, as you indicated, I wrote my testimony and I understand what the appropriate comparisons are.

Q. Well, we can both brief what the appropriate comparison is, sir. I just want to make sure that we're clear in terms of the comparison of the total of the information you gave us.

Now, you also, have you not, said earlier, and I forget the context, but you talked earlier about if you wanted to find something out or test something, you would have to do a backcast. Do you remember that discussion with Ms. Grady?

A. We had that discussion specifically relating to off-system sales impacts due to changes in customer shopping.

Q. Okay. And one of the things that you said, I thought, was that, you know, you'd have to come up with two cases, one of actual and one versus the condition that you're testing for, correct?

A. For that situation, that's what I described, yes.

Q. And in this case, in terms of trying to determine the impact of the two-tiered system on potential shopping, we know what the actual is, but we don't know what would have happened without the two-tiered system in terms of shopping, correct?

A. That's correct.

Q. It would be also fair to say, and I think you mentioned this earlier, that it is the CRES provider that's paying for capacity, not necessarily the customer, correct?

A. That's correct.

Q. And so it may well be -- well, I'll back up.

Would it be fair to say that you don't know the price terms of all of the contracts that have been entered into between CRES providers and customers since the stipulation was entered into?

A. I've seen a few, but I've not seen them all.

Q. And so it would be fair to say that, sitting here, we don't know what prices CRES providers have charged in their contracts with customers, correct?

A. That would be between the CRES provider and their customers.

Q. So we don't know today whether the CRES provider is pricing the contract based on an assumption that the CRES provider will ultimately pay only RPM prices.

A. We'd have to look at each individual contract to determine what pricing structure each

CRES built into their contract. So that's a business decision of the CRES provider about which risks they want to take on and which risks they want to push on to their customers.

Q. So the answer to my question is: Yes, we don't know.

A. I'll have to have the question reread.

Q. The question was: We don't know whether the CRES provider is charging, under the contract, a price that assumes that the customer -- or, excuse me, the CRES provider would ultimately have to be paying only an RPM-based price.

A. Without reviewing every one of the contracts, I can't tell you what's in those. Those are contracts between the CRES and the customer. They would know what's in those.

Q. So, again, the answer is: Yes, you don't know.

A. That's correct.

Q. Okay. And so we don't know whether, for example, the CRES provider and the customer are entering the contracts with RPM-based prices as assumptions, only to reserve their rights to walk away from the contract if there's another result in these cases, correct?

A. In that situation, neither the customer nor the CRES would have any risk associated with what the ultimate outcome was because, as you indicated in your hypothetical, that they could both walk away.

I would find it highly unlikely or, at a minimum, a very bad business practice for a CRES provider to have signed contracts that guarantee that they would provide capacity at RPM prices in light of the continued litigation in these cases.

Q. The answer to my question is: You don't know, correct?

A. Providing an answer to your question, you'd have to repeat it if you want a --

Q. Okay. My question is: You don't know whether the customer and the CRES provider entered into a contract that assumes RPM-based prices with the assumption that either party could walk away if the result was different, that is, the pricing result was different than RPM in either this case or the 10-2929 case. You don't know that, correct?

A. I can't be in the mind of the CRES and the customer.

Q. So you don't know.

A. It's a hypothetical. I can't know what was in the mind of your hypothetical.

Q. So, again, you don't know.

A. It's a hypothetical. I can't make a distinction about whether or not it was --

Q. It's not a hypothetical, sir. I asked you if you know that, and you don't, correct?

A. I don't think I can provide you a better answer than what I've done.

Q. Okay. Now, you have made some assumptions about shopping levels, and those assumptions appear in your workpapers, correct?

A. That's correct.

Q. And previously we marked an exhibit which showed -- it was WP WAA-4 and 5; do you have those in front of you? We marked those as FES Exhibit 115.

A. I have my workpapers.

Q. And am I correct that WP WAA-4 and 5 relate to your assumptions about 2012, correct?

A. That's correct.

Q. And it shows, among other things, assumptions about shopping, correct?

A. Yes, that's correct.

Q. And in those workpapers you assumed a specific shopping load for every month starting in January, correct?

A. That's correct.

Q. And are the figures that are shown in there with respect to a particular month supposed to be month-end figures?

A. They would be a value for the integrated kilowatt-hours across an entire month.

Q. And would it be fair to say that for the month of May, on a total basis, it assumes -- or, these workpapers assume about a 40 percent shopping load?

A. Doing the simple math, you would come up with that value. What you have to recognize, though, is that customer usage is not constant across the entire year. So you have to actually look at what that customer's actual usage was for an entire 12-month period that's in that shopping category in order to make a comparison to the actual shopping statistics that I presented in my testimony today, my rebuttal testimony.

Q. But the information you've given us in terms of what's shopping versus what's total load, it's about 40 percent in the month of May, correct?

A. That's the math. It's not on a -- not on a basis that's comparable to the information that is presented in my rebuttal testimony today.

Q. And if we did the same math for June, it

would be a little less than 44 percent, correct?
A. It would be about 43.6 percent.
Q. And in July it would be 47.44 percent.
A. It would be 47.44 percent.
Q. And in August it would be 42.06 percent.
A. With the same caveats about comparability, the value would be 52.06 [verbatim] percent.
Q. And just one more month. December would be 7.32 percent -- 70.32 percent, correct?
A. It would be 70.31 percent.
MR. KUTIK: May I approach, your Honor?
EXAMINER SEE: Yes.
MR. KUTIK: Your Honor, we would like to have marked as FES Exhibit 120, a one-page document entitled "AEP Estimated Shopping Assumptions, Allen Rebuttal versus Allen Direct."
EXAMINER SEE: The exhibit is so marked.
MR. KUTIK: Thank you, your Honor.
(EXHIBIT MARKED FOR IDENTIFICATION.)
Q. (By Mr. Kutik) Mr. Allen, I want to ask you about a couple of figures on this chart. First, would you agree with me that the figures that appear in Column (B) appear in your Exhibit WAA-1?
A. From the direct case?

Q. Yes.

A. It shows the switched load.

Q. The answer to my question is "yes"?

A. Yes.

Q. Would it be fair to say that the figures in Column (C), on Exhibit 120, come from the table on page 10 of your rebuttal testimony?

A. Yes.

Q. And would you agree with me that the figure in Column (D) is the difference between (B) and (C) divided by three?

A. I wouldn't agree that it's an appropriate calculation, but it's the --

Q. That's not my question, sir.

A. It's not an appropriate calculation, but it's the calculation that is described in footnote (D) of the exhibit, but I would not agree it's appropriate.

Q. Okay. And with respect to (E), would you agree that that is taking Column (D) and multiplying it for every month since May, to come up with a value at the end of the year?

A. That's not what Column (E) does, and it's not an appropriate calculation if you were to determine what you thought shopping would be at the end of the year.

Q. Okay. Well, isn't it true that Column (E) equals the figures in Column (C) plus the figure -- the combined total of Column (D) times seven?

A. Well, it's not an appropriate calculation. The math that you've described is what's done in Column (E) --

Q. Thank you.

A. -- as indicated in footnote (E). But I can't agree to the premise.

Q. What appears in Column (F), that comes out of your workpapers, does it not?

A. Yes, I can agree to that value.

Q. And we can agree that Column (G) is the difference between Column (E) and Column (F), correct?

A. First, I can't agree with your premise that Column (E) is an accurate representation of expected customer shopping as of the end of 2012, but --

Q. Sir, all I asked you is if Column (G) --

A. Can I finish, please.

Q. No; because you're not answering my question.

MR. NOURSE: Your Honor --

EXAMINER SEE: Just a minute. Let's cut out the cross talk. If you pose a question, allow him to answer it and allow him to finish his answer.

Mr. Allen, you need to answer the question; the question posed to you.

Q. My question is: Is Column (G) the difference between Columns (E) and (F)?

A. Well, I can't agree to the value that's presented in (E). The value in (G) is the mathematical calculation of subtracting (E) from (F).

Q. Thank you.

Now, with respect to the calculations in your rebuttal testimony that begin on page 11, would it be fair to say that you start with the projected earnings in ROE from Mr. Sever's calculation?

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

Q. And Mr. Sever, in turn, used the assumptions that you came up with for shopping, correct?

A. That's correct, he did.

Q. And if we assumed that there was less shopping in 2013 than you assumed, would the ROE be higher?

A. No.

Q. Would it be fair to say that we don't know whether the ROE would be higher?

A. The projected earnings for 2013, based upon the company's proposal in the ESP, would be the same.

Q. Well, isn't it true that the company doesn't know whether the ROE would be higher if shopping is less?

A. No. That's not my testimony. Based upon the company's proposal.

Q. Is it true, sir?

A. Let me finish.

Q. Well, isn't it true --

MR. NOURSE: Your Honor.

EXAMINER SEE: We're not going to go through this all afternoon. Pose a complete question, answer the question. Mr. Kutik, your question?

Q. Isn't it true that if the company doesn't know whether if shopping is more than you would, excuse me, less than you assumed, that there would be an increase in ROE?

A. No. Based upon the company's proposal in this ESP, the earnings for 2013, the 350.7 million, would be the same as they are in Mr. Sever's testimony if shopping increased or decreased from the levels projected in my testimony.

Q. Well, isn't it true that the company couldn't say what effect the projected -- they would be on the projected income statement if shopping did not increase as rapidly as forecast?

A. There's a distinction between income statement and earnings. I'd have to see which statement you're referring to. I don't know every statement that the company made in response to every discovery response.

Q. I'm talking about Mr. Sever's statement.

A. I don't know every statement that Mr. Sever made. You'll have to show it to me.

Q. We're not talking about every statement. You have Mr. Sever's testimony in front of you, do you not?

A. I do not.

Q. All right.

MR. KUTIK: Can Counsel provide Mr. Sever's testimony?

MR. NOURSE: I've got a copy, but I need to use it.

MR. KUTIK: Pardon?

MR. NOURSE: I've got a copy, but I need

to use it if you're going to ask him questions about it.

MR. KUTIK: He wants to see the statement, I'd like him to see the statement.

MR. NOURSE: Why don't you show it to him.

MR. KUTIK: Do you have it? Can you give it to him? Can you give it to him or not?

MR. NOURSE: I've got a copy, but I need to use it if you're going to ask him questions about it.

MR. KUTIK: Your Honor, may I approach?

EXAMINER SEE: Yes.

Q. (By Mr. Kutik) What did I just show you, Mr. Allen?

A. This is an exhibit from Mr. Sever's testimony, OJS-2.

Q. Okay. And does this say "Projected Financial Statement"?

A. It says "Projected Financial Statements Prepared Consistent with Filing."

Q. All right. And isn't it true that the company can't say what effect it would be on a projected income statement if shopping did not increase as rapidly as forecast?

A. As I previously indicated in response to your question, the net income for 2013 would be the same as the company projected if shopping levels increased or decreased. That's the function of the RSR mechanism.

MR. KUTIK: May I approach, your Honor?

EXAMINER SEE: Yes.

MR. KUTIK: Your Honor, we'd like to have marked as FES Exhibit 121, Interrogatory Response to FES Interrogatory 5-07.

EXAMINER TAUBER: Mr. Kutik, could the Bench get a copy?

MR. KUTIK: I'm sorry.

EXAMINER SEE: The exhibit is so marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. (By Mr. Kutik) Mr. Allen, I've handed you what's been marked for identification as FES Exhibit 121. You recognize this as the company's response to the FES Interrogatory 5-07, correct?

A. Although I've not previously reviewed it, it looks like a discovery response that the company would have prepared, and it appears Mr. Sever provided a thoughtful and well-thought-out response to the request.

Q. His thoughtful and well-thought-out

response is to this question, among others: "Referring to the projected financial statements included with Mr. Sever's testimony: (a) What would be the effect to the projected income statement if the shopping" -- "if shopping did not increase as rapidly as forecasted?"

And the answer to that question was: "The requested case has not been run. However, generally, lower switching would result in numerous changes including but not limited to, a different level of retail sales margins, OSS and CRES margins, third-party transmission revenue, adjustments to any corresponding tracking mechanisms and an adjustment to the Retail stability Rider, interest and taxes. While the items that would change can be identified, the exact amount or direction of the change would be dependent upon other factors including an assumption of market price for energy."

Did I read that correctly?

A. You did; and that's consistent with the answer I provided you.

Q. Thank you.

A. Each one of those items would change, but the RSR mechanism, as designed, has the effect of creating an earnings result that is the same, independent of the level of switching.

Q. Did I read it correctly, sir?

A. You did.

MR. KUTIK: Thank you.

No further questions.

EXAMINER SEE: Mr. Darr?

MR. DARR: I believe Ms. Spiller and I are going to switch places because she has a commitment. If that's okay.

EXAMINER SEE: That's fine.

Ms. Spiller.

MS. SPILLER: Thank you, your Honor.

- - -

CROSS-EXAMINATION

By Ms. Spiller:

Q. Mr. Allen, if I may, I'd like to take up with your last statement there, sir, and the purpose of your rebuttal testimony is, in part, to describe what the RSR is not, correct?

A. That's correct.

Q. You say it is not a -- it's not a guaranteed 10.5 percent ROE, correct?

A. That is correct.

Q. But, sir, as you've just stated, the RSR functions to ensure that at least until corporate separation, AEP Ohio will earn annually $929 million in nonfuel generation revenues, correct?

A. No; you've misstated it. AEP Ohio will not earn 929 million. AEP Ohio will receive revenues from CRES providers, retail nonshopping customers, the nongeneration portion of that, a credit for off-system sales that results in a calculation of $929 million.

Q. Well then, sir, if we could go back to Exhibit WAA-6 of your direct testimony, that is your summary of the retail stability rider that you designed, correct?

A. That's correct.

Q. And the bottom portion of that page, sir, shows three revenue streams, retail nonfuel generation revenues, CRES capacity revenues, and auction capacity revenues for each of the three planning years of the proposed modified ESP, correct?

A. Correct. As well as a credit for shopped load.

Q. Sure. And I was going to get to the credit for shopped load.

You then, near the bottom, second line from the bottom, have total revenues, again, for each of the three planning years of AEP's proposed modified ESP, correct?

A. That's what the line indicates, yes.

Q. And those total revenues, sir, are constant at $929 million for each of those three planning years, correct?

A. That's correct.

Q. And the RSR functions as a make-whole payment to ensure that in each one of those three planning years, AEP Ohio has total revenues of $929 million, correct?

A. Total revenues for these three components equal to $929 million. The reason that I distinguish that the RSR isn't a guarantee is that the O&M for the companies will vary over time and that's something that AEP Ohio takes on the risk for. So that's the distinction between a decoupled revenue stream and guaranteed earnings.

Q. And what you intended in designing this RSR was a decoupling mechanism so that, from year to year, AEP Ohio will consistently earn these total nonfuel generation revenues of $929 million, correct?

A. Once again, I'm going to -- I'm disagreeing with your statement that we're going to earn them. Those are revenues that AEP Ohio would collect. Earnings are different than collections.

It's providing a stable revenue stream over the three years that the company can use to manage its -- to manage to pay for its expenses that it incurs over those three years as we transition in this state.

Q. Well, let's talk about that for a moment, sir. On page 3 of your rebuttal testimony, on the sentence that begins toward the end of line 14, therein you state that "The RSR simply provides AEP Ohio a stable level of nonfuel generation revenues during the term of the ESP, not a stable ROE," correct?

A. That's correct.

Q. Is it your testimony, sir, that AEP Ohio will retain all of the sums collected under the RSR through the term of this ESP even after asset transfer?

A. No. After asset transfer, the RSR receipts, as well as the nonfuel generation revenues and the CRES capacity revenues, will be passed on to the GenCo since the GenCo is the entity that is providing the generation service and providing the capacity for use of all AEP Ohio customers throughout the term of this ESP as an FRR entity.

Q. So, sir, the RSR, as you designed it, is intended to function so that AEP Ohio collects from all of its revenues a make-whole payment that it, in turn, will remit to its nonregulated generation affiliate, correct?

A. I wouldn't refer to it as a "make-whole payment" because it is not making AEP Ohio whole as is indicated by the ROEs that AEP is expecting to earn over the period.

What it's doing is it's a stable source of revenues that will be collected from retail customers and CRES providers that will be passed through to the GenCo after corporation separation to ensure that the GenCo can maintain financial stability during this transition period while that GenCo is obligated to provide capacity service to customers in Ohio.

And it's important that this Commission recognize their obligation to ensure that stability. This Commission took the step of establishing a state compensation mechanism. As such, they've taken regulatory control over the generation assets of AEP Ohio and they have an obligation to provide just and reasonable compensation.

MS. SPILLER: Your Honor, I'm going to move to strike Mr. Allen's question -- or, answer. My question was designed to elicit a "yes" or "no" response and not what was probably more appropriately designated as a closing argument.

MR. NOURSE: Your Honor, Ms. Spiller's question mischaracterized the RSR as a "make-whole payment," and she also asked about the remission of revenues to the GenCo as part of that question. So Mr. Allen obviously took issue with the label of "make-whole payment" and explained why the revenues were remitted to the GenCo, and gave an appropriate, full response to the question.

EXAMINER SEE: Motion to strike is denied.

MS. SPILLER: Thank you, your Honor.

Q. Mr. Allen, I understand that you differ with the characterization of the RSR as a "make-whole payment." It is a rider intended to ensure a certain amount -- that AEP Ohio collects a certain amount of nonfuel generation-related revenues, correct?

A. Yes. I think that's a correct characterization.

Q. And AEP Ohio intends, after asset separation, to collect those sums and remit nonfuel generation revenues to its nonregulated affiliate, correct?

A. The company is remitting those payments to the entity providing those services which is the GenCo.

Q. It's your nonregulated affiliate GenCo, correct?

A. I'm going to question the use of the term "nonregulated" because, as I just previously indicated, the Commission, through its action of setting a state compensation mechanism, is regulating the revenues of that entity, so it is still regulated.

Q. I'm sorry, sir, are you saying that the Commission will be regulating GenCo pursuant to a state capacity mechanism?

A. When the Commission made the decision to set a state compensation mechanism, they are regulating the revenues that the GenCo can receive as an FRR entity. And whether there's a legal distinction or not, that is regulating the GenCo and they have an obligation as a result of that step they've taken.

Q. Sir, you are not an attorney, correct?

A. That's correct, but I work in the regulatory environment 24/7, it seems like, and, in my view, that's regulated. They're setting a rate for what the GenCo can collect for providing a service; that's regulation.

Q. And, sir, you're aware that in 1999, the Ohio legislature deregulated electric generation services, correct?

A. We've had a lot of discussion about whether it was true deregulation, partial deregulation; I would call it "partial deregulation."

Q. Sir, you're saying that Senate Bill 3 was partial deregulation, although you're not an attorney, this is your opinion that it was partial deregulation, correct?

MR. NOURSE: Your Honor, I object. I mean, either we're using legal terms that -- she's badgering the witness both ways -- that only attorneys should be answering, or Mr. Allen is able to use his own terms and his own understanding based on his experience.

MS. SPILLER: Well, your Honor --

EXAMINER SEE: Mr. Allen stepped into it, said he wasn't an attorney and moved to make his own definition, so he's now going to need to answer the questions with his understanding.

Do I need to have the question repeated?

THE WITNESS: It would be helpful.

EXAMINER SEE: Read it back, please,

Maria.

(Record read.)

A. Since Senate Bill 3 was passed, this Commission has regulated the rates that AEP Ohio can charge its retail customers for generation service; that's regulation. So whether the language of Senate Bill 3 may be interpreted from a legal perspective to have deregulated Ohio, the fact that this Commission dictates the rates that AEP Ohio can charge indicates, to me, that regulation of our generation assets has existed from the passage of Senate Bill 3 in 2000 through today.

Q. Mr. Allen, let's try it this way: Would you agree with me that generation service in Ohio is a competitive service?

A. Yes.

Q. Mr. Allen, why was the environmental surcharge mechanism filing by Kentucky Power withdrawn?

A. I don't know.

Q. Sir, beginning on page 11 of your rebuttal testimony, your testimony there serves to identify what you believe to be the alleged financial harm to AEP Ohio should CRES providers be charged the historical RPM rates for capacity, and the RSR eliminated, correct?

A. A couple of distinctions. First, your term "alleged" I'm not going to agree with. But it's not the historical RPM rates; it's the PJM rest-of-market clearing price for capacity. That piece of PJM that does not include AEP Ohio, it would be that RPM capacity rate.

Q. And, sir, in arriving at your financial calculations, you focused only on the 2013 year, correct?

A. That's the year that the company is still bundled and it's the year when this, whatever decision the Commission makes would be in place for an entire year, so I chose 2013 as an appropriate comparison point that could be used to understand the implications of this type of action in 2013 and beyond.

Q. So, sir, you did not, in performing your calculation, present for the Commission the financial impact to AEP Ohio that results from its collection of above-market capacity pricing at least through July 2nd of 2012, correct?

A. First, I can't agree to your premise of "above market." We have yet to determine what a market price for capacity is.

Secondly, 2012 projected earnings were provided in Witness Sever's testimony, including the whole ESP provision.

Q. Sir, I guess I'll take it in parts, then. RPM right now is priced at approximately $30 per megawatt-day, correct?

A. That's correct.

Q. AEP Ohio is charging a tiered structure pursuant to an interim pricing schedule that is greater than market, correct?

A. Once again, I won't agree with your distinction it's above market. We have yet to determine what a market price is. AEP Ohio is not in the RPM market, so if you want to distinguish it and say a level above the RPM clearing price for the rest of market, we can go down the path of answering those questions.

Q. Sure. And, Mr. Allen, AEP Ohio, prior to 2012, charged CRES providers based upon RPM pricing, correct?

A. Beginning through late in 2010, the company charged CRES providers based on the RPM rate under a provision of the reliability assurance agreement. Starting in late-2010, AEP Ohio started charging CRES providers a state compensation mechanism for use of its capacity that was pegged to the RPM price on an interim basis.

Q. So is the answer to my question "yes," sir?

A. I think I distinguished the two. I can't answer yes to your question.

Q. From 2007 through 2011, the pricing that AEP Ohio has used for CRES providers for capacity is an RPM-based price, correct?

A. It's equal to the RPM price.

Q. Thank you.

A. But you'd have to consider the two distinctions I made previously.

Q. And, sir, when providing your rebuttal testimony intended to give the Commission, as your attorney described it, further elaboration, again, you did not present the financial impact to AEP Ohio from its collection of capacity revenues greater than RPM through July 2nd of 2012, correct?

THE WITNESS: Can you reread the question, please?

(Record read.)

A. If I follow your question correctly, those capacity prices that are higher than RPM, which is the 255 and the 146, as well as the RSR, those are included in Witness Sever's testimony. So we did provide that as part of our direct case.

Q. You did not, though, sir, in your rebuttal testimony wherein you discuss financial harm, correct?

A. Based on your question, it wouldn't be -- it's not financial harm if the company -- it's not additional financial harm that I would have been testifying to if the company received the capacity prices that were included in the analysis Witness Sever already prepared.

Q. So, sir, it's a "no," right?

A. If you're asking if there was financial harm to AEP Ohio if the capacity prices were lower than what Witness Sever presented, I could answer that question. You're asking me if I did an analysis that included the same assumptions that Witness Sever already included, and, in that case, I wouldn't have to do one; it would be the results we've already presented.

Q. Sir, it's simply whether or not your rebuttal testimony includes calculations in respect of financial impacts to 2012. Does your testimony include such an analysis or no?

A. This testimony does not --

Q. Thank you.

A. -- describe financial harm during 2012 due to changes in capacity pricing, but there's an affidavit that the company has presented in this -- in the 10-2929 case that does indicate what that harm would be on a monthly basis.

MR. KUTIK: Move to strike everything including the word "but" and after.

MR. NOURSE: Your Honor, I think the question, now that we finally figured out what was being asked, Mr. Allen is trying to be responsive and helpful, and she's challenging him on what he did and didn't provide, so he indicated it was provided in a parallel context and indicated what it was.

MR. KUTIK: Your Honor, Mr. Allen's job here is not to be helpful, but to answer questions.

EXAMINER SEE: It's correct that he's here to answer her questions, but the motion to strike is denied.

Q. (By Ms. Spiller) Mr. Allen, in your rebuttal testimony, as well as in your exchange with Ms. Grady earlier today, you were quite deliberate in identifying that only a certain percentage of off-system sale margins went to AEP Ohio. Do you recall the exchange?

A. I do.

Q. Mr. Allen, it's true that the off-system sale margins that AEP Ohio shares are shared with its sister affiliates, correct?

A. Yes, that's correct.

Q. So all of the margins from off-system sales that may be attributed to AEP Ohio remain in the AEP corporate family, correct?

A. No; that's not correct. First, we're here about AEP Ohio and not the affiliates, but those affiliated companies pass through much of those margins to its retail customers, as we previously described, with the sharing mechanisms that exist in some of the jurisdictions. So those margins do not remain with the AEP family; they're provided to customers like Wal-Mart and things that operate in other jurisdictions.

Q. But AEP entities are not sharing 100 percent of these off-system sales margins with their customers, correct? In other words, customers are not getting all of the margins, are they?

A. That's something I was trying to describe with witness Grady --

EXAMINER SEE: Mr. Allen --

A. -- with Mrs. Grady, Counsel Grady, but the -- in the different states some of those off-system sales are embedded in base rates. We don't refer to those in a regulatory sense as being shared with customers, but they are still provided to customers.

So that's a distinction. There's really only one state -- there's only one state within the AEP family that has a legislative mandate that the off-system sales are retained by APCo, that entity. In all the other jurisdictions those are at-risk margins, so they are not maintained, they're used to offset other rate increases that may occur.

Q. But, sir, my question is whether 100 percent of the off-system sale margins are provided to customers of AEP Ohio and its affiliates.

A. Can you repeat that question again?

Q. Let me try it again this way: Does AEP -- do the AEP East utilities retain some percentage of off-system sale margins?

A. AEP Ohio would retain all of its off-system sales margins. Appalachian Power, 50 percent that is the Virginia portion, they would retain 25 percent. APCo in West Virginia, 100 percent would go to retail customers. So of that 50 percent, none of it is retained.

In I&M, in the Indiana jurisdiction, 100 percent of the off-system sales margins at the current levels that exist today are provided to retail customers as an offset to rates.

In Michigan, I&M's Michigan jurisdiction, which represents approximately 15 percent of I&M, I&M representing approximately 20 percent of the system, so you're at 4 percent of the system there. Of that 4 percent of margins, 80 percent is provided to customers, with 20 percent retained.

In the Kentucky jurisdiction, at the current levels, all off-system sales margins are included as a credit to the cost of service.

So based upon that description, I would say that .4 percent of off-system sales margins for the AEP system are retained by AEP related to Michigan and --

Q. Sir, maybe we could just agree that yes, the AEP East utilities do retain some percentage of the off-system sale margins?

A. And in the APCo Virginia jurisdiction it's 4 percent. So any incremental margins that are outside of AEP Ohio would be approximately 4.4 percent are retained and not provided back to retail customers.

MS. SPILLER: I don't have anything further. Thank you, your Honor.

EXAMINER SEE: Mr. Darr.

MR. DARR: Thank you, your Honor.

- - -

CROSS-EXAMINATION

By Mr. Darr:

Q. Mr. Allen, looking at your rebuttal Exhibit No. 2, page 2, this exhibit identifies what you describe here as "physical margin." And by "physical margin," am I correct in my understanding that that refers to the physical sale or purchase of electricity?

A. It would be the sale that comes from the AEP generating units.

Q. Am I also correct that the company engages in what might be called "financial trading of electrical contracts"?

A. That's correct. And that's what would be represented in the line titled "Trading" on that exhibit.

Q. And is that trading included in your overall calculation for purposes of calculating the credit?

A. No; because it's not associated with

changes in sales to retail customers. It's a fixed level and it's independent of the generation of AEP Ohio or its affiliates. But it is provided in the initial setting of the RSR because I've provided that trading margins, those are still included in the overall earnings in 2011 just like other off-system sales.

Q. But no credit is recognized for the financial transactions that might be involved with these trades of electrical contracts; is that correct?

A. That's correct; because they wouldn't change as the level of customers shopping changed.

Q. They do provide, however, a revenue stream or offset to the cost of -- strike that. We'll move on.

Now, a few minutes ago and in your direct rebuttal testimony, excuse me, in your rebuttal testimony you indicated that maintaining a low level of the credit was appropriate because energy prices were likely to remain low; is that correct?

A. I don't remember that exact statement. What I've shown, though, is based on two years' worth of data, the $3 a megawatt-hour credit that we provided in the RSR is appropriate and a bit on the conservative side.

Q. And one of the reasons why it's on the conservative side is because you have an expectation that energy prices that are driving that credit are going to be relatively low, correct?

A. It's based upon our current expectation of prices, which we do expect to remain at relatively low levels, that's correct.

Q. And that expectation, as I understand it, because you keep the credit at basically that $3 rate throughout the whole ESP in your calculation, that expectation would continue through the three years of the proposed ESP, correct?

A. The treatment of the RSR and that credit is constant over the three-year period. But as I've demonstrated for 2012, the RSR is, with that $3 credit, is overcompensating customers for that credit.

And it's possible, if energy markets increase substantially in future years, that the credit may be somewhat, I would guess slightly less than the margins if we were to actually do a trueup each year and look at actual margins as opposed to looking at an estimate of what a reasonable level of credit is, and it would eliminate the stability that we're trying to provide as part of the RSR and the predictability.

Q. I understand the stability is important, but at the same time you're making an assumption that energy prices, over the three years of the ESP, are going to be lower relative to where they were, say, the last three years that preceded it.

A. The first year -- the first preceding year would be 2011, and I've provided evidence in my testimony that $3 exceeds the value that should have been provided if we used 2011 as our benchmark.

You know, 2009 and '10 had higher energy margins in that year, but I've definitely done a comparison of an actual period and a projected period to avoid any question about whether or not the company was, you know, misestimating the off-system sales market. What we did is looked at an actual period to help alleviate any of that concern.

Q. I understand what you did. What I'm trying to understand is with regard to the going forward, your working assumption and, apparently, the working assumption that's been adopted by the company in this filing is that the energy credit that you're providing would be conservative because it would exceed what would be available if you did a dollar-for-dollar credit using your approach, correct?

A. Yes, that's correct.

Q. Now, if we took that assumption and we imported it into the energy price that is used on a going-forward basis, could we agree that the results of the competitive bid would be -- would also reflect that lower energy price?

A. It would depend upon how that competitive bid was developed and any added cost that may be embedded in it due to any provisions that may increase or decrease customer migration back and forth between the SSO and the auction, but underlying any bids would be a market assumption on energy.

Q. And that market assumption, if we used your forecast, would be that it would be low relative to the prior two or three years, correct?

A. I didn't present a future forecast of energy prices. Those were prepared by Company Witness -- or prepared for use by Company Witness Sever in his calculations of the expected earnings.

Q. So which way would you have us have it, Mr. Allen, do we use the energy forecast that you've used for purposes of calculating the energy credit, or do we use Mr. Sever's calculations for purposes of doing the forwards? It's got to be one way or the other; which one would you have us choose?

A. I don't think they're inconsistent. Mr. Sever presented, in response to OCC Set 7 Interrogatory 146, a projection of off-system sales margins for 2012; that's one of the bases I used to determine that the $3 credit was reasonable.

Q. I appreciate that. And for purposes of my question, which is should we use that same assumption for purposes of looking forward as to what a competitive bid would result in, should we use the lower energy prices that you've assumed for purposes of using the credit or some other number?

A. In looking at the credit, I did not look at those forward prices that may occur through a competitive bid process; that was presented in the testimony of Witness Thomas. One thing you'd have to also factor in, though, as you go forward, is looking at changes in fuel costs for AEP Ohio to make those off-system sales.

So to the extent that AEP's fuel cost increased at a greater rate than the market prices, then the margins would actually be smaller than what we saw in 2011 or were projecting for 2012. So you'd have to factor in both those pieces; you can't just look at the market price for energy.

Q. So, basically, as we sit here today, you can't answer the question; is that fair?

A. As I indicated, I haven't done that analysis.

Q. Now, turning to page 11 of your testimony where you calculate the financial harm to AEP, you make a series of calculations based on removing the two-tiered capacity revenue, you reduce the number by $439 million, and I believe that's taken from your workpapers that you provided as part of your initial testimony; is that correct?

A. That's correct.

Q. And you add back the capacity revenue at RPM which is about 59.3 million, correct?

A. That's correct. So those two steps, what I've done is said --

Q. I understand.

A. -- we reflect RPM --

Q. I think you answered my question, Mr. Allen.

MR. DARR: May I move on?

EXAMINER SEE: Yes, you've got your answer. Move on.

MR. DARR: Thank you, your Honor.

Q. Now, you've also removed the RSR revenue which is, for 2013, you estimate at 78.2 million, correct?

A. That's correct. And that includes any reg. asset that may be created during that period due a differential between the cost of the RSR and the actual revenues collected.

Q. Now, the net effect is $297.6 million which is an after-tax calculation; is that also correct?

A. That's correct.

Q. So, at arriving at this number, the income or, excuse me, the collection that would result from the two-tiered capacity revenue and the RSR for 2013 standing alone and taking into account the tax effects so that you get the revenue that is necessary to have this $297 million effect is the 457 million or almost $458 million number that you list as the subtotal, correct?

A. If I followed your question correctly, I think you've misstated it slightly. The revenues under the two-tiered approach and the RSR would just produce the sum of the 439 million and the 78.2 million, which is 517.2 million. That's the collection under those two streams.

Q. Correct. And you would offset that by the amounts that would not be collected or which would be included, if you were using the RPM. What we're doing is trying to come out with the net effects of removing those two items, correct?

A. Yes, that's correct.

Q. So on the customer side of the ledger, the customers basically are seeing an increase, for 2013, of approximately $457.9 million that are directly a result of payments made for the two-tiered capacity charge and the addition of the RSR revenue; is that fair?

A. No. You've made an assumption that it's an increase. These are the levels that are currently being charged to customers, those two tiers, so there's no increase related to that. It's just maintaining the current structure that the company has in place with those two tiers. The RSR revenue is a new revenue stream that's provided.

Q. I'm sorry.

A. And that revenue stream is provided by customer -- the two-tier capacity revenue is provided by CRES providers, not customers.

Q. So, once again, you're assuming for your calculation that the Commission is going to authorize the continuation, under the ESP, of the two-tiered capacity mechanism, correct?

A. My starting point in the analysis is the company's ESP proposal and that produced the 350.7 million and included two-tiered capacity. What I've done here is if I take that out, what would be the impacts on the company.

Q. And, again, you've assumed, for purposes of this calculation, for the year 2013, well after the Commission has indicated that it will make a decision in the capacity case, and well after what would be the conclusion, we hope will be the conclusion of ESP I, still in doubt, I understand. I'm sorry for both of the attorney examiners having to make that comment. But that's the situation, as I've described it, correct, that you're going to be authorized to collect under the two-tiered capacity pricing mechanism and that you're going to be authorized to collect the RSR as proposed?

A. The starting point is assuming that the company has approved the ESP that we proposed, the modified ESP, which includes those provisions.

Q. Now, with regard to your calculation or your assumption that the company would not recover all of its off-system sales that are -- excuse me, let me rephrase that.

You have assumed, for purposes of the energy credit, that the company will not realize all of the sales that it might have had if the customers had not switched. Have I stated that in a way that makes sense to you?

A. Can you state it again?

Q. Sure. For every sale that you lose because a customer switches, you're assuming that you're only going to be able to do an off-system sale 50 to 80 percent of the time.

A. That's correct.

Q. Now, and you and I, I think, have been down this road at least once before, it's fair to say that PJM is dispatching the power that goes to those -- to all of your customers within your service territory, correct?

A. That's correct.

Q. And that power's dispatched in a rank order based on the relative price of the generating unit, correct? The marginal price of the generating unit.

A. Yes, that's correct.

Q. Basically, you bid in on a day-ahead basis what you need to recover your marginal -- what you determined to be the marginal price of your unit.

A. Yes.

Q. And for those transactions that you identify as being lost transactions, what appears to be happening in those situations is that some of the power that you're bidding into the market simply does not clear; is that fair?

A. Not in the incremental analysis I'm doing. I'm not assuming that there's a change in the units clearing in the market. What I'm recognizing is that some of the energy used to provide service to our customers, the nonshopping customers, is provided by purchases in the market. So when a customer leaves, I no longer have to make that purchase in the market, and that energy stays in the market. There's no margin associated with this. So there's no incremental sale.

The other thing that I considered in coming up with that determination is another function of the pool that gets a little complicated, but sales that aren't made to retail customers, primary energy that we talked about earlier today, is provided to affiliated companies at cost. So there's no off-system sales margin associated with that either.

So there's a couple of items that have

the impact of not increasing off-system sales margins on a one-for-one relationship with changes in retail sales.

Q. And one of those factors is that some of the power that's used to serve the customers within the service territory of Ohio Power is effectively purchased power because it displaces higher-priced power that would otherwise be available through AEP Ohio, correct?

A. That's correct. When the market price of power is at a lower cost than what AEP can generate the power for, AEP procures that power on behalf of our retail customers, thus lowering their bill and providing a benefit to them.

Q. So, in that regard, whatever displaced generation there might be, has already been displaced because it's not clearing the market, correct?

A. In that case there's no displaced generation because, as we were previously discussing and I think we agreed, that PJM dispatches the units. So dispatch doesn't change with changes in customer shopping.

MR. DARR: Very good.

That's all I have. Thank you very much.

EXAMINER TAUBER: Mr. Boehm?

MR. K. BOEHM: Thank you, your Honor.

- - -

CROSS-EXAMINATION

By Mr. K. Boehm:

Q. Good afternoon, Mr. Allen.

A. Good afternoon.

Q. I'd like to pick up where Mr. Darr, I guess not exactly left off, but on page 11, when you discuss the financial harm of the FES proposal.

A. Yes.

Q. I'm not going to go through all the calculations you made, but at the -- your conclusion is that FES's proposal would result in a 1.1 percent ROE; is that correct?

A. That's on the integrated utility; that's correct.

Q. And you state -- after your chart, you say, "Clearly, a result that produces an ROE of only 1.1 percent for a utility in any period, much less in a period in which the Company's undergoing a significant transformation from a integrated utility into a wires-only utility, is unacceptable and dangerous."

Can you elaborate by what you mean on that, "unacceptable and dangerous"?

A. Sure. As the company goes through this transition period and we're spinning off our generation into an unregulated subsidiary, the company still has an obligation to meet the needs of our customers, both for capacity and energy, and provide reliable transmission of power into the system.

If this Commission were to determine that an approach such as that proposed by Witness Banks were adopted, the company would not have the financial wherewithal to invest in the significant transmission system that we have today or the capacity that we have to serve customers.

That transmission and capacity has been serving customers of AEP Ohio for a number of years. The financial wherewithal that this Commission has previously provided that allowed us to make those investments allowed AEP to create a robust transmission system that in instances such as 2003, when other utilities were unable to maintain the lights on, the robust transmission system we had kept the lights on, the robust generation fleet that's providing the capacity today kept the lights on, so when the rest of the east coast blacked out, AEP kept the lights on.

And if we didn't have the wherewithal, those kind of things could happen because investments can't be made. Investments in things like transmission are very important to the state of Ohio to ensure that low-cost power can be imported into the state now and well into the future.

Q. Now, on page 13, you discuss Mr. Kollen's proposal, and you conclude that that proposal results in a 2.4 percent ROE; is that correct?

A. Yes.

Q. And, again, you use the words "unacceptable and dangerous." So a 1.1 ROE is unacceptable and dangerous, and so is a 2.4 percent ROE; is that correct?

A. Yes, that's correct. As I indicated previously, the Commission has an obligation, after they took over the responsibility of setting a compensation mechanism for capacity, of ensuring the financial stability of both the wires business and the generation business.

Q. Now, on pages 12 and 13, you discuss Mr. Fortney's proposal, and that results in a 4.6 percent ROE. And, again, you call that "unacceptable and dangerous"; is that correct?

A. Yes, that's correct. In that situation, the earnings of the generation company, the generation -- I'm sorry, the generation function would actually be negative. That is my definition of definitely unacceptable and dangerous.

Q. Now, on page 4 of your rebuttal testimony on line -- beginning on line 5, here you're discussing the difference between an ROE on the RSR and the total company earnings and you say, "...while AEP Ohio has accepted the prospect of a 7.5 percent total company ROE in 2013 as a part of the larger package of terms and conditions reflected in the Modified ESP, it would be highly inappropriate to use a 7.5 percent ROE in developing the non-fuel generation revenue targeted for the" -- "target for the RSR."

So a 4.6 percent ROE is unacceptable and dangerous, but a 7.5 percent ROE on a total company basis, that's above the threshold where it would be acceptable; is that correct?

A. It's a level that the company would definitely prefer to earn above, but as part of an overall package to meet the desire of this Commission to move to a more competitive landscape, the company is willing, but not happily willing, but the company is willing to go there.

Q. In fact, going back to page 11, the 2013 projected earnings of AEP Ohio is 7.5 percent; is that correct?

A. Yes, that's correct.

Q. So does that mean that if the Commission approves the application as filed, then you project 7.5 percent ROE?

A. Yes, that's correct. That's the purpose of Witness Sever's pro forma projection. I think it's a statutory requirement that you provide pro formas showing the expected earnings under your proposal and that's exactly what that document is.

Q. So just to be clear, in every issue you project a 7.5 percent ROE.

A. That's correct.

Q. Now, would you agree with me that if the Commission did approve AEP's proposal as filed, that sitting here today we wouldn't know exactly what level of ROE AEP Ohio would earn in 2013?

A. That's correct. And that's what I was trying to get across in my testimony is that the RSR only provides stable revenues. The actual returns earned in 2013 can fluctuate due to changes in costs that the company may incur in 2013, but the revenues will be stable and the company will have to do everything in its power to manage all the various expenses that the company incurs, many of which, such as maintenance of our generating fleet, are outside of our direct control, and emergent events occur and the company is going to have to react and try to maintain whatever earnings we can.

Q. Now, on page 5, something -- the discussion of the margins from off-system sales has been discussed quite a bit today. If the projected margins for 2000 -- say 2013, if the projected margins are higher than, I'm sorry, if the actual margins are higher than projected, would that, all else being equal, would this increase the company's earnings?

A. Yes. If the off-system sales market increased from the levels that the company is assuming, the 7.5 percent ROE that the company expects to earn in 2013 could increase, but, likewise, if the market for power in that year declines, the company would not earn 7.5 percent. So that's more of the risk that AEP is taking on both the upside and the downside risk relating to the market for power.

Q. And as Dr. Avera said this morning, if AEP, if AEP Ohio is able to cut costs, they can improve their earnings as well; is that correct?

A. Yes, that's correct. And the company, you know, over time, reevaluates its cost structure and makes attempts to cut costs.

As recently as 2010, the company had a significant workforce reduction program that was put in place and the savings associated with that very recent program that's less than two years old at this point are already embedded in the 2011 earnings that were the basis of the RSR.

So the company has already been tightening its belt as much as it can and the benefits of that program through the functioning of the RSR are being flowed through to customers today, or not today, but when we implement the RSR.

Q. So there's numerous variables working here, and some combination of variables could bring AEP Ohio's earnings to a level you would find unacceptable and dangerous, and another combination of variables could bring earnings to a level that some people in this room might find excessive; would you agree with that?

A. Yes, I would agree with that. And that's one of the oddities of the regulatory construct that we live with in Ohio today is if negative occurrences happen in 2013 that drive the earnings down below the level that the company is projecting today, the company eats all of those earnings.

If, through some series of events that we can't foresee, the earnings of AEP Ohio increase substantially in 2013, there's a SEET provision in this state that provides a mechanism where the Commission can claw back those earnings, but it's a one-sided mechanism.

So the company has downside risk with no protection and we have upside risk, but the Commission has the ability to claw back any excess earnings.

Q. Have you reviewed Mr. Kollen's testimony, his direct testimony in this case?

A. It's been a while, but I have reviewed it, yes.

Q. Are you familiar with his equity stabilization mechanism proposal?

A. Yes.

Q. Is it your understanding that this proposal would set an earnings benchmark of 9 percent and with the 200 basis points bandwidth on either side of that 9 percent?

A. That's his proposal in words. It doesn't have that effect, though, when you combine it with his proposal for what the capacity pricing needs to be going into that.

As you can see on page 14, I've described what the earnings in 2013 is for AEP Ohio under Witness Kollen's capacity pricing proposal. When we incorporate the $69.20 per megawatt-day capacity pricing, the return goes to 2.4 percent.

When we then couple that with Witness Kollen's equity stabilization proposal, it would have the effect of raising AEP Ohio's earnings to 2.4 percent or, I'm sorry, it would raise it to 7 percent, the bottom of the band.

The flaw in his proposal is that he, based on the capacity pricing structure that he's proposed, it guarantees that AEP Ohio will always be below the floor. So the company will only be able to earn 7 percent.

An equity stabilization program, as he's outlined, only effectively works if rates are set such that the company's connected earnings fall at the middle of the bandwidth as a starting point and then, as earnings move around, it can function effectively.

But when you set a mechanism that

guarantees you're below the floor at the beginning, there's no way to get any of the extra benefits of the utilization of the bandwidth. It actually would produce a guaranteed 7 percent return and no more.

Q. Now, as we just discussed, you project, if you could ever -- if your proposal is approved in its entirety, you project an ROE of 7.5 percent. Now, are saying that an ROE that is 50 basis points below that number of your perfect case, essentially, would be unacceptable and dangerous?

A. It would provide no opportunity to earn above 7 percent the way it's been designed by Witness Kollen.

Q. And, again, that's only if the Commission adopted every one of Mr. Kollen's proposals.

A. I think Witness Kollen only had two proposals, one is the equity stabilization component and one being the capacity pricing proposal, but if they adopted those two proposals, it could guarantee that the company only earn 7 percent.

Q. Which is a half a percent below your perfect case; is that correct?

A. It's below the company's proposal, but it also eliminates any opportunity for the company to take management actions to try to improve those returns.

MR. K. BOEHM: Thank you. That's all the questions I have.

EXAMINER SEE: Mr. Stinson?

MR. STINSON: No questions, your Honor.

EXAMINER SEE: Ms. McAlister?

MS. McALISTER: Just a few.

\- - -

CROSS-EXAMINATION

By Ms. McAlister:

Q. Good afternoon, Mr. Allen.

A. Good afternoon.

Q. I want to follow up first with something that you talked about with Mr. Boehm just a minute ago. You explored a little bit through discussion of what you understand when you say "unacceptable and dangerous" in your testimony and you made reference to the 2003 August blackout and talked about the lights going out because of lack of investment in transmission and generating assets.

Are you really saying that at a 4.6 percent return on equity, the Commission is putting AEP Ohio customers at risk of the lights going out between now and 2015?

A. No, that's not what I'm saying. What I'm saying is that there are significant benefits that are provided to customers of Ohio as a result of the company's ability to make sound investments in our transmission, distribution, and generation system.

To the extent that the Commission provides a result through the capacity case or this ESP case that doesn't provide the company with that financial stability, the company will have to pare back spending and investment and we don't know in the future what kind of impact that would have.

What we do know, though, is that when a company can make those investments and makes those investments in a sound, thoughtful manner with foresight into the future, instances such as we saw in 2003 can be avoided.

Q. Okay. Now, when you said "into the future," this case is a transition to a different structure for AEP Ohio by 2015, right? So when you say "into the future," we're only talking about two-and-a-half, three years.

A. That's the transition period that we're talking about. But decisions made by a commission have long-term impacts. If the Commission were to rule in these cases in a manner as I've shown a couple of these examples, I think it would provide clear indication that this Commission is hostile and unpredictable and, as such, things such as bond issuances that the company would make would come with a much higher cost.

We talked about how AEP is only two notches above junk. If the Commission took an action that resulted in the company's bonds being downgraded, that wouldn't just increase cost for customers in the near term, those bonds exist well into the future, and the customers of AEP Ohio would continue to pay those costs for a long time to come, and that would be an unfortunate consequence for customers of an action that doesn't protect AEP Ohio's interests during this transition period.

Q. Now, in response to a discussion that you were having with Mr. Darr regarding the chart in your rebuttal testimony on page 11, I think I heard you say that the RSR is paid by CRES providers and not customers; is that correct? Do you recall saying that?

A. If I stated that, I misspoke. The RSR is paid by customers. The capacity payment is paid by CRES providers.

Q. Okay. Well, if it's the capacity payment, would you agree that CRES providers include, in their pricing for shopping customers, a component for capacity?

A. The distinction I would make is that CRES providers would consider capacity as a cost of providing that service. The price they provide to the customer may have a significant relationship to that or little or no relationship to those capacity prices. It depends on how that offer is structured. But it would be an element of their cost.

Q. Okay. And you're aware that the OMA Energy Group presented a total of six witnesses in this proceeding, aren't you?

A. I was here for three of them, so I think there were six.

Q. Okay. Did you review the testimony of the witnesses, three of them, or maybe six?

A. I looked at the testimony, I didn't review it in great detail, but I did look at it.

Q. Okay. Well, you understand that their testimony included some estimates of the impact of three different alternatives proposed for capacity pricing compared to the RPM prices for the ESP period based on an assumption that 100 percent of the difference was going to be passed on to them by their CRES providers.

A. I recall seeing those figures in their testimony.

Q. And you also understand that their testimony included estimates of the impact on their companies of the RSR rate.

A. The cost of the RSR, yes.

Q. Okay. Now, if you were to change the testimony of the three OMA witnesses that you referenced in your rebuttal testimony to reflect your statement that the RSR is designed to provide a stable level of nonfuel generation revenue that would have allowed AEP Ohio to earn a 10.5 percent ROE in 2011, do you know whether that would change the estimated projections of the impact on the RSR on those customers?

A. That was a long question, I wasn't quite able to follow it, if maybe you can break it into two pieces.

Q. Sure. You took issue with a statement that -- they supposedly made in their testimony that AEP Ohio's guaranteed to earn 10.5 percent ROE; is that fair?

A. That's correct.

Q. Now, if you changed their testimony so that it didn't say you were guaranteed a 10.5 percent

ROE, but that it was more in line with your description of the RSR, that doesn't change the estimates of the cost of the RSR on their companies, does it?

A. Now I think I follow where you're going. I didn't take issue with their calculation of the cost of the RSR to them, just their characterization of what the RSR does.

Q. And with the same change, it wouldn't affect their projected estimates of the various capacity proposals on them either, would it?

A. No. The issues we've talked about in my rebuttal testimony would not change the values presented in their testimony. I do want to caveat that I didn't verify their calculations, but none of these would change their calculations.

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

EXAMINER SEE: Ms. Thompson?

MS. THOMPSON: Just a few questions. Thank you, your Honor.

\- - -

CROSS-EXAMINATION

By Ms. Thompson:

Q. Good afternoon, Mr. Allen.

A. Good afternoon.

Q. I know you've had some discussion about the table at the bottom of page 10 of your rebuttal testimony.

A. Yes.

Q. Okay. Looking at that table and showing the current residential capacity that has been switched over, the 15.57, with the pending still there, do you believe that by December 31st, 2012, that the 21 percent cap for tier 1 capacity pricing will be met?

A. Yes.

Q. Do you believe it will be exceeded?

A. Yes.

Q. How soon do you think it will be exceeded?

A. My expectation is that shopping levels -- shopping activity will increase significantly once the Commission resolves these issues so there's more certainty associated with capacity pricing. So I would expect sometime, you know, later this summer or early in the fall, depending on how quickly the Commission can resolve these matters.

Q. And when the aggregation customers are added to the capacity levels in January of 2013, do you think the 31 percent capacity threshold will be exceeded for tier 1?

A. Yes. As I indicate in my testimony, my expectation is that customers shopping in the residential class should approach a level of about 65 percent toward the end of 2012, going into 2013, and maintain at that level throughout 2013.

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

EXAMINER SEE: Mr. Yurick?

MR. YURICK: No questions.

EXAMINER SEE: Mr. Rubin?

MR. BARNOWSKI: Mr. Barnowski.

EXAMINER SEE: Okay.

MR. BARNOWSKI: I do have some questions.

- - -

CROSS-EXAMINATION

By Mr. Barnowski:

Q. Mr. Allen, you used to work in the Financial Projections Department of AEP, correct?

A. Yes. I was the Director of Financial Forecasting for a period.

Q. Where does that put you with respect to Mr. Sever; did you work for him?

A. I worked for him, yes.

Q. What's the purpose of listing, on a set of financial projections, the assumptions that went into it?

A. It provides documentation about what is incorporated in that forecast.

Q. You don't list every single assumption in the world, you just list the important ones, right?

A. We list the assumptions that allow us to distinguish one case from the next. In some cases there are important assumptions that may not be included in a forecast because individuals within the company may be knowledgeable about those and it's not important to show them.

An example would be if it were in 2005, one of the key assumptions in a forecast would be that the pool remains in place. Since the company, at that point in time, would not have expected the pool to terminate, we wouldn't put that as an assumption, but that's a very critical assumption.

So I wouldn't say that it includes all the important ones, but it includes all of those that are helpful in distinguishing the forecast from other forecasts.

Q. And certainly there's no reason to put assumptions on there that have no bearing or no effect on the projection, correct?

A. There could be instances where the assumptions that are included have little to no bearing on the result. Some of those assumptions could be the date it was prepared or the companies that were included, so.

Q. Other than those I'll call "ministerial assumptions," would you agree with my assumptions?

A. Not necessarily.

Q. Usually?

A. I'd have to look at the specific example.

Q. You wouldn't expect someone who's good at their job, who's been doing it for years, to include assumptions that are not material in any way on the projections, correct?

A. Repeat that question again.

Q. You wouldn't expect someone who's really good at their job, who's been doing it for years, to include assumptions that have no bearing on the projections.

MR. NOURSE: Your Honor, I'm just going to object. This is getting very abstract and vague. I don't know how it's related to Mr. Allen's testimony. And it sounds like a game of 20 questions without any particular point.

MR. BARNOWSKI: It's my last one, your Honor.

EXAMINER SEE: The objection is sustained.

Q. When you worked in financial projections, did you include on the assumptions -- I'm sorry, the projections you were preparing, oftentimes assumptions that had no bearing or effect on the projections you were preparing?

A. I may have. There may have been some boilerplate assumptions that were included, so, sure.

Q. Other than boilerplates?

A. I may have included some assumptions that weren't impactful to the analysis.

Q. I heard you say, in response to a question from Mr. Kutik, that Mr. Sever's financial projections would not be impacted if your switching assumptions did not hold true. Did I hear that correctly?

A. That's correct. Due to the function of the RSR, yes.

MR. BARNOWSKI: May I approach, your Honor?

EXAMINER SEE: Yes.

Q. You don't still have up with you Exhibit

1 to Mr. Sever's financial projections, do you?
A. I never had those.
Q. I thought Mr. Kutik showed you his.
A. He gave me Exhibit OJS-2.
Q. I apologize. Let me show you, unfortunately, this is my book, so I can't just walk away from you, but if you don't mind, read below the chart in the middle of OJS-1, page 1, the very first assumption that's listed, and the heading on the page is "Assumptions Used in the Projected Financial Statements."
A. "By the end of 2012, shopping customers reach 65 percent for the residential class, 80 percent in the commercial class, and 90 percent in the industrial class, excluding a single large industrial customer, and stay at that level for the forecast period."
Q. That's your switching assumption, right?
A. It is.
Q. Dialing back to much earlier today when you were talking to Ms. Grady about the credit for shopped load; do you remember that?
A. Yes.
Q. You walked us through an example you had in your rebuttal testimony, the 11.73 was the margin

and then you explained how you would multiply that by .8 to reflect the fact that not all energy can actually be -- that's freed up can actually be resold, and then you multiplied that by .4 because you were MLRing it, correct?

A. That's correct. Hopefully it was effective, I'm not sure if I explained it in a way everybody understood, but that was my attempt.

Q. I think I understood it.

The 20 percent, you actually said somewhere between 50 and 80 percent could be resold; do you remember that?

A. Yes.

Q. I'm just going to use 20 percent for now, but just so I don't have to keep saying a range. But that percent, that 20 percent that can't be resold, I think you explained is energy that the company need not purchase from the market to then provide to a customer when it's freed up, correct?

A. That's one of the elements; and we also discussed some of that flows through primary to other affiliated companies.

Q. What percent of that 20 to 50 percent is made up of energy that you need not purchase from the market?

A. I don't have that figure.

Q. Do you have a rough estimate?

A. The 50 to 80 percent that I describe in my testimony is based upon my experience over a number of years doing financial forecasting. As we just described, I was the director of that department for a period, and I dealt in forecasts of -- sales end of the market for a number of years, even back when I worked at our nuclear plant in Michigan.

And so it's based upon my experience and it's supported by the evidence that Witness Sever presented in response to the discovery request that we talked about earlier today.

Q. Did you understand my question? My question was simply: Of the energy that you do not -- that you cannot resell and that you do not have to purchase from the market, what percent of that is made up of energy that you -- I'm sorry, strike that. Let me start over again.

Of the 20 percent that you can't resell, what percent of that is comprised of energy that you do not have to purchase from the market?

A. As I indicated previously, I don't have a value for that.

Q. Okay. Do you have an estimate?

A. Not as we sit here today, no.

Q. Is it most of it?

A. When we've run analysis in the past, I wouldn't have made that distinction to identify how much is due to each cause. What we do know, though, is how changes in retail load impact the ability to sell into the market. I know what causes it, but I didn't do an analysis breaking it down into subcomponents.

Q. To be clear, whatever percent it is, that's energy that the company does not have to spend money on purchasing from the market, correct?

A. Well, the thing you have to remember is that that purchase was provided directly to a retail customer at the cost we paid into the market. So there's an equal and offsetting revenue and cost associated with those.

Q. You're getting ahead of me there. You're seeing where I'm -- you're guessing where I'm going. My question is the first step; we'll get to your second step in a second.

The first step is money you don't have to incur to purchase the energy. It's a saved expense, correct? Now, I get the fact what you just said is you're then going to pass it on and get the money back, but the first step is you're incurring an expense to purchase it, right?

A. Yes; with equal and offsetting revenues.

Q. Okay. But those equal and offsetting revenues, those are included in the RSR as lost revenues from customers who switched, aren't they?

A. No.

Q. No? Why not?

A. Because they're nonfuel revenues is all that's considered in the RSR. The fuel cost includes those purchases. So all those purchases that we don't have to make are excluded from the RSR calculation.

Q. So you're saying that the entirety of that grouping you're talking about is purely fuel cost?

A. Yes. When I describe in my testimony nonfuel generation revenues, typically in the regulatory environment when we talk about fuel cost, it's fuel and purchased power, so it was shorthand, and that may have caused you confusion, but you could look at that line and restate it as nonfuel and purchased power revenues.

Q. I thought the credit for freed-up load related solely to nonfuel costs. It was freed up and then you were able to resell.

A. The credit is associated with margins obtained in the market.

Q. On both fuel and nonfuel or just nonfuel?

A. By definition, margins have already excluded the fuel cost or the cost of the market purchase. That's what a margin is. It's the -- it's revenue less expense, and the expenses would include fuel or purchased power.

Q. Okay. Let's talk a little bit about the 11.73 example you've got. The result, when you multiplied it out by .8 and then .4, landed you on $3.75 per megawatt-hour; is that right?

A. Yes.

Q. And you talk in your rebuttal testimony about maybe you could multiply it by .5 or .8. But, to be clear, Mr. Sever testified, and I think you were here, that in 2011 .8 -- or, 80 percent of all freed-up load was resold, right? Not 50.

A. That's correct. And as we had some discussions earlier, as the market price of power goes down below the levels that we saw in 2011, that percentage would be expected to increase.

Q. Okay. And there was no evidence anywhere in the record of this case, over four or five weeks, supporting -- showing that in any year the company was only able to sell 50 percent of the freed-up load. The only evidence in the record of this case comes from Mr. Sever who testified it was 80 percent in 2011; agreed?

A. No, I would disagree. The evidence that 50 percent could occur is based upon my substantial experience with the company. You know, as the director of operating the company forecasts, one of the things that I was expected to do is to basically, shorthand, understand what the impacts of changes in the operating conditions of the company were based upon the experience I had.

These are the types of values I would use if I were to look at the impact, for instance, of a customer like Ormet leaving the system, to identify how big of an impact that would have and how much incremental off-system sales margins the company may receive when that company left the system.

So these are the types of numbers that in my professional capacity representing a Fortune 500 company that I would have used.

Q. Okay. Let me restate that. Other than your written testimony, there's no documents, there's no financial papers, there's nothing written in the record to support a finding of any number other than 80 percent, correct?

A. Other than the testimony I presented here today. The 80 percent is a number that Witness Sever testified to, and that some data was presented that supported, but other analysis could have been prepared or requested that could show that other levels have occurred in the past depending on market conditions and the like that occurred.

Q. And you haven't been in financial forecasting since 2010, June 2010 to be exact, right?

A. Unfortunately, in my current role, as we've been working through this ESP, I've been involved significantly in doing financial forecasts for the company over that period, so though in direct position I haven't been in that group, I have been responsible for doing forecasts for the company.

And if you may recall, if you review my testimony in the stipulation case, I actually testified to the forecasted earnings for AEP Ohio under that stipulation and directed that work to be done.

Q. You moved out of the financial forecasting department in June of 2010, yes?

A. That's when I physically left the group, but I still perform those types of functions.

Q. Do you agree that if we used the $3.75 number that is arrived at by using your $11.73 example, and multiplying it by .4 and .8, if we use that number on WAA-6, which is your calculation of what the RSR should be, you end up with an RSR that's higher -- I'm sorry, you end up with a credit for shopped load that is higher by $78 million?

And the way I got there, just so you know, is you flip --

A. I think I can figure it out.

Q. It's 75 cents higher multiplied by 104.73 million megawatts ends up to be 78 million.

A. And I would agree that the value for the credit for shopped load would increase by 78.5 million, but as we previously discussed in some earlier cross, you would also have to change the revenue target, so the RSR would not change by 78 million.

Q. How much would it change by; do you know?

A. I think it would change by about 66 million.

Q. Again, that's just by using your own example, your own figures, and Mr. Sever's own projections, correct?

A. It's based on 2011 data. What we also showed is the data for 2012 which would show a value if you did the 50 -- or, if you did the 80 percent, would be $1.98. So using that value, which is more than a dollar different, you would have a larger impact that would go in the opposite direction.

So the $3 we have presented is between the 3.75 and the $1.98 that I've shown in my testimony.

Q. Did you read Ms. Thomas's testimony in this case?

A. Yes.

Q. Were you here when she testified?

A. Probably.

Q. Did you -- have you reviewed her forward-looking market numbers, forecasts?

A. I've seen them, yes.

Q. The price goes up for energy every year, doesn't it? It doesn't come down.

A. That's correct. Just as the company's fuel costs would go up over time.

Q. And that is testimony offered not by anyone in this room who's intervening, it's offered by you and Ms. Thomas and AEP Ohio, correct? Just "yes" or "no."

A. That's correct. And I think there's confidential documents in the record that show the increases in the company's fuel cost over that period as well, so when you look at off-system sales, you have to factor those too.

Q. That's testimony that is sworn and you want the Commission to rely upon, you've asked the Commission to rely upon it, correct?

MR. NOURSE: Your Honor, I'd just object. It's argumentative.

MR. BARNOWSKI: I'll withdraw it, your Honor.

May we approach, your Honor? I have two exhibits I'd like to mark for Ormet, Exhibits 110 and 111.

EXAMINER SEE: Yes.

Q. To be absolutely clear, Mr. Allen, on three different occasions, you were asked in discovery in this case to explain the basis for your $3 credit for shopped load, and on three different occasions you signed interrogatories that either refused to provide it or that said it just completely is not knowable. Isn't that true?

A. I recall responding to some discovery and when we developed the $3 a megawatt-hour credit for shopped load, and I was the one that developed it for the company, it was based upon my judgment and experience. What I present in my testimony today is analysis that shows that the value derived from my judgment and experience is reasonable and appropriate.

Q. So the answer is "yes"?

A. We answered probably 8- or 900 discovery responses in this case.

Q. Do you recall --

A. I can't recall how many we answered, but if a request would have been made asking for the basis of that, since I hadn't done a calculation, I based it on my judgment, we wouldn't have provided an analysis in response to that.

Q. Did you ever supplement those responses once you came up with your calculation to explain it to everyone?

A. We were in the middle of the hearing and there were some questions posed to me while I was on the stand in my direct testimony, and I provided an example and asked, I think I was asked when I did my deposition, gave some examples of the thought process I would have gone through in my head to come up with a number like that, and then the first time I did the calculations presented in my testimony here would have been earlier this week.

Q. Did you understand my question? My question was: Did you supplement your discovery responses to provide the information that you provided -- that you've described in these answers or that you described in your deposition?

MR. NOURSE: Your Honor, I object. Again, this is argumentative. We just filed our testimony Wednesday as everyone knows. Mr. Allen just stated that he developed the data supporting his experienced opinion as part of developing that testimony. Discovery is over. So I think it's just an argumentative question.

MR. BARNOWSKI: Your Honor, that is not accurate. Mr. Allen testified in his deposition and then at trial that he developed it while he was sitting in his deposition. And that was on May 7th in this case.

MR. NOURSE: That's what he just referred to, your Honor.

MR. BARNOWSKI: Please let me finish, Mr. Nourse.

And he never provided any update or supplementation of his discovery responses despite the fact that discovery was still open.

MR. NOURSE: Your Honor, I think that's consistent with what he just stated, that he explained the thought exercise and the steps he would go through conceptually, that he did not create the quantitative data supporting the recommendation until he developed his testimony. He just stated that. So the deposition testimony does not imply that a supplemental response should have been filed.

MR. BARNOWSKI: The only question is whether he supplemented, your Honor, and I think I'm entitled to an answer on the record.

EXAMINER SEE: And I'm going to let the witness answer that question.

MR. BARNOWSKI: Thank you.

A. I don't recall that the company filed a supplement to its discovery.

EXAMINER SEE: You had exhibits you were going to have marked?

MR. BARNOWSKI: Yes, these are the two exhibits I just referenced, Exhibits 110 and 111.

(EXHIBITS MARKED FOR IDENTIFICATION.)

Q. For the record, what I just handed you and marked as Exhibits 110 and 111 are OCC Interrogatories 1-027 and 2-043 and the responses provided thereto.

If you look at 127 e., the question is --

MR. KUTIK: Mr. Barnowski, just so we can be clear, 110 is Interrogatory 1-027?

MR. BARNOWSKI: Correct. And 111 is 2-043.

Q. If you look at sub e. to 1-027, the question is: "Identify how the Company determined the value of the $3 per megawatt-hour credit for shopped load related to possible energy margins that could be realized for reductions in load."

Tell me if I've read your response correctly: "The $3 per megawatt credit for possible energy margins related to shopping load was developed as part of the overall package proposed in the modified ESP." Did I read that correctly?

A. Yes, and it's accurate.

Q. Okay. And then f., "Identify the actual margins that are related to reductions in load expected."

And the answer you provided is: "The company objects to the form of the question and further objects because this request seeking the Company's expectations about margins related to reduction in load requests information that is not presently known with certainty. Notwithstanding this objection, the proposed ESP plan encompasses a future period, therefore, actual margins cannot determined." Did I read that correctly?

A. Yes, you did.

Q. And that's your name at the bottom?

A. It is.

Q. And can we agree that there's no mention of a .4 or .5, a .8, $11.73, or anything like that in this response?

A. That's correct; because the analysis had not been performed at that point in time.

Q. Now, the OCC didn't give up quite so easily and they came back with 2-043, if I can read that question. "Referring to Company Witness Allen's testimony at 13, please explain how the Company estimated that energy margins on shopped load would be approximately $3 per megawatt-hour."

And the response is an objection, and then states: "...the testimony states 'As part of a larger compromise on the capacity pricing issue, AEP Ohio will recognize a $3 per megawatt-hour credit for shopped load related to possible energy margins that could be realized by AEP Ohio for reductions in SSO load.' A $3 per megawatt-hour credit for shopped load was developed as part of the overall package proposed in the modified ESP. As stated in Company witness Powers' testimony at page 4,'...AEP Ohio would not be willing to provide discounted capacity and transition as quickly to market as proposed in the modified ESP if it does not receive all the benefits of the balanced package terms in the proposed ESP..."

Did I read that correctly?

A. Yes, you did.

Q. And it has your name as well as counsel's on the bottom?

A. It does.

Q. Again, no mention of .4, .8, .5, 11.73, none of that?

A. Correct. Same as the prior response, the company had not prepared that calculation at that point in time.

Q. As you explained, I think in the first hearing, you came up with that calculation in your deposition while you were sitting -- while Mr. Kutik was asking you questions, right?

A. No; I think you're mischaracterizing what I stated. When we were on -- when I was on the stand in the direct portion of the case, what we discussed was that in my deposition I explained the thought exercise one would go through to determine the reasonableness of the $3 a megawatt-hour credit for shopped load.

Q. Okay. And what you testified to was, quote, I didn't do a calculation when I developed it, right?

A. That's right. The value is based upon my judgment and experience, and what I presented in my testimony today is support that shows that the value I came up with, based on my judgment and experience, is supported by fact.

Q. Okay. And when you came up with this judgment based on your experience, did you have in mind the .4 and the .8, or was that something that you kind of came up with sitting in your deposition? Because your deposition talks about those specific numbers. Do you recall that?

A. Generally.

Q. Okay. So did you come up with those numbers sitting in the deposition or were those numbers that you had in your mind when you prepared your direct testimony?

A. When I developed the RSR proposal, I think it's probably in March, I don't recall the exact mathematical exercises that went on in my mind as I developed the $3 a megawatt-hour credit.

As I indicated previously, these are the types of things I do for a living. I spent a lot of time doing this, I'm very good at my job, I don't need to always do a formal calculation to come up with a reasonable estimate of the impact of different changes that occur for the company.

Q. But my question is: Did you?

A. I came up with the $3 as we talked about how to develop the RSR. Whether I did a formal thought in my head of what the math would be or I just did the math subconsciously, I don't recall. But these are the types of things that I'm expected to be able to do very rapidly, so I don't always put pen to paper as I do these types of things.

Q. And it came naturally to you?

A. It would have, yes.

Q. It was fairly obvious to you?

A. The reasonableness of the $3 was very logical to me based on my experience.

Q. And despite the fact that it was logical to you and it came natural to you, from the very day that you submitted your direct testimony in March of this year, you failed to provide any of that information to three different interrogatory requests that sought to understand what the basis of this $3 credit was, and you didn't provide any of that information to any of the parties until five weeks later on May 7th; isn't that true?

MR. NOURSE: Your Honor, I'd just object. I think we've been over this. Mr. Allen's been very open and transparent about his thought process and about the discovery process, and it's just become redundant and argumentative.

MR. BARNOWSKI: Well, your Honor, I would quibble with the use of the word "transparent" there, because the point of this is that the company wasn't at all transparent and it prejudiced the parties who got word of this literally a week before the hearing.

I, frankly, when we're all done with this, I plan to move to strike all of this testimony because I don't think it was properly disclosed to the parties and that's the only reason I'm asking these questions.

EXAMINER SEE: I think you've made your point, Mr. Barnowski. Move on.

MR. BARNOWSKI: Thank you.

Q. Now, this is just a "yes" or "no" question, but am I correct that for the 2013-'14 year and the 2014-'15 years that are mentioned in WAA-6, you used the same $3 credit number despite the fact that there's no MLRing requirement in 2014 or 2015?

A. I used the same $3 credit in those two years in recognition of the fact that the generating units of AEP Ohio, specifically Amos and Mitchell, no longer would be able to supply generation to sell into the market on behalf of AEP Ohio as well as the fact that the capacity receipts of approximately 3- to 400 million dollars that AEP Ohio currently receives as part of the pool would no longer exist.

Q. Can we agree that that explanation you just gave also is not in any of the discovery responses, it's not in your direct testimony, it wasn't provided in your trial -- your hearing testimony a couple weeks ago, the first time it actually comes up is in your rebuttal testimony? Fair?

MR. NOURSE: Your Honor, I think that mischaracterizes. The first time Mr. Barnowski's asked that question was just now and so -- he's given a response. It's just becoming argumentative.

MR. BARNOWSKI: All right, let me restate it. I'll break it down into parts.

EXAMINER SEE: Okay.

Q. When you described the .4 reduction, you were taking -- when Mr. Kutik was asking you deposition questions about it and I was asking you deposition questions about it, you didn't mention anything about choosing to reduce the 2014 and '15 numbers because of the explanation you just gave; fair?

A. I don't think in my deposition I was asked anything about 2014 or '15; had you asked me about that, I would have given you the explanation I gave you today.

Q. To be clear, you were asked to explain the basis for your $3 credit for shopped load in your deposition by two different people, right?

A. When asked in my deposition, I explained the thought exercise that supports the reasonableness of the $3 shopping credit.

Q. But without mention --

A. I'm sorry, let me correct that. The $3 credit for shopped load.

Q. But without mentioning this part about why you decided to keep the reduction for 2014-'15, fair?

MR. NOURSE: Your Honor, I object. If Mr. Barnowski has a transcript citation from the deposition that he wants to raise where 2014 and '15, the same question he's asking now, were raised earlier, he should do that; otherwise, he's just implying something happened that didn't.

EXAMINER SEE: Mr. Barnowski?

MR. BARNOWSKI: Your Honor, I think -- I'm happy to get the deposition and read it to him, but I think when I asked him in his deposition to explain the $3 credit for shopped load and he doesn't explain this part of it, I don't need to ask him specifically if it's different for any specific year.

That's his obligation to respond and that's, I think -- I'm just trying to save us time by not marking the deposition and reading the questions that clearly didn't provide any of that follow-up -- any of that response, and I would think the witness can just say "I agree I didn't mention it."

EXAMINER SEE: Mr. Barnowski, if you have the transcript from the deposition, get it out, and let's go.

Q. (By Mr. Barnowski) Before I go there, Mr. Allen, would you agree the issue just raised isn't mentioned in any of the discovery responses that I marked, handed you, and read into the record? Agreed?

A. They're not in either of those two discovery responses. As I indicated before, there were like 900 discovery responses, I haven't reviewed them all.

Q. Do you have a copy of your deposition up there?

A. I do not.

MR. BARNOWSKI: Mr. Nourse, do you have a copy you can give your witness?

MR. NOURSE: We're looking for it right now.

MR. BARNOWSKI: Thank you.

MR. KUTIK: Your Honor, may I go off the record?

EXAMINER SEE: Yeah. Let's take a brief recess.

(Recess taken.)

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

Mr. Barnowski.

MR. BARNOWSKI: Thank you, your Honor.

Q. (By Mr. Barnowski) Mr. Allen, you have a copy of your deposition transcript now?

A. I do.

Q. Turn to page 85, if you would. There are a set of questions that begin on line 1, of page 85, about the $3 per megawatt credit for shopped load, correct?

A. Yes, there's some discussion.

Q. Okay. And rather than have me or you read in four pages of testimony, can you and I agree that you were asked several questions about the basis for the $3 credit and you explained the .4 and the .8, but you didn't mention anything about any changes in 2014 or 2015, correct?

A. That's correct; because once you get to 2014 and '15, the -- when the pool terminates, my intuition around what that credit should be loses the historical context that I would have used in developing the $3.

Q. And on page 85, lines 12 and 13, the question is: "What is that $3 per megawatt hour figure based on?" Correct?

A. Yes. And my response was: "It's based upon a reasonable estimate of the margin --

Q. Mr. Allen -- Mr. Allen, I asked you what the question was; that's all I asked.

A. That's the question.

Q. Okay. And that same question, almost word for word, is in the interrogatories, correct?

A. I think they're a little different, but they asked about the $3 credit in the interrogatories.

Q. And I know you won't agree that this is appropriate, but if the Commission determines that it is not appropriate to take the .4 reduction, and takes only your 11.76 number multiplied by .8, can you and I agree that the product of those two numbers is around $9.40? And the 11.76 I'm talking about is the number that is in your rebuttal testimony.

A. You get a value of about $9.40, but one thing to recognize is that the credit for shopped load that the company proposed was part of an overall package that we agree to and looked at the earnings impact after all of these elements were included in the plan and looked at where we ended up.

Where we ended up, for instance, in 2013, was 7-1/2 percent. If you were to change that credit, it would have a direct impact on the projected earnings for 2013 and that's a plan that the company probably would not have agreed to.

Q. Right. And just to be clear, if you did that, and you used the $9.40 number, and multiplied it by the shopped load for 2014 and 2015, and you didn't MLR it, the result would be that there would be no RSR, correct? Because the product would be greater than the RSR itself.

A. Yeah; you can't do what you're proposing because, as I indicated in response to one of your prior questions, is that you have to recognize that in 2014 and '15 the Amos and Mitchell units are no longer able to provide energy to sell into the market on behalf of AEP Ohio because those units will be owned by Appalachian Power and Kentucky Power.

So although you've proposed a mathematical exercise, it's inappropriate when you look at the reality of the situation that AEP Ohio will face in 2014 and '15.

Q. Mr. Allen, if you remember, I prefaced these questions by saying I know you won't think it's appropriate to do this, but. Now, with that same preface, do you agree that if we used the -- if the Commission decides to use the $9.40 number because it thinks it is inappropriate to reduce it by multiplying it by .4, the impact would be that there would be no RSR because the credit would be greater than the totality of the RSR itself, correct?

A. No, I don't think I can agree with that, because one of the outflows of a decision like that could be that the company would reject the

Commission's modification to the ESP, and that RSR would not exist.

Q. Do you agree that simply doing the math, $9.40 times the shopped load for 2014 and '15, would result in a number that is greater than the total RSR?

A. I haven't done that math as we sit here today.

Q. By the way, you talk about the impact upon the company. No one has offered any projections of any kind as to the impact upon AEP GenCo in 2014 or 2015 of any plan, correct?

A. That's correct.

Q. Now, I think it was Ms. Grady, but someone definitely earlier asked you a little bit about your testimony as to the -- Mr. Fortney's recommendation and the $5 per megawatt-hour RSR that would flow from it. Do you remember that?

A. Yes.

Q. Okay. In fact, it was Ms. Grady because she then marked OCC Exhibit 118 which was the capacity revenue analysis you attached to your report. Do you still have that in front of you?

A. Yes, I do.

Q. And you testified in your rebuttal

testimony that Mr. Fortney's recommendation would result in a $5 per megawatt-hour RSR. Do you remember that?

A. Yes, it's in my written testimony.

Q. What -- it's on page 12, line 15. The RSR would increase to $5 per megawatt-hour. To be clear, the $5 result would be just the first year of the new RSR, correct?

A. That's correct. And I show on my workpapers that in the first year it would be $5, in the second year it would be $4.80, and in the third year it would actually be slightly negative because -- but Witness Fortney proposed is it would be a comparison of $146 to RPM and the RPM rate that year would be higher than 146.

Q. But in your actual written testimony, not in the exhibit attached to it but in the written testimony, you say $5. You don't say $5 one year and negative four in the third year, right?

MR. NOURSE: Your Honor, I object. The sentence he referred to says "in 2013," and Mr. Barnowski's trying to extrapolate that into other years.

EXAMINER SEE: The objection is sustained.

Q. Well, okay, let me just read it in, because I'm not trying to extrapolate anything. That's not how I interpreted it so you tell me if this is what you meant. "In 2013" -- here's what it says: "Yes" -- well, let me go back up to line 13.

"Have you calculated what the impact on AEP Ohio's earnings would be and the level of the RSR?"

And the answer you gave was: "Yes. In 2013 AEP Ohio's ROE would drop to only 4.6 percent and the RSR would increase to $5 per megawatt-hours." And then it says "The adjusted financial projection for 2013 is provided below."

Was it your intent when you talked about the increase to $5 to be talking only about 2013?

A. Correct, it's calendar year 2013, which includes the second half of planning year '12-'13, which was $5, 5.0, and the first half of planning year '13-'14 which was 4.8.

And if you'll notice, in contrast to the other values I presented in my testimony, the RSR is defined as $5 per megawatt-hour with no decimal point, indicating the accuracy of that is intended to be to one decimal point which would cover both the 5.0 and 4.8 provided in my workpapers.

Q. Do you agree, if levelized, it would be $3.2?

A. Yes, and that's what I've shown in my workpaper. I didn't levelize it because that wasn't my assumption about what Staff Witness Fortney was proposing.

Q. But that's what you proposed, correct?

A. My proposal was to have a levelized RSR. Witness Fortney on the stand described that he would set the RSR at the difference between those two. So that was my understanding of what he was proposing and I presented that analysis in my workpapers.

Q. So the only way we get to a $5 number would be if the Commission accepted Mr. Fortney's recommendations to how to calculate it and also rejected the company's recommendation as to levelizing; fair?

A. With one thing to remember is that Witness Fortney's RSR is very different than the RSR that I described. So I tried to model what my interpretation was of the proposal that Staff Witness Fortney presented for the first time on the stand here.

Q. The answer to my question, though, is yes, the only way we get to $5 is if the Commission accepts Mr. Fortney's recommendation as to how to calculate it and rejects the company's recommendation as to levelizing it; yes?

MR. NOURSE: Your Honor, I object. I mean, these questions combine two recommendations, rejecting Fortney and rejecting the company which is really implicit in Fortney's already. Mr. Allen gave his response and distinctions and his understanding of Mr. Fortney. This is getting redundant.

EXAMINER SEE: The objection is overruled. The witness is capable of distinguishing the answer.

A. So I think the distinction I would make is since they're two separate proposals, the Commission wouldn't be accepting Mr. Fortney's recommendation and rejecting a portion of the others.

The Commission would be accepting Witness Fortney's proposal with a modification to levelize it, and if that were the case, the RSR would be 3.20. And that's why I provided that in my workpapers to help be informative to the parties about what the impact could have been if you change what his proposal was.

MR. BARNOWSKI: No further questions. Thank you.

EXAMINER SEE: Ms. Kaleps-Clark?

MS. KALEPS-CLARK: Thank you, your Honor. I only have a few questions.

- - -

CROSS-EXAMINATION

By Ms. Kaleps-Clark:

Q. Good evening, Mr. Allen. Can you hear me?

A. Yes, I can.

Q. You have not worked or been employed by a competitive retail electric supplier, correct?

A. I have done some limited work for AEP's competitive retail provider on some regulatory matters.

Q. Okay. And now have you -- you have not personally taken or received complaints or other feedback from CRES customers relating to CRES customers' experience with the two-tiered system; is that correct?

A. I have.

Q. You have taken personal -- or, you have personally spoken with CRES customers about their experiences?

A. Yes. On a couple of occasions the staff of the Commission has provided, to me, some questions and concerns raised by customers, and I've spoken with those customers to help them understand their concern.

Q. Okay. Now, but you would agree with me that the basis of your conclusions on page 10 of your testimony is not grounded on your experience or your contact with those customers.

A. That's correct; it's based upon observing the switching statistics that have occurred.

Q. And in your experience with, you said you've worked with the retail arm in regulatory matters before, of AEP, have you ever served power or made a sale, retail sale, on behalf of that retail arm?

A. No.

Q. Now, your predictions are that shopping levels in AEP Ohio's service territory will rise, by the end of 2012, to 65 percent for residential customers, 80 percent for commercial customers, and 90 percent for industrial customers respectively; is that correct?

A. That's correct.

Q. And that estimate is based, in part, on shopping levels from other utilities in Ohio; is that correct?

A. Yes.

Q. And, to your knowledge, do any of those other utilities have a two-tiered capacity system as you're proposing here?

A. No. And they may have other elements of their tariffs that are different than AEP Ohio's that may lead to different shopping characteristics.

Q. Okay. But, as far as you know, the two-tiered construct that you are proposing for shopping customers, you're not aware of any other Ohio utilities that have such a construct.

A. Not currently. But the two-tiered capacity credit has the same effect as what we've seen occur in other utilities in the past where the Commission has approved shopping credits where they've provided discounts to encourage initial shopping and then shopping is expected to increase naturally once there is sufficient interest in competition in those service territories.

So the 21 percent that we propose, what it has the effect of doing is ensuring that there is enough customer switching occurring that CRES providers enter the market, have profitable deals, and can cover -- they've put in place some of their fixed overhead and things of that nature.

And then the second tier of capacity is priced at an appropriate cost-based rate such that no additional subsidies are being provided to CRES providers and that shopping occurs on kind of a natural basis.

MR. YURICK: I'm sorry, your Honor, I hate to do this, but I have to object to most of the answer and move to strike it. I think the question was: Are you aware of any other Ohio utilities with a two-tiered capacity system. I would move to strike everything past "not currently" because I just don't think it's responsive at all to "Do you know of any other Ohio utilities with a two-tiered capacity system."

MR. KUTIK: We join that, your Honor.

MS. KALEPS-CLARK: And I would join that as well, your Honor.

MR. NOURSE: If I could respond?

The witness was asked if the company's proposal is anything, you know, like that has been done by the companies. He's responding that yeah, the shopping credits by FirstEnergy are very similar, that's been done in the past, has a similar effect. So I think that's a fair part of the response in explaining, again, it's important to the company's proposal the fact that it is similar and does occur as shopping. So I believe that's an appropriate response to the question.

EXAMINER SEE: The objection is sustained. Everything after Mr. Allen's -- the motion to strike the portion of Mr. Allen's answer is granted. It's going to "Not currently. But the two-tiered capacity credit has the same effect," we'll keep that. And then "So the 21 percent that we propose" and everything following, is out.

Ms. Kaleps-Clark, go ahead.

MS. KALEPS-CLARK: Thank you, your Honor.

Q. (By Ms. Kaleps-Clark) I just have a couple more questions. Can you turn to page 7 of your testimony.

A. Yes.

Q. And at the bottom of this, at the bottom of page 7, starting on line 24, you state that the 2011 earnings, that the starting point for the 929 million target level of revenue for the RSR, including the OSS margins of 204 million -- sorry, let me restate that.

You stated that the 2011 earnings that were the starting point for the 929 million did include those OSS margins; is that correct?

A. That's correct.

Q. I just wanted to ask you a clarifying question, and you spoke with Ms. Grady about this earlier, the 204 million you said reflected in part, it was in part reduced by the 60 percent for the member load ratio. I think you said that it maybe included some capacity payments as well.

A. The $204 million that I show on line 3 includes actual capacity receipts received from CRES providers in 2011, as well as AEP Ohio's MLR share of other off-system sales margins that occurred in 2011. So those would be the actual margins booked at AEP Ohio.

Q. Now, and you said if you removed the capacity payments and you just looked at the, I believe the energy, what did you say that was again?

A. In 2011, the capacity, the CRES capacity revenues were 54.7 million, so you would subtract that from the 204 million, and you would come up with a level of 149 million of off-system sales margins including both physical and trading.

Q. Okay. And I think you had said that if you take out the 60 percent reduction, you would get to 317 million for what was the AEP East margin.

A. 317 million is shown in Exhibit WAA-R2;

that's the total physical margins for the AEP East family of companies. Of that 149 million would be -- would be -- 149 million of that would include a portion of the physical margins and AEP Ohio's portion of the $103 million of trading that shows up lower down on that exhibit.

Q. And do you know how much of that, I believe the 317 million, would be attributable to sales from the Ohio Power Company plants?

A. No; because of the functioning of the pool, we don't typically look at the margins created by the AEP generating units and their contribution. We sum up all of the margins from all of the East companies and MLR those margins amongst the companies per the interconnection agreement that's been in place for 60-some-odd years.

Q. Is it possible that the full amount could be attributed -- attributable to the Ohio Power Company plants?

A. No.

Q. Would it be perhaps the lion's share of that amount?

A. That's really tough to determine as I sit here on the stand, but the things that you have to consider is that off-system sales margins are created from the highest cost units on the AEP system. Part of the functioning of the pool is that the lowest cost resources, and the fuel clauses as well, but that the lowest cost resources are assigned to serve retail customers, and the highest cost resources are sold into the market on an hour-by-hour basis.

To the extent that AEP Ohio has low-cost units like Gavin, that generation would all stay within AEP Ohio and its affiliates to serve retail customers. Those higher cost units that would be some of the critical units typically, which several of those sit at APCo and I&M, the Tanners Creek units, Clinch River, those types of units, those typically are the units that are selling into the market.

MS. KALEPS-CLARK: Those are all the questions I have, your Honor. Thank you.

EXAMINER SEE: Mr. Margard?

MR. MARGARD: I have no questions. Thank you.

EXAMINER SEE: Redirect, Mr. Nourse?

MR. NOURSE: Can we just have a very brief break to consult, your Honor?

EXAMINER SEE: Sure.

(Recess taken.)

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

Redirect, Mr. Nourse?

MR. NOURSE: Thank you, your Honor.

\- - -

REDIRECT EXAMINATION

By Mr. Nourse:

Q. Mr. Allen, do you still have FES Exhibit 120?

A. Yes, I do.

Q. Okay. And in Exhibit 120 there's a Column (G) entitled "Difference," which would tend to imply that there's a comparison of two similar things. Do you agree that this exhibit compares, makes a similar comparison?

A. No, I do not. This analysis makes an inappropriate conclusion that the change in customer switching that has occurred over the three months of March, April, and May, while the capacity case and ESP cases have been in litigation and significant uncertainty exists, it assumes that during that period that level of average shopping is an appropriate representation of the expected growth throughout the remainder of 2012 after the Commission issues an order in these two cases.

My expectation, which is included in my workpapers and exhibits, is that following a Commission order in this case, the level of customer shopping should increase significantly, and just doing a trend line based upon three months of data, when significant uncertainty exists, is inappropriate.

Q. Thank you.

During your cross-examination by Ms. Spiller from Duke, I believe you made a statement, you may have slightly misspoken and I wanted to make sure the record was clear, you were summarizing off-system sales sharing mechanisms, I believe, in AEP East's jurisdictions and you made a statement about AEP Ohio retaining all of its OSS margins. Do you recall that statement, and, if so, would you like to add to it?

A. Yes, I do recall that. In that statement I was referring to AEP Ohio sharing those margins with its retail customers and distinguishing that from incremental off-system sales margins that AEP Ohio may receive from the market as a member of the pool. Those margins are first shared with the other operating companies of AEP prior to the consideration of whether or not there's additional sharing with retail customers.

So any margins earned by AEP Ohio are shared 60 percent with the other operating companies of AEP and 40 percent is maintained by AEP Ohio.

Q. Okay. Thank you.

During your cross-examination with Mr. Boehm there was a repeated reference to, I believe what he called the "perfect case" where all the company's proposals were accepted and attached a 7.5 percent ROE to that, that label. Do you recall that?

A. Yes, I do.

Q. And do you agree that's a proper characterization relative to the -- I'm sorry, let me add one more thing before we get there.

So then I believe Mr. Boehm took that and compared it to the bottom end of Mr. Kollen's ESM range of 7 percent, correct?

A. That's correct.

Q. And then he made a statement about the 7.5 percent being 50 basis points below AEP's perfect case. Do you recall that?

A. Yes, I do.

Q. Would you like to add to your statement earlier?

A. Yes. When Counselor Boehm was asking that question, he was focused on 2013 only. The equity stabilization mechanism proposed by OEG Witness Kollen would also impact 2012, which would reduce the earnings in 2012 from the 9-1/2 percent that the company expects based on the two-tiered capacity, down to a level of only 7 percent once the RPM capacity is included in Witness Kollen's proposal.

So it would have the effect of reducing the earnings in the first year by 250 basis points and, in the second year, 50 basis points. It would also, in the outer years, it could have the impact of reducing the company's earnings when we look at the combined generation and distribution entities in those outer years.

The result of his proposal, since the ROE of the distribution function is approximately 10-1/2 percent, is to produce an ROE for the generation entity after corporate separation that is substantially below 7 percent.

Additionally, the proposal would create regulatory lag related to the earnings because the functioning of the ESM could not be fully determined until after the year ended and litigation was undertaken to determine the appropriateness of the company's expenses during any of those given years.

Q. Thank you.

And during your cross-examination by Mr. Barnowski, I believe you had a discussion about purchased power. Do you recall that?

A. Yes, I do.

Q. And I believe you stated that, to clarify what was already stated and explained, it would be accurate to relabel nonfuel purchased power. Do you recall that?

A. Yes, I do.

Q. Would you like to elaborate on that?

A. Yes. My intent in making that statement was to have basically a parenthetical in that discussion. It's nonfuel and nonpurchased power as opposed to nonfuel plus purchased power. In both cases fuel and purchased power would be excluded.

Q. Thank you.

And finally, Mr. Allen, in your cross-examination by Ms. Kaleps-Clark, you were asked whether the Commission had approved a two-tiered capacity pricing mechanism for other utilities. Do you recall that?

A. Yes, I do.

Q. And is it true that the Commission has approved something similar to a two-tier pricing capacity?

A. Yes. The Commission has previously approved shopping credits in the FirstEnergy service territory as well as previously in the Columbus Southern Power service territory that was intended to encourage shopping similar to the discounted capacity that the company's proposing in the first tier to encourage customer shopping.

MR. NOURSE: Thank you.

That's all I have, your Honor.

EXAMINER SEE: Ms. Kaleps-Clark?

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

EXAMINER SEE: Mr. Barnowski?

MR. BARNOWSKI: No redirect. Thank you.

EXAMINER SEE: Mr. Yurick?

MR. YURICK: No questions.

EXAMINER SEE: Ms. Thompson?

MS. THOMPSON: No questions, your Honor. Thank you.

EXAMINER SEE: Ms. McAlister?

MS. McALISTER: No. Thank you.

EXAMINER SEE: Mr. Stinson?

MR. STINSON: No questions, your Honor.

EXAMINER SEE: Mr. Boehm?

MR. K. BOEHM: Just a very quick clarification.

- - -

RECROSS-EXAMINATION

By Mr. K. Boehm:

Q. Mr. Allen, when you were discussing Mr. Kollen's proposal with Mr. Nourse, I just want to clarify because I think the two proposals might have been a little bit jumbled. The ESM proposal of Mr. Kollen, that wouldn't reduce earnings, at least unless AEP's ROE went above 11 percent; is that correct?

A. My understanding is -- of his ESM proposal is that it's coupled with his capacity pricing proposal. That capacity pricing proposal results in an ROE of the company below 7 percent, so the combination of those two would create, basically, a maximum ROE for the company of 7 percent.

MR. K. BOEHM: Thank you. That's all the questions I have.

EXAMINER SEE: Ms. Kingery?

MS. KINGERY: No questions, your Honor.

EXAMINER SEE: Mr. Darr?

MR. DARR: No questions. Thank you.

EXAMINER SEE: Mr. Kutik?

MR. KUTIK: Yes, your Honor. Thank you.

- - -

RECROSS-EXAMINATION

By Mr. Kutik:

Q. Mr. Allen, the FirstEnergy CRES that you referred to, does the name "market support generation" sound familiar to you?

A. I'm familiar with market support generation, I was referring to shopping credits that I think existed separate and apart from that.

Q. So you don't know what the market support generation is?

A. I have a general understanding of the -- of what the market support generation is.

Q. And those were -- those were credits that the company gave to -- that were below market, correct?

A. My general understanding is that the company provided generation to competitive suppliers up to a certain level at a discount; pretty similar to what the company's proposed here.

Q. Well, one difference is that what FirstEnergy offered was actually below market,

correct?

A. I don't know whether it was below market.

Q. In your previous testimony in this case, didn't you take the position that there would be no difference in shopping levels if capacity was priced at 146, 255, or RPM?

MR. NOURSE: Your Honor, I'm not sure, this seems to exceed the scope of my redirect.

EXAMINER SEE: Tell me where you're going, Mr. Kutik.

MR. KUTIK: Well, your Honor, I believe he talked about what he thinks about what the level of shopping will be later this year and what shopping has been in the last couple months is not indicative because of uncertainty.

EXAMINER SEE: I'll allow it.

You can answer the question, Mr. Allen.

A. I think based upon the energy markets and the, at 146 or 255 or RPM, that shopping would continue to grow at a pretty rapid pace in AEP Ohio's service territory during the remainder of 2012.

Q. So my question is, though, do you believe -- isn't it true that you testified that you didn't believe that there would be any difference in shopping at those different price levels of capacity?

A. I don't recall what I testified to, but I would agree that that's correct today.

Q. Okay. And if you believe that's correct, do you think that others in the CRES community might believe that's correct?

A. I don't know what others in the CRES community would believe. When I talk about uncertainty, there's a third price for capacity that's a potential which is the company's proposal of 355, and as I've indicated previously in testimony, I believe at 355 the residential class shopping opportunities may be limited for CRES providers that are buying in the market.

MR. KUTIK: Your Honor, I move to strike everything after "I don't know what others believe in the CRES community."

MR. NOURSE: Well, your Honor, he's going deeper than I went to begin with on Exhibit 120, but he opened the door in asking his opinion and implicitly comparing his opinion to the outcomes of the Commission's decision which is the uncertainty Mr. Allen was discussing to begin with.

MR. KUTIK: All I asked, if he knows it, do you think other people know it. And he said "I don't know what other people think." That should be the end of the answer.

MR. NOURSE: Well, your Honor, Mr. Kutik doesn't get to determine when the end of his answer is.

MR. KUTIK: I get to make my argument.

MR. NOURSE: Mr. Allen can construct an answer to his choosing, and it's very responsive, and Mr. Kutik doesn't get to edit his answer after the fact.

EXAMINER SEE: The motion to strike is denied.

MR. KUTIK: I have no further questions.

EXAMINER SEE: Mr. Smalz?

MR. SMALZ: No questions, your Honor.

EXAMINER SEE: Ms. Grady?

MS. GRADY: Thank you, your Honor.

- - -

RECROSS-EXAMINATION

By Ms. Grady:

Q. Mr. Allen, you referenced CSP shopping credits, correct?

A. Yes.

Q. And were you referring to shopping credits for residential customers or was it a different reference?

A. My recollection is that those were for residential customers.

Q. And did they work to encourage shopping, if you know?

A. My recollection is at that point in time AEP's Commission-approved rates were much below market such that those shopping credits were not sufficient to encourage additional shopping.

Q. So they didn't work.

A. They didn't work due to the condition of the market as compared to the company's rates at that point in time.

Q. You indicated in your response -- you spoke of additional shopping. Was there any shopping for residential customers since the implementation of the residential shopping credit?

A. There may have been some. We've had a very few number of customers that shopped in the period of 2001 through 2008, numbering in the -- maybe 120. I don't know if any of those were residential, but it was not a large number of residential if there were any.

Q. And the 2001 through 2008 period was when the residential shopping credit was in place.

A. I don't know that it extended into 2006 through '8, but my recollection is it was there during the 2001 to 2005 period.

MS. GRADY: Thank you.

- - -

EXAMINATION

By Examiner See:

Q. Mr. Allen, look on your rebuttal testimony on page 9.

A. Okay.

Q. Line 17 through 19 you talk about the "ADFIT benefit."

A. That's correct.

Q. And there you say that the company could receive -- any benefit received could be used to offset other costs that are not covered through the DIR.

A. Yes.

Q. How is the Commission assured that any benefit that's not absorbed as a result of the proposed amendment would be used to offset other costs?

A. There's no guarantee of that in this proposal. What I'm describing is that the company has other capital requirements for general and intangible plant that are not included in the DIR, so the company is currently absorbing all of those costs with no mechanism for recovery until the company's next base rate case.

To the extent that the company is given some cost-free funding due to increases in ADFIT that may occur, that -- those dollars are available to invest in general and intangible plant without having a negative impact on the company's earnings.

The reason that --

Q. Okay.

A. The reason that we didn't propose to include general and intangible in the original proposal is that AEP Ohio is currently still a bundled entity, unlike the FirstEnergy EDUs. So you can't discreetly identify from the FERC Form 1 those general and intangible plant assets for the distribution function. So there's a trade-off as compared to the DIR-like mechanism that FirstEnergy has where they provide a credit for ADIT but also get a carrying cost on all their general and intangible plant.

EXAMINER SEE: Thank you, Mr. Allen.

Mr. Nourse.

MR. NOURSE: Thank you, your Honor. The company moves for admission of Exhibit 151.

EXAMINER SEE: Are there any objections to the admission of AEP Ohio Exhibit 151?

MR. BARNOWSKI: Your Honor, Ormet objects on two grounds. First of all, we object only to the sections that go to the RSR calculation for two reasons.

EXAMINER SEE: I'm going to need you to speak up or get a mic.

MR. BARNOWSKI: I'm sorry.

We object only to the sections of the testimony that relate to the RSR calculation for two reasons: One is, I think his testimony made clear, none of that information was disclosed at a proper time in this case. There were three discovery requests that sought it that it wasn't provided.

The only information that was provided at all was provided on May 7th which was after the intervenors had to submit their testimony in this case, I believe. If I'm wrong on that, I'm not wrong by more than a day or two. That is not enough time for us to respond adequately and to deal with this testimony.

Secondly, anything else in that RSR section is simply bootstrapping his original calculations, as we went over in the cross-examination, it's .4 and .8, and all these numbers he's talking about that he has been talking about from the day he sat in his deposition on May 7th. That was nothing new, no one in opposition, none of the intervenor parties ever challenged the .4 or .8. There was no testimony submitted on it at all. He's just coming in because he wants to make it -- he's basically bolstering his direct case and that's improper, especially when we don't have time to prepare for it.

MS. GRADY: Your Honor, OCC would join in that objection and we would note that under the Ohio Administrative Code, Section 4901-1-16(D)(2) and (3), that if a discovery response is made and it turns out that the response was materially deficient or that the information sought was unknown or nonexistent at the time, that it be supplemented if the information becomes known and existent.

So we believe there was certainly a duty to supplement the discovery responses that were submitted as Ormet Exhibit No. 110 and 111 and that the company failed to seasonably supplement that response when it had a duty to do so, and on that basis parties were prejudiced as explained by counsel for Ormet. So we would join in the motion to strike with respect to the RSR portion of Mr. Allen's testimony.

MR. SMALZ: Your Honor, the Appalachian Peace and Justice Network would also join in those objections for the reasons stated.

MS. KINGERY: And, your Honor, DERS and DECAM would join in that objection and would also note our continuing objection on the grounds stated earlier, that we believe that much of this testimony was not appropriate rebuttal testimony, which we understand you previously ruled on.

EXAMINER SEE: Did you want to reply, Mr. Nourse?

MR. NOURSE: Yes, your Honor. I do believe we plowed this ground already, but I won't repeat what I said earlier in the original motion to strike at the outset of his testimony.

But relative to this issue that Mr. Barnowski's raising, again, I think Mr. Allen was forthright in his deposition and in discovery. If something doesn't exist, there's no duty to provide it in discovery. And there's not a duty to substantiate arguments to the satisfaction of the requesting party as part of discovery.

And, again, Mr. Allen in his deposition

did defend his recommendation, which he stated all along was based on his experience.

As far as bringing these matters in on rebuttal, again, I think that was already covered in the motion to strike, but certainly a legitimate purpose of rebuttal is to reinforce the recommendations made in the original filing in light of arguments and claims made by other parties in testimony; that's precisely what Mr. Allen did.

He testified specifically that the quantitative support for the $3 charge was done earlier this week in developing his rebuttal testimony for this hearing today. And so I don't think there's any duty to supplement or the rule about supplementing discovery has been triggered or was not already satisfied by -- through the rebuttal testimony and the live testimony today.

And, yeah, one -- I would just point out that OCC was able to pick up on the 80 percent number based on Mr. Allen's prior testimony, they discussed FES Exhibit 109, it was already in the record, and the Japan Road Show, and we walked all through that before, you know, earlier today. So I think some parties were able to follow that explanation.

In any event, I think the Bench has

already ruled that this testimony is proper and -- has been discussed extensively today on the record and should remain in the record.

MR. BARNOWSKI: Your Honor, may I respond just very, very briefly?

MR. NOURSE: Can't hear you.

EXAMINER SEE: Mr. Barnowski. Briefly.

MR. BARNOWSKI: The fact is this is literally trial ambush. We had to file our responsive testimony on May 4th. Nothing in any of these numbers was disclosed in any way to any party until the deposition on May 7th. There was no way anyone could respond to this argument.

Now, I didn't move to strike his first written testimony on those grounds, simply because he didn't mention it in his written testimony so there was nothing to strike. Now he's put it in something that's written that's going to go to the Commission that we've never had the opportunity to respond to and, at the very least, if this is going to come in in writing to the Commission, the parties should have an opportunity to respond to it with their own testimony.

I really hesitate to say that because I know you don't want any surrebuttal testimony and, frankly, I don't want to give it either, but I think it's completely unfair for them to come in in rebuttal testimony and put in all these calculations that this man testified were in his head from the very beginning and, frankly, was withheld from the OCC's discovery request. He said he didn't have it, he said he didn't know it. Thank you.

MR. NOURSE: I'd be happy to respond, your Honor.

EXAMINER SEE: No.

Let's start with Ormet. Your request to strike Mr. Allen's rebuttal testimony as to the retail stability rider is denied. The Commission will, in light of the issues that you've raised, give Mr. Allen's discussion of the retail stability rider the weight we find appropriate.

As to Ms. Kingery's -- I'm sorry, DERS's and DECAM's renewed motion to strike, the Bench again denies that motion.

And, with that, AEP Ohio Exhibit 151 is admitted into the record.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER SEE: Mr. Kutik.

MR. KUTIK: Your Honor, at this time FES moves for the admission of FES 120 and 121.

EXAMINER SEE: Are there any objections to the admission of FES Exhibits 120 and 121?

MR. NOURSE: Your Honor, with respect to 120, I think, you know, this is a -- this is an exhibit, obviously, that was prepared by FirstEnergy Solutions and presented here. Mr. Allen rejected the premise of the comparison, and the key calculations presented here were shown to be inappropriate, and so I think it's -- any value, probative value it has is exceeded by its prejudicial value.

And I'm sorry, your Honor, but could you identify Exhibit 121, Mr. Kutik?

MR. KUTIK: Yes. It's response to Interrogatory FES 5-07.

MR. NOURSE: I found it. No objection.

MR. KUTIK: Your Honor, may I respond with respect to 120?

EXAMINER SEE: Yes.

MR. KUTIK: Your Honor, Mr. Allen verified the source and the derivation of each number that is on the document 120. The fact that he disagrees with what the conclusions are doesn't make it irrelevant. It may be prejudicial to AEP in terms of the reasonableness or the appropriateness of Mr. Allen's assumptions, but, frankly, that's the purpose of the exhibit. It's clearly relevant. The course of information is clearly established foundation's laid, it's not hearsay and, therefore, it should be admitted.

MR. NOURSE: And, your Honor, for the record, that's not what I meant by "prejudicial," Mr. Kutik.

EXAMINER SEE: FES Exhibits 120 and 121 are admitted into the record.

(EXHIBITS ADMITTED INTO EVIDENCE.)

EXAMINER SEE: Ms. Grady?

MS. GRADY: Yes, your Honor, we would move for the admission of OCC Exhibit 118.

EXAMINER SEE: Are there any objections?

MR. NOURSE: No, your Honor.

EXAMINER SEE: OCC Exhibit 118 is admitted into the record.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER SEE: Mr. Barnowski.

MR. BARNOWSKI: Yes, your Honor. Ormet would move the admission of Exhibits 110 and 111.

MR. NOURSE: No objection.

EXAMINER SEE: OCC Exhibits 110 and 111 are admitted into the record.

(EXHIBITS ADMITTED INTO EVIDENCE.)

EXAMINER SEE: Let's go off the record for a minute.

(Discussion off the record.)

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

The Bench has admitted OCC Exhibits 110 and 111, that should be Ormet Exhibits 110 and 111.

MR. BARNOWSKI: Thank you, your Honor.

EXAMINER SEE: Thank you.

After some discussion by the parties with proposals for a briefing schedule in this case, the Bench directs that initial briefs shall be due by close of business on June 29th; reply briefs shall be due by close of business July 9th.

Information about oral arguments will be set forth in a future entry hopefully to be issued early next week. With that, the hearing is adjourned.

(Thereupon, the hearing was adjourned at 5:30 p.m.)

\- - -

CERTIFICATE

I do hereby certify that the foregoing is a true and correct transcript of the proceedings taken by me in this matter on Friday, June 15, 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-4031)

\- - -