

BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

- - -

In the Matter of the :
Application of Ohio Power :
Company to Establish a :
Competitive Bidding : Case No. 12-3254-EL-UNC
Process for Procurement :
of Energy to Support its :
Standard Service Offer. :

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PROCEEDINGS

before Mr. Jonathan J. Tauber and Ms. Sarah J.
Parrot, Hearing Examiners, at the Public Utilities
Commission of Ohio, 180 East Broad Street, Room 11-A,
Columbus, Ohio, called at 10:00 a.m. on Monday, June
24, 2013.

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VOLUME I

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Monday Morning Session,
June 24, 2013.

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EXAMINER TAUBER: Let's go on the record.

The Public Utilities Commission of Ohio has called for hearing at this time and place Case No. 12-3254-EL-UNC being in the Matter of the Application of Ohio Power Company to Establish a Cooperative Bidding Process for Procurement of Energy to Support a Standard Service Offer.

My name is Jon Tauber, with me is Sarah Parrot, and we're the attorney examiners assigned by the Commission to preside over this morning's hearing.

We'll take appearances and we'll start with the company and we'll work our way around the room.

MR. NOURSE: Thank you, your Honor. On behalf of Ohio Power Company, Steven T. Nourse, One Riverside Plaza, Columbus, Ohio, 43215. And Daniel R. Conway, law firm of Porter, Wright, Morris & Arthur. I think you have the address.

EXAMINER TAUBER: Thank you.

Mr. Petricoff.

MR. PETRICOFF: Thank you, your Honor.

1 On behalf of Constellation NewEnergy, and Exelon
2 Generation LLC, M. Howard Petricoff from the law firm
3 of Vorys, Sater, Seymour & Pease, 52 East Gay Street,
4 Columbus, Ohio.

5 EXAMINER TAUBER: Thank you.

6 MR. ALEXANDER: Good morning. On behalf
7 of FirstEnergy Solutions Mark A. Hayden, FirstEnergy
8 Service Company, 76 South Main Street, Akron, Ohio,
9 44308. And also appearing Trevor Alexander and Jim
10 Lang from the firm of Calfee, Halter & Griswold, 1405
11 East 6th Street, Cleveland, Ohio, 44114.

12 EXAMINER TAUBER: Thank you.

13 MS. KYLER-COHN: Good morning. On behalf
14 of the Ohio Energy Group, Michael Kurtz and Jody
15 Kyler-Cohn from the law firm of Boehm, Kurtz & Lowry,
16 36 East Seventh Street, Cincinnati, Ohio, 45202.

17 EXAMINER TAUBER: Thank you.

18 MS. GRADY: Thank you, your Honor. On
19 behalf of the residential ratepayers of the Ohio
20 Power Company, the Ohio Consumers' Counsel, Bruce J.
21 Weston, Consumers' Counsel, by Maureen R. Grady,
22 Associate Consumers' Counsel, 10 West Broad Street,
23 Suite 1800, Columbus, Ohio, 43215.

24 EXAMINER TAUBER: Thank you.

25 MR. PRITCHARD: On behalf of the

1 Industrial Energy Users of Ohio, I am Matt Pritchard
2 with the law firm McNees, Wallace & Nurick, 21 East
3 State Street, Columbus, Ohio.

4 EXAMINER TAUBER: Thank you.

5 MR. REILLY: On behalf of the staff of
6 the Public Utilities Commission of Ohio, Michael
7 DeWine, Attorney General, William Wright, Section
8 Chief, Steve Reilly, Assistant Attorney General, 180
9 East Broad Street, Columbus, Ohio, 43215.

10 EXAMINER TAUBER: Thank you.

11 Mr. Nourse.

12 MR. NOURSE: Mr. Conway. There he is.

13 EXAMINER TAUBER: Mr. Conway.

14 MR. CONWAY: Yes, your Honor. Are we
15 ready to proceed?

16 EXAMINER TAUBER: I believe we are.

17 MR. CONWAY: Thank you, the first order
18 of business -- can we go off the record for just a
19 second?

20 EXAMINER TAUBER: Sure. Let's go off the
21 record.

22 (Discussion off the record.)

23 EXAMINER TAUBER: Let's go back on the
24 record.

25 Mr. Conway.

1 MR. CONWAY: Thank you, your Honor.

2 AEP Ohio at this time calls as its first witness

3 Dr. Chantale LaCasse.

4 EXAMINER TAUBER: Please raise your right
5 hand.

6 (Witness sworn.)

7 EXAMINER TAUBER: Thank you. You may be
8 seated.

9 - - -

10 CHANTALE LACASSE

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

13 DIRECT EXAMINATION

14 By Mr. Conway:

15 Q. Good morning, Dr. LaCasse.

16 A. Good morning.

17 Q. Could you state your full name for the
18 record, please?

19 A. Chantale LaCasse.

20 Q. And, Dr. LaCasse, by whom are you
21 employed?

22 A. By NERA Economic Consulting.

23 Q. And what is your position with NERA?

24 A. Senior vice president.

25 Q. Dr. LaCasse, did you prepare or have

1 under your supervision prepared direct testimony for
2 this proceeding?

3 A. Yes.

4 Q. And do you have a copy of your direct
5 testimony that was prepared for this proceeding with
6 you?

7 A. I do.

8 Q. And also do you have a copy of the
9 company's application and exhibits that were
10 previously filed in this docket?

11 A. Yes, I do.

12 MR. CONWAY: Your Honor, at this time I'd
13 like to mark as AEP Ohio Exhibit No. 1 Dr. LaCasse's
14 prefiled direct testimony.

15 EXAMINER TAUBER: So marked.

16 (EXHIBIT MARKED FOR IDENTIFICATION.)

17 Q. And, Dr. LaCasse, do you have any
18 additions or corrections to make to your prefiled
19 direct testimony at this time?

20 A. No, I do not.

21 Q. And if I were to ask you the questions
22 that are contained in your prefiled direct testimony
23 today, would your answers be the same as they appear
24 in that document?

25 A. Yes, they would.

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

3 A. Yes, they are.

4 Q. Dr. LaCasse, with regard to the company's
5 application that was previously filed in this case on
6 I believe February 11th, I'm sorry, on
7 December 21st of 2012, do you have that before you?

8 A. I do.

9 Q. And then if you could turn to Exhibit A
10 attached to that application which is the bidding
11 rules for the auctions under the competitive bidding
12 process of Ohio Power Company dated December 21st,
13 2012; do you have that?

14 A. I do.

15 Q. And if the parties had or the Examiners
16 had questions for you today regarding that document,
17 would you be able to provide answers and information
18 regarding it?

19 A. Yes, I would.

20 Q. And then if you could turn to Exhibit B
21 to that application of December 21st, 2012, which
22 is entitled "Rules and Protocols for Participation by
23 Associated Bidders in Auctions Under Ohio Power
24 Companies," that is AEP Ohio's, CBP dated
25 December 21st, 2012, do you see that?

1 A. I do.

2 Q. And if the parties or the Examiners had
3 questions regarding that document, would you be able
4 to provide the answers and information regarding it?

5 A. Yes, I would.

6 Q. And then if I would have you turn
7 similarly to Exhibit D to that December 21st, 2012,
8 application, which is entitled "Communications
9 Protocols for Ohio Power Company," that is AEP Ohio
10 competitive bidding process auctions, do you have
11 that in front of you?

12 A. I do.

13 Q. And would you also be able to provide
14 answers or information regarding that document if the
15 parties or the Examiners had questions regarding it?

16 A. Yes, I would.

17 Q. Okay.

18 MR. CONWAY: At this time, your Honor,
19 our plan was not to mark as an exhibit the
20 application or the supplement to the application, it
21 was already submitted in this docket as part of the
22 notice and comment phase of the docket, but we do
23 have a witness here who can answer questions about
24 those documents just identified, if there are
25 questions about them.

1 EXAMINER TAUBER: Let's hold off at this
2 time and then we'll see if we need to for
3 clarification for ease; if we need to mark it, we'll
4 mark it but for this time, since we're just doing
5 scope of the items in the entry, we'll go with that.

6 MR. CONWAY: Thank you, your Honor.

7 At this time, your Honor, we would move
8 for the admission of Dr. LaCasse's prefiled direct
9 testimony which has been marked as AEP Ohio Exhibit
10 No. 1, and Dr. LaCasse is available for
11 cross-examination.

12 EXAMINER TAUBER: Thank you.

13 We'll just work our way around the room
14 again, so we'll start with Mr. Petricoff.

15 MR. PETRICOFF: No questions, your Honor.

16 EXAMINER TAUBER: Mr. Alexander?

17 MR. LANG: Could we have one minute, your
18 Honor?

19 EXAMINER TAUBER: Sure.

20 (Discussion off the record.)

21 MR. CONWAY: Your Honor, are we on the
22 record?

23 EXAMINER TAUBER: Yeah, do we need to go
24 off?

25 MR. CONWAY: No. That's fine. On the

1 record, one matter that we have to present is a
2 stipulation regarding FirstEnergy Solutions'
3 cross-examination of Dr. LaCasse regarding
4 Ms. Noewer's prefiled direct testimony that
5 FirstEnergy Solutions has prefiled, and the gist of
6 the stipulation is that we have a stipulation
7 regarding a series, a short series of questions and
8 answers for Dr. LaCasse that she would provide under
9 cross-examination and in return for that stipulation
10 what her cross-examination would be regarding one
11 topical area by FirstEnergy Solutions.

12 We also have a stipulation or an offer by
13 FirstEnergy Solutions to withdraw a limited portion
14 of Ms. Noewer's prefiled direct testimony.

15 And so what we could do is simply have
16 Mr. Alexander read into the record what the
17 stipulation is on their part with regard to the
18 cross-examination if that would be acceptable to you.
19 And then he would explain the portions of the direct
20 testimony that are being withdrawn.

21 EXAMINER TAUBER: We can do that. Could
22 the Bench get a copy of it?

23 MR. CONWAY: Yes.

24 MR. ALEXANDER: Your Honor, may I
25 approach?

1 EXAMINER TAUBER: You may.

2 MR. ALEXANDER: Thank you, your Honor.

3 EXAMINER TAUBER: Mr. Alexander.

4 MR. ALEXANDER: Mr. Conway's statements
5 were correct. The questions and answers pursuant to
6 the stipulation were:

7 Question: Dr. LaCasse, you proposed that
8 the auction manager be provided with the discretion
9 to modify the tranche size if there is a significant
10 load reduction in the future.

11 Answer: Yes.

12 Question: The auction manager will make
13 this determination in consultation with staff.

14 Answer: Yes.

15 Question: Will AEP Ohio have any role in
16 determining that the tranche size should be adjusted
17 or establishing the new tranche size?

18 Answer: No.

19 Question: Did you prepare the AEP Ohio
20 response to FES interrogatory 1-001?

21 Answer: Yes.

22 And I've marked for identification FES
23 Exhibit 1 which is the response to FES interrogatory
24 1-01.

25 EXAMINER TAUBER: FES Exhibit 1?

1 MR. ALEXANDER: That's correct, your
2 Honor.

3 (EXHIBIT MARKED FOR IDENTIFICATION.)

4 MR. ALEXANDER: And is the AEP Ohio
5 response to FES interrogatory 1-001 still true and
6 accurate?

7 Answer: Yes.

8 And that concludes the questions with
9 regard to the portion relating to Ms. Noewer's
10 testimony. We have revisions sort of throughout that
11 document necessitated by the stipulation, so we
12 thought we would address that when Ms. Noewer is on
13 the stand.

14 EXAMINER TAUBER: Let's do that when she
15 is on the stand.

16 MR. CONWAY: Your Honor, I would rather
17 have some description of what it is they're
18 withdrawing, at least in general terms, and I'd be
19 happy to speak to it myself.

20 MR. LANG: I can do that.

21 EXAMINER TAUBER: We can address that
22 now.

23 MR. LANG: That's fine. And it's
24 actually, of her testimony it's Roman numeral section
25 V and that requires actually on the first page on the

1 table of contents, lines 14 through 16 will come out,
2 which is the section V. And then there's a change
3 under her -- on page 3 and 4 which is the purpose of
4 the testimony section, on line 17 it says "My
5 testimony will address four areas," that will change
6 to three.

7 And then there will be, on line 23 after
8 the semicolon and before the three parentheses will
9 be an "and," and then on lines 1 through 3 after
10 retail rates they'll insert a period, and so the rest
11 of that, that fourth point, will be deleted.

12 EXAMINER TAUBER: So everything line 2 on
13 page 4 going down?

14 MR. LANG: Correct. And then line 3
15 through the period.

16 And then on page 13 the section that's
17 Roman numeral V starting on line 10, that entire
18 section gets deleted, so from line 10 down, all of
19 page 14, and then page 15 through line 12.

20 MR. CONWAY: My understanding is that on
21 the basis of that quid pro quo that FirstEnergy
22 Solutions' cross of Dr. LaCasse is completed.

23 EXAMINER TAUBER: Is that correct?

24 MR. ALEXANDER: Yes, your Honor.

25 EXAMINER TAUBER: Thank you.

1 Mr. Kurtz, Ms. Kyler.

2 MR. KURTZ: Thank you, your Honor.

3 - - -

4 CROSS-EXAMINATION

5 By Mr. Kurtz:

6 Q. Good morning, Ms. LaCasse.

7 A. Good morning.

8 Q. Do you know what the current market price
9 for capacity is in the AEP load zone? Approximately.

10 In other words, do you know what the PJM
11 RPM is for AEP's load zone today?

12 A. No, I don't.

13 Q. Do you know it's in the range of 20, 26
14 dollars a megawatt-day or thereabouts?

15 A. I think it would be higher than that.

16 Q. Do you know what it would be,
17 approximately?

18 A. Not to provide a figure here.

19 Q. Have you reviewed the testimony of AEP
20 Witness Roush and of OEG/OCC Witness Mr. Kollen where
21 the price of capacity embedded in the legacy
22 generation rates for nonshopping customers is either
23 stated or can be calculated?

24 A. I read that testimony, yes.

25 Q. Did you read Mr. Kollen's testimony where

1 he calculated the capacity costs embedded in one of
2 the legacy rate schedules at \$343 a megawatt-day?

3 A. I read that, yes.

4 Q. Okay. Are you aware of any auction in
5 the country where nonshopping customers would pay
6 over \$300 a megawatt-day or well above the market
7 price for capacity but then also pay a market price
8 for some portion of their energy?

9 THE WITNESS: Could I have that question
10 reread, please?

11 (Record read.)

12 A. In most of the auctions for SSO type
13 customers the product is a full requirements product
14 where all the components are put together or supplied
15 by the winners of the auction, so that it's not
16 directly comparable in being able to compare what the
17 cost of one component is or the cost of another. The
18 only other auction that I know of where it is energy
19 is in Illinois and I don't know what the capacity
20 component is there.

21 Q. So most auctions have a market price for
22 energy and capacity; is that what you just testified
23 to?

24 A. Most auctions -- the product that is in
25 most auctions is a combined product where typically

1 suppliers will have load-serving responsibility and
2 will be LSEs and will provide all the product
3 capacity, energy, ancillary services, and any other
4 products that are required by the auction, the
5 contract. The product in the case of -- in the case
6 of the CBP for AEP Ohio is load following, but it is
7 energy only.

8 Q. Let me go back to my first question. Do
9 you know of any auction anywhere in the United States
10 where customers are served at an above-market price
11 for capacity but a market rate for part of their
12 energy?

13 A. I can only answer with respect to the
14 characteristics of the product that I know of in the
15 auction given that if it is a full requirements
16 product, we don't know the components, and as I
17 answered in most of those auctions, it is a full
18 requirements product that has all of the services
19 that are required by load serving entity.

20 Q. Does that mean you don't know of any
21 other auction that has characteristics similar to the
22 one that we're dealing with here?

23 A. I guess I'm saying that it's not a
24 characteristic of the auction; a characteristic of
25 the auction is that the product is simply a

1 load-following energy-only product.

2 Q. Now, if the Commission were to say in an
3 order that what we should do is have an auction only
4 for capacity and that we should have a competitive
5 declining clock auction for capacity but have energy
6 continue to be priced at cost, would you -- would
7 that be a good idea? Would you accept that on behalf
8 of your client, AEP?

9 MR. CONWAY: Your Honor, I'm going to
10 object at this point. This is well beyond the scope
11 of Dr. LaCasse's testimony which is simply to support
12 the competitive bidding process design and
13 implementation for the auction that the Ohio
14 Commission has prescribed as specified.

15 MR. KURTZ: I think my hypothetical
16 question goes right to that topic.

17 MR. CONWAY: I think not. I think it
18 goes well outside of it.

19 EXAMINER TAUBER: Could I have the
20 question read back, please.

21 (Record read.)

22 MR. CONWAY: The other part of this is
23 that Dr. LaCasse is not authorized to and is not able
24 to negotiate some deal on some other hypothetical
25 auction circumstance.

1 MR. KURTZ: I'll withdraw that portion of
2 my question and just leave it up to the witness for
3 her personal opinion.

4 EXAMINER TAUBER: Could you rephrase your
5 question then, Mr. Kurtz.

6 MR. KURTZ: Yes.

7 Q. (By Mr. Kurtz) If the tables were turned
8 and the Commission said that there's going to be an
9 auction for capacity so that customers will be
10 guaranteed a rate reduction on the capacity component
11 in their SSO service, instead of guaranteed rate
12 increase on the energy component, would you think
13 that that was a good idea?

14 MR. CONWAY: That's a
15 mischaracterization, your Honor. And it calls for
16 speculation. And I object to the line of questions.
17 It's well beyond what her scope of testimony is here
18 today.

19 EXAMINER TAUBER: Mr. Kurtz?

20 MR. KURTZ: She's testifying as to an
21 energy-only auction that is a good idea to have
22 customers pay for market prices for part of their
23 energy and above market for the capacity component in
24 their bill, she's testified that that's a good idea
25 because it leads to a competitive market outcome, and

1 I just want to know if the shoe was on the other
2 foot, if the tables were turned and it was a capacity
3 auction where the market price for capacity is much
4 lower than the embedded cost, would that also be a
5 good competitive outcome.

6 MR. CONWAY: Your Honor, the witness is
7 not testifying for or against what the Ohio
8 Commission ordered be done in this situation. She is
9 simply taking what has been ordered, which is an
10 energy-only auction or a series of energy-only
11 auctions, and explained what she thinks would be an
12 appropriate way to conduct, to design and implement
13 those types of auctions.

14 She's not here to support or to advocate
15 one way or another for the ultimate SSO product that
16 we have before us in Ohio. She's simply focusing on
17 how should the energy-only auctions be conducted.

18 So the premise to Mr. Kurtz's question is
19 false and, like I said before, he's trying to get her
20 to testify about matters which are well beyond her
21 scope of her testimony and, frankly, she's -- he's
22 asking her to testify about whether or not what the
23 Commission has prescribed in this case, or in the
24 converse case that's the hypothetical, would be a
25 good idea. That's beyond her scope.

1 EXAMINER TAUBER: I'm going to sustain
2 the objection. I just want to clarify that we're
3 sustaining it, it's just beyond the scope I think of
4 this hearing this morning, the subject matter we have
5 before us, so I'm not going to rule any further than
6 that as to just the scope of this hearing. Not
7 necessarily of this proceeding.

8 So with that notation, Mr. Kurtz.

9 MR. KURTZ: Thank you.

10 Q. (By Mr. Kurtz) Ms. LaCasse, would you
11 agree that reserve prices are common features to most
12 auctions?

13 A. Reserve prices are a concept that's well
14 known in auction and have been used in auctions of
15 all types. They're not necessarily used in auction
16 for procuring supply for SSO customers, there are
17 lots of examples where they're not used, but it's a
18 well-known concept.

19 Q. If I was selling this calculator on eBay,
20 I could put a reserve price on eBay, can't I, on
21 anything on eBay, that I won't sell it unless I get
22 a minimum price?

23 A. It is a feature, it is a common feature
24 of some auctions, yes.

25 Q. Isn't it a common feature of most

1 auctions?

2 A. No. As I said, there are a number of
3 auctions for procurement of supply for SSO-type
4 customers that do not feature a reserve price such as
5 the BGS auctions in New Jersey, most of the auctions
6 that are held in Pennsylvania for those same kind of
7 service.

8 Q. Well, I thought we established earlier
9 that this is the only auction you know of in the
10 United States, in the history of the United States,
11 where customers will pay above-market price for
12 capacity and a market price for part of energy --
13 their energy, so with that premise maybe a reserve
14 price would be a good, unique feature here in this
15 hybrid situation, don't you think?

16 A. So I don't think we've established what I
17 know or don't know about what customers are paying
18 here. As I said, the auction that we're considering
19 here and for which -- and for which I have presented
20 testimony is for the first CBP for AEP Ohio and as
21 such is just a load-following, energy-only auction.

22 Q. Are you familiar with the FirstEnergy
23 auctions?

24 A. Yes, I am.

25 Q. How many auctions have they had for their

1 SSO service?

2 A. I don't know the exact number.

3 Q. Six? Seven?

4 A. I don't know the exact number. Several.

5 Q. Do you know how many auctions Duke has
6 had for their SSO service?

7 A. Fewer, but I don't know the exact number
8 either.

9 Q. Would you agree that the Ohio Commission
10 knows how to conduct full auctions for energy and
11 capacity for nonshopping customers? In other words,
12 that process is something this Commission has done
13 repeatedly without any flaws; would you agree with
14 that?

15 A. Certainly there is experience in Ohio on
16 these types of auctions, yes.

17 Q. So with that experience there's no reason
18 for the AEP system to have any kind of practice,
19 trial runs. You would agree that once there was a
20 full auction for energy and capacity, the Commission
21 would probably conduct that just as well as it's done
22 for FirstEnergy and for Duke; wouldn't you agree?

23 THE WITNESS: Can I have the question
24 reread, please?

25 (Record read.)

1 A. I don't think it's a matter for my
2 opinion. The auction first, this first CBP and the
3 auctions under that CBP for AEP Ohio follow the
4 Commission decision to have a load-following,
5 energy-only auction prior to an auction that would
6 have energy and capacity.

7 Q. Have you attempted to quantify what you
8 think the harm to the competitive market would be if
9 a reserve price was set? In other words, a dollar
10 amount.

11 A. No.

12 Q. Well, let's just assume that the dollar
13 amount of harm to the competitive market from setting
14 a reserve price is a million dollars. And let's
15 assume that for the seven-month period June 1, 2014,
16 through 12/31/14, the harm to consumers is, as
17 Mr. Kollen testified, 164 million. Would you think
18 that the Commission should go forward with your
19 recommendation to avoid a \$1 million harm to the
20 market in order to impose a \$164 million harm to
21 consumers?

22 MR. CONWAY: Your Honor, I would object
23 to the question, it assumes facts that aren't in
24 evidence and, in our view, have not been supported on
25 either side of the balance.

1 MR. KURTZ: Well, your Honor, the 164 is
2 in his prefiled testimony and the 1 million was a
3 hypothetical.

4 EXAMINER TAUBER: I think we need to
5 rephrase the question, maybe we can get around it.

6 Q. If the harm to the competitive market was
7 less than \$164 million for the seven-month period I
8 identified, would you recommend the Commission go
9 forward with the auction without a reserve price?

10 THE WITNESS: Can I have that reread,
11 please?

12 (Record read.)

13 MR. CONWAY: Your Honor, could I have --
14 I'm sorry, Mr. Kurtz, but what is the period for the
15 \$164 million harm?

16 MR. KURTZ: June 1, 2014, through
17 12/31/2014, the 60 percent phase.

18 A. What I address in my testimony is setting
19 the starting price at the FAC or the energy component
20 of the FAC, and the harm to that is not a harm to the
21 competitive market, it is potentially a harm to
22 customers in terms of the results of the auction.

23 So I don't understand the comparison
24 between the harm to the competitive market versus the
25 harm to customers. If what we're talking about is

1 setting, as I discuss in my testimony, the starting
2 price, it is to be set at a point where it would be
3 able to track the kind of robust supply that would
4 yield prices that are consistent with market
5 condition in the auction.

6 Q. I must have missed that part of your
7 testimony where you're trying to protect consumers;
8 can you point me to that?

9 A. The portion of the testimony that I'm
10 talking about is the setting of the starting prices,
11 and it's the setting of the starting prices so that
12 there is robust competition in the auction, and that
13 along with the design of the descending clock auction
14 would be what promotes to get a result that is
15 consistent with market condition.

16 Q. So your idea of helping consumers is to
17 have a robust market even if it results in them
18 paying higher rates than they're otherwise entitled
19 to pay.

20 A. Certainly the concerns about rates in
21 terms of whether such a price is consistent with
22 market condition would translate into rate increases
23 or decreases for customers is an important one but
24 that's not the topic of my testimony. Witness
25 Mr. Roush will talk about the rate issues.

1 Q. Did you read the testimony of the
2 FirstEnergy witness?

3 A. I'm not sure I did.

4 Q. You didn't read her testimony where she
5 says that, along with the possible energy rate
6 increases, customers should get a demand or capacity
7 rate reduction by blending in 188.88 a megawatt-day?
8 Did you not read her testimony?

9 A. I'm aware of it, but I don't know the
10 details.

11 Q. Would you support that, that type of
12 competition, where there was competition for both
13 capacity and energy?

14 MR. CONWAY: Objection. Your Honor, once
15 again, we're going far afield from Dr. LaCasse's
16 scope of testimony. What she is doing is explaining
17 and supporting how the Commission might and should go
18 forward with an energy-only auction that the
19 Commission has prescribed for AEP Ohio to be done.

20 MR. KURTZ: I'll withdraw that question.

21 EXAMINER TAUBER: Thank you.

22 Q. Now, you indicated you had not done any
23 quantification of the harm to the competitive market
24 by not having a reserve price. Have you done any
25 quantification as to the harm to consumers by not

1 setting a reserve price at the FAC level?

2 MR. CONWAY: I'll object again because I
3 think he misstated the witness's testimony on the
4 first branch of your question there.

5 MR. KURTZ: I stated that part exactly.

6 EXAMINER TAUBER: Overruled.

7 THE WITNESS: I apologize, could you
8 reread the question?

9 (Record read.)

10 A. No, I have not.

11 MR. KURTZ: Thank you, your Honor, no
12 more questions.

13 EXAMINER TAUBER: Thank you.

14 Ms. Grady?

15 MS. GRADY: Thank you, your Honor.

16 - - -

17 CROSS-EXAMINATION

18 By Ms. Grady:

19 Q. Good morning, Dr. LaCasse.

20 A. Good morning.

21 Q. Could you turn to page 7 of your
22 testimony.

23 A. I'm there.

24 Q. Now, in your response on lines 1 through
25 15 you are responding to the question earlier on

1 page 6, correct?

2 A. Yes.

3 Q. And on page 6 you are asking what
4 elements exist within the auction design to promote
5 competition so the price is driven down; is that
6 correct?

7 A. That's correct.

8 Q. And so one of the -- one of the elements
9 that you identify to ensure that the auction is
10 designed to promote competition and drive down the
11 price is the suggestion on page 7 on lines 5
12 through 9 that the auction manager may reduce the
13 tranche target; is that a fair characterization of
14 your testimony?

15 A. That's correct.

16 Q. Now, with respect to that decision, that
17 decision to reduce the tranche target, when would the
18 decision to reduce the number of tranches be made?

19 A. The decision would be made during the
20 auction. It can also be prior to the auction
21 depending on the indicative offers that are submitted
22 with the part 2 applications.

23 Q. So that decision could be before the
24 start of the first round of the auction; is that
25 correct?

1 A. Yes.

2 Q. And would that decision also -- could
3 that decision also be made after the final round of
4 the auction?

5 A. I'll say that the precise methodology to
6 be used for that would be decided and discussed with
7 Commission staff, but certainly it would not -- my
8 view is that, not "certainly," my view would be that
9 it would not be after the last round of the auction.

10 Q. Now, you indicated that this decision to
11 reduce the number of tranches would be made in
12 conjunction with the PUCO staff; is that correct?

13 A. The methodology to do so, yes.

14 Q. How would you decide that the clearing
15 prices were too high and, to use your words, and not
16 consistent with market conditions?

17 A. Excuse me. Where are you reading from?

18 Q. I'm reading from line 7 and 8 where you
19 say "The Auction Manager would reduce the tranche
20 target if needed to ensure a competitive bidding
21 environment that would drive the price down to be
22 consistent with market conditions." And so my
23 question is: How would you decide that the clearing
24 prices were too high and not consistent with market
25 conditions?

1 A. What I mean by "needed to ensure
2 competitive environment" is while the auction is
3 still ongoing, that there's a sufficient amount of
4 excess supply so that if we let the auction progress
5 and take its course, that we expect the prices to be
6 driven down to market conditions. It's not an
7 assessment of the clearing price which would be in
8 the final round and, again, that would occur before
9 that point.

10 Q. And how would you determine that the
11 price is consistent with market conditions?

12 A. Again, in the course of the descending
13 clock auction where the price starts at a high
14 starting price and then declines during the auction
15 to the final round, the determination to reduce the
16 tranche target, so to increase the amount of excess
17 supply, is made so that the environment is
18 competitive enough to have the expectation that
19 letting the auction run its course will result in a
20 price that's consistent with market conditions.

21 Q. And what would be the basis of your
22 decision? Would you be looking at a forecast of
23 market prices or something else to determine that the
24 price is consistent with market conditions?

25 A. Again, in that determination to reduce

1 the tranche target the considerations are on the
2 balance or the amount of excess supply that is in the
3 auction compared to -- so the amount of supply in the
4 auction that's being bid in compared to the number of
5 tranches that are being procured.

6 Q. So it has nothing to do with a market
7 price, but it's the amount of supply is what your
8 concern is with --

9 A. Right. And given that it's at the --
10 it's not in the last round of the auction; it's at a
11 point before that, it's at prices that are still
12 expected to come down as the auction progresses, and
13 the purpose of having this look at the tranche target
14 at that point is to make sure that at that point in
15 the auction there still remains sufficient excess
16 supply to drive down prices over the course of the
17 following rounds.

18 Q. Now, in the event that you reduced the
19 tranche target, what would happen if the -- if when
20 you're doing -- let me strike that.

21 Can you explain to me how this approach
22 differs from setting a reserve price for the auction?

23 A. Well, there certainly are similarities
24 here in the sense that when there is that
25 consideration of whether to reduce the tranche

1 target, it is at some point in the auction so it is
2 at some price point, and the expectation then is that
3 the auction will continue to proceed to prices that
4 are consistent with market, so at that point the
5 price is above the price that would be expected to be
6 consistent with market conditions, so it has an
7 element of the reserve price to that.

8 The setting of a reserve price is a more
9 general feature in the sense that there are some
10 reserve prices, for example, that are stated such as
11 in eBay, for example, where it is a fixed price
12 that is explicitly announced where the purchase of
13 the sale will not happen at that reserve price so
14 this is not exactly like that.

15 Q. I would like you to focus now on your
16 testimony on page 9, and specifically I'm going to
17 focus on lines 9 through 11, and there you indicate
18 that AEP proposes to hold four auctions across three
19 delivery periods. Do you see that?

20 A. I do.

21 Q. And you also testify that the first
22 auction will procure 10 percent of the hourly energy
23 requirements of AEP's SSO customers. Can you tell me
24 what is AEP's current expectation for when the
25 10 percent auction will be conducted?

1 A. I think the final orders from the
2 Commission that were needed for that auction to go
3 forward for the two dockets in the ESP II and
4 corporate separation have been entered so it would
5 depend on the decision of the Commission on the -- on
6 this CBP application.

7 Q. Do you know what AEP's current
8 expectation is regarding the delivery start date for
9 the tranches procured under the 10 percent auction?

10 A. I don't know that I can speak to AEP's
11 expectation. Generally, I know there was timing that
12 was identified as being six months after the final
13 orders and I think the last order was April 24th,
14 if my memory serves me correctly.

15 Q. And you said six months after, it's your
16 understanding that the target is six months after the
17 April -- you said April 24th, 2013, order?

18 A. Correct. And, again, it would depend on
19 the Commission order in this -- for this application,
20 any timing that the Commission would provide at that
21 time.

22 Q. So are you assuming that the delivery --
23 that the auction will be conducted three months after
24 the Commission's order and then another three months
25 will lapse before the delivery start date occurs?

1 A. Three months after which Commission
2 order? Sorry.

3 Q. I think you referenced the Commission
4 order in this case.

5 A. I was referencing the Commission order in
6 ESP II and the corporate separation case.

7 Q. And perhaps I'm just confused here. So
8 what you're saying is it is your current expectation
9 that the 10 percent auction will be conducted within
10 three months after the April 30 -- or, April 24th,
11 2013, Commission order; is that correct?

12 A. I don't think I stated a timing for the
13 auction to occur itself. I think you asked me about
14 the start of the supply period. Again, I don't know
15 the AEP Ohio's expectation in general, but I do know
16 that in the rules, for example, that we referenced,
17 that it would be six months more or less after the
18 final order is in the corporate separation docket and
19 the final order in the ESP 2, which I believe has
20 been entered, and after there would be a final order
21 in this CBP, so on this application.

22 MS. GRADY: May I have that answer
23 reread, please?

24 EXAMINER TAUBER: Yes.

25 (Record read.)

1 Q. Now, when you refer to the supply period
2 starting, are you talking about the power -- are you
3 equating that to power will start flowing?

4 A. I am, yes.

5 MS. GRADY: That's all the questions I
6 have. Thank you, Dr. LaCasse.

7 THE WITNESS: Thank you.

8 EXAMINER TAUBER: Thank you.

9 Mr. Pritchard?

10 MR. PRITCHARD: Thank you, your Honor.

11 - - -

12 CROSS-EXAMINATION

13 By Mr. Pritchard:

14 Q. Good morning, Ms. LaCasse.

15 A. Good morning.

16 Q. You're familiar with the implementation
17 of competitive bid process auctions for establishing
18 the procurement of default service for Ohio
19 utilities, correct?

20 A. Excuse me, can you say that again?

21 Q. Yes. You're familiar that there are
22 competitive bid process auctions for establishing
23 default service for other Ohio utilities, correct?

24 A. Yes.

25 Q. And earlier you referenced that you were

1 familiar with auctions that were being held in Duke
2 and FE service territories, correct?

3 A. Yes.

4 Q. Would you say those auctions are working
5 appropriately?

6 A. The results -- yes.

7 Q. Would you believe that the current
8 competitive market is functioning appropriately in
9 Ohio?

10 MR. CONWAY: Your Honor, I'll object on
11 the grounds of vagueness, ambiguity. What market is
12 he talking about?

13 MR. PRITCHARD: Your Honor, Ms. LaCasse
14 is talking about the harm that a reserve price would
15 have on the competitive market in Ohio. If the Ohio
16 competitive market is not functioning correctly
17 currently, I'm not sure what the additional harm
18 would be. I think as a prerequisite for that
19 statement it implies that the current competitive
20 market is working. I'm just trying to establish with
21 the witness that there is no current harm that
22 exists.

23 MR. CONWAY: I just would reiterate my
24 objection, your Honor. I think it's vague. I think
25 Dr. LaCasse's testimony is focused on the bidding

1 process and the auctions for the energy-only product,
2 it's not -- well, she can answer, she can explain
3 what it is, but I don't agree with his
4 characterization that she's opining on competitive
5 market in some broader, more general fashion, so I
6 object to the question.

7 EXAMINER TAUBER: Could you rephrase your
8 question, Mr. Pritchard?

9 Q. (By Mr. Pritchard) What specific harm do
10 you think will occur from an auction reserve price?

11 A. What I discuss in my testimony is more
12 precisely setting the starting price in reference to
13 the FAC or the energy portion of the FAC, and I point
14 out that the starting price is not a guess as to the
15 closing price of the auction, but should be set at a
16 high level to attract suppliers to the auction so
17 that is the competition of the suppliers at the
18 auction that will yield a price that is consistent
19 with market conditions.

20 So if the starting price is not set in
21 that manner, so if it is set in a manner that is not
22 based on market data, is not sufficient to attract
23 competition in the auction, it may instead deter
24 participation in the auction and, therefore, there
25 wouldn't be the competitive forces to drive the

1 auction, drive the price of the auction to a
2 competitive level.

3 Q. So your, if I'm stating this correctly,
4 your quantification of the harm is that there will
5 not be sufficient competition at the auction if you
6 set the reserve price at the FAC level. Is that a
7 fair statement?

8 A. It's not a quantification, it's a logical
9 implication of not setting the starting price at a
10 level that would attract competition so there may be
11 suppliers that would have come to the auction and
12 would have competed -- would have competed the price
13 down that have other opportunities for participating
14 in auction and selling supply and they may choose
15 those opportunities over an auction with a starting
16 price that's not sufficient.

17 They may make that determination even
18 though -- and not come even though they would have
19 been able to compete the price down.

20 Q. So the harm that you're testifying to
21 about using a reserve price set at the FAC level is
22 just limited to the competition that would exist
23 during the auctions, correct?

24 A. The competition that exists during the
25 auction determines the ultimate price, so it could be

1 that there's not sufficient supply for the auction to
2 occur, it may be that prices are not driven down as
3 much so it impacts the final price the more -- if
4 there's not sufficient competition or robust supply
5 that's attracted to the auction in the first round.

6 Q. But you're not testifying that there will
7 be any harm to competition outside of the auctions,
8 correct?

9 A. My testimony is about the auction under
10 the CBP.

11 Q. You have previous experience in
12 conducting a competitive bid process auction in Ohio,
13 correct?

14 A. Yes.

15 Q. And you were the auction manager for a
16 competitive bid process auction during FirstEnergy's
17 rate stabilization plan, correct?

18 A. Yes.

19 MR. PRITCHARD: Your Honor, may I mark an
20 exhibit?

21 EXAMINER TAUBER: You may.

22 MR. PRITCHARD: I'd like to have marked,
23 this exhibit, as IEU-Ohio Exhibit 1. May I approach,
24 your Honor?

25 EXAMINER TAUBER: You may.

1 The exhibit is so marked.

2 (EXHIBIT MARKED FOR IDENTIFICATION.)

3 Q. Ms. LaCasse, will you take a minute to
4 review the document I've just handed you that's been
5 marked as IEU-Ohio Exhibit 1.

6 Have you had time to review this
7 document?

8 A. Is there a particular portion of the
9 document?

10 Q. Do you recognize this document as being
11 your direct testimony in the remand case involving
12 AEP Ohio's first electric security plan?

13 A. Yes.

14 Q. Would you turn to page 2 of the document.

15 A. I'm there.

16 Q. And would you review the first full
17 paragraph starting on line 10.

18 A. All right.

19 Q. Here you're describing your experience as
20 the auction manager for FirstEnergy's competitive bid
21 process auction during its rate stabilization plan,
22 correct?

23 A. Correct.

24 Q. And in that case, the FirstEnergy RSP
25 case, the Commission had approved rates under

1 FirstEnergy's rate stabilization plan and also
2 ordered that a competitive bid process auction be
3 held, correct?

4 A. Correct.

5 Q. And the Commission held that if the
6 results of the competitive bid process auction were
7 less than the approved rate stabilization plan rates,
8 that they would then accept the auction results,
9 correct?

10 A. Correct.

11 Q. And implicit -- or, strike that.

12 And, therefore, if the competitive bid
13 auction results were greater than the rate
14 stabilization plan results, they would not have
15 accepted the results, correct?

16 A. Yes. I think it was a little bit more
17 complicated than that, but that's the -- that's the
18 general result, and in the first auction that was
19 held the Commission did reject the results of the
20 auction and the following year there was no auction
21 because no one participated given that they knew
22 there was going to be this kind of reserve price.

23 MR. PRITCHARD: I would strike everything
24 after, well, I would strike the last half of the
25 response relating to a second auction. I was only

1 asking her about the Commission's opinion about
2 whether they would accept or reject the results of
3 the first auction.

4 MR. CONWAY: Well, your Honor, I think he
5 asked the question and got a full answer to his
6 question and the witness -- in the witness's view the
7 additional information was necessary to provide
8 context to the full answer.

9 EXAMINER TAUBER: The motion to strike is
10 denied.

11 Q. In your experience with competitive bid
12 process auctions in Ohio is it your opinion that the
13 auctions represent a market determination of the
14 costs associated with providing the relevant service
15 including the related risks?

16 MR. CONWAY: Could I have the question
17 reread, your Honor?

18 EXAMINER TAUBER: Yes.

19 (Record read.)

20 THE WITNESS: Sorry, one more time.

21 (Record read.)

22 A. I would say that those auctions would
23 determine the -- would determine a competitive market
24 price for the service that's offered. I'm not sure
25 what the question means by "costs," so I'll just stop

1 there.

2 Q. Sure, let me clarify. Would you turn to
3 page 8 of the exhibit I handed you. Will you review
4 the first paragraph on this page, lines 1 through 12.

5 So here you're generally testifying about
6 one method an electric distribution utility can meet
7 their default service obligation is to conduct a
8 competitive bid process, correct?

9 A. Correct.

10 Q. And the bids that would result from a
11 competitive bid process auction, you were testifying
12 that one of the costs that would go into the bids
13 would be the cost of the risks, correct?

14 A. Correct.

15 Q. And that risk cost related to the fact
16 that the bidders would be bidding on a fixed
17 percentage of the load, typically 1 percent of the
18 overall load, but the fact that that 1 percent would
19 vary -- sorry, not that the 1 percent varied, but the
20 overall load you served would vary with shopping,
21 correct?

22 A. Correct.

23 Q. So in addition to the cost of providing
24 energy in a competitive bid process auction, you
25 would also expect the clearing price to reflect a

1 risk premium for this risk we just talked about.

2 A. I would expect the bids in an auction to
3 reflect all of the components of the product that
4 bidders would supply, and if it is load following,
5 then -- and the bidders are assuming the risk of
6 shopping, that would be one of the components that
7 they would consider.

8 Q. And in this auction the product to be
9 supplied is energy, correct?

10 A. It is energy only and it is load
11 following, that's correct.

12 Q. So one of the costs would be the cost of
13 energy, correct?

14 A. It's one of the -- it's one component,
15 yes.

16 Q. And another component, since -- strike
17 that.

18 And this auction, the energy-only
19 auctions are load following, correct?

20 A. Yes.

21 Q. So in addition to the cost of energy in
22 the clearing price bids, you would also expect a risk
23 premium, correct?

24 A. I just want to point out that, you know,
25 the cost of energy is not necessarily one number, it

1 may be different across bidders, it may depend on
2 their particular situation, on their particular
3 supplier arrangements, on their particular reason for
4 participating in the auction.

5 So although I would assume that every
6 bidder is going to take into consideration energy as
7 part of the product that they have to supply and that
8 they would also look at the fact that it is load
9 following and consider that in forming their bid, I'm
10 just weary of just thinking about it as a very simple
11 equation like you pose in your question.

12 MR. PRITCHARD: Could you read back my
13 question and then the answer?

14 (Record read.)

15 MR. PRITCHARD: I'd move to strike the
16 response. I don't believe it's responsive to whether
17 there is a risk premium that is in the bids.

18 MR. CONWAY: Your Honor, I think that the
19 witness gave him an answer and explained it.

20 She's -- her answer explained that it's not a simple
21 matter of arithmetic across the board but that it's a
22 matter of each individual bidder's understanding of
23 its costs and what it's willing to include in its bid
24 and so I think it's an explanation that's responsive.

25 EXAMINER TAUBER: Motion to strike is

1 denied.

2 Q. (By Mr. Pritchard) In that lengthy
3 explanation I'm not sure if I heard the yes or no to
4 this part of the question, but you testified that in
5 an energy-only load shape auction you would expect
6 there to be a risk associated with the load-following
7 aspect of the auction, correct?

8 A. Yes.

9 Q. And since this is a load-following
10 auction, you would expect the bids to include a risk
11 premium for this risk, correct?

12 MR. CONWAY: Your Honor, just one other
13 objection, I think she's already -- she's already
14 answered the question, I think. She said she's leery
15 of treating this as a matter of simple arithmetic,
16 and he is trying to get her to, I think, to agree
17 that it is a matter of simple arithmetic.

18 MR. PRITCHARD: I just asked a yes/no
19 question. I've already established that the basis,
20 we've had a lengthy explanation of when you would or
21 would not expect a risk premium, the witness gave a
22 lengthy answer about what the market -- or, the cost
23 of energy might be but she's not answered yes or no
24 about -- to confirm that in this auction she would
25 expect the risk premium to be included in the bids.

1 EXAMINER TAUBER: I'll allow the witness
2 to answer the question.

3 Do you want to have it read back?

4 THE WITNESS: Yeah, please.

5 (Record read.)

6 A. Yes.

7 Q. Thank you.

8 I believe in response to Mr. Kurtz's
9 question earlier you stated that you had not
10 quantified the potential harm to customers with not
11 including a reserve price at the FAC levels, correct?

12 A. Yes.

13 Q. So would it be fair to say that you have
14 not done any analysis about whether the expected
15 clearing price in the auctions are at -- will be at
16 or above the FAC levels?

17 A. Or below, no.

18 Q. So you have no opinion about what the
19 ultimate clearing price in the auction will be,
20 correct?

21 A. No.

22 MR. PRITCHARD: I have no further
23 questions, your Honor.

24 EXAMINER TAUBER: Thank you.

25 Mr. Reilly?

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MR. REILLY: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Reilly:

Q. Good morning, Dr. LaCasse.

A. Good morning.

Q. I would like to talk to you for a moment about the end-of-auction procedures, if I could. You're familiar with the end-of-auction procedures, are you not?

A. Yes.

Q. Okay. Would you describe for us what happens if the last -- if in the last round of the auction the number of tranches bid falls short of the number of tranches available.

A. In that case the bidders, when they reduce the number of tranches bid, supply what's called an exit price which is the last and best offer. So if in the last round of the auction there are fewer tranches bid than are available, there were in the penultimate round more tranches bid and available so there are a number of tranches that are withdrawn, and those tranches will have an exit price that is associated with them so that there would be a number of tranches that would be kept at supply in

1 increasing order of the exit price.

2 So all the tranches bid at the price of
3 the last round would be winning tranches and the
4 additional tranches would be picked with the lowest
5 exit price first.

6 Q. And then what would be -- in that
7 situation would you tell us what the auction clearing
8 price would be?

9 A. The auction clearing price would be the
10 lowest price at which there's a balance of the number
11 of tranches bid, the number of tranches supplied.

12 Q. And so the auction clearing price would
13 be at a price higher than the last round price; is
14 that correct?

15 A. That's correct.

16 MR. REILLY: Thank you, Doctor.

17 THE WITNESS: Thank you.

18 EXAMINER TAUBER: Thank you.

19 Mr. Conway, redirect?

20 - - -

21 REDIRECT EXAMINATION

22 By Mr. Conway:

23 Q. Dr. LaCasse, in the recent exchange
24 towards the tail end of your cross-examination when
25 you were talking to Mr. Pritchard one of the words

1 you used that I heard was "leery," and one of the
2 words that the court reporter heard apparently was
3 "weary." That you were weary of, I forget the exact
4 words, but the tendency to treat the, what the
5 bidders do as a matter of simple arithmetic as
6 opposed to something more, as I heard it, more
7 specific to the bidders.

8 Was the word "leery" or "weary"? Do you
9 recall?

10 A. I don't recall.

11 Q. Okay.

12 A. They both express the sentiment.

13 Q. You're leery of doing what Mr. Pritchard
14 suggested and you're weary of him doing it.

15 A. Of the question.

16 (Laughter.)

17 MR. CONWAY: No further questions, your
18 Honor.

19 EXAMINER TAUBER: Are there any questions
20 for recross?

21 (No response.)

22 EXAMINER TAUBER: Thank you, you may be
23 excused.

24 THE WITNESS: Thank you.

25 MR. CONWAY: Your Honor, at this time I

1 would again move for the admission of AEP Ohio
2 Exhibit No. 1 into the record.

3 EXAMINER TAUBER: Are there any
4 objections to AEP Ohio Exhibit No. 1 which is Dr.
5 LaCasse's direct testimony?

6 (No response.)

7 EXAMINER TAUBER: Seeing none, it shall
8 be admitted.

9 (EXHIBIT ADMITTED INTO EVIDENCE.)

10 EXAMINER TAUBER: Mr. Alexander.

11 MR. ALEXANDER: At this time I move for
12 the admission of FES Exhibit No. 1.

13 EXAMINER TAUBER: Are there any
14 objections to FES Exhibit No. 1, the interrogatory?
15 Seeing none, it shall be admitted.

16 (EXHIBIT ADMITTED INTO EVIDENCE.)

17 EXAMINER TAUBER: Mr. Pritchard.

18 MR. PRITCHARD: At this time I move for
19 the admission of IEU-Ohio Exhibit 1 which is the
20 LaCasse testimony from 08-917.

21 MR. CONWAY: Yes, your Honor, I think
22 Mr. Pritchard quoted from the document the passages
23 he wanted to examine Dr. LaCasse about, there were a
24 few passages, fairly a small fraction of the body of
25 the document and I think the purpose was served in

1 that fashion, so I would object to allowing
2 the entire document to be injected into the record in
3 this case. I don't think it's necessary.

4 EXAMINER TAUBER: Mr. Pritchard.

5 MR. PRITCHARD: With that clarification,
6 as long as Mr. Conway does not have any objections to
7 using the transcript from today, I don't believe that
8 the entire document needs to be admitted.

9 MR. CONWAY: Thank you.

10 EXAMINER TAUBER: Okay, at this time we
11 will not admit IEU Exhibit No. 1.

12 Let's take a quick five-minute recess and
13 reconvene.

14 (Recess taken.)

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

17 Mr. Nourse, you may call your next
18 witness.

19 MR. NOURSE: Thank you, your Honor.
20 AEP Ohio calls David M. Roush.

21 EXAMINER PARROT: Please raise your right
22 hand.

23 (Witness sworn.)

24 EXAMINER PARROT: Please be seated.

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DAVID M. ROUSH

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

DIRECT EXAMINATION

By Mr. Nourse:

Q. Good morning, Mr. Roush. Can you state and spell your name for the record, please?

A. Sure. My named is David M. Roush, R-o-u-s-h.

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

A. I'm employed by American Electric Power Service Corporation as Director of Regulated Pricing Analysis.

Q. Did you prepare and cause to be filed direct testimony in this case on June 14th, 2013?

A. I did.

MR. NOURSE: Okay, your Honor, I'd like to mark Mr. Roush's prefiled testimony as AEP Ohio Exhibit No. 2.

EXAMINER PARROT: So marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Mr. Roush, do you have any changes, corrections, or updates to your written testimony?

A. No, I do not.

1 Q. Okay. If I were to ask you these same
2 questions under oath today, would your answers be the
3 same?

4 A. Yes, they would.

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

8 EXAMINER PARROT: Thank you, Mr. Nourse.
9 Mr. Petricoff?

10 MR. PETRICOFF: Thank you, your Honor.

11 - - -

12 CROSS-EXAMINATION

13 By Mr. Petricoff:

14 Q. Good morning, Mr. Roush.

15 A. Good morning.

16 Q. I see from your testimony that you began
17 with American Electric Power in 1989?

18 A. That's correct.

19 Q. You were in rate analysis at that time?

20 A. That's correct.

21 Q. So you're familiar with the, what we'll
22 call the cost of service paradigm for pricing
23 electric service.

24 A. The pre-'99 vintage traditional
25 ratemaking cost of service approach in Ohio, yes.

1 Q. And you're also familiar with the
2 so-called hybrid system that came in after Senate
3 Bill 3 and Senate Bill 221?

4 A. Generally, yes. There were kind of two
5 different systems after Senate Bill 3 and then Senate
6 Bill 221.

7 Q. And you were a witness for AEP Ohio in
8 both of the ESP 1 and 2 cases?

9 A. That sounds right. I'm -- it's been a
10 while. I'm trying to remember ESP 1 anymore.

11 Q. Time goes by when you're having fun.
12 We've spent a lot of time here on the ESP, I'll leave
13 it for the jury to decide whether it was fun.

14 Let's go back and talk about the, what
15 you called the traditional cost of service. In the
16 traditional cost of service mechanism that AEP Ohio
17 employed did they use a fuel adjustment clause?

18 A. Pre-'99 there was the electric fuel
19 component which was a slightly different construct
20 than the fuel adjustment clause that's in place today
21 but primarily it was there to recover fuel costs.

22 Q. Right. And fuel costs are a variable
23 cost as opposed to a fixed cost?

24 A. I think in the EFC paradigm back in the
25 '90s it might have been primarily variable costs

1 whereas today the FAC includes purchased power which
2 is a -- has both fixed and variable components.

3 Q. Okay. Let's go back and talk about the
4 pre-1999 just so we have a base we can measure
5 against. The components that were in the fuel
6 adjustment -- well, let me ask you this question:
7 Does the company experience a cost for fuel prior to
8 when the fuel is consumed?

9 A. I'd say yes, generally. This kind of
10 goes, you know, a little outside the scope of what I
11 talk about in my testimony or what I did back then
12 because, mercifully, I've never had to work on the
13 Ohio EFC filings, I was more of a base rate guy, but
14 my general understanding is you obviously have to buy
15 the fuel and have it before you can burn it.

16 Q. Let's go back and we'll talk about the
17 base side because you're familiar with that. When a
18 power plant is built, you would agree with me that
19 it's a fixed cost because either the bonds that were
20 issued to -- or the debt that was taken on as well as
21 the equity to build the unit has to be paid whether
22 the generation unit is used or not, correct?

23 A. If you're saying there's a cost of owning
24 a power plant that the company incurs even in a month
25 when the unit may not run, then I would agree with

1 that.

2 Q. Okay. Do you have a different definition
3 for fixed versus variable price components?

4 A. I'm sorry, different than what?

5 Q. Than the one I've just described to you
6 for the fixed. Let me rephrase the question.

7 A. Okay.

8 Q. What is your definition of a fixed cost
9 component for purposes of setting electric rates?

10 MR. NOURSE: Your Honor, can I just get a
11 clarification. I'm waiting to hear how this relates
12 to his testimony. I don't think we have any fixed
13 costs of a power plant being built by Ohio Power that
14 are at issue in this case.

15 MR. PETRICOFF: These are background
16 questions, I'm coming to that.

17 EXAMINER PARROT: I'll allow the
18 question.

19 THE WITNESS: Can you remind me what the
20 question was?

21 Q. Actually, let me withdraw it and I'll ask
22 you this one: What is your definition of a variable
23 cost for ratemaking purposes?

24 A. I guess this is going to -- will be an
25 oversimplification, but generally it's going to be a

1 cost which varies with the kWh output of the plant.

2 Q. Okay. And fuel would fit in that
3 category?

4 A. Fuel would fit in that category as would
5 things like allowances.

6 Q. And in the portion of the rate base -- in
7 the portion of the rider that is proposed in this
8 proceeding, the variable portion that you have, well,
9 let me turn to this because I'll -- turn to Exhibit
10 DMR No. 1.

11 A. I'm there.

12 Q. Okay. Now, you see where it says "fixed
13 cost rider"?

14 A. Yes, I do.

15 Q. What's your definition of "fixed cost" as
16 you used in that exhibit?

17 A. As used in that exhibit it's a set of
18 very specific accounts that are included in the
19 existing FAC and those were shown in Exhibit F to the
20 company's supplement to application which was filed
21 on February 11th. As I discuss in my testimony,
22 the primary elements that are in that are the demand
23 charges associated with OVEC and Lawrenceburg.

24 Q. And those are fixed because they do not
25 vary with the number of megawatt-hours that are sold?

1 A. That is correct. They're fixed or demand
2 charges under those purchase power agreements which
3 do not vary with the kWh output of those units.

4 Q. And it is at that variability that
5 distinguishes the fixed cost riders that you have in
6 G, when I say "G" here I'm referring to Column G,
7 from the auction phase-in riders that you have in
8 Column F.

9 THE WITNESS: Can you read that back,
10 please? I'm sorry.

11 (Record read.)

12 A. I guess the distinction between the fixed
13 cost rider which includes those fixed costs and the
14 items shown in Exhibit DMR-1 on line 2 and 3 of
15 Column F, those are variable costs, line 4 is kind of
16 another distinct type of cost which is the auction
17 costs.

18 Q. Just for later reference when we go back,
19 the auction costs are on row 3 as opposed to row 4?

20 A. No. Row 4 are the, what we're terming
21 the auction costs which were the items identified in
22 Exhibit H to the company's supplement to the
23 application which are things like the auction manager
24 fees, the auction incidentals, the internal
25 incremental auction costs.

1 Q. Okay.

2 A. What's on line 3 is the actual
3 procurement of the energy in the auction.

4 Q. I see. Thank you. So with the exception
5 of those items that went into the -- conducting the
6 auction itself, the rest would be a variable cost.

7 A. Yes, the items in Column F other than
8 those costs would be variable.

9 Q. Okay. Now let's go back to the -- to the
10 cost in service days. Did the company earn a return
11 on the variable costs that were collected through the
12 fuel adjustment clause or the predecessor to the fuel
13 adjustment clause?

14 A. I guess I'm going to have to break that
15 out to two periods because we're kind of covering two
16 creatures. If you go back to the pre -- pre-2000
17 vintage EFC, the EFC would have been simply a cost
18 recovery rider and then the company's return would
19 have been part of its non-EFC rates.

20 When you go to -- when the FAC was
21 introduced and implemented in 2009, I believe, again
22 the company -- that rider is simply a
23 dollar-for-dollar cost recovery rider with no return.
24 So any return is kind of -- any return for the
25 company is implicit in their, kind of the leftover

1 noncost-based component which is base generation
2 rates.

3 Q. So, basically, in the EFC or in the later
4 fuel adjustment the company is only reimbursed for
5 its expenses, it is not earning revenue on the sale
6 of energy and other variable costs. I'm sorry, not
7 the sale of fuel and other variable costs.

8 A. Can you take another whack at that one?
9 I kind of got lost through the middle of it.

10 Q. Sure. Sure. I tried to distinguish, and
11 I was going to make it easy and do the pre-1999 and
12 then the hybrid period but we can do them -- we can
13 do them together.

14 I'm looking to see when the company earns
15 money and when the company doesn't earn money. So my
16 question to you is that in the, either the items that
17 are in the fuel adjustment clause in the hybrid
18 period or the EFC that preceded it, isn't it true
19 that the company just gets reimbursed for its
20 expenses, there is no revenue -- there is no margin
21 or return?

22 A. I believe that's correct. The EFC and
23 the FAC are just dollar-for-dollar cost recovery
24 riders, there was no return component.

25 Q. Okay. Now let's go back and this time I

1 want you -- these questions are just to the pre-1999
2 world. If you're an operator in the pre-'99 world
3 and you know that the variable cost for turning on
4 the next unit that you would need for -- to meet your
5 expected demand is lower than what you could buy it
6 for on the economy dispatch market, did you generate
7 or did you buy?

8 MR. NOURSE: Your Honor, I would just
9 object to the scope of his testimony. I don't think
10 he's holding himself out as a fuel procurement expert
11 or a plant operator or dispatch operator.

12 MR. PETRICOFF: Your Honor, he can tell
13 me if he doesn't know and then we can equate his lack
14 of knowledge and expertise when we equate his price
15 projections.

16 EXAMINER PARROT: I'll allow the
17 question.

18 THE WITNESS: Can you read it back for
19 me, please?

20 (Record read.)

21 MR. NOURSE: Mr. Petricoff, can I clarify
22 when you're talking about costs, variable costs being
23 higher or lower than market rate, for what period of
24 time are you talking about? Does that relate to the
25 same period that the plant will run if you decide to

1 turn it on or off?

2 Q. I'm -- we're at 50,000 feet. I'm just
3 asking in the dynamic as an operator when you saw
4 that you had demand coming on and you knew that you
5 could buy -- you could buy for less than you could
6 generate, what was the prudent operator to do?

7 A. I think we've kind of established right
8 at the beginning I've been in rates since 1989, so
9 I've never operated anything. But my fundamental
10 understanding of economic dispatch is the decisions
11 are made in a least-cost manner whether it's over a,
12 you know, I know there are all kinds of other factors
13 that have to be considered like the run time
14 capability, the start-up time, that kind of stuff,
15 there's all kinds of variables that enter into it,
16 but the general philosophical concept is economic
17 dispatch which is you use the least-cost resource.

18 Q. And, in fact, isn't that the ratemaking
19 philosophy behind the fact that items like fuel and
20 other variable costs do not carry margin or return in
21 them so as not to penalize the company or not to
22 interfere with the decision in using the economic
23 dispatching to get the lowest cost?

24 Actually, let me rephrase that question,
25 hopefully I can make it a bit shorter.

1 Isn't it true that from a ratemaking
2 philosophy standpoint it is important not to put
3 revenue or return in the variable costs so as not to
4 give a perverse incentive for using the lowest
5 available variable -- lowest available energy?

6 MR. NOURSE: Well, your Honor, I object.
7 I think that you're failing to indicate whether we're
8 now talking about traditional ratemaking philosophy
9 or the current regulatory regime.

10 MR. PETRICOFF: From the beginning I said
11 we're doing the traditional first.

12 MR. NOURSE: Thank you.

13 A. I'm kind of having a little trouble with
14 this one because I think, you know, it's -- at one
15 simple philosophical level I might be able to agree
16 with you but there's also the philosophy of, you
17 know, in environments where utilities are being, you
18 know, even under the traditional paradigm are being
19 asked to do RFPs and entering into significant
20 purchase power contracts that I've seen utilities and
21 others may take the policy or philosophy decision
22 that there ought to be some recognition of a return
23 component on significant PPAs.

24 So I'm having trouble just blanket
25 agreeing with that as a universal philosophy.

1 Q. Is purchased power included in either
2 the -- was purchased power included in the EFC for
3 AEP Ohio during cost-of-service ratemaking?

4 A. My recollection is that only a portion of
5 purchased power was included in the EFC which would
6 only be the energy or variable components to the
7 extent there was capacity purchases or that it was a
8 bundled product, it would only be the energy portion
9 back then. But, like I mentioned earlier, I didn't
10 do those filings, thank goodness.

11 Q. Okay. Is it your opinion that Senate
12 Bill 3 and Senate Bill 221 exhibit a -- let me take
13 it back.

14 Is it your opinion that Senate Bill 3 and
15 Senate Bill 221 established a requirement from the
16 General Assembly that utility companies be able to
17 earn a margin or a return when purchasing energy?

18 MR. NOURSE: Can I just clarify? You're
19 asking for his opinion --

20 MR. PETRICOFF: His personal opinion.

21 MR. NOURSE: -- even though you referred
22 to a legal requirement in the statute? Thank you.

23 MR. PETRICOFF: No, just his opinion.

24 A. I haven't read them in detail, to be able
25 to say one way or the other, in a long time.

1 Q. Is it your opinion -- well, let me take
2 it back.

3 Let's go back now and take a look at
4 DMR-1.

5 A. I'm there.

6 Q. Okay. Now, my understanding is that the
7 numbers that we see here are for illustrative
8 purposes, these are not projections that you have
9 made.

10 A. Correct.

11 Q. And --

12 A. I apologize, I'll just clarify: Line 4
13 is based on a company projection. The auction costs,
14 the incidentals, program manager fees.

15 Q. Well, with the exception of line 4, the
16 rest are for illustrative purposes, they're not part
17 of a study or projection that you have made.

18 A. Correct.

19 Q. Is Ohio Power or any other
20 generating-owning affiliate of AEP allowed to bid in
21 these upcoming energy auctions?

22 MR. NOURSE: Again, I would object. That
23 sounds a lot like a legal conclusion.

24 Q. To the best of your knowledge.

25 A. I don't know whether they're allowed or

1 not. I think between the auction manager and the
2 lawyers and the Commission they'll figure that one
3 out.

4 Q. Okay. Let's go back to DMR-1. If the
5 auction closed at \$41 and 6 mils -- I'm sorry, if the
6 auction closed at \$41.06 per megawatt-hour, would the
7 price that would be charged customers be \$45.06 per
8 megawatt-hour under your example?

9 A. I haven't done the arithmetic, but that
10 seems too high to me.

11 Q. Okay. Well, let's do it together and
12 maybe you can help me out. Basically, we're looking
13 now at row 7, and this is the revenue requirement per
14 megawatt-hour.

15 A. Okay, I see that.

16 Q. And is the purpose of your exhibit here
17 to show under the 60 percent auction as proposed by
18 the company this would be the price that customers
19 would pay for a megawatt-hour of energy?

20 A. I guess not exactly. What this is
21 showing is how you would compute all the elements
22 including the auction purchase to come up with an
23 illustration of the company's proposed auction
24 phase-in rider or fixed-cost rider or the alternative
25 we're showing here of the single rider. But once you

1 get to the bottom line there's still another step to
2 translate that into retail rates for customers.

3 Q. But that's just an allocation step,
4 right? To know how much Homeowner A is going to pay
5 or Company B is going to pay. Weighted average for
6 what everyone's going to pay is the numbers that you
7 have on row 7, correct?

8 A. Weighted average based on this
9 illustration, correct.

10 Q. And what I'm saying is that -- and
11 weighted average is what we're going to see at the
12 end of the auction. We're going to get a weighted
13 average cost per megawatt-hour, correct?

14 A. I believe that's correct, but I believe
15 you may be looking at the wrong number on the table.
16 If you're looking at where the auction result would
17 be plugged in, it would be in row 3, column E.

18 Q. Right. And so the 6 cents basically is
19 what is picking up the cost for paying for the
20 auction itself, in essence.

21 A. I'm sorry? Six cents?

22 Q. If you look at row 7, the difference
23 between the \$40 that you have shown for the
24 illustrative cost in column E, the difference between
25 that number and the number in row 7, column F, is the

1 difference of the auction cost itself.

2 A. I think I'm with you but I'm going to try
3 to play it back to make sure we're both on the same
4 page. The three elements that come down to the 40.06
5 at the bottom are a certain amount of megawatt-hours
6 under the FAC at \$40, a certain amount of
7 megawatt-hours under the CBP at \$40, and then the
8 auction costs. And so if you kind of -- if you
9 attempted to kind of weight these, you'd say \$16 of
10 the 40 is the FAC, \$24 is the auction, and .06 is the
11 auction costs themselves.

12 Q. But just looking at your example, the
13 rows 2 and rows 3 are both at 40, so the only
14 difference between that and the \$40.06 is the cost of
15 having the auction.

16 A. Correct. The auction costs on line 4 are
17 roughly .06 per megawatt-hour in this illustration.

18 Q. Now I want to take you on a hypothetical.
19 Let's assume that the closing bid is \$41, everything
20 else in terms of the costs for having the bid are
21 just as you have projected, then the weighted average
22 megawatt-hour that's going to have to be picked up by
23 customers is going to be the \$41.06 plus the \$4 -- is
24 the 46 plus the \$4 that we have in the fixed cost
25 riders and that should give us the total of the --

1 MR. PETRICOFF: May I have a moment,
2 please? I'll withdraw the question at the moment.

3 Q. Now I'm ready again for you. Okay.

4 Basically, we are going to leave, in the
5 60 percent auction, we are going to leave 40 percent
6 at the current FAC price; that's correct?

7 A. Correct.

8 Q. That's right.

9 And so if we are doing the math here to
10 figure out what the difference would be, it would be
11 line 3 in column E, and I told you to assume that
12 that closing price came in at \$41 rather than the
13 \$40 that you had. And assuming that we multiply it
14 out times the .4 and the .6 and we include in the
15 cost of the auction, subject to check, then we should
16 come up with a price of \$44.60 -- I'm sorry, 66
17 cents; is that correct?

18 A. That's correct.

19 Q. And so the price to the -- or, the
20 weighted average price to customers is basically up
21 by 60 cents, correct? Under your example.

22 A. Yes. Under my example and substituting
23 in \$41 for the auction purchase costs would yield a
24 60-cent change in the bottom line value in column H,
25 line 7.

1 Q. And if Ohio Power bid in and was the sole
2 winner, that additional 60 cents would be revenue
3 that would go to Ohio Power.

4 A. I guess I don't know because we already
5 established that I have no -- I don't know whether
6 Ohio Power would be in the auctions and that was
7 something between the Commission and the lawyers,
8 et cetera. And then I guess the other part of it is
9 my understanding is Ohio Power wouldn't have any
10 generation after corporate separation anyhow.

11 Q. And in that case assume that Ohio Power
12 or its affiliates are allowed to bid in, and for
13 purposes of this example let's say they win the
14 auction, they would be permitted to earn 66 cents
15 more in revenue than they would have gotten if just
16 the FAC would have remained in place.

17 A. I guess, again, I'm still struggling with
18 the hypothetical because I guess I've taken it as a
19 given throughout my testimony that what the
20 Commission ordered us to do in the ESP we have to do.

21 Q. Okay. Well, I'm just looking at what the
22 results would be following through your example. You
23 would agree with me that if the bid came in at \$41,
24 that customers would be paying more than they would
25 be if the FAC was just left in place.

1 A. I guess if you're saying that solely in
2 the context of this hypothetical illustration we're
3 looking at right now, then that's the way the
4 arithmetic works out. I guess I'm not saying that as
5 a blanket statement that I've evaluated what a
6 particular auction price means relative to what the
7 FAC may do in the future.

8 Q. Okay. But you would agree with me that
9 it is possible under this paradigm that customers
10 could pay more, that is SSOs, standard service
11 customers could pay more for energy than they would
12 under the FAC depending on how the bid came out as
13 shown on column E, line 3 of your example.

14 MR. NOURSE: Object. Does this paradigm
15 refer to the Commission's ESP decision?

16 MR. PETRICOFF: No. No. His chart,
17 DMR-1.

18 THE WITNESS: Would you mind reading the
19 question back, please?

20 (Record read.)

21 A. I guess let me break it into two parts.
22 The first part, is it possible that the auction is
23 higher or lower than the FAC costs? I think those
24 are possible. I'm certainly not an auction expert to
25 be able to opine on what those numbers are going to

1 come out to be.

2 So given that that's possible, if you go
3 through your arithmetic as shown in Exhibit DMR-1,
4 then could the answer be that the end result price in
5 line 7, column H, is higher than the FAC price
6 including the fixed cost elements of the FAC? Then
7 that's possible.

8 I don't know what's probable because I
9 have no opinion on where the auctions may come out.

10 Q. And since it is possible that it could
11 come up higher, then there's going to be additional
12 revenue that's paid out by the customers for energy;
13 isn't that correct?

14 A. Customers' bills will be different, but
15 again, I believe it's a function of what we've been
16 ordered to do.

17 Q. So the answer is yes.

18 THE WITNESS: Can you read back the
19 question prior?

20 (Record read.)

21 A. Yes, it is possible that at the end of
22 the day customers' rates could come out higher than
23 they would have if there were no auction, but it's
24 also possible that they'll be lower.

25 Q. And if it is higher, and if AEP or if

1 Ohio Power or one of its affiliates is the successful
2 bid winner, then, unlike the FAC, Ohio Power is going
3 to be able to earn a margin or a return on a sale of
4 fuel.

5 A. I guess I'm not there with you. As we
6 kind of talked about earlier, we haven't established
7 that Ohio Power would be in the auctions, and I don't
8 know that one way or the other.

9 Q. Well, let --

10 A. And then the other part of it is that I
11 think we have discussed that Ohio Power won't have
12 generation post corporate separation.

13 Q. Well, first of all on that, will we have
14 an energy-only -- will we have an energy-only auction
15 prior to corporate separation? Is it possible?

16 A. I think I heard Dr. LaCasse indicate it's
17 a function of six months after a couple orders plus
18 also the outcome of this proceeding, so I thought I
19 heard a six months after an April 24th date which
20 would put us in November timeframe for flow, but then
21 it's also contingent on this proceeding. So if it
22 does happen, it would be for, at most, the last
23 couple months of this year.

24 Q. So the answer is: Possible, but you
25 don't know. Possibly or possibly not.

1 A. Can you go back one question, then?

2 Q. Let's -- let me, I'm sorry. Let me
3 withdraw the question and just ask you, maybe there's
4 an easier way to get to this.

5 Let's go back and look at your DMR-1
6 exhibit, okay, and the first one is the -- that's the
7 FAC variable cost, that's going to be the portion
8 that remains in the -- being supplied under the FAC,
9 correct?

10 A. Correct.

11 Q. And so that illustrative \$40 there
12 represents what the actual, let's see, what the cost
13 to AEP Ohio would be for the FAC with no margin or
14 return.

15 A. Correct.

16 Q. Okay. Now let's go down to row 3. Let's
17 assume that that is \$41 because that's where the
18 auction closed. If AEP's legacy facilities were
19 being used, then there would be an extra dollar in
20 revenue over what the out-of -- over what the costs
21 would have been under the FAC.

22 A. I guess the reason why I'm having trouble
23 agreeing with you there is that, obviously, we
24 touched on it a little bit on my very high level
25 understanding of economic dispatch would be that the

1 \$40 in line 2 of the FAC energy cost when only
2 800,000 megawatt-hours are being supplied might be
3 higher if more than 800,000 megawatt-hours were
4 supplied.

5 Q. Well, I understand. But I'm just looking
6 at your chart and I'm trying to get something more
7 theoretical. So let's drop off the numbers and let's
8 just look at this as a matter of economic logic.

9 We have a price that's in row 2,
10 column E, which is your actual, if you will,
11 out-of-pocket costs for the variable services
12 supplied in the FAC, correct?

13 A. That the level of megawatt-hours.

14 Q. At that level, right.

15 A. Okay.

16 Q. And in row 3 we have the same thing but
17 it's the auction price, that's correct? That's what
18 you're portraying here is it's the auction price
19 that's in column E, row 3.

20 A. Yes, that's the auction price.

21 Q. And you already told me that you agreed
22 that it is possible that under the auction that
23 number that's in E-3 could be higher than the number
24 that's in E-2.

25 A. It could be higher or lower.

1 Q. Could be higher or lower, okay.

2 A. Or the same.

3 Q. Right. Or the same, right.

4 Let's assume that it is higher. In that
5 case if, in fact, the supplier under E-3 is Ohio
6 Power, wouldn't they be earning the -- the extra
7 money from the -- earning more money than they would
8 have earned if they had supplied the same variable
9 costs without the auction?

10 A. And that's where I'm having trouble
11 saying that with certainty because, as we kind of
12 discussed, you know, the high level concept of
13 economic dispatch, the actual cost of those
14 additional megawatt-hours is potentially higher as
15 well than the \$40 shown in line 2.

16 Q. Oh, no, that's why we're doing this
17 theoretically because these are just -- these are not
18 real numbers or even projections, they're for
19 illustrative purposes, and all I'm trying to get on
20 the record here is to find out whether or not it is
21 possible that if the auction price for FAC services
22 closes above the FAC price to AEP, if there would be
23 additional revenue that would be earned.

24 A. And, again, I guess I'm trying to say, to
25 clarify that the \$40 price shown in line 2 is only

1 for the 800,000 megawatt-hours. If we're following
2 kind of that general economic dispatch theory, the
3 next hundred thousand or 1.2 million megawatt-hours
4 might be more expensive -- would be more expensive
5 than the \$40, so I can't say for certainty that
6 because the auction came in at 41 that there's any
7 extra revenue above cost there.

8 Q. Well, let me flip it. Can you say that
9 Ohio Power, if it is the auction winner, could
10 definitely not earn any more money than it would have
11 earned had it just supplied the same service under
12 the FAC?

13 THE WITNESS: Can you read that one back?

14 (Record read.)

15 MR. NOURSE: And I would just object,
16 your Honor. I think we've been talking about Ohio
17 Power and its affiliates and then in that question he
18 just said "Ohio Power" so I'm not sure what he's
19 asking now.

20 MR. PETRICOFF: I thank counsel. I would
21 like to amend the question to add "Ohio Power and/or
22 its affiliates."

23 THE WITNESS: One more time, please.

24 (Record read.)

25 A. I can't say that one way or the other

1 because I don't know.

2 Q. Do you know whether it's a low
3 probability that Ohio Power or its affiliates could
4 earn more in the FAC auction than they could from the
5 FAC alone?

6 A. I don't know because there's so many
7 variables that you'd have to consider. I mean, you
8 know, the first of which is whether Ohio Power is
9 even in the auction, the second variable of which is
10 what's going on with FAC prices, what the auction
11 outcome is, and then also what the indirect impact of
12 any of that is on the shopping level. So it's --
13 that's a pretty complicated model that I can't do
14 here on the stand.

15 Q. Okay. Would you expect Ohio Power or its
16 affiliates that have the legacy generation
17 transferred to it to bid in an auction at a price
18 below the variable FAC cost?

19 A. That's not part of my day-to-day job so I
20 can't tell you what they would do.

21 Q. So far you have -- I'm sorry.

22 Is it your understanding as a witness for
23 the company that AEP Ohio believes that it should
24 have the right to earn more than the FAC cost for FAC
25 services if it supplies them under the auction?

1 THE WITNESS: Can you read that one back,
2 please?

3 (Record read.)

4 MR. NOURSE: Your Honor, I'd just object.
5 I think this is getting far afield from Mr. Roush's
6 testimony. He's tried to explain his perspective I
7 think over and over on what he does and doesn't know,
8 what he does as his rate tariff job versus these
9 market questions, and asking him to speak for a
10 future affiliate that, you know, how they're going to
11 participate in a particular auction, I mean, these
12 are just very far afield, I think well beyond the
13 scope of Mr. Roush's testimony.

14 MR. PETRICOFF: Your Honor, if I could be
15 heard on this, this is the company's witness on this
16 rate matter. I think it's a pretty straightforward
17 question. If it's so -- if it's so tangential that
18 they could earn, that's fine, I'm sure it's something
19 they've thought about, and even though Mr. Roush may
20 not have done the computations, I wouldn't be
21 surprised if someone at AEP has done it and decided
22 that this was something worth pursuing.

23 EXAMINER PARROT: The objection is
24 overruled.

25 THE WITNESS: Can you read it back one

1 more time?

2 (Record read.)

3 A. I think I have to parse this out into my
4 dummy's view of the world which is, as we've
5 discussed several times, I don't know whether --
6 whether or who will be participating in the auction,
7 whether Ohio Power, whether its affiliates, whether
8 Ohio Power has generation even to participate, but my
9 simple view is we're required to do the auctions.

10 If any entity, affiliated, nonaffiliated,
11 wins a tranche in the auction, then they're entitled
12 to payment of the auction clearing price. So that's
13 my kind of simple view of it.

14 MR. PETRICOFF: I have no further
15 questions. Thank you very much, Mr. Roush.

16 THE WITNESS: Thank you.

17 EXAMINER PARROT: Mr. Alexander?

18 MR. ALEXANDER: Thank you, your Honor.

19 - - -

20 CROSS-EXAMINATION

21 By Mr. Alexander:

22 Q. Good afternoon, Mr. Roush.

23 You've previously reviewed FES Witness
24 Noewer's testimony, in particular the chart in her
25 testimony on page 9?

1 A. That rings a bell from deposition but I
2 do not have it with me.

3 Q. Would it be helpful for you to review a
4 copy of her prefiled testimony?

5 A. Sure, if you're going to ask me questions
6 about it, yeah. Thank you.

7 Q. Sure.

8 Would you please focus your attention at
9 the chart on page 9, line 19. Does this chart
10 accurately reflect AEP Ohio's position on the
11 mechanics of the blending methodology?

12 A. Yes, I think it generally represents in
13 kind of a percentage basis the three phases of the
14 auction under the company's proposal.

15 Q. AEP Ohio seeks 100 percent recovery of
16 the fixed portion of the FAC through the end of the
17 ESP period or May 31st, 2015?

18 A. That's correct.

19 Q. And AEP does not anticipate capacity
20 pricing at 188 per megawatt-day until January 1st,
21 2015.

22 A. Yes, but I'd kind of say it the flip, the
23 company expects base generation rates to remain in
24 effect until January 1st, 2015, at which time they
25 will be reduced to reflect 188.88.

1 Q. I believe you mentioned this response to
2 a question from Mr. Petricoff, but you believe that
3 base generation rates recover several types of
4 leftover costs; is that correct?

5 A. I guess it's kind of laid out on page 4,
6 lines 8 through 12 of my testimony, where I kind of
7 show you total generation and transmission rates,
8 then you back out three riders which have very
9 specifically identifiable costs and base generation
10 rates are kind of the leftover.

11 Q. And so just focusing now on what we're
12 calling the leftover, so the costs that are still in
13 base generation rates, you believe that CAT tax for
14 generation service is conceptually recovered through
15 base generation rates.

16 A. Effectively by deduction, since it's not
17 in the FAC or the AER or TCRR, again, remember all of
18 this is under the foundation that we don't have
19 cost-based rates in Ohio anymore.

20 Q. And you similarly believe that
21 uncollectibles for the FAC, the AER, and the TCRR are
22 also recovered through base generation rates.

23 A. Yes.

24 Q. And a return on equity for base
25 generation service is also included in base

1 generation rates?

2 A. I think, again, at the conceptual level,
3 generally yes, since we're not exactly -- and we
4 spent a lot of time with Mr. Petricoff on that we're
5 not in a traditional cost-based world, so kind of
6 you've got the aggregate of our G and T rates, we
7 know what's in the FAC, the AER, and the TCRR, so
8 there's probably something in base G for items like a
9 return, but I can't specifically say how much or what
10 the amount is.

11 Q. Sure. And, again, conceptually you
12 believe that fixed capacity costs are also recovered
13 through base generation rates.

14 A. Yes, with all the same caveats.

15 Q. And you believe that AEP Ohio recovers
16 all energy costs exclusively through the variable
17 portion of the fuel adjustment clause.

18 A. Yes.

19 Q. And, therefore, AEP Ohio would recover no
20 energy costs through base generation rates.

21 A. Correct.

22 Q. In your testimony, staying at page 4,
23 line 14, what you're discussing, the CAT tax, do you
24 see that?

25 A. Yes, I do.

1 Q. You believe that the CAT tax is
2 approximately .26 percent; is that correct?

3 A. I believe that's the rate.

4 Q. And other Ohio utilities or -- strike
5 that.

6 All other Ohio utilities include a CAT
7 tax gross-up when translating auction results into
8 retail rates; is that right?

9 A. I believe that's the case.

10 Q. And the other Ohio utilities also include
11 a CAT tax gross-up for other riders like the FAC, the
12 TCRR, and the AER; is that correct?

13 A. I believe they generally do, yes.

14 Q. And at line 15, page 4, you address the
15 cost of uncollectibles; do you see that?

16 A. Yes, I do.

17 Q. AEP Ohio doesn't gross-up its generation
18 related riders for uncollectibles?

19 A. No, it does not.

20 Q. Other Ohio utilities gross-up their
21 riders for uncollectibles or include a separate rider
22 for uncollectibles?

23 A. That's my general understanding.

24 Q. Do you know the cost of uncollectibles on
25 a per megawatt-hour basis?

1 A. No, I do not.

2 Q. Can you give an estimate of the cost of
3 uncollectibles?

4 A. Not sitting here today, no.

5 Q. Would you agree that a rider permitting
6 AEP Ohio to recover uncollectibles would address
7 AEP Ohio's concern over these costs?

8 A. I think generally, yes.

9 Q. And you believe that AEP Ohio's base
10 generation price is roughly equivalent to \$314 a
11 megawatt-day capacity pricing?

12 A. Give me a sec just to double-check.

13 Yes, based upon the data in my workpapers
14 in this proceeding, the arithmetic would say that
15 current base G is roughly \$314 a megawatt-day.

16 Q. Please turn to your direct testimony,
17 page 7, line 2.

18 A. I'm there.

19 Q. In this section you're referencing the
20 results of a 40 percent reduction to base generation
21 rates, correct?

22 A. Correct.

23 Q. And the results of the 40 percent
24 reduction you believe would be approximately equal to
25 \$188 a megawatt-day capacity pricing?

1 A. Correct. Correct, on average.

2 Q. And applying \$188 capacity pricing would
3 result in a reduction from \$22.50 to \$13.50 per
4 megawatt-hour.

5 A. Correct. The company's current base G is
6 roughly 22.50 a megawatt-hour, reducing it in January
7 of '15 to reflect 188.88 would be the equivalent of
8 roughly 13.50 a megawatt-hour, and just to be clear,
9 on the previous page I discuss why I think this is
10 really the base generation rate adjustment will be
11 addressed in a different proceeding, we're providing
12 it here for illustration.

13 Q. You've jumped ahead of my outline. So
14 AEP Ohio is anticipating another separate proceeding
15 down the road which would address capacity pricing
16 after January 1st, 2015?

17 A. Would address just the rates. The
18 adjustment to the base G rates. You know, clearly,
19 you know, based on the advice of my counsel from
20 reviewing all of the lengthy ESP documents they told
21 me we've been directed to reduce base G rates to
22 reflect 188.88 effective January 1, '15, so we're
23 going to do that.

24 So I anticipate filing another case where
25 we file those adjusted rates.

1 Q. So AEP Ohio is not asking the Commission
2 to establish those rates, and by "those rates" I mean
3 rates after January 1st, 2015, in this proceeding.

4 A. Correct, we're not asking them to do so.
5 But they're free to do whatever they do.

6 Q. So back to page 7, line 2. So if the
7 Commission-determined capacity cost is 13.50 per
8 megawatt-hour, there's a \$9 per megawatt-hour spread
9 between current base generation rates and the
10 Commission determined capacity price; is that
11 correct?

12 A. Correct. There is that difference
13 between current base generation rates and what the
14 application of 188.88 would produce.

15 Q. And a portion of this \$9 spread would
16 compensate AEP Ohio for the CAT tax.

17 A. Yes. I think conceptually, you know, to
18 the extent that, you know, as we discussed earlier
19 base G is kind of the Louie leftovers, so anything
20 that's not being recovered through the FAC or the AER
21 or the TCRR is conceptually being recovered through
22 base G, and so that would include things like the CAT
23 tax, uncollectibles, and I guess all of those things
24 in aggregate are subject to the overall market rate
25 offer test in the ESP.

1 Q. So just sort of to summarize, the
2 \$9 spread we've identified between the capacity price
3 and current base generation rates would compensate
4 AEP Ohio for CAT tax, uncollectibles, and provide a
5 profit margin to AEP Ohio.

6 A. Yes, including, among other things, it
7 could reflect, you know, just overall differences
8 between the, you know, the point estimate at a point
9 in time when the Commission made the 188
10 determination, any difference in costs between that
11 point estimate and what actual costs are on an
12 ongoing basis.

13 Q. And when you're referencing a difference
14 in cost, that difference could be either positive or
15 negative for AEP Ohio, correct?

16 A. It could be, but -- it could be.

17 Q. And the Commission's determination in
18 AEP Ohio's capacity case included a return on equity
19 included in that \$188 a megawatt-day calculation,
20 correct?

21 A. I wasn't in that case so I don't know
22 that I can say for certain what was all in that
23 188.88. I know in what the company originally filed
24 which was the 355 or 330 depending on whether it had
25 the energy credit or not, that calculation would have

1 had a return component in it. What was in the 188 I
2 can't say.

3 Q. Does a return on equity of 11.15 percent
4 ring any bells?

5 A. No, it doesn't.

6 Q. Let me ask you like this: So if there
7 were a return on equity in the 188 capacity value,
8 the return on equity within the \$9 spread we just
9 identified would be over and above the return on
10 equity in the 188 capacity value, correct?

11 A. I think conceptually -- conceptually,
12 yes. If it were an apples-to-apples comparison. I
13 just don't know whether it is or not.

14 Q. Other than the CAT tax, uncollectibles,
15 profit, any potential change in the
16 Commission-determined 188 value, can you identify any
17 other categories of costs which are included in that
18 \$9 spread?

19 A. Not sitting here today. Again, it's kind
20 of that leftover.

21 Q. Please turn your attention back to
22 page 4, line 16 of your testimony.

23 A. I'm there.

24 Q. In here you address whether base
25 generation rates should fluctuate based on the energy

1 auction process, correct?

2 A. Correct.

3 Q. And you believe that AEP Ohio currently
4 recovers all energy costs through the variable
5 portion of the fuel adjustment clause?

6 A. Yes.

7 Q. Now I'd like to switch your attention to
8 the fixed portion of the fuel adjustment clause as
9 proposed by AEP for a moment. Do you have the
10 supplemental application with you on the stand?

11 A. Yes, I do.

12 Q. Please turn your attention to Exhibit F.

13 MR. ALEXANDER: Your Honor, I would like
14 to mark an exhibit if I may.

15 EXAMINER PARROT: You may.

16 (EXHIBIT MARKED FOR IDENTIFICATION.)

17 Q. Mr. Roush, you've just been handed a copy
18 of a document which has been marked as FES Exhibit 2.

19 EXAMINER PARROT: Yes, Exhibit 2.

20 MR. ALEXANDER: Thank you, your Honor.

21 Q. FES Exhibit 2. Have you ever seen that
22 document before?

23 A. Yes, I have.

24 Q. And what is this document?

25 A. It is the company's response to a

1 discovery request in FirstEnergy's second set,
2 interrogatory No. 3 in that set.

3 Q. And were you the individual responsible
4 for creating this response?

5 A. Yes.

6 Q. Okay. Now, keeping this document and
7 supplemental application Exhibit F in front of you,
8 I'd like to discuss the six fixed cost lines which
9 are identified on supplemental application Exhibit F.
10 Do you see those?

11 A. Yes, I do.

12 Q. And are those lines 33, 35, 47, 50, 52,
13 and 53?

14 A. Yes, they are.

15 Q. And each of those lines are proposed to
16 be included in the fixed-cost rider.

17 A. That's correct.

18 Q. And each of these line items references a
19 capacity-related charge?

20 A. That's correct.

21 Q. And each of these line items would be
22 included in FERC account 555.

23 A. That's correct.

24 Q. Turning back to your testimony, page 8,
25 line 8.

1 A. I'm there.

2 Q. Now, in this section of your testimony
3 you are discussing the proposed split of the fuel
4 adjustment clause; is that correct?

5 A. Correct.

6 Q. And you believe that the recovery of
7 fixed costs is consistent with AEP's historic
8 treatment of market purchases to serve retail
9 customers in the past, correct?

10 A. Correct. Generally when the company
11 bought energy in the market to serve its retail loads
12 to displace a generating unit, kind of an
13 economy-type purchase, that market purchase would
14 replace the fuel cost of the unit but it wouldn't
15 change the fact that those fixed costs that we've
16 identified remained entirely within the FAC.

17 Q. And what this sentence is referring to is
18 purchased power expenses included in FERC account
19 555.

20 A. Yes, generally. Yes.

21 Q. And at page 8, line 19, you reference
22 contracts with OVEC and Lawrenceburg. Each of those
23 contracts includes both capacity and energy?

24 A. That's correct.

25 Q. And AEP Ohio traditionally includes FERC

1 account 555 purchased power in its fuel adjustment
2 clause?

3 A. Correct, as shown in Exhibit F, all of
4 those items are included in the fuel adjustment
5 clause.

6 Q. And, in fact, the OVEC and Lawrenceburg
7 costs you identify on page 8 are recovered through
8 FERC account 555 in the fuel adjustment clause
9 currently, correct?

10 A. Just a slight wording change, they're in
11 account 555 and they are recovered through the FAC
12 currently, yes.

13 MR. ALEXANDER: Your Honor, may I mark
14 another exhibit?

15 EXAMINER PARROT: You may.

16 (EXHIBIT MARKED FOR IDENTIFICATION.)

17 Q. Mr. Roush, I've just handed you a
18 document which has been marked as FES Exhibit 3,
19 which is Dr. Pearce's testimony in the AEP Ohio
20 10-2929 case. Dr. Pearce was the witness responsible
21 for calculating AEP Ohio's formula rate in that case;
22 is that correct?

23 A. Yes.

24 Q. I'd like to turn your attention to
25 Exhibit KDP-4, page 14, line 11.

1 EXAMINER TAUBER: Can you repeat that?

2 MR. ALEXANDER: Sure. It's Exhibit

3 KDP-4, page 14, line 11.

4 A. I'm there.

5 Q. And Dr. Pearce at this reference is
6 including purchased power costs from FERC account 555
7 into AEP Ohio's formula capacity rate?

8 THE WITNESS: I'm sorry, can you read
9 that back?

10 (Record read.)

11 A. Yes, it appears at this point in the
12 calculation Dr. Pearce was including elements of --
13 or, including account 555 in the calculation of the
14 formula rate. What I can't tell from this page is
15 how it was -- how the split between demand and energy
16 was done, demand or fixed energy and variable was
17 done.

18 Q. And when you say you can't tell, do you
19 mean beyond the detail provided at columns 2 and 3 at
20 the workpaper level? Is that what you mean?

21 A. Correct. I can only see this at the
22 three-digit 555 level, I can't see the detail like we
23 just discussed in Exhibit F with all the little
24 seven-digit account level.

25 Q. In Dr. Pearce's -- or, do you know if

1 Dr. Pearce's formula rate calculation ties to
2 AEP Ohio's 2010 FERC Form 1?

3 A. I would assume that it does.

4 Q. So the fixed portion of purchased power
5 costs from FERC account 555 were included in
6 AEP Ohio's proposed \$355 per megawatt-day capacity
7 charge?

8 A. It appears from looking at this that, in
9 general, they would have been included in the
10 company's proposal.

11 Q. And if you could turn your attention to
12 Exhibit KDP-6.

13 A. I'm there.

14 Q. And does this page show how those numbers
15 flow through into the \$355 number reached by
16 Dr. Pearce?

17 A. I think generally it appears to, yes.

18 Q. And so all six line items proposed to be
19 included in the fixed portion of the fuel adjustment
20 clause were included in AEP Ohio's formula rate
21 proposal in Case No. 10-2929.

22 A. I think it's, as we mentioned, I can't --
23 without seeing the account level detail work, I can't
24 say that with a hundred percent certainty, but it
25 appears that they were all included in the company's

1 proposed calculation which wasn't ultimately adopted.

2 Q. You just said AEP Ohio's proposal was not
3 ultimately adopted. The Commission ultimately
4 ordered AEP Ohio to charge \$188 per megawatt-day for
5 capacity; is that right?

6 A. That's my basic understanding, the
7 Commission determined a 188.88 cost of capacity
8 related to shopping customers.

9 Q. Under your formula, your proposed
10 formula, AEP Ohio would recover both the 188.88 and
11 the fixed capacity charge -- or, strike that -- and
12 the fixed portion of the fuel adjustment clause after
13 January 1st, 2015, correct?

14 A. Under the company's proposal in this
15 proceeding we continue to collect the fixed-cost
16 rider for the first five months of 2015 and reduce
17 base generation rates to reflect 188.88 consistent
18 with the order.

19 Q. And you believe that AEP Ohio should be
20 permitted to recover both the fixed portion of the
21 fuel adjustment clause costs and the 188 formula rate
22 because you do not know what costs were included in
23 the Commission's calculation of the \$188 value.

24 A. Not exactly, and just to clear up the 188
25 in my mind isn't a formula rate because there isn't a

1 formula anymore, it's just a determined number, but
2 generally the fixed component of the FAC has been
3 there all along and is a prudently incurred cost that
4 should continue to be collected.

5 The other part of it, it is true that I
6 can't say what's in the 188.88 that the Commission
7 determined relative to capacity for shopping
8 customers, and counsel advised me that 188.88 is what
9 we need to reduce our base G rates to reflect
10 beginning January of '15. So I, you know, I don't
11 see a disconnect.

12 Q. At a high level, there are basically two
13 parts to generation service, energy and capacity,
14 correct?

15 A. Yes. Generally.

16 Q. So if there's to be an energy-only
17 auction, the capacity to serve that load must come
18 from somewhere.

19 A. The capacity for all of AEP Ohio customer
20 load comes from the FRR obligation through the end of
21 May of '15.

22 Q. You've reached my next point. So the
23 capacity must come from somewhere and due to
24 AEP Ohio's FRR election, it must come from AEP Ohio,
25 correct?

1 A. That's correct, through May of '15.

2 Q. And you were a witness in AEP Ohio's
3 ESP 2 proceeding?

4 A. Yes.

5 Q. And in AEP Ohio's ESP application
6 AEP Ohio proposed to conduct a 5 percent energy-only
7 auction.

8 A. That's probably right but for some reason
9 the percentage sounds funny to me.

10 Q. And in that ESP proceeding in its
11 testimony, AEP Ohio proposed to provide capacity for
12 the 5 percent energy-only auction at its cost for
13 capacity, or \$255; is that correct?

14 A. That doesn't sound right. I think -- I
15 know that somewhere as part of the ESP there was an
16 offer to provide capacity at 255, but I don't know
17 that there was the dots connected to say that that
18 255 was our cost. I think it was just an offer.

19 Q. Okay. So you recall that in the capacity
20 case there was an offer to provide capacity for that
21 5 percent energy auction at \$255 a megawatt-day?

22 A. I believe it was in the ESP case, but I
23 recall an offer of capacity at 255. I don't remember
24 if it was linked to the 5 percent auction or whether
25 it was distinct. My memory's not -- not there

1 because I've been focused on what was ultimately
2 ordered.

3 MR. ALEXANDER: Your Honor, may I
4 approach?

5 EXAMINER PARROT: You may. Please mark
6 them one by one.

7 Q. Mr. Roush, you've just been handed a
8 document which has been premarked as -- for
9 identification purposes as FES Exhibit 4 and is
10 titled "Direct Testimony of Robert P. Powers in
11 Support of AEP Ohio's Modified Electric Security
12 Plan." Do you have that document in front of you?

13 A. Yes, I do.

14 Q. And you also --

15 EXAMINER PARROT: It will be so marked.

16 (EXHIBIT MARKED FOR IDENTIFICATION.)

17 Q. And you've also been handed a document
18 which has been premarked for identification as FES
19 Exhibit 5 which is labeled "FES 107". Do you have
20 that document in front of you?

21 A. Yes, I do.

22 EXAMINER PARROT: So marked.

23 (EXHIBIT MARKED FOR IDENTIFICATION.)

24 EXAMINER PARROT: Actually just for
25 clarity of the record, that's an interrogatory from

1 the 11-346 proceeding, correct?

2 Q. Mr. Roush, if you could look at FES
3 Exhibit 5, the third page of that exhibit, OCC
4 interrogatory 2-038, subpart B. Do you see that
5 response?

6 A. Yes, I do.

7 Q. And that request asks "Is the Company
8 proposing to charge for capacity support for the
9 auction load? If so, what is the proposed capacity
10 price and who would be charged for capacity support?"
11 Is that correct?

12 A. That's what the question reads.

13 Q. And that question relates to the partial
14 SSO auction prior to 2015.

15 A. Yes, it does.

16 Q. And the response to that request
17 references the company's response to interrogatory
18 2-37a; is that correct?

19 A. That's correct.

20 Q. And if you turn to the preceding page in
21 FES Exhibit 5, you will see the response to
22 interrogatory 2-37a. Are you there?

23 A. I'm there.

24 Q. And that response references Company
25 Witness Powers' testimony at page 19, line 22; is

1 that correct?

2 A. Yes, it does.

3 Q. And if you could turn your attention to
4 FES Exhibit 4.

5 A. I'm there.

6 Q. And is that a copy of page 19 of
7 Mr. Powers' testimony in the ESP proceeding?

8 A. Appears to be.

9 Q. And if you focus on line 22, at this
10 portion of AEP Ohio's testimony does it offer to
11 provide capacity support for the auction load at
12 \$255 per megawatt-day?

13 A. It says that but it certainly seems
14 confusing to me because the sentence right before
15 it's talking about a hundred percent auction
16 beginning in January of '15, so that certainly seems
17 about as clear as mud to me.

18 Q. Was that the offer to provide capacity at
19 \$255 per megawatt-day that you were referring to in
20 your previous answer?

21 A. That's the offer I recall and it was
22 during the hundred percent energy auction period. I
23 didn't recall anything related to that -- related to
24 the 5 percent auction. So kind of reading page 19 at
25 the bottom seems consistent with refreshing my memory

1 that we offered a 255 a megawatt-day beginning
2 January 2015 and we believed that that was below our
3 cost.

4 Q. If you could go back to FES interrogatory
5 5 or, excuse me, strike that.

6 If you could go back to FES Exhibit 5 and
7 focus on the response to interrogatory 2-38.

8 A. Uh-huh.

9 Q. That question relates to the partial SSO
10 auction prior to 2015, correct?

11 A. It appears to but is, I mean, it appears
12 to but if you kind of follow the chain, it seems kind
13 of odd because it's pointing back to the testimony
14 talking about the hundred percent auction, so I don't
15 know.

16 MR. ALEXANDER: Your Honor, at this time
17 I would like to move for administrative notice of FES
18 Exhibit 107 which was marked for identification as
19 FES Exhibit 5 and the selected portion of the Powers
20 testimony which was marked as FES Exhibit 4 as shown
21 through the document marked for identification as
22 FES 6 these were -- FES Exhibit 107 was marked and
23 admitted in the ESP proceeding, it relates to AEP
24 Ohio previously discussed handling this capacity
25 pricing issue, and so we're going to ask for

1 administrative notice of FES Exhibits 4 and 5 at this
2 point.

3 EXAMINER PARROT: You're not planning to
4 move these in as admission for the record?

5 MR. ALEXANDER: Just administrative
6 notice would be fine, your Honor, or just move them
7 in, if you would prefer.

8 EXAMINER PARROT: We've already gone
9 through the trouble of marking them, I guess I'm just
10 wanting to understand your basis for your request for
11 administrative notice.

12 Does the company have any response? Any
13 objection?

14 MR. NOURSE: Are we asking to resolve
15 that issue in the middle of cross-examination, your
16 Honor?

17 EXAMINER PARROT: I don't know if we need
18 to but --

19 MR. NOURSE: I suggest we pick it up at
20 the end.

21 EXAMINER PARROT: That's fine, let's do
22 that.

23 MR. ALEXANDER: Since it was
24 administrative notice, I didn't know when to handle
25 it, so thank you, your Honor.

1 Q. (By Mr. Alexander) I'd like to move on to
2 a new topic. At page 6, line 20 of your testimony
3 you propose an illustration reducing base generation
4 rates by 40 percent. Do you see that?

5 A. Yes, I do.

6 Q. When does AEP Ohio -- we previously
7 discussed AEP Ohio anticipates that the exact
8 mechanism by which this will take place will be a
9 later case; is that right?

10 A. Yeah, my understanding is that we will
11 have to file at some time next year our proposed
12 reduction to base G rates for Commission approval.

13 Q. Okay. So AEP Ohio anticipates filing
14 that later proceeding in the year 2014?

15 A. That's my general guess that it would be,
16 you know, sometime well in advance of when the
17 changes are to take place on 1/1/15.

18 Q. Right, because the change is supposed to
19 take place on January 1st, 2015, correct?

20 A. Correct.

21 Q. Okay. So if base generation rates were
22 reduced by 40 percent across the board, that would
23 retain the existing rate relationships between
24 classes.

25 A. That's correct, and that was one of the,

1 you know, one of the concepts that I've laid out here
2 in my testimony is that if the auction phase-in rider
3 loses its rate zone differentiation beginning 1/1/15,
4 that that's a big enough step or a big enough
5 progress to take at one point in time, and that by
6 just saying, you know, like I did here for
7 illustration, just reduce all the base generation
8 rates by 40 percent, that ensures that all customers
9 are seeing those reductions and there is no alignment
10 issue, that ultimately the resolution of how capacity
11 type costs should be set in the full requirements
12 auction that's expected to happen beginning in June
13 of '15, figuring we're taking a big step with the
14 auction phase-in rider that it was better to sort
15 this other element out once you got to June of '15.

16 MR. ALEXANDER: Could you repeat just the
17 first word of that response?

18 (Record read.)

19 Q. And the current rate relationship between
20 classes are not market based, correct?

21 A. Correct, as we've been discussing
22 regarding base generation rates kind of as we've gone
23 through all of the discussion today, they're kind of
24 a leftover product, for lack of a better word, so
25 they're not necessarily in alignment with what would

1 be the results of a full requirements competitive
2 bid.

3 Q. And the last cost-of-service study was
4 conducted in the early-'90s?

5 A. That's correct, the last class
6 cost-of-service studies were done in the '90s for
7 each of the companies' cases.

8 Q. And you agree that it would be -- it is
9 important to transition to a market-based rate
10 relationship between classes.

11 A. Yes, it is important to make that
12 transition, and we've been kind of taking baby steps
13 along the way for a lot of years and I think continue
14 to take steps to get there so that hopefully by June
15 of '15 we don't have any transition issues.

16 Q. And I believe you sort of touched on this
17 in one of your previous answers, the reason you're
18 not proposing to transition to a market-based rate
19 relationship between classes in this case is the
20 principle of gradualism, correct?

21 A. I think that's a fair summary because
22 we're proposing to eliminate particularly the rate
23 zone relationships and the auction phase-in rider
24 come January of '15; that's kind of a big enough step
25 not to get too far ahead of ourselves.

1 Q. And right now Ohio Power and Columbus
2 Southern customers have different size fuel
3 adjustment clauses, correct?

4 A. Correct. They have different fuel
5 adjustment clause rates as well as different base
6 generation rates.

7 Q. Page 5, line 19 of your testimony. You
8 reference a portion of the Commission's ESP 2
9 decision. Do you see that?

10 A. Yes, I do.

11 Q. And you are not providing an opinion in
12 this case that the Commission actually made that
13 determination, are you?

14 A. I'm not. I'm relying on the advice of
15 counsel that read those documents and all the aspects
16 of it and then using that information to develop the
17 rest of my testimony.

18 Q. And, similarly, at page 6, line 1 of your
19 testimony you reference a portion of the Commission's
20 ESP decision, a separate portion. You are not
21 providing an opinion in this case that the Commission
22 actually made that determination, correct?

23 A. I apologize, I missed the reference at
24 the beginning of the question.

25 Q. Page 6, line 1. It's actually a

1 carryover from page 7 -- or, excuse me, page 5, line
2 21.

3 A. That's correct, I'm not interpreting the
4 order, I'm relying on my advice of counsel based on
5 the orders as a whole.

6 Q. You're relying exclusively on how your
7 counsel has instructed you with regard to those two
8 statements.

9 A. With regard to those two statements, yes.

10 Q. Now, as you discussed with Mr. Petricoff,
11 AEP Ohio proposes to implement the auction results
12 through the variable portion of the fuel adjustment
13 clause, correct?

14 A. I guess technically as part of the
15 auction phase-in rider, but . . .

16 Q. Thank you for the correction. You're
17 correct.

18 AEP Ohio plans to allocate the revenue
19 requirement for the auction phase-in rider
20 differently between the Ohio Power and CSP rate
21 zones; is that correct?

22 A. That's correct. If you kind of go to
23 page 9, bottom of page 9, top of page 10 of my
24 testimony, I basically discuss that you can take the,
25 just like we do today currently with the FAC, you've

1 got the bundle of costs but then when you set the
2 rate for each rate zone, you maintain a historical
3 differential between the two prices.

4 I'm suggesting that for the auction
5 phase-in rider you can do the same thing through the
6 end of '14 so you've got one auction, one price from
7 the auction, and then you take those dollars and tilt
8 the rate so that the CSP rate area is -- rate zone
9 price is a little higher and the OP rate zone price
10 is a little lower, just like the current FAC.

11 Q. Okay. So AEP Ohio is proposing to, in
12 your words, tilt the rate throughout the period
13 through the end of the ESP period.

14 A. Through December of '14. So not quite
15 the end.

16 Q. So let's do a hypothetical here. Suppose
17 that the auction result comes in at 4 cents, all
18 right? If the 4 cents was allocated equally between
19 the two rate zones, proportionally between the two
20 rate zones, then that would have a narrowing effect,
21 it would bring the rate zones closer together. But
22 if that 4 cents is tilted, in your words, then it
23 will keep the respective relationship between the CSP
24 and the Ohio Power rate zone; is that correct?

25 A. I think that's a decent summary. Yeah.

1 The current FAC, for example, the cost is maybe in
2 your example 4 cents, the FAC cost today might be 4
3 cents, but the actual rates for CSP might be 4.2
4 cents and it might be 3.8 for OP, and doing the same
5 kind of thing is what we're proposing to continue
6 through December '14.

7 Q. So the auction would not have any
8 narrowing effect on the difference between the
9 charges for those two rate zones.

10 A. That's correct. And that's why we're
11 saying continue that through December '14, then allow
12 that differential to expire at the end of '14 at the
13 same time you're reducing base generation rates by
14 about 40 percent, so that's a good time to do both
15 things simultaneously so that if there are impacts of
16 getting rid of that differential, they should be
17 mitigated somewhat by the base generation rate
18 reduction.

19 Q. And how are the allocation factors for
20 each rate zone calculated?

21 A. They're based on historical
22 relationships. If you look in each of the companies'
23 quarterly fuel filings, you come up with a total FAC
24 cost and then you assign a certain percentage of the
25 cost to one rate zone and a certain percentage to the

1 other and then divide by each rate zone kWh to come
2 up with the rates.

3 Q. AEP Ohio proposes to reconcile the CBP
4 results and the auction costs in the auction phase-in
5 rider on a monthly basis; is that correct?

6 A. Not exactly. The company would
7 obviously, for accounting purposes, have to track
8 over/underrecovery on a monthly basis, but I think we
9 anticipate that we would continue quarterly filings
10 to adjust the rate itself.

11 Q. The other part of the auction phase-in
12 rider are the energy costs which are currently in the
13 fuel adjustment clause, correct?

14 A. I guess just to be clear there are three
15 pieces in the auction phase-in rider; the auction
16 purchase, the auction costs which are like the
17 auction manager, that kind of stuff, and then the
18 energy or variable component which is basically the
19 existing FAC elements excluding the fixed costs.

20 Q. I'll rephrase the question. The existing
21 FAC is currently reconciled on a quarterly basis,
22 correct?

23 A. Correct.

24 Q. Will the auction phase-in rider be
25 audited by the staff in the same manner as the fuel

1 adjustment clause?

2 A. I certainly expect so.

3 Q. And will the fixed-cost rider be audited
4 by staff in the same manner as the fuel adjustment
5 clause?

6 A. I certainly expect so.

7 MR. ALEXANDER: Thank you, Mr. Roush.

8 THE WITNESS: Thank you.

9 EXAMINER PARROT: All right. Let's go
10 off the record briefly.

11 (Discussion off the record.)

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

14 At this point we're going to take a lunch
15 recess and we'll reconvene at 2:15.

16 (Lunch recess taken.)

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Monday Morning Session,
June 24, 2013.

- - -

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

Mr. Kurtz.

MR. KURTZ: Thank you, your Honor.

- - -

DAVID M. ROUSH

CROSS-EXAMINATION

By Mr. Kurtz:

Q. Good afternoon, Mr. Roush.

A. Good afternoon.

Q. I'd like to ask you about the fixed cost
portion of your testimony. As I understand it right
now, AEP Ohio is recovering approximately \$8 million
a month or \$96 million a year in fixed costs included
in its purchased power -- fixed costs included in its
FAC; is that correct?

A. That's probably a decent round number.
The nonenergy fixed cost component of the FAC is
around 90 -- in the neighborhood of \$96 million a
year.

Q. Okay. And I think we learned from FES
Exhibit No. 3 that in the calculation of the 188 rate

1 AEP Ohio included 59.29 million of purchased power
2 fixed demand costs in that calculation, correct?

3 A. No, absolutely incorrect. I can't tell
4 you how the 188 was determined. I can tell you that
5 there was a level of costs included in the company's
6 \$355 a megawatt-day proposal but I can't speak to
7 what was ultimately included in the 188.

8 Q. Well, are you saying you don't know how
9 the Commission got to the 188?

10 A. No, I don't. I wasn't in that case.

11 Q. Well, you would agree that Mr. Pearce
12 included the 59.29 million of purchased power fixed
13 demand costs in his calculation, correct?

14 A. In Dr. Pearce's Exhibit KDP-4, page 14,
15 there was 59.29 million of demand fixed costs
16 included based on the 12 months ended December 31,
17 2010. As we discussed earlier with Mr. Alexander, I
18 can't say that all of those amounts are related to
19 the items identified that are fixed costs in the FAC.

20 Q. So you don't know if it's all
21 Lawrenceburg and OVEC?

22 A. I do not, and I suspect it is not.

23 Q. You think it includes more than
24 Lawrenceburg and OVEC.

25 A. It very well could.

1 Q. Well, that would make it even worse,
2 wouldn't it, from the perspective of the double
3 recovery perspective?

4 A. No, I don't see that at all.

5 Q. Did the Commission explicitly exclude
6 these types of costs from its calculation of the 188?

7 A. As I've indicated earlier, I don't know
8 how the Commission arrived at the 188.88.

9 Q. Do you know how -- do you know if the
10 OVEC costs are escalating every month or every year?
11 The fixed costs associated with the OVEC purchase.

12 A. Your question was are those escalating
13 every month and every year?

14 Q. Yes.

15 A. Not to my knowledge.

16 Q. So the massive environmental spending
17 upgrades at the OVEC plants, Pussy Creek and Kyger
18 Creek are the environmental costs are not flowed
19 through to the owners through the purchase -- through
20 the purchase adjustment?

21 A. I'm not sure what you're specifically
22 addressing. I don't have any detail on the
23 calculation of the OVEC demand charge.

24 Q. AEP Ohio owns about 43 percent of OVEC,
25 doesn't it?

1 A. It has some ownership stake, I don't know
2 the percentages.

3 Q. Do you know if Mr. Akins is the chairman
4 of the board of OVEC?

5 A. I haven't looked at the board of OVEC so
6 I don't know.

7 Q. Do you know if OVEC has a -- must upgrade
8 its coal plants for the M-A-C-T, MACT, and other
9 environmental rules like all the other generation
10 owners in the country?

11 A. To the extent they're a generation owner,
12 they have to comply with environmental RECs.

13 Q. And do you know if those environmental
14 capital costs are reflected in the purchased power
15 demand charge that AEP is recovering through the FAC?

16 A. Which environmental demand costs?

17 Q. OVEC's environmental demand costs to meet
18 environmental requirements.

19 A. To the extent they have environmental
20 costs, I assume those would be reflected in their
21 bills.

22 Q. Right now is it correct that about half
23 of the AEP Ohio load is -- in terms of megawatt-hours
24 is shopping and about half is SSO? I think you used
25 24 million megawatt-hours in your Exhibit 1; was that

1 just illustrative or was that --

2 A. As we discussed, Exhibit 1 is
3 illustrative, my recollection of those, I think I saw
4 a Commission report from like March of this year that
5 showed it was -- that shopping was approaching
6 50 percent, but I don't know the exact number.

7 Q. On megawatt-hours?

8 A. I believe that's what it was on.

9 Q. Okay.

10 A. It's a public document.

11 Q. Now, your position on the FAC, the fixed
12 portion of the FAC is that AEP Ohio should continue
13 to recover the 96 million or whatever that number
14 turns out to be in the future through March 31, 2015,
15 correct?

16 A. No. My position is the fixed cost
17 component should be continued to be collected through
18 May 31, 2015.

19 Q. What did I say?

20 A. March.

21 Q. Oh, May 31. Okay. So through May 31,
22 2015, that 96 million or whatever the number turns
23 out to be should be recovered in the FAC, correct?

24 A. The roughly 8 million a month should be
25 recovered through the company's proposed fixed-cost

1 rider which is one element of the existing FAC.

2 Q. Now, your position is that AEP Ohio
3 should recover that 96 million through the FAC no
4 matter how big the standard offer load is; isn't that
5 right? Or small.

6 A. Well, as those costs have been in the FAC
7 since the beginning of the FAC, the costs are part of
8 the dollar amount, the roughly 8 million a month, is
9 in the FAC calculation regardless of the level of
10 load.

11 Q. So just an extreme hypothetical to
12 demonstrate a point, if you had just Ms. Grady on the
13 system and she was the only one left, you would be
14 charging her \$96 million a year for that fixed
15 component? She's your only SSO customer. Is that
16 the way the mechanics would work? I know it's an
17 exaggerated example but isn't that the way the
18 mechanics would work?

19 A. I think the arithmetic would work that
20 way; I agree with you it's an exaggerated example.

21 Q. I'm assuming the 12 percent price cap
22 doesn't kick in as you propose. If it did, then she
23 would be saved by that, wouldn't she?

24 In other words, your recommendation to
25 apply the 12 percent price cap to the -- well, no, I

1 guess she wouldn't be saved because your 12 percent
2 price cap would only apply to the extent that the
3 auction exceeds the FAC, it wouldn't cover this,
4 right?

5 A. No, no, that's incorrect.

6 Q. Okay. Let me skip around, but would
7 Ms. Grady be saved or would she not be saved by
8 paying the 96 million under your 12 percent price cap
9 proposal?

10 A. Under my recommendation on page 11 of my
11 testimony where the Commission apply the 12 percent
12 rate cap to increases, any potential increases
13 resulting from the implementation of the auction
14 phase-in rider and fixed-cost rider relative to the
15 current FAC as of June 2013, under that mechanism
16 Ms. Grady, in this grantedly absurd hypothetical,
17 would be capped by the 12 percent rate cap and only
18 see an increase based on the 12 percent rate cap.

19 Q. Okay. And that would just simply mean
20 the \$96 million would be added to the deferral and
21 all ratepayers would pay it. Is that the way the
22 mechanics work on that?

23 A. It would be part of the 12 percent rate
24 cap deferrals and I don't know that the Commission
25 has determined how those will be dealt with.

1 Q. Well, aren't you asking that those
2 amounts be deferred and recovered at a later date to
3 the extent that the Commission authorized, to the
4 extent the 12 percent price cap is exceeded, you
5 defer those amounts for later recovery, correct?

6 A. That's my understanding of the
7 Commission's order, yes.

8 Q. So if we had the -- if the last woman
9 standing was Ms. Grady, she would be protected by the
10 96 million, but then you would just recover it from
11 all other consumers at a later date through a
12 deferral. Correct?

13 A. To the extent there are Commission
14 authorized deferrals, the company would expect to get
15 recovery of those, yes.

16 Q. Okay. And your proposal to recover the
17 full 96 million applies notwithstanding or regardless
18 of how big the SSO load is and regardless of how much
19 energy is served via auction. You get the full 96 no
20 matter what.

21 A. We have contractual commitments to
22 purchase that power and to pay those fixed costs and
23 we would expect to collect those costs.

24 Q. Now, the AEP Ohio fuel adjustment clauses
25 have -- they adjust quarterly or every six months? I

1 forget.

2 A. The FAC adjusts quarterly.

3 Q. And the last quarterly adjustment was a
4 pretty big bump upward, wasn't it?

5 A. I don't recall off the top of my head
6 because the -- we've had two adjustments placed into
7 affect this year, the first quarter and the second
8 quarter, and we've already filed the third quarter,
9 so I'm just not remembering the numbers.

10 Q. Is your FAC going up because coal and
11 natural gas prices are going up or because the
12 96 million is being recovered by fewer megawatt-hours
13 because of the loss of load to shopping?

14 A. I don't think I agree our FAC is going
15 up, and I don't know the basis of what each
16 element -- what direction each element of the FAC is
17 going.

18 Q. If the Commission determined that yes, in
19 fact, part of the purchased power demand costs were
20 included in the 188 and it wanted to avoid this
21 last-man-standing issue, would one sort of typical
22 ratemaking method be to allocate the 96 million
23 between the shopping load and the nonshopping load?

24 A. I struggle with what is a typical
25 ratemaking method in an ESP environment in Ohio.

1 Q. I'll give you that.

2 Now, you're familiar with the Ormet
3 Aluminum recently filed application to amend its
4 special contract?

5 A. I know they filed something; I haven't
6 read it.

7 Q. One of the things is they want to get
8 market access beginning, when, very soon? 1/1/15; is
9 that it?

10 A. I don't know, I haven't read it.

11 Q. Oh, 1/1/14. Well, let's assume it's
12 1/1/14 and that load shops. That would -- that would
13 dramatically reduce the amount of SSO load left to
14 pay your 96 million, wouldn't it?

15 A. If a large customer shopped, that would
16 reduce the SSO load.

17 Q. And, therefore, increase the \$96 million
18 proportionally on everyone else?

19 A. It wouldn't increase the fixed cost
20 amount. It would change the per-unit rate.

21 Q. Resulting in a rate increase on everybody
22 else. For you to get your same 96 million from fewer
23 megawatt-hours, you have to charge more per
24 megawatt-hour, correct?

25 A. I thought that's what I just said.

1 Q. Okay. Let's talk about the OVEC
2 purchase. So you are aware that AEP Ohio's part
3 owner of OVEC; is that correct?

4 A. That's my general understanding, but I'm
5 not an expert on the corporate structure of OVEC.

6 Q. Do you know if the capacity component
7 you're recovering in the FAC, is that a cost-based
8 capacity component?

9 A. I believe it's a FERC-approved cost base
10 rate.

11 Q. So the energy associated with that is
12 cost based as well?

13 A. I believe that's the case.

14 Q. What does AEP Ohio do with the cost-based
15 energy it gets from OVEC that it doesn't need to
16 serve SSO load?

17 A. I don't know that that circumstance
18 exists, so I don't know that I can follow your
19 hypothetical.

20 Q. Well, let's assume that part of the OVEC
21 energy, the cost-based OVEC energy, was not needed to
22 serve SSO load. You don't run it in the ground, you
23 resell it in the market, correct, to the extent that
24 it clears, right?

25 MR. NOURSE: Your Honor, I would object,

1 same as earlier. Mr. Roush is not a fuel procurement
2 or a plant operator or, you know, anything other than
3 what he's held himself out in his testimony to be, a
4 very experienced rate and tariffs guy. So I think
5 we're getting beyond his testimony and beyond what he
6 can testify to.

7 MR. KURTZ: Well, if that's true, then I
8 question the integrity of his testimony about why the
9 \$96 million should continue to be recovered through
10 the FAC from the nonshopping load.

11 MR. NOURSE: That's a different matter,
12 your Honor. That's a rate design, rate recovery
13 issue.

14 EXAMINER PARROT: Mr. Roush, please
15 answer the question to the best of your ability.

16 THE WITNESS: Can you read it.

17 (Record read.)

18 A. I guess my simple view goes back to the
19 view we talked about earlier with Howard is that
20 the -- there's kind of a general overall economic
21 dispatch and if the OVEC is the cheapest energy, it
22 goes to SSO load, and if it's not, it doesn't.

23 Q. (By Mr. Kurtz) And if it doesn't, you
24 sell it into the market at the prevailing market
25 price.

1 A. I don't know for sure.

2 Q. Did you sponsor a response to FES
3 interrogatory 1-12? It's the makeup of the, yeah,
4 the confidential version that shows the components of
5 the FAC for July '12 through March 2013.

6 A. Yes, I prepared that.

7 Q. Okay. Can you confirm that the OVEC
8 demand charge is the bulk of the 96 million that
9 we're talking about here?

10 MR. NOURSE: Your Honor, I object. If
11 we're going to be getting into confidential
12 materials, I think we should do it in a sealed
13 transcript and there certainly not everybody that's
14 in the room right now is cleared to do that.

15 MR. KURTZ: That's why I said in a very
16 general sense was it the bulk of the 96.

17 MR. NOURSE: Well, that statement even,
18 Mr. Kurtz, I think is questionable. I think if
19 you're going to get into this document and ask
20 qualitative questions like that, quantitative
21 questions, we need to be in a sealed transcript.

22 MR. KURTZ: Your Honor, I think all I
23 would like to do is have him identify this exhibit
24 and then have it entered into evidence as then I
25 don't even need to ask questions about it and I'll

1 make copies at the break. I only have the one right
2 now. Should I have him identify it?

3 EXAMINER PARROT: Yes, please.

4 MR. KURTZ: May I approach?

5 EXAMINER PARROT: You may.

6 Q. (By Mr. Kurtz) Mr. Roush, is that the
7 document you prepared?

8 A. Yes, it is.

9 MR. NOURSE: Mr. Kurtz, can I see that?
10 Just make sure we're looking at the same document.

11 Thank you.

12 MR. KURTZ: Your Honor, I'll have copies
13 made at the break.

14 MR. NOURSE: And I would note, just to be
15 clear, that this needs to be a sealed exhibit,
16 submitted under seal, and if you're distributing any
17 copies, could you just let me do that so I can make
18 sure people are authorized?

19 MR. KURTZ: Absolutely.

20 MR. NOURSE: Thank you.

21 MR. KURTZ: I guess that will be marked
22 as OEG Exhibit 2.

23 (EXHIBIT MARKED FOR IDENTIFICATION.)

24 Q. I'd like to turn to the 12 percent price
25 cap, Mr. Roush. Just mechanically, this would --

1 there were four items identified in the Commission's
2 rehearing order that would go towards the 12 percent
3 price cap; is that correct? And I think those were
4 the RSR, the DIR, the PTR, and the GRR.

5 A. That is correct; the RSR, the DIR, the
6 PTR, and the GRR.

7 Q. Okay. So what we would do is we would
8 take the, let's just use residential for example,
9 take the average residential -- take a residential by
10 customer bill and apply those four riders to it which
11 are operational, I guess, RSR, the DIR, and then once
12 their total bill got increased by more than
13 12 percent, you cap them and then defer that amount;
14 is that the way it works mechanically?

15 A. That's close. Let me try to see if we
16 can get it a little more precise. You would look at
17 that customer's bill based on August 2012 rates and
18 then apply 12 percent to that bill to come up with a
19 dollar amount, let's just say it's \$10. Then you
20 would look at their bill today and say have they seen
21 an increase due to those four items, the RSR, the
22 DIR, the PTR, and the GRR, have they seen an increase
23 due to those items that exceeds \$10? And if they
24 have, then they would be capped and the amount above
25 the cap would be deferred.

1 Q. Okay. And your proposal would be to
2 expand those four items to include the auction, the
3 difference between what the auction would exceed the
4 FAC as well as the fixed component of the FAC?

5 A. Generally, yes, but let me make sure the
6 mechanics are right. You would look at the
7 auction -- the sum of the auction phase-in rider and
8 fixed cost rider, compare that to the June 2013 FAC
9 rate, and say that value went up a dollar a
10 megawatt-hour or down a dollar a megawatt-hour,
11 either way, you would compare that amount, that
12 amount would be part of the computation of the
13 12 percent cap as well.

14 Q. Okay. Your average residential price is
15 about 13 cents a kilowatt-hour; is that correct? For
16 SSO load.

17 A. That's a rough ballpark all-in rate for
18 an SSO customer.

19 Q. Okay. So 12 percent of that, assuming it
20 was 13 cents, would be 1.56 cents per kilowatt-hour?

21 A. Your arithmetic's correct.

22 Q. Okay. How far are you into the
23 12 percent now for, just ballpark, for an average
24 residential customer? What does the DIR and the RSR
25 amount to as a percent of their August 2012 bill?

1 A. For a Columbus Southern Power rate zone
2 customer, residential customer again we're talking
3 about here, for a Columbus Southern rate zone
4 residential customer using a thousand kilowatt-hours,
5 a winter bill they're paying about \$7.95 and for a
6 summer bill they're paying about \$8.49.

7 Q. So those are dollars per megawatt-hour
8 that they're paying for those two riders? The RSR
9 and the DIR?

10 A. Since I did a 1 megawatt-hour customer,
11 that's kind of how the arithmetic works out, yeah.

12 Q. So actually what was the August 2012
13 starting rate? They're paying 13 cents now and it
14 includes those charges, the August 2012 number would
15 be lower and I think that I did the price cap wrong,
16 I included things we're trying to guard against.

17 A. A thousand kilowatt-hour customer in the
18 Columbus Southern Power rate zone, in the winter
19 months their 12 percent increase cap is \$14.53, in
20 the summer it is \$15.93.

21 Q. Okay. So it looks like you're about just
22 over halfway towards the 12 percent cap,
23 approximately?

24 A. Looks like -- looks like a little over
25 halfway for a CSP rate zone thousand kilowatt-hour

1 customer.

2 Q. If the Commission adopts your 12 percent
3 price cap applied to the auction as well as the fixed
4 component, how much extra deferral would be added?

5 A. I don't know.

6 Q. So it's really just -- it's a
7 methodology, you haven't attempted to quantify how
8 much additional deferral the Commission would be
9 potentially authorizing.

10 A. Without knowing what the auctions are
11 going to come out at, not knowing where the FAC might
12 be going, not knowing where the DIR might be going, I
13 can't quantify that.

14 Q. So how can the Commission judge whether
15 it's reasonable if it doesn't have an idea as to the
16 magnitude of the number?

17 A. I think in the same way they authorized
18 the 12 percent cap in the first place, you know, they
19 felt that was a level that was reasonable to
20 institute and they've asked us to monitor what's
21 going on under that, and we filed, you know, a
22 document to that effect and are continuing to monitor
23 that, so.

24 Q. Well, I can understand the 12 percent,
25 but how -- but if the Commission doesn't know how

1 much money that generates for later recovery from all
2 consumers with -- plus interest, how can the
3 Commission determine whether this proposal now is
4 reasonable?

5 A. To me, some of it goes right back to what
6 you just walked me through which is that we're not
7 even halfway to the cap for a Columbus Southern Power
8 rate zone customer so there's headroom. The
9 secondary part of it is, you know, the Commission has
10 made a determination and ordered us to do these
11 auctions so we're doing the auctions, and what this
12 does is provide an additional rate mitigation tool to
13 an unexpected, you know, to any potential unexpected
14 outcome, so.

15 Q. But you understand the result of the OEG
16 and OCC and IEU reserve price recommendation would be
17 no rate increase on consumers as a result of these
18 auctions and, therefore -- and no deferral. If
19 there's no rate increase, there's nothing to defer.
20 Do you understand that would be the result of our
21 proposal?

22 A. To be honest, I haven't been keeping up
23 with this whole reserve price dialogue. That would
24 be better for Dr. LaCasse.

25 Q. Simply saying that the starting price of

1 the auction would be the FAC for the respective load
2 zones, so people would not get a rate increase but
3 may get a rate decrease if the auction's
4 unsuccessful. That's the reserve price I'm talking
5 about.

6 A. I haven't really contemplated that. I've
7 been focused on what the company's proposed.

8 Q. You didn't read Mr. Murray or
9 Mr. Kollen's testimony?

10 A. I flipped through it, but didn't really
11 focus on it.

12 Q. Okay.

13 A. They weren't addressing me.

14 Q. You've -- just a couple of small points.
15 You've laid out two different scenarios to recover
16 the fixed cost component either in a separate rider
17 or roll it into the, I don't know what you called it,
18 the overall auction rider; is that correct?

19 A. I guess we laid out our proposal to
20 include the fixed cost in a separate fixed cost rider
21 to allow for kind of transparency and matching up of
22 the non -- of the variable costs with the auction
23 purchase costs, and then we also, in Exhibit DMR-1,
24 laid out the same thing could be done within a single
25 rider. One would arguably call that maybe a

1 purchased power rider.

2 Q. Yeah, a single rider. Either way, you
3 get your fixed -- your full fixed cost recovery,
4 correct?

5 A. Correct. The company would continue to
6 collect the fixed cost as we have been doing since
7 2009.

8 Q. Okay. One last little area. When you --
9 you discussed what the rate would be beginning
10 January 1, 2015, through May 31, '15, when the
11 capacity component in the SSO rate would fall to 188
12 a megawatt-day, correct?

13 A. This is your assumed 40 percent reduction
14 going from \$22.50 a megawatt-hour to \$13.50 a
15 megawatt-hour or \$9 a megawatt-hour reduction.

16 At page 6 and continuing on to page 7 of
17 my testimony I discuss the reduction of the base G
18 rates January of 2015 to reflect 188.88, yes.

19 Q. And I guess using simple algebra I think
20 we can conclude, I think Mr. Alexander did or
21 somebody did, you're assuming that the generation
22 rate on average in the SSO tariffs is \$314 a megawatt
23 day, that's the same 40 percent reduction to get you
24 to 188; is that correct?

25 THE WITNESS: Can you read that one back

1 for me? Sorry.

2 (Record read.)

3 A. Kind of. The current base G rates,
4 whatever they are, whatever's in them, whatever's not
5 in them, they're kind of -- I think we talked about
6 them being left over sort of prego, are currently the
7 base G rates are around 22.50 a megawatt-hour.

8 What I then did was directly compute
9 using the 188, that a rate based on 188.88 for
10 capacity only is roughly 13.52 a megawatt-hour and so
11 that difference from 22.50 to 13.52 is the difference
12 between base G rates, whatever they are, and 188.88
13 capacity rate.

14 Q. In order for the staff or somebody to
15 audit you to make sure that going from 22.50 to 13.50
16 was correct, and that -- in terms of what's in the
17 base G rate, I forget the phrase, or whatever's in
18 there, the prego, wouldn't it be, instead of trying
19 to audit the prego, if the Commission wants customers
20 to pay 188.88 a megawatt day beginning January 1, why
21 don't you just charge customers 188.88 a megawatt-day
22 instead of trying to untangle the prego?

23 A. I guess a couple answers to that. One is
24 I think that's effectively what I did. And, two,
25 because I directly computed, said here's your SSO PJM

1 5 CP times 188.88 times 365 days in a year gives me a
2 total dollars divided by the annual energy gives me a
3 revenue requirement in dollars per megawatt-hour.

4 Now, from a very practical standpoint
5 let's go back to, pardon me, Ms. O'Grady, but I'm
6 going to use you as an example -- I'm sorry,
7 Ms. Grady, sorry. For residential customers we don't
8 have metering on those customers to be able to
9 measure a PJM 5 CP for every single residential
10 customer directly and bill them based on their PJM 5
11 CP without using load profiling.

12 So currently their rate is a -- their
13 residential rate is generally a dollar per
14 kilowatt-hour rate and so I would expect it to
15 continue to be a dollar per kilowatt-hour rate the
16 same way things are done in the auctions.

17 Q. I understand the residential dollar per
18 megawatt-hour rate, that's the way rates are
19 everywhere across the country because residential
20 customers don't have demand meters. But for those
21 customers with demand meters don't you -- if the
22 Commission wants them to pay 188.88 a megawatt-day,
23 why don't you just charge them 188.88 a megawatt-day?
24 There would be nothing to untangle, no prego to
25 unscramble.

1 A. That would only work for nonshopping
2 interval metered customers and, again, I think it's
3 better addressed once you get to June of 2015 when
4 you're doing the full requirements auction rather
5 than to do that in that five-month period, that small
6 five-month period January to May of 2015.

7 Q. Well, you would agree that it would be
8 important for the company not to overrecover during
9 that five-month period and for consumers not to
10 overpay, wouldn't you?

11 A. I guess in general it's hard not to agree
12 with that statement, but then again, I look at the
13 same way that when you get to the in-state, when you
14 have full requirements auctions and the way that
15 those auctions are split into capacity and energy and
16 then there's not a separate 188.88 rate or whatever
17 the number is for the other utilities in Ohio,
18 there's not a separate rate for that that's computed
19 for every individual customer, there's a value that's
20 computed for like all transmission voltage customers.
21 So I guess I don't know that I have to get all the
22 way to where you're at to address things
23 appropriately.

24 Q. Okay. Last thing, mechanics.
25 Pre-divestiture the SSO load is served from the AEP

1 Ohio power plants which the utility continues to --
2 continues to own, correct? I mean the FAC is derived
3 from the AEP Ohio power plants plus your purchase
4 contracts, correct?

5 A. I think pre-corporate separation things
6 are operated as they always have and that SSO load is
7 served from AEP Ohio power plants and purchase
8 contracts and economy purchases when those are
9 appropriate.

10 Q. Let's assume that the OEG, OCC, IEU
11 position is accepted by the Commission and that none
12 of the competitive bidders can beat the FAC reserve
13 price. Under that hypothetical wouldn't AEP Ohio
14 just continue serving the nonshopping load just like
15 it always has with no change?

16 MR. NOURSE: Your Honor, I would object.
17 I think that's beyond the scope of his testimony and
18 it's really just contingent future hypothetical that
19 he's not made any determinations on.

20 EXAMINER PARROT: Response.

21 MR. KURTZ: Well, I think it's a fairly
22 simple question that anybody who works for AEP ought
23 to know the answer to. Whether it's beyond the
24 scope, I think he's testifying as to why an
25 energy-only auction or the mechanics of how it would

1 work and how the fixed component would be broken out,
2 he testifies to -- testifies right here on page 3
3 where the components of the existing bill, full
4 adjustment, alternative energy rider, transmission,
5 and base generation rates, this is squarely within
6 his testimony.

7 EXAMINER PARROT: Mr. Roush, please
8 answer the question.

9 THE WITNESS: Can you please reread it?
10 (Record read.)

11 THE WITNESS: I'm sorry, what were the
12 last three words.

13 (Record read.)

14 (Discussion off the record.)

15 A. I'm not sure. I guess the best answer I
16 can give you is maybe through the end of '13. I
17 certainly haven't thought about what impacts that
18 would have post-corporate separation.

19 Q. Now, same hypothetical pre-corporate
20 separation but the Commission doesn't accept our
21 proposal and the auction clears at a price above the
22 FAC, do you have that hypothetical in mind?

23 In other words, the position you're
24 arguing for although I'm assuming the price is above
25 the FAC, I know we don't know that.

1 A. I think I'm with you so far.

2 Q. Okay. Now, AEP Ohio is allowed to bid on
3 the auction load, correct, with the 80 percent
4 participation cap?

5 MR. NOURSE: Your Honor, I object. He's
6 asking for a legal conclusion. This witness has not
7 offered an opinion on that subject.

8 MR. KURTZ: I'm not asking -- I certainly
9 didn't want to ask a legal opinion. Just asking if
10 he knows.

11 EXAMINER PARROT: Rephrase.

12 MR. NOURSE: He asked if he's permitted.
13 Thank you.

14 MR. KURTZ: That's legality?

15 EXAMINER PARROT: Please rephrase.

16 Q. Is Ohio Power allowed to bid on the
17 auction pre-divestiture, pre-corporate separation?

18 MR. NOURSE: Same objection.

19 EXAMINER PARROT: Are you asking for a
20 legal opinion?

21 MR. KURTZ: No.

22 EXAMINER PARROT: Please state that.

23 Q. On a nonlegal basis do you have an
24 opinion whether AEP Ohio can bid on the auction,
25 pre-corporate separation?

1 A. I don't know. We talked about this
2 earlier. I don't know what's permitted and that's
3 not something I normally deal with in my day-to-day
4 activities.

5 Q. Okay, if you don't know, that's fine.

6 Post-corporate separation what is AEP
7 Retail or AEP Generation Resources, AEP Unregulated,
8 where is the power going, generation going? It's
9 AEP?

10 A. I believe it's AEP Generation Resources.

11 Q. Okay. AEP. Post-divestiture is AEP
12 Generation Resources allowed to bid on the Ohio Power
13 auctions, if you know?

14 A. I don't know. That's a whole other
15 corporate entity and I don't normally deal with those
16 folks.

17 Q. So you don't know if they can bid on the
18 auctions?

19 A. I haven't kept up with all the -- all the
20 documents in all these proceedings related to who can
21 and can't bid.

22 Q. Okay, but you know that AEP Generation
23 Resources is contractually obligated to, on a
24 pass-through basis, provide all the energy and
25 capacity and ancillaries and everything that AEP Ohio

1 the utility needs to serve the nonshopping load.

2 MR. NOURSE: Now, I object. Again, I
3 think that misstates the contract and you're getting
4 into FERC regulated and, you know, contracts that are
5 actually pending before the FERC and, again, a future
6 hypothetical involving an entity Mr. Roush said he
7 doesn't work with or follow and asking the same
8 question is really a legal question.

9 MR. KURTZ: Well, Mr. Nourse.

10 EXAMINER PARROT: Do you care to
11 rephrase?

12 Q. Okay. Do you think it's important for
13 the Commission to understand how the SSO load will be
14 served post-corporate separation? I mean, the
15 electricity has to come from somewhere. Don't you
16 understand it's going to come from AEP Generation
17 Resources to AEP Ohio to the SSO load on a straight
18 pass-through basis at the PUCO authorized tariff
19 rates?

20 MR. NOURSE: Your Honor --

21 A. Now you're getting --

22 MR. NOURSE: Your Honor, I object. I
23 think we have a compound question now and he's really
24 getting into things that were addressed and litigated
25 in the ESP decision that the Commission did

1 understand and did address in its orders.

2 MR. KURTZ: I think it's relevant to the
3 Commission ruling on auctions post-divestiture and
4 now Mr. Nourse doesn't want their witness to talk
5 about what the company would look like
6 post-divestiture even though their auction proposal
7 goes in that time period.

8 EXAMINER PARROT: The objection's
9 overruled.

10 THE WITNESS: Can you reread the question
11 for me, please?

12 (Record read.)

13 A. Let me try to parse that into two pieces.
14 Yes, I believe the Commission needs to understand how
15 SSO load is being served whether it's through auction
16 or otherwise.

17 The secondary part is I understand there
18 is a filing pending before FERC for the power supply
19 for the nonauction SSO load, and that's I think about
20 all I can say about that.

21 Q. Assume -- I don't want a legal opinion on
22 any of this, just assume that AEP Generation
23 Resources can bid into the auction and the auction
24 clears at a price above the FAC. Would you agree
25 that AEP Generation Resources would be selling the

1 same energy to the same customers but at a higher
2 price?

3 MR. NOURSE: Again, your Honor, I object.
4 He's not been offered as an operational witness or a
5 purchased power expert or how, you know, the AEP
6 GenCo would supply any contractual obligations it
7 has, whether it's through existing resources, other
8 purchases, other financial agreements, that's just
9 beyond the scope of his testimony.

10 MR. KURTZ: If he doesn't know,
11 then . . .

12 EXAMINER PARROT: Mr. Roush, please
13 answer the question.

14 THE WITNESS: Please repeat it.

15 (Record read.)

16 A. I guess we've covered this a couple
17 times. I'm not sure I know one way or the other
18 regarding the assumption. And then the second part
19 of it is it seems like that's a overall -- an
20 oversimplification of the circumstance. I think the
21 world changes, as far as Ohio Power's concerned,
22 December 31, 2013, when corporate separation happens
23 or is proposed to happen.

24 MR. KURTZ: No more questions, your
25 Honor.

1 EXAMINER PARROT: Ms. Grady?

2 MS. GRADY: Thank you, your Honor.

3 - - -

4 CROSS-EXAMINATION

5 By Ms. Grady:

6 Q. Good afternoon, Mr. Roush.

7 A. Good afternoon. And I apologize for
8 calling you by the wrong name earlier.

9 Q. That's all right, as long if I call you
10 "O'Roush" and you take no offense.

11 A. No offense whatsoever.

12 Q. Yes. I want to go to your testimony at
13 page 4 and down at the bottom of the page you were
14 questioned by Mr. Alexander with respect to the
15 statements that you make on lines 23 through 25. Do
16 you recall that cross?

17 A. Yes, I do.

18 Q. And you indicated that your testimony was
19 solely based on your advice by counsel. Correct?

20 A. The statements made kind of halfway
21 through line 23 on page 4 --

22 Q. Yes.

23 A. -- through most of the way through line 3
24 on page 5 are based upon the advice of my counsel.

25 And I needed that information in order to prepare the

1 rest of my testimony.

2 Q. Now, did you have occasion to read the
3 Commission's ESP decision?

4 A. Back when it was issued, yes.

5 Q. And do you recall parts of that decision
6 where the Commission would have determined that the
7 retail SSO generation service is bundled generation
8 service that is different than the wholesale capacity
9 service? Do you recall that?

10 A. Not specifically. I know there are
11 lengthy orders and I read them a long time ago so I
12 don't -- I didn't pore back over those before this
13 proceeding, I trust my counsel.

14 Q. Now, Mr. Roush, would it be also -- would
15 it be also your opinion that the difference between
16 retail SSO generation service and wholesale capacity
17 service that that difference justifies selling
18 capacity to CRES providers at RPM while charging SSO
19 customers at the company's cost of capacity?

20 MR. NOURSE: Your Honor, I object. I
21 think we're just getting into issues that were
22 litigated and decided in the ESP case and that's
23 certainly not why Mr. Roush is here to testify and
24 shouldn't be the subject of debate or testimony in
25 this proceeding. Especially considering that

1 rehearing's already been completed and appeals are
2 pending currently before the Supreme Court of Ohio.

3 EXAMINER PARROT: Response, Ms. Grady.

4 MS. GRADY: Well, your Honor, it's within
5 his testimony. He's relying on legal advice. And in
6 Ohio there is a wide-open cross rule so I believe
7 it's a fair question to ask.

8 EXAMINER PARROT: I'll allow the
9 question.

10 THE WITNESS: Can you please reread it.

11 (Record read.)

12 A. I don't know, I haven't given that any
13 really thought. I've been focused on what SSO
14 customers would pay as a result of the required
15 auctions.

16 Q. Let's go for a moment to your testimony,
17 then, on page 6, and you've had some questions about
18 this as well and I wanted to focus down at the bottom
19 about your -- what you say is the most
20 straightforward approach to ensure that all customers
21 benefit from the ESP-required adjustment. Do you
22 recall the questions I believe by several counsel as
23 to -- as to what you're proposing here?

24 A. I recall those questions generally.

25 Q. Was it generally your testimony that this

1 would be an issue that the Commission would have to
2 address in a future case as opposed to this case?

3 A. Yes, I think if you go up a couple lines
4 in my testimony on page 6, line 16, I say "While the
5 Company does not believe that implementation of this
6 Base Generation Rate adjustment process on 1/1/15 is
7 necessarily right for review in this case, I can make
8 some simplifying assumptions and offer an
9 illustrative approach without prejudice to the
10 ultimate approach to be subsequently taken on this
11 issue."

12 Q. Given your understanding and your
13 proposal, is it safe to say that in this future
14 proceeding that the percentage reduction would be an
15 issue that would be discussed as opposed to accepting
16 your 40 percent calculation?

17 A. I guess I believe when we file to
18 implement the Commission-required adjustment to our
19 base generation rates, that whatever issues are
20 raised at that point will be raised at that point.

21 Q. Now, in the 10-2929, the capacity case,
22 is it your understanding that AEP claimed that its
23 cost of capacity was on average 355.72 a
24 megawatt-day? And if you need a reference, that
25 would be in FES Exhibit No. 3, KDP-6.

1 A. In that proceeding, which obviously I
2 think I mentioned earlier I wasn't a part of, it
3 looks like in Exhibit KDP-6, it looks like based on
4 2010 data that the capacity rate that was computed
5 there was 355.72 per megawatt-day in section 1, and
6 then in section 2 there was another one with, looks
7 like it's labeled with an energy credit of 338.14 per
8 megawatt-day.

9 Q. And would you agree with me that, subject
10 to check, that the 188.88 megawatt-day is about
11 47 percent less than the 355.72 per megawatt-day?

12 THE WITNESS: Would you mind reading that
13 back?

14 (Record read.)

15 A. If I did the math right on the stand I
16 get 46.9 percent less and that's part of why I have a
17 real hard time with the 188 saying that that's fully
18 compensatory.

19 Q. Is it your understanding that the
20 company's testimony in the 10-2929 case was that the
21 base generation rates produced revenues for the
22 company that recovered its 355.72-megawatt a day
23 cost?

24 A. I don't recall the company's testimony in
25 that case.

1 Q. Would it be your presumption that the
2 company would set its base generation rates so that
3 it could recover its fully embedded cost of capacity?

4 A. Somewhere other than Ohio, yes. In Ohio
5 I think base generation rates are cost based so it's
6 kind of hard to make that claim in Ohio.

7 Q. And you don't know whether or not the
8 company made that claim in the 10-2929 case.

9 A. No. Again, I wasn't in that proceeding.

10 Q. Let's go for a moment to your DMR-1
11 exhibit.

12 A. I'm there.

13 Q. Now, these figures for your -- these are
14 an illustrative example for a monthly -- monthly
15 revenue requirement, are they not?

16 A. Correct. This is an illustration for one
17 month.

18 Q. Okay. Now, if we look at column E, row
19 2, for the purposes of this illustration you assume
20 that you had an FAC energy price of \$40 a
21 megawatt-hour; is that right?

22 A. Correct. And that's where it can get a
23 little confusing. Generally the way the FAC is
24 computed is you look at the dollars and then you
25 convert it to a cost per megawatt-hour, so I tend to

1 look at column F more than I do column E and doing
2 the computations.

3 Q. Sure. Now, if we looked at column E and
4 row 3, you assume there that there's a clearing price
5 for the 60 percent energy auction of \$40 a
6 megawatt-hour, correct?

7 A. Correct.

8 Q. And as such then you are assuming that
9 the cost to procure the 1.2 million megawatt-hours
10 through the 60 percent auction would be \$48 million;
11 is that right? With the math.

12 A. Correct.

13 Q. And since you are assuming an FAC of
14 \$40 a megawatt-hour, the cost to supply the same 1.2
15 million megawatt-hours from the company's generation
16 would also be 48 million?

17 A. Not correct. I think we kind of had this
18 dialogue earlier, that kind of -- you know, and again
19 this is the rate person's simplified view of economic
20 dispatch is that the -- you know, if all 2 million
21 megawatt-hours were under the FAC, there would have
22 been some more expensive units that would have been
23 needed to use to meet that full 2 million
24 megawatt-hours so that number would have been the FAC
25 number, if you had the whole 2 million in the FAC,

1 may have been higher than \$40.

2 MS. GRADY: That's all the questions I
3 have, Mr. Roush, thank you.

4 THE WITNESS: Thank you.

5 EXAMINER PARROT: Mr. Pritchard?

6 - - -

7 CROSS-EXAMINATION

8 By Mr. Pritchard:

9 Q. Good afternoon, Mr. Roush.

10 A. Good afternoon.

11 Q. I have a couple questions to follow-up on
12 Mr. Kurtz's discussion about the 12 percent rate cap.
13 You propose that -- strike that.

14 In the Commission's order in the AEP ESP
15 case, the Commission determined that four riders
16 would count towards the 12 percent rate cap, correct?

17 A. Correct. The RSR, I think it was
18 actually in the entry on rehearing where it was
19 clarified that that was the RSR, the DIR, the PTR,
20 and the GRR.

21 Q. And your proposal in this case is to also
22 have the auction phase-in rider and fixed-cost rider
23 count towards the 12 percent rate cap, correct?

24 A. Correct, but not the entire dollar amount
25 of those riders, only the amount of those riders

1 relative to the current today, June 2013, FAC rate.

2 MR. PRITCHARD: Your Honor, may I mark an
3 exhibit?

4 EXAMINER PARROT: You may.

5 MR. PRITCHARD: I believe I'm up to
6 Exhibit 3.

7 EXAMINER PARROT: 2.

8 MR. PRITCHARD: 2? Sorry.

9 May I approach the witness, your Honor?

10 EXAMINER PARROT: You may.

11 (EXHIBIT MARKED FOR IDENTIFICATION.)

12 Q. (By Mr. Pritchard) Do you have in front
13 of you what's been marked as IEU-Ohio Exhibit 2?

14 A. Yes, I do.

15 Q. And is this a response to a discovery
16 request from FirstEnergy Solutions?

17 A. Yes, it is, in their third set.

18 Q. And you are identified as the responsive
19 witness.

20 A. Yes, that's correct.

21 Q. And in this request FirstEnergy Solutions
22 requested typical bill impacts, correct?

23 A. Correct.

24 Q. And in response you provided the
25 discovery the typical bill impacts included an

1 application of the 12 percent rate cap, correct?

2 A. That is correct.

3 Q. And this language about halfway through
4 the response where it says "...the Company's
5 recommended application of the 12 percent rate cap."

6 A. It's what I said is that we just
7 discussed with including the two split-up riders that
8 are currently in the FAC. It's referencing my
9 testimony at page 11, yes.

10 Q. Well, could you clarify what is meant by
11 "Company's recommended application of the 12 percent
12 rate cap"?

13 A. It's what I say in my testimony on page
14 11.

15 Q. So just to be clear, this is referencing
16 that in addition to the four riders we just went
17 through, the increase from the August 2012 levels of
18 the fixed-cost rider and the auction phase-in rider
19 would also count in the 12 percent rate cap, correct?

20 THE WITNESS: Can you read that one back,
21 please?

22 (Record read.)

23 A. For some reason the words aren't sounding
24 right to me so I'll try --

25 Q. I can rephrase it I think to make it a

1 little more clear.

2 In addition to the four riders that the
3 Commission identified in the entry on rehearing, the
4 company's recommended approach would also be to
5 include two additional riders towards the 12 percent
6 rate cap, the fixed cost recovery rider, and the
7 auction phase-in rider with the caveat that the last
8 two riders you'd only be measuring the difference
9 between August 2012 levels to the current levels,
10 correct?

11 A. Close but not quite correct. It would be
12 measuring the auction phase-in rider and fixed-cost
13 rider relative to the June 2013 FAC, not back to
14 August 2012 levels.

15 Q. Thank you for that clarification.

16 MR. PRITCHARD: Your Honor, at this time
17 may I have a document mark as IEU-Ohio Exhibit 3?

18 EXAMINER PARROT: You may.

19 MR. PRITCHARD: And may I approach, your
20 Honor?

21 EXAMINER PARROT: You may.

22 (EXHIBIT MARKED FOR IDENTIFICATION.)

23 Q. Mr. Roush, do you have in front of you
24 what has been marked as IEU-Ohio Exhibit 3?

25 A. Yes, I do.

1 Q. Would you take a minute to review this
2 and let me know if this appears to be the bill impact
3 analysis, a portion of the bill impact analysis that
4 was in response to discovery, with the caveat that I
5 added some page numbering at the bottom of the page.

6 A. This appears to be one section of the
7 voluminous attachment to that discovery response.

8 Q. And this would be the portion that's
9 related to the Columbus Southern Power rate zone
10 typical bills as of August 2012, correct?

11 A. Correct.

12 Q. And if we look at the top of the first
13 page, we'll see a column with a hundred
14 kilowatt-hours, next column with 250 kilowatt-hours,
15 third column with 500 kilowatt-hours; these represent
16 the varying billing usages to determine the typical
17 bill impacts, correct?

18 A. Correct, for a residential customer on
19 RR1.

20 Q. Correct. And if we look at the bottom of
21 the page, we see a calculation of the total bill for
22 the hundred kWh customer that would have been \$17.58,
23 correct?

24 A. Correct.

25 Q. And at the very last row represents

1 12 percent of the total bill, so for this first
2 customer 12 percent of \$17.58 is shown at the bottom
3 in the \$2.11 figure, correct?

4 A. Correct.

5 Q. Would you turn to the page that's been
6 marked as 14.

7 A. I'm there.

8 Q. And at the top left corner, this is where
9 the rate impacts to the GS-4 customers start,
10 correct?

11 A. Correct. That's a Schedule GS-4 customer
12 typical bill.

13 Q. And if you turn to page 16, I'm going to
14 go through a hypothetical example here, but the
15 impacts on page 16 are for GS-4 customers as well,
16 correct?

17 A. Correct.

18 Q. And if I look at the first customer usage
19 on this page, they have a 20,000 demand of kVA, a
20 20,000 demand kilowatts, and energy consumption of
21 13 million kilowatt-hours, correct?

22 A. Correct.

23 Q. And if I look down at the bottom of the
24 page, this typical customer's monthly bill in August
25 of 2012 would have been \$756,074.82, correct?

1 A. Correct.

2 Q. And 12 percent of that number is
3 \$90,728.98, correct?

4 A. Correct.

5 Q. And doing some rough math here on the
6 stand, the 12 percent rate cap, or a 12 percent rate
7 increase would be \$846,802, correct?

8 A. You're saying their total bill with a
9 12 percent rate increase would have been 846,803.80?

10 Q. Give or take a few dollars but in that
11 range, correct?

12 A. Correct.

13 MR. PRITCHARD: Your Honor, may I mark
14 another document as IEU-Ohio Exhibit 4?

15 EXAMINER PARROT: You may.

16 (EXHIBIT MARKED FOR IDENTIFICATION.)

17 Q. Would you take a minute to review what's
18 been handed to you as IEU-Ohio Exhibit 4, and let me
19 know, again with the caveat of the numbering I added
20 to the pages, if this appears to be a true and
21 accurate representation of a typical bill impact
22 analysis that you produced in response to the
23 discovery request we went through.

24 A. It appears to be.

25 Q. Thank you.

1 And would you turn to the page -- or
2 before we move on, these -- this represents the
3 Columbus Southern Power rate zone current rates,
4 correct?

5 A. Correct, rates as of the filing of the
6 testimony June 2013.

7 Q. Would you turn to the page that's been
8 marked as 32.

9 A. I'm there.

10 Q. And the column on the far left represents
11 that same typical bill for the same usage
12 characteristics of the GS-4 customer we went through,
13 correct?

14 A. That's correct.

15 Q. And if we look at the bottom, we see a
16 total bill for this typical customer of 913,798
17 cents -- sorry, let me strike that. The total bill
18 for this customer is \$913,798.46, correct?

19 A. That's correct.

20 Q. And I believe we established a second ago
21 on the last document that a total 12 percent rate
22 increase for this customer would have been on the
23 range of 846,000, correct? On the total bill basis.

24 A. Correct. 846,803.80.

25 Q. Would you accept, subject to check, that

1 this customer's -- this typical customer's bill since
2 August 2012 has gone up by roughly 20 percent?

3 A. Yes.

4 Q. Thank you.

5 MR. PRITCHARD: Your Honor, may I have --
6 or, may I mark another exhibit?

7 EXAMINER PARROT: You may.

8 MR. PRITCHARD: I believe I am up to 5.

9 EXAMINER PARROT: Yes, you are.

10 (EXHIBIT MARKED FOR IDENTIFICATION.)

11 Q. Mr. Roush, do you have in front of you
12 what's been marked as IEU-Ohio Exhibit 5?

13 A. Yes, I do.

14 Q. Would you take a minute and review this
15 document, determine if it's a true and accurate
16 representation of typical bill impacts that you
17 produced in response to discovery, again with the
18 caveat that I added some numbering to the pages?

19 A. It appears to be one section of the total
20 response.

21 Q. Would you turn to the page that's been
22 marked as 50.

23 A. I'm there.

24 Q. And if we look at the far right column,
25 we'll find a GS-4 customer with the same usage

1 characteristics as the Columbus Southern Power
2 customer that we discussed earlier, correct?

3 A. Correct.

4 Q. And let me jump back one step. This
5 document represents the Ohio Power Company rate zone
6 typical bills as of August 2012, correct?

7 A. Correct.

8 Q. And the typical bill for this customer
9 with a demand of 20,000 kW and an energy usage of
10 13 million kilowatt-hours, the total bill in
11 August 2012 was \$756,575.60, correct?

12 A. Correct.

13 Q. And 12 percent of that is the \$90,789.07
14 number, correct?

15 A. Correct.

16 MR. PRITCHARD: Your Honors, may I mark
17 another exhibit?

18 EXAMINER PARROT: You may.

19 MR. PRITCHARD: May I have this document
20 marked as IEU-Ohio Exhibit 6?

21 EXAMINER PARROT: So marked.

22 (EXHIBIT MARKED FOR IDENTIFICATION.)

23 Q. Mr. Roush, do you have in front of you
24 what's been marked as IEU-Ohio Exhibit 6?

25 A. Yes, I do.

1 Q. Would you take a minute and review this
2 document to determine if it's a fair and accurate
3 representation of your response to discovery, again
4 with the caveat that I have added some page numbers
5 to the document?

6 A. It appears to be a fair representation of
7 a portion of my response, again.

8 Q. And this document represents the typical
9 bill impacts with current rates for customers in the
10 Ohio Power Company rate zone, correct?

11 A. Correct. The current rates as of
12 June 2013.

13 Q. Would you turn to the page that's been
14 marked as 69.

15 A. I'm there.

16 Q. And if we look at the far right column
17 we'll again see a typical bill for a customer with
18 the same usage characteristics that we've been
19 discussing, correct?

20 A. Correct, 20 megawatts and 13 million
21 kilowatt-hours.

22 Q. And if we look at the total bill with
23 current rates, we'll see that this typical customer's
24 bill is \$925,405.79 per month, correct?

25 A. Correct.

1 Q. And this -- would you accept, subject to
2 check, that this is roughly a 22 percent increase
3 over the August 2012 levels on a total-bill basis?

4 A. Yes, and that's the result of the items
5 which are subject to the cap which have changed and
6 items that are not -- are outside of the cap which
7 have changed.

8 Q. Correct. The value at the bottom is just
9 a total bill basis not necessarily in regards to the
10 12 percent rate cap that the Commission ordered,
11 correct?

12 A. If the 12 percent rate cap had applied,
13 then that value at the bottom would have been
14 adjusted to reflect that.

15 Q. Correct. For instance, the total bills
16 impacts that we have here include not only the rate
17 stability rider, the distribution investment rider,
18 but they include all the riders of the company,
19 correct?

20 A. Correct. This is a total bill so it
21 includes the retail stability rider and the
22 distribution investment rider and other riders such
23 as the phase-in cost recovery rider that's not part
24 of the cap computation, and ongoing changes in fuel
25 and transmission and Universal Service Fund and

1 Advanced Energy Fund, all those items, yes.

2 Q. And we have gone through here on the
3 record a typical bill for customers on the GSR tariff
4 with a 20-megawatt demand and 13 million
5 kilowatt-hours usage but for any of the listed
6 typical bills we could go through and calculate the
7 increase that customers on the SSO have seen since
8 August 2012, correct?

9 A. Yes, you could do that, the calculation
10 we walked through for other -- any of the other
11 typical bills shown here, yes.

12 MR. PRITCHARD: Your Honors, may I have
13 another document marked as IEU-Ohio Exhibit 7?

14 EXAMINER PARROT: So marked.

15 (EXHIBIT MARKED FOR IDENTIFICATION.)

16 MR. PRITCHARD: May I approach, your
17 Honor?

18 EXAMINER PARROT: You may.

19 Q. Mr. Roush, do you have in front of you
20 what's been marked as IEU-Ohio Exhibit 7?

21 A. Yes, I do.

22 Q. Does this appear to be the Ohio Power
23 Company's application to update its transmission cost
24 recovery rider in Case No. 13-1406-EL-RDR, the
25 application and several schedules?

1 A. Yes, that's what it appears to be.

2 Q. Are you familiar with Ohio Company
3 Power's -- are you familiar that the TCRR is updated
4 on an annual basis?

5 A. Generally, yes.

6 Q. And that you understand that the typical
7 bills that we just went through include current
8 charges, correct?

9 A. In IEU Exhibit 4 and 6 it included
10 current charges.

11 Q. Correct. But it --

12 A. And other -- IEU Exhibit 5 and 3 it
13 included August 2012 charges.

14 Q. Correct. But neither of those documents
15 would have included an application such as the TCRR
16 application if those rates had not yet been approved,
17 correct?

18 A. That's correct.

19 Q. Are you familiar with the application
20 that I've handed you?

21 A. I was aware it was filed. I have not
22 reviewed it.

23 Q. Do you have any understanding of whether
24 Ohio Power Company is seeking to increase its
25 transmission charges through its application?

1 A. Just from sitting here on the stand today
2 reviewing this document it appears that they are.

3 Q. Would you turn to page 4 of the document.

4 A. I'm there.

5 Q. And here at paragraph 10 it's reflecting
6 a request to increase the revenue that's collected
7 through the TCRR by \$57 million representing an
8 average increase of 33.24 percent, correct?

9 A. That seems like a pretty fair paraphrase
10 of paragraph 10 on page 4.

11 Q. Would you turn to Schedule B-2 in the
12 exhibit I handed you.

13 A. I'm there.

14 Q. And if we look down at the line that says
15 "GS-4," and look to the far right, that reflects a --
16 that would reflect a 42 percent increase for GS-4
17 customers in the TCRR, correct?

18 A. There are two GS-4 lines but they both
19 show that type of increase in the TCRR in isolation,
20 but I'd flip to Schedule B-5, page 2 of 4, it shows
21 the increases on the total bill basis to be somewhere
22 less than 6 percent -- 6-1/2 percent or below, 6.7 or
23 below.

24 Q. You anticipated my next question. So if
25 we look at page 2 of 4 in Schedule B-5, we can go

1 down and find that same GS-4 customer typical bill
2 that we went through a second ago with the 13 million
3 kilowatt-hour usage and a 20-megawatt demand and see
4 that the increase in the monthly TCRR charges
5 proposed in the application is 35,489, correct?

6 A. That's what the document shows.

7 Q. And if we turn to page 4 of 4 in
8 Schedule B-5, we could find for a Columbus Southern
9 Power Company customer the same typical usage
10 characteristics that we went through on the record,
11 that the increase proposed for this customer is
12 \$35,489 a month, correct?

13 A. It's the same value, and just to be
14 clear, it's the Columbus Southern rate zone, Columbus
15 Southern Power rate zone.

16 Q. And just a couple more questions on the
17 12 percent rate cap. I believe in response to
18 Mr. Kurtz's question you indicated that you had not
19 calculated whether the 12 percent rate cap under the
20 company's proposal would be triggered, correct? Let
21 me rephrase.

22 In response to Mr. Petricoff you
23 indicated that -- in response to Mr. Petricoff you
24 indicated that you had no opinion about whether --
25 what the clearing price of the FAC auction would be,

1 correct?

2 A. I have no opinion what the clearing price
3 of the competitive bid process auction would be.

4 Q. And because you do not know where the
5 auction results are going to come out, you are not
6 able, sitting here today, to offer an opinion about
7 whether under the company's proposed application of
8 the 12 percent rate cap, whether or not that would be
9 triggered, correct?

10 A. Correct, because there are too many
11 moving parts. You've got the auction outcomes, which
12 I have no idea what the auctions are going to come
13 out, then you also have what's the FAC going to do in
14 the future, what's the DIR going to do in the future,
15 those other two riders that don't have any values
16 currently, what they may do in the future, the PTR
17 and the GRR. So because of all those moving parts
18 the best I could do, and that's what was provided in
19 IEU-Ohio Exhibit 2 or in response to discovery that's
20 been marked as IEU-Ohio Exhibit 2 was I ran a couple
21 hypothetical scenarios.

22 And so I don't know what the outcome
23 ultimately will be because there are just too many
24 moving parts and too many potential variables.

25 MR. PRITCHARD: Thank you. I have no

1 further questions.

2 EXAMINER PARROT: Mr. Reilly.

3 MR. REILLY: Thank you, your Honor.

4 - - -

5 CROSS-EXAMINATION

6 By Mr. Reilly:

7 Q. Good afternoon, Mr. Roush.

8 A. Good afternoon.

9 Q. If I could direct your attention to
10 page 8 of your testimony, your prefiled testimony, on
11 that page you're talking about existing contractual
12 commitments in your answer to question 13. Do you
13 see that?

14 A. Yes, I do.

15 Q. Okay. Am I correct that those existing
16 contractual commitments will extend beyond 2014 into
17 2015?

18 A. Correct. I believe the Lawrenceburg
19 contractual commitment extends till 2017 timeframe
20 and I think the OVEC is kind of an ongoing one.

21 Q. It has no ending date, in other words.

22 A. I'm not aware of one. I'm just not sure
23 of that, sir.

24 Q. Okay. Can you tell me, would that mean
25 that in 2015 the company would be obligated to

1 purchase more than a hundred percent of its power
2 requirements?

3 A. I don't believe so and here's why: I
4 believe, and we talked a little bit earlier briefly
5 about corporate separation and these new FERC
6 agreements, I believe the purchased power obligation
7 that's currently Ohio Power's will become a purchased
8 power obligation of the Gen Resources entity so
9 because of that Gen Resources may end up having to
10 buy more from these two contracts than the amount of
11 load it is providing to Ohio Power to meet its SSO
12 obligations. So that's kind of the way I view it in
13 my simplified view.

14 Q. Are you sure of that?

15 A. I'm pretty sure of that because my
16 recollection was as part of the corp. separation that
17 Ohio Power Company, the only purchased power
18 agreements it was left with were things associated
19 with renewables, so I'm pretty sure but I can't say a
20 hundred percent.

21 Q. If you could flip to page 10, does that
22 mean there would be -- there would be nothing going
23 into the fixed-cost rider?

24 A. No, because the obligation that -- this
25 is again my simplified view of the world, Ohio

1 Power's obligation to continue to meet its SSO load
2 after corp. separation, and this is -- I'm sure it's
3 not precisely right legal terms and all those kinds
4 of things, Gen Resources will kind of step in and be
5 fulfilling those obligations for Ohio Power which is
6 now -- would now just be a wires entity.

7 So Gen Resources will still be incurring
8 those costs, Gen Resources will send a bill to Ohio
9 Power consistent with the current FAC type mechanism,
10 and since those costs were in the FAC, they'd send a
11 bill to Ohio Power for the FAC costs.

12 Q. Okay. So as I understand it, as I
13 understand your testimony, ultimately Ohio Power is
14 going to pay the costs associated with the power
15 purchases reflected in your answer to question 13,
16 correct?

17 MR. NOURSE: I'm sorry, Mr. Reilly, did
18 you say question 13?

19 MR. REILLY: Yes, we're talking about --
20 let me.

21 MR. NOURSE: Yeah, it was the reference I
22 didn't get.

23 Q. If I could direct your attention, sir, in
24 the answer to question 13 on page 8, you're
25 discussing -- you're discussing purchased power

1 commitments to Ohio Valley Electric and Lawrenceburg
2 generating plant or from --

3 A. Yes.

4 Q. Excuse me, from Ohio Valley Electric and
5 Lawrenceburg generating plant. As I understand your
6 testimony, the -- you believe the cost of that power
7 will be picked up in the near future here by Gen
8 Resources; is that correct? And then passed through
9 to Ohio Power; is that correct?

10 A. Correct. These are purchased power
11 contracts between Ohio Power and OVEC and a
12 generating company, Lawrenceburg, and under corp.
13 separation it's proposed, to the best of my
14 recollection, those contracts would, just like the
15 power plants, transfer over to AEP Generating
16 Resources and then AEP Generating Resources is
17 responsible for continuing to provide our SSO power
18 to Ohio Power through May of 2015, energy through
19 December 2014, but they continue to provide capacity
20 through May of 2015.

21 Q. So Ohio Power will be picking up the tab
22 for the purchased power from OVEC and Lawrenceburg,
23 correct? That's the way -- am I correct?

24 A. Generally correct, just like in the FAC
25 today the capacity costs will all be there and then

1 the energy costs kind of as we've been talking about
2 on an economic dispatch basis, to the extent the
3 energy costs are there, they're also part of the FAC
4 while there's energy being provided which, obviously,
5 that ends at the end of 2014.

6 Q. Let me direct your attention to page 106
7 of your testimony.

8 A. Yes, sir.

9 Q. And your answer to the question appearing
10 on -- beginning on line 8, you break the FAC down
11 into two components, do you not?

12 A. Yes, sir, I split the FAC into those
13 nonenergy or fixed costs and the energy or variable
14 costs.

15 Q. Okay. Under your proposal how would the
16 costs associated with renewable power purchases --
17 with a renewable purchase power agreement be handled?

18 A. There's kind of two parts to that. Just
19 like it's being done today, when the renewable power
20 purchases of the company are part of the total FAC,
21 but then the REC component of that renewable purchase
22 goes into the -- I always get the acronym wrong, it's
23 the AER, the alternative energy rider, so you take
24 the total renewable purchase, split it into the,
25 primarily, energy value and then the REC value, the

1 REC value is in the alternative energy rider, the
2 energy value is in the FAC.

3 Q. How does it get split up in the FAC?

4 A. If you go to Exhibit F to our supplement
5 to application --

6 Q. Give me a second.

7 A. Sure.

8 Q. Go ahead.

9 A. Basically everything except the REC value
10 I believe would show up in line 43 of Exhibit F,
11 which is account 5550047, Purchased Power Wind, and
12 then there's another account at the very bottom,
13 account 5550109 which is Purchased Power Solar, so
14 those accounts would have everything but the REC
15 value because the REC value is being recovered in the
16 alternative energy rider.

17 MR. REILLY: Thank you, Mr. Roush.

18 THE WITNESS: Thank you.

19 EXAMINER PARROT: Any redirect?

20 MR. NOURSE: Your Honor, can we take a
21 short break? Five minutes?

22 EXAMINER PARROT: Yes, let's take a
23 five-minute break. Thank you.

24 (Recess taken.)

25 EXAMINER PARROT: Go back on the record.

1 Mr. Nourse.

2 MR. NOURSE: No redirect, your Honor,
3 thank you.

4 EXAMINER PARROT: Very good. So with
5 that would you care to move your exhibit, Mr. Nourse?

6 MR. NOURSE: Yes. AEP Ohio renews its
7 motion to admit Exhibit No. 2.

8 EXAMINER PARROT: Are there any
9 objections to the admission of AEP Exhibit No. 2?

10 (No response.)

11 EXAMINER PARROT: Hearing none, it shall
12 be admitted.

13 (EXHIBIT ADMITTED INTO EVIDENCE.)

14 EXAMINER PARROT: Mr. Alexander.

15 MR. ALEXANDER: FES moves FES Exhibits 2
16 and 3. And during the break Mr. Nourse and I spoke
17 about FES Exhibits 4 and 5 and we have agreed that
18 the Commission can take administrative notice of
19 those exhibits. With regard to FES Exhibit 4, which
20 is Mr. Powers' direct testimony, it will be
21 administrative notice of the entire direct testimony
22 rather than just the one page that was actually
23 marked as an exhibit here.

24 EXAMINER PARROT: All right. And then
25 FES Exhibit 6 which was the transcript?

1 MR. ALEXANDER: We're not moving that,
2 your Honor.

3 EXAMINER TAUBER: We're just looking at
4 FES Exhibit 2 and 3.

5 EXAMINER PARROT: Are there any
6 objections to the admission of FES Exhibits 2 or 3?
7 Let's start with that.

8 MR. NOURSE: No, your Honor.

9 EXAMINER PARROT: Okay. Hearing none,
10 FES Exhibits 2 and 3 shall be admitted.

11 (EXHIBITS ADMITTED INTO EVIDENCE.)

12 EXAMINER PARROT: Are there any
13 objections to the Bench taking administrative notice
14 with respect to Exhibits 4 and 5?

15 MR. NOURSE: No, your Honor, just to
16 clarify that it's not really going to be Exhibit 4
17 anymore, it's going to be the entire Powers'
18 testimony, correct?

19 EXAMINER PARROT: Yes. Thank you for
20 that clarification, Mr. Nourse.

21 MR. NOURSE: No objection.

22 MR. REILLY: Your Honor, staff does not
23 object but we would like to have the case number
24 again.

25 MR. ALEXANDER: It's 11-346.

1 EXAMINER PARROT: Et al.

2 MR. REILLY: Thank you.

3 EXAMINER PARROT: All right. With that
4 we will take administrative notice of all of
5 Mr. Powers' testimony in those proceedings, and then
6 as well the response to OCC interrogatories 2-036
7 through 038.

8 Mr. Kurtz, do you have copies at this
9 point?

10 MR. KURTZ: Yes, they were provided to
11 Mr. Nourse.

12 MR. NOURSE: Your Honor, I will
13 distribute those as soon as I have a moment.

14 EXAMINER PARROT: I would like to see it
15 before we proceed.

16 MR. NOURSE: Certainly. I've got the
17 same thing with red print so I'm going to actually
18 hand out --

19 EXAMINER PARROT: Do we have the redacted
20 version that we can docket publicly?

21 MR. NOURSE: No. No. It's all -- unless
22 you want to just take all the numbers out; we can
23 provide you one like that.

24 EXAMINER PARROT: Give me a moment,
25 please.

1 MR. NOURSE: For the other parties I just
2 need to check my list again and ask you if you need a
3 copy since you already have one.

4 MR. REILLY: Could we have a moment, your
5 Honor?

6 EXAMINER PARROT: Yes.

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

9 (Discussion off the record.)

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

12 All right, Mr. Kurtz, did you care to
13 move for the admission of OEG Exhibit 2?

14 MR. KURTZ: Yes, your Honor, on a
15 confidential basis.

16 EXAMINER PARROT: Okay.

17 MR. NOURSE: And I'll just note, your
18 Honor, for the record, I'm not sure we did it on the
19 record, but the company considers this information
20 confidential and competitively sensitive. We did
21 provide a copy to the staff based on the
22 understanding that RC 4901.16 would apply and that we
23 would get three days' notice if there were a public
24 record request for this.

25 It is conspicuously marked "confidential"

1 and I will be distributing it to all the parties that
2 are cleared under the protective agreement as soon as
3 I have a break to be able to check the names and do
4 that.

5 MR. REILLY: Your Honor, we would
6 certainly acknowledge that the Commission's practice
7 has been three days' notice and that we believe -- I
8 believe it is now whenever a request would come in
9 the Commission's policies and practice at that time
10 would be the ones that would be ruling from the
11 Commission's standpoint and the staff's standpoint.
12 We have no reason to believe they would be any
13 different from what Mr. Nourse said.

14 MR. NOURSE: Or that the statute would
15 change, but that's fine, I understand. Thank you,
16 Mr. Reilly.

17 EXAMINER PARROT: So, Mr. Nourse, is it
18 your intention then to move for protective order at
19 this point in the proceeding?

20 MR. NOURSE: Yes.

21 EXAMINER PARROT: Or did you wish to file
22 something?

23 MR. NOURSE: I'm happy to do that. Do
24 you want me to just do it orally?

25 EXAMINER PARROT: That's fine with me.

1 MR. NOURSE: This data is detailed cost
2 data by account and we believe the time period
3 involved and given the GenCo, you know, taking over
4 these assets the first of the year, in a few months,
5 this is competitively sensitive and it would
6 adversely impact the financial interests of the GenCo
7 and we believe it has economic value, that we've
8 taken efforts, reasonable precautions to try to
9 protect the confidentiality of the information and it
10 should be considered a trade secret under the
11 Commission's rule and Ohio case law.

12 EXAMINER PARROT: Thank you.

13 Now, it sounds like not all of the
14 parties have seen the document yet.

15 MR. NOURSE: Well, the parties that
16 actually have executed confidentiality agreements
17 have already received this in discovery, it's the
18 exact same document.

19 EXAMINER PARROT: Okay.

20 MR. NOURSE: Actually, I believe we sent
21 it to staff, too but that's the case. It doesn't
22 have the OEG Exhibit No. 2 at the top.

23 EXAMINER PARROT: So with that are there
24 any objections to AEP's motion for protective order
25 with respect to OEG Exhibit 2?

1 (No response.)

2 EXAMINER PARROT: Hearing none, OEG
3 Exhibit 2 is admitted into the record. It will also
4 be granted protective status for a period of 18
5 months from today's date.

6 MR. NOURSE: Thank you, your Honor.

7 (EXHIBIT ADMITTED INTO EVIDENCE.)

8 EXAMINER PARROT: Mr. Pritchard, that
9 leaves you.

10 MR. PRITCHARD: Yes, I would move for the
11 admission of IEU-Ohio Exhibits 2 through 7.

12 EXAMINER PARROT: Are there any
13 objections to the admission of IEU Exhibits 2
14 through 7?

15 MR. NOURSE: No, your Honor.

16 EXAMINER PARROT: All right. Hearing
17 none, IEU Exhibits 2 through 7 are admitted.

18 (EXHIBITS ADMITTED INTO EVIDENCE.)

19 EXAMINER PARROT: Thank you, Mr. Roush,
20 you are excused.

21 THE WITNESS: Thank you.

22 EXAMINER PARROT: Anything else from the
23 company?

24 MR. NOURSE: Not at this time, your
25 Honor.

1 EXAMINER PARROT: All right.

2 EXAMINER TAUBER: Our next witness,

3 Ms. Grady.

4 MS. GRADY: Yeah, we would call Mr. Lane
5 Kollen to the stand, please.

6 EXAMINER TAUBER: Please raise your right
7 hand.

8 (Witness sworn.)

9 EXAMINER TAUBER: Thank you.

10 - - -

11 LANE KOLLEN

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

14 DIRECT EXAMINATION

15 By Ms. Grady:

16 Q. Good afternoon, Mr. Kollen.

17 A. Good afternoon.

18 Q. Can you state your name and business
19 address for the record, please.

20 A. Yes. My name is Lane Kollen. My
21 business address is J. Kennedy and Associates
22 Incorporated, 570 Colonial Park Drive, Suite 305,
23 Roswell, Georgia, 30075.

24 Q. For purposes of this proceeding, by whom
25 are you employed and in what capacity?

1 A. I'm employed by J. Kennedy and
2 Associates, Incorporated. I am a principal of that
3 firm and vice president.

4 Q. And for purposes of testifying today, on
5 whose behalf are you testifying?

6 A. My testimony today is on behalf of the
7 OCC and the OEG.

8 Q. Now, Mr. Kollen, do you have any
9 additions, corrections, or deletions to your
10 testimony?

11 A. I do not.

12 Q. And if I were to ask you today the
13 questions that are posed in your testimony, would
14 your answers be the same?

15 A. Yes.

16 MS. GRADY: Your Honor, at this time I
17 would offer Mr. Kollen up for cross-examination.

18 EXAMINER TAUBER: One quick housekeeping
19 matter, is the exhibit marked OCC and OEG Exhibit 1?

20 MS. GRADY: Yeah, we can call it Joint
21 Exhibit 1.

22 EXAMINER TAUBER: Okay. Thank you.

23 (EXHIBIT MARKED FOR IDENTIFICATION.)

24 EXAMINER TAUBER: Mr. Petricoff.

25 MR. PETRICOFF: Yes, your Honor.

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CROSS-EXAMINATION

By Mr. Petricoff:

Q. Good afternoon, Mr. Kollen.

A. Good afternoon.

Q. I just have a few questions for you. The first one is, have you ever conducted a competitive retail energy auction?

A. No.

Q. Have you ever attended a competitive retail --

A. No.

Q. -- energy auction?

A. No.

Q. I'm looking at page 3 of your testimony, on line 14 you give your first recommendation is that the Commission set the starting price for the CBP energy-only auction at the FAC price for each zone and then, continuing down -- first of all, let me stop. Do you see where I'm referring to on your testimony?

A. I do.

Q. Okay. And then continuing on it says "The Commission should ensure that customers are benefited, and not harmed, during the transition to a competitive" -- I'm sorry "comprehensive auctions

1 that will commence on January 1st, 2015."

2 Now, with that as background, is the goal
3 of your suggestion that customers be benefited and
4 not harmed or is the goal to set the auction starting
5 price at the FAC?

6 A. The goal is that customers not be harmed,
7 and the way that we see that working out is to set
8 the starting price or the reserve price at the fuel
9 adjustment clause rate for the rate zone, and if the
10 competitive bids come in lower, then customers of
11 course would get the lower bid.

12 Q. If, in fact, there were other techniques
13 that would make sure that customers wouldn't be
14 harmed and, in fact, would benefit other techniques
15 in administering this program and auction, would that
16 be -- would it be acceptable to switch those other
17 techniques out for the -- actually, let me start this
18 over again.

19 Is it -- let me try it this way: Is it
20 your testimony that there will be no negative impact
21 in starting the auction at the FAC rate?

22 A. I don't know how you would define
23 "negative impact," but it may very well be that there
24 would be no bids, in that case then Ohio Power would
25 have to stand behind and continue to supply pursuant

1 to its contract with AEP Generation Resources.

2 Q. Do you believe that the structure of a
3 competitive bid auction has an effect on the closing
4 price?

5 A. You mean the clearing price?

6 Q. Clearing price, yes.

7 A. Yes.

8 Q. Okay. And so if the contemporary thought
9 was that in order to get to a lower, I would call it
10 closing but we'll use your terminology, clearing
11 price you had to start with a higher price, would you
12 object to that assuming that we reached the other
13 goal which is that customers aren't -- are benefited
14 and not harmed?

15 A. I don't think I really have enough
16 information there because I would look at it as a
17 total economic package. For example, if the capacity
18 pricing was marked consistent with the energy
19 pricing, that might be one way to achieve the
20 totality of the economic package.

21 If, on the other hand, as some parties
22 may have suggested, where any excess clearing price
23 over the fuel adjustment clause rate would simply be
24 deferred, I wouldn't agree that that's a comparable
25 economic package.

1 it, and my understanding is that at that time, then,
2 Ohio Power would continue to serve the SSO load
3 pursuant to its contract with AEP Generation
4 Resources.

5 Q. At what price?

6 A. I believe the fuel adjustment clause
7 price.

8 MR. ALEXANDER: No further questions.
9 Thank you.

10 EXAMINER TAUBER: Thank you.

11 Mr. Pritchard?

12 MR. PRITCHARD: No questions, your Honor.

13 EXAMINER TAUBER: Mr. Nourse?

14 Mr. Conway.

15 MR. CONWAY: Thank you, your Honor.

16 - - -

17 CROSS-EXAMINATION

18 By Mr. Conway:

19 Q. Good afternoon, Mr. Kollen.

20 A. Good afternoon.

21 Q. I have a couple more questions about your
22 background. You went to the University of Toledo and
23 received a bachelor's degree from Toledo; is that
24 right?

25 A. I did, yes.

1 Q. And then did you receive any other
2 degrees besides your bachelor's degree from Toledo?

3 A. Yes; I have an MBA from the University of
4 Toledo as well.

5 Q. Then you attended Luther Rice University.
6 Did you receive a degree from Luther Rice?

7 A. I did, yes. A Master of Arts in
8 Theology.

9 Q. And did you take courses at either of
10 those institutions that addressed competitive bidding
11 processes?

12 A. I don't think very many universities or
13 colleges offer those courses.

14 Q. Okay. So since then, after your
15 educational endeavors, in your work experience have
16 you designed and implemented competitive bidding
17 processes for the procurement of default services for
18 electric utilities?

19 A. I have not.

20 Q. And you haven't done that for any gas
21 utilities either, have you?

22 A. That's right.

23 Q. Or any other type of utility, right?

24 A. That's correct.

25 Q. And you haven't served as an auction

1 manager for any competitively bid auction; is that
2 right?

3 A. That's true.

4 Q. Okay. One of your recommendations,
5 Mr. Kollen, as I understand it, is that the
6 energy-only auctions approved by the Commission
7 should be held separately for the CSP and Ohio Power
8 rate zones; is that right?

9 A. Yes, that's correct.

10 Q. And you make this recommendation, as I
11 understand your testimony, because the price to beat
12 for these energy-only auctions, in your view, would
13 differ significantly for each rate zone?

14 A. Yes. In fact, they do. It's about a
15 \$6 per megawatt-hour differential right now with Ohio
16 Power being a lower fuel adjustment clause than
17 Columbus Southern Power, the two different rate
18 zones, and the reason for having the two separate
19 auctions is because of that price differential.

20 Q. So the answer to the question is yes,
21 that's correct, I understand your proposal
22 accurately, and then the explanation, right, that you
23 provided?

24 A. The answer is yes, my proposal is two
25 separate rate zones for the reason that I just gave.

1 Q. And your conclusion is that -- or your
2 view is that if the energy-only auctions aren't held
3 separately for each rate zone, the clearing price may
4 lead to unduly high energy rates for Ohio Power; is
5 that the bottom line?

6 A. I think that's right. Or, another
7 possibility is the rejection of a bid that might be a
8 winning bid for Columbus Southern Power because it's
9 more than Ohio Power but less than the fuel
10 adjustment clause for CSP.

11 Q. What's your understanding of how the FAC
12 rates are currently established for the two rate
13 zones?

14 A. It's as Mr. Roush described. I did
15 research that to some extent prior to filing my
16 testimony, and he did accurately describe it.

17 Q. Okay. And could you just summarize for
18 me right now what that is?

19 A. Yes. And, in fact, I did review some of
20 the company's filings as well with the PUCO, but
21 essentially the fuel adjustment recovery amounts are
22 determined, those dollars are allocated to the two
23 different rate zones and then divided through by the
24 energy for each one of the rate zones.

25 Q. And the part of it that interests me at

1 this point is the allocated through part that you
2 referenced. How is that done with your -- as you
3 understand it?

4 A. My understanding is that that is some
5 specified percentage. The source of that percentage
6 I'm not familiar with.

7 Q. Did you listen to Mr. Roush's testimony
8 today from beginning to end?

9 A. I believe so.

10 Q. Did you hear him explain that or did he
11 explain what that basis was? Whether it was some
12 historical relationship that was being maintained or
13 something else?

14 A. He did say that, and that is correct to
15 my understanding. Again, I don't know what the
16 source of it is beyond the fact that it's a
17 historical relationship.

18 Q. And my understanding from your criticism
19 or from your recommendation, which for the separate
20 auctions, which I think is described at the tail end
21 of your testimony, your concern is that without doing
22 the separate auctions this historical-based
23 allocation approach might not be maintained; is that
24 it?

25 A. No, that's not the problem. The problem

1 is that what otherwise might be a winning bid might
2 be rejected, in the case of CSP. For example, if the
3 fuel adjustment clause rate is \$36 for right now and
4 a bid came in and -- for Ohio Power it's 30 and a bid
5 came in for CSP at 34, you would want to take it but
6 for Ohio Power you would not want to take it.

7 Or, alternatively, if you blended the
8 rate somehow, then it would penalize Ohio Power and
9 accept the CSP customers in that rate zone.

10 Q. And how would it hurt Ohio Power if the
11 rate were allocated in some fashion blended as you
12 just described?

13 A. Well, the bid would not have otherwise
14 been taken for Ohio Power. In other words --

15 Q. If that -- can I just stop you? I'm
16 sorry to interrupt you, I'll let you continue, but
17 you say if the bid is not taken for Ohio Power, is
18 that because the reserve price has been established
19 and it doesn't meet the reserve price test or is it
20 some other reason?

21 A. No; it would be that reason.

22 Q. Okay. I see. Okay. Continue.

23 A. Well, that completes my answer.

24 Q. Okay. Let's assume that the reserve
25 price recommendation is not adopted, in that instance

1 would you be -- would you be accepting of a single
2 auction in that instance with the results of the
3 auction allocated to the two rate zones in a similar
4 fashion to the way the procurement costs under the
5 fuel adjustment clause are allocated to the two rate
6 zones currently?

7 A. Well, the primary reason for having the
8 differential is for the price to beat, and I haven't
9 given it much further thought beyond that, so I can't
10 really respond.

11 Q. Okay. It's the two recommendations are
12 tied together for you which I didn't understand
13 previously. They're tied together; is that right?

14 A. Yes, that's correct.

15 Q. All right. Just to be clear about it, if
16 we were to hold two auctions, separate auctions for
17 the rate zones, and the bidders came in a robust
18 manner to the auction and bid in and we didn't have
19 the reserve price element to it but we did have two
20 separate auctions, would you expect that if they were
21 conducted on the same day with the same product
22 specifications, all the circumstances and criteria
23 for the auction being the same, that they would
24 produce very similar, if not identical, results?

25 A. I think that may be within the range of a

1 reasonable expectation of outcome, not necessarily
2 true but probably reasonable.

3 Q. Mr. Kollen, are you familiar with the
4 Commission's orders in the ESP 1 case and the ESP 2
5 case?

6 A. More so with the ESP 2 case.

7 Q. You have some familiarity with or
8 understanding of the ESP 1 order but you're more
9 familiar with -- more knowledgeable about the second
10 order?

11 A. Yes, that's correct.

12 Q. Do you know, with regard to the ESP 1
13 order, whether the Commission authorized a fuel
14 adjustment clause for the two companies -- excuse me,
15 authorized fuel adjustment clauses for the two
16 companies, CSP and Ohio Power Company, that allowed
17 for the recovery of purchased power expense?

18 A. That's my recollection.

19 Q. And, in fact, included within the FAC
20 expenses that the ESP 2 order were those same
21 purchased power expenses?

22 A. I don't know that that was addressed in
23 the ESP 2 order.

24 Q. Well, did the ESP 2 order, in your
25 understanding, reauthorize the FAC that had been

1 previously authorized by the ESP 1 order?

2 A. Yes, that was a component of the ESP 2
3 order in the sense of continuing a fuel adjustment
4 clause. At the same time, though, certain of those
5 costs, the fixed costs, of the purchased power were
6 apparently included in the capacity charge
7 determination that had been made in the 10-2929 case.

8 Q. And is it your understanding that the
9 Commission adjusted or made a revision to the FAC
10 that it had previously authorized in ESP 1 in its
11 ESP 2 order?

12 A. I don't recall that there were any
13 exceptions in the ESP 2 order to the fuel adjustment
14 clause.

15 Q. And then in the ESP 1 order is it your
16 understanding that the purchased power expenses that
17 were authorized for inclusion in the FAC in that
18 proceeding included fixed costs or demand charges?

19 A. I don't know. I haven't investigated
20 that.

21 Q. General question, Mr. Kollen. Pretty
22 high level. A utility such as AEP Ohio self-services
23 to their customers, right?

24 A. Yes, that's correct.

25 Q. And so a customer who purchases standard

1 service offer service from AEP Ohio pays AEP Ohio for
2 that service, right?

3 A. Very high level, yes.

4 Q. Okay.

5 A. Or very low level depending on your
6 perspective, but the answer is still yes.

7 Q. Okay. And when customers purchase SSO
8 service, they don't actually purchase the assets of
9 the utilities used to provide the service, right?

10 A. That's true.

11 Q. I want to ask you some questions
12 regarding your rate impacts analyses and conclusions,
13 rate impacts of the competitive bid process.

14 Do you have your testimony in front of
15 you?

16 A. I do.

17 Q. Could you turn to, I believe it's roughly
18 pages 12 through 15.

19 A. Yes.

20 Q. At this part of your testimony, as I
21 understand it, you explain the extent to which you
22 think customers could be harmed if AEP Ohio's
23 proposed competitive bid process isn't modified in
24 the fashion that you also recommend; is that right?

25 A. Yes, that's correct.

1 Q. And I believe, my understanding is at
2 this point in your testimony you make a comparison of
3 AEP Ohio's average FAC rates for a period or periods
4 to energy-only rates that you base upon auction
5 results that FirstEnergy or perhaps FirstEnergy and
6 Duke Energy Ohio utilities experienced; is that a
7 fair summary of what you're doing?

8 A. Yes. With the exception of the "perhaps"
9 it's a definite, that's exactly what I did.

10 Q. Okay. The reason that I hesitate is that
11 the first couple pages you seem to have Duke Energy
12 in the picture, by the time I get to about the third
13 or fourth page, page 15 and 16, it's all FirstEnergy,
14 I don't see much discussion about Duke at that point.

15 A. That's right, and that was intentional.

16 Q. Yeah.

17 And background question, Mr. Kollen.
18 What is the period or periods during which
19 auction-procured energy products will be delivered to
20 AEP Ohio as a result of the competitive bid process
21 that the Commission presumably will approve as a
22 result of this case?

23 A. I think the first period for the
24 10 percent is a 22-month period and --

25 Q. And could you tell me what the months are

1 for that that you have in mind?

2 A. Well, I think that was described in one
3 of your witnesses' testimony and that would run from
4 whenever the auction delivery date started, the first
5 one, the 10 percent auction, through May 31 of '15.

6 Q. Okay.

7 A. And then the incremental 50 percent would
8 run from June 1 of '14 through May 31 of '15. And
9 then the final one would run five months, if I
10 understand correctly.

11 Q. Now, let me go back to the first auction
12 delivery period which I think you referenced
13 testimony by someone else, perhaps Dr. LaCasse or
14 Mr. Roush, and you didn't actually specify a month
15 that you had in mind, maybe that's because it's a
16 little bit up in the air, but did you have a month in
17 mind? You said 22 months at some point.

18 A. I believe the 22 months came from
19 Ms. LaCasse's testimony, but the month starting would
20 be six months after the final order in the corporate
21 separation case.

22 Q. So I mean did you have in mind October,
23 for example, October of 2013 as a possible start time
24 or some point after that?

25 A. I did not have a particular month in mind

1 and that's why when I quantified the harm I stated it
2 on an annualized basis rather than a defined time
3 period.

4 Q. You stated it on an annual basis for the
5 10 percent auction; is that right?

6 A. Yes, that's correct.

7 Q. You didn't state it on a annual basis for
8 the subsequent incremental 50 percent auction, did
9 you?

10 A. No, I did not. I quantified that for a
11 seven-month period running from June 1 of '14 through
12 December 31 of '14.

13 Q. And within that seven-month period you
14 aggregated the portion of the delivery which resulted
15 from the 10 percent auction; is that right?

16 A. Yes.

17 Q. Okay. So there's a seven-month period
18 June 2014 through the end of the year 2014, that's
19 one piece of your analysis, and then the first piece
20 of your analysis ends in May of 2014 but it's not
21 clear quite what the beginning month is in that
22 period; is that right?

23 A. Right. That's because I don't get to
24 define that and it hasn't been defined other than six
25 months after the final -- the date of the final order

1 in the corporate separation case.

2 Q. Okay. So the \$47 million figure that you
3 come up with, that's an annual figure, right?

4 A. Yes, that's correct.

5 Q. And it ends in -- the actual period for
6 that that relates to that figure ends in May of 2014
7 and begins sometime before that, right?

8 A. Yes.

9 Q. Okay. So it's not going to be 12 months
10 though, is it?

11 A. No, I don't think it will.

12 Q. It will be some shorter period than 12
13 months, correct?

14 A. I think it will, yes. In fact, I think I
15 footnoted that in the testimony.

16 Q. I didn't read the footnote. What's that
17 say?

18 A. Well, let's see if I can find it.

19 Q. Sorry.

20 A. Well, apparently I moved it up into the
21 text and just simply simplified it by referring to
22 the annualized quantification.

23 Q. Could you give me the page and line
24 number where you're referring to right now?

25 A. Yes. I'm looking at page 15, lines 14

1 through 16 -- actually 12 through 16: "If the
2 Company's energy-only auction results are similar to
3 FirstEnergy's, and the 10 percent market energy
4 blending is applied, this would increase the cost to
5 the SSO customers over both rate zones by
6 approximately \$24.73 per megawatt-hour, or
7 \$47 million annually."

8 Q. Okay. I did actually read that part, so
9 I apologize for telling you I didn't. But it still
10 doesn't provide any explanation about the fact that
11 the 47 million is an annual figure and it's going to
12 surely be less than that for this circumstance
13 because you're not going to get 12 months of the
14 10 percent auction before the end of May of 2014,
15 right?

16 A. That's true. It will be less than the
17 \$47 million depending on the number of months.

18 Q. Okay.

19 A. That's why I used that terminology;
20 annually.

21 Q. So if it starts, if delivery starts in
22 January of 2014, it will be five months, if it starts
23 in December, it will be six months, right?

24 A. Sure. It's exactly right.

25 Q. And did you hear testimony earlier today

1 that the six-month period after the April 24th date
2 would be the end of October?

3 A. I did not hear that.

4 Q. You didn't hear that? Okay.

5 In any event, the comparison you make is
6 a value that you get -- you extract from the
7 FirstEnergy utilities' auction, is that the
8 January 2013 auction that you used?

9 A. Yes, it was.

10 Q. And then you take that extracted value
11 and then you compare that to a FAC value for
12 AEP Ohio, right?

13 A. Yes, that's correct.

14 Q. And where -- and the FAC value comes from
15 what period of time?

16 A. It was the 12 months ending the second
17 quarter of 2013.

18 Q. Okay.

19 A. I took the average of the quarterly rates
20 for each one of the rate zones.

21 Q. At this point obviously we don't know
22 what the FAC values are going to be for the, say
23 November 2013 earliest date you could have deliveries
24 happen apparently, through the May of 2015 periods,
25 right?

1 A. Right. Those would be projections. I
2 used the most recent available actual information.

3 Q. So would it be fair to say that your use
4 of the 12-month period ended June 2013 to come up
5 with a FAC rate, it's a proxy for the actual FAC
6 rates that will occur in the end of 2013 through May
7 of 2015 period, right?

8 A. May of '14, you mean, or if you want to
9 go all the way through the energy auction periods,
10 May of '15.

11 Q. Yeah.

12 A. Depends on which period you're looking
13 at, but the answer would be yes.

14 Q. Okay, well, the auctions themselves are
15 going to procure power that would be delivered for
16 periods beginning at three different points, say
17 December, November-December at the earliest in 2013,
18 that 10 percent auction product will be delivered all
19 the way through May of 2015, right?

20 A. Yes, that's correct.

21 Q. Okay. And it's going to be a fixed price
22 for that period, right?

23 A. I --

24 Q. Okay.

25 A. It's a load-shaped product.

1 Q. All right. Okay, it's load shaped but
2 the price itself is fixed, right?

3 A. I don't know what they're going to bid
4 in. I mean, we can come up with a fixed price, an
5 average.

6 Q. Okay. So you don't know what the bid
7 specs. are for the bid product at that point.

8 A. No; they are as reflected in
9 Ms. LaCasse's exhibit.

10 Q. At any rate, then we have another auction
11 for delivery of a supply that starts in June of 2014
12 and that 50 percent increment, that gets delivered
13 through May of 2015 also, right?

14 A. Yes, that's my understanding.

15 Q. And then that's going to be finally a
16 product for deliveries starting in January of 2015
17 and then through May of 2015.

18 A. That's my understanding, yes.

19 Q. But the first two products, they actually
20 have a delivery term that starts, say,
21 November-December of 2013 but it goes till May of
22 2015, or from June of 2014 through May of 2015,
23 right?

24 A. Yes, that's my understanding.

25 Q. Okay. So then you make an estimate of

1 what customers would pay for auction-procured energy
2 for both the 10 percent and then the incremental
3 50 percent auctions using the FirstEnergy
4 January 2013 auction results, right?

5 A. Yes.

6 Q. And that FirstEnergy auction in January
7 was a full-requirements auction, right?

8 A. My understanding is that it was.

9 Q. I mean, do you have that -- I mean --

10 A. Yes.

11 Q. Is that your understanding?

12 A. Yes, it is.

13 Q. It's not an energy-only auction then,
14 right?

15 A. That's right, and that's why I backed out
16 the capacity component.

17 Q. Okay. Okay. So then just in broad
18 strokes, to get to the way you make your calculation,
19 at least the way I understand your calculation,
20 Mr. Kollen, you take this average FAC rate based on
21 the 12-month period ended June of 2013 and that gives
22 you on the one hand a \$32 and some cents per
23 megawatt-hour price, right?

24 A. Rate for the fuel adjustment clause,
25 that's correct.

1 Q. Okay. And then you also have this
2 residual value or however you want to describe it,
3 the calculated value that you extract from the
4 FirstEnergy auction results of 56 dollars 83, 84
5 cents, right?

6 A. Yeah, I wouldn't call it a residual
7 value. I'd call it the energy value.

8 Q. Okay. That's the energy value.

9 A. Yes.

10 Q. In your view, right?

11 A. Yes. And I explain the methodology that
12 I used to get there.

13 Q. And then you take, as I understand it,
14 you just subtract the two values and that gets you
15 roughly 24-1/2 dollars and then you multiply that
16 times -- for the 10 percent auction, your estimate of
17 what the megawatt-hours for the nonshopping load will
18 be; is that right?

19 A. Yeah. It wasn't really my estimate, it
20 was the company's estimate, and then I -- for two
21 different time periods, '14 and '15, and I simply
22 took the average of that.

23 Q. And you applied the average to each of
24 the auction periods that you evaluated, right?

25 A. Yes, that's correct.

1 Q. So I mean that was your choice, that
2 wasn't the company's choice, was it?

3 A. That's true, but the starting point was
4 the company's estimate.

5 Q. Okay. Going back to the \$47 million
6 annual figure that you mentioned at lines 15 to 16 on
7 page 15, that -- if that annual impact runs from
8 October through May of 20 -- October 2013 through May
9 of 2014, that would be seven months, right?

10 A. Yes. Well, October 1 through May 31
11 would be eight months.

12 Q. Okay. I'm sorry, I meant to -- if it's
13 at the end of -- when we were talking about it
14 before, I think we had agreement that the testimony
15 was that the six-month period after the
16 April 24th date would be the end of October; is
17 that right?

18 A. I think that's what you represented and I
19 accepted it for purposes of the question.

20 Q. Okay.

21 A. I don't have an independent knowledge of
22 it.

23 Q. I apologize for a misstatement I just
24 made. The delivery period starts in November,
25 November 1, then it would last for seven months,

1 right?

2 A. Yes, that's correct.

3 Q. And you don't have any reason to believe
4 that the delivery period for that 10 percent auction
5 is going to start any earlier than November, do you?

6 A. I don't have any reason.

7 Q. Okay. And so the \$47 million annual
8 impact you mentioned for that seven-month period,
9 it's going to be something a little more than half of
10 what you calculated on an annual basis, right?

11 A. That's right, yes.

12 Q. Okay. And then, as I understand it, for
13 the June 2014 through December 2014 period when the
14 60 percent, well, when the 50 percent incremental
15 energy auction product is being delivered, it looked
16 to me like you just scaled up what you had done for
17 the 10 percent auction.

18 A. Yes, that's correct.

19 Q. Okay.

20 A. By the way, I found the footnote, it's on
21 page 4 with respect to the allocation.

22 Q. Well, I didn't read that one, so thank
23 you. I'll take a look at it later.

24 A. I parked it in the summary instead of in
25 the detailed calculations.

1 Q. All right. So for the seven-month
2 period -- let's go back to the 10 percent auction.
3 The seven-month period where the auction is at the
4 10 percent level, 7/12s of 47 million, that's about
5 27 million, right?

6 A. Yes.

7 Q. Okay. And for the next period, the next
8 seven-month period which includes the incremental
9 50 percent auction which, luckily, is also seven
10 months of the -- so the scaling up is pretty simple,
11 you just multiply it by 6, right?

12 A. Yes.

13 Q. So 6 times 27 is what?

14 A. It comes pretty darn close to
15 164 million.

16 Q. So you already figured that out for the
17 seven-month period, okay. Now, back to the
18 \$56.83-1/2 -- excuse me, \$56.83-1/2 per megawatt-hour
19 value you got from the FirstEnergy auction, if you
20 used a lower value for that energy product, of
21 course, the impact results would also similarly be
22 reduced if you held everything else the same, right?

23 A. Yes. And, similarly, if you used a
24 larger energy value, the harm would be greater,
25 but --

1 Q. God forbid we increase it any more.

2 A. That would be not good, yes.

3 Q. That would be unfortunate, wouldn't it?
4 Okay.

5 A. It would.

6 Q. So if we reduced it by, say, \$10 a
7 megawatt-hour, that would have a substantial impact
8 on the impact analysis, correct?

9 A. Sure.

10 Q. And so if we reduced it by \$10 and then
11 multiplied it by the 1.9 million megawatt-hours that
12 you calculated as the average amount of nonshopping
13 load, that would be about \$19 million, right?

14 A. I think that's about right.

15 Q. And then, of course, if we increased it,
16 say, to \$20, that is increased the reduction to
17 \$20 from 56.83, if we reduced it by \$20 a
18 megawatt-hour, the impact would be \$38 million,
19 right? \$20 times 1.9 million.

20 A. I think maybe I went a little bit too
21 quickly on the response to your prior answer. You
22 said that if we reduced it from \$56 to \$46, in other
23 words, \$10.

24 Q. Right.

25 A. The differential would be less than half

1 of the \$24.73 that I cite on line 15. And so if the
2 annualized amount is 47 million, I would expect it,
3 you know, a reduction of \$10 would maybe be
4 26 million or something like that, not 19.

5 Q. Well, I'm not sure I understood you but
6 the figures I was quoting to you were probably annual
7 figures, right?

8 A. Yes.

9 Q. And is your response that they need to be
10 also similarly prorated down to the seven-month
11 period; is that what you're saying?

12 A. Well, they need to start out with annual
13 numbers and if you want to prorate to the seven
14 months, then you would do that, yes.

15 Q. Okay. Fair enough.

16 And then, similarly, if the -- not to
17 belabor the point, but if we go to the 50 percent
18 incremental auction and we were to reduce the -- if
19 it turned out that the energy -- the energy-only
20 auction price were \$10 or \$20 lower than the \$56 per
21 megawatt-hour that you used, the impact analysis
22 would be also similarly affected, right?

23 A. Yes. By definition.

24 Q. Okay. And then on the other side going
25 to the FAC energy component rate value that you

1 utilize, if it turns out that it's higher than the
2 value -- if the actual FAC rates during the period
3 when the auctions are taking place are actually
4 higher than the value that you developed using the
5 average from the 12 months ended June of 2013, that
6 would also further reduce the impact of your -- the
7 impact of your analysis; is that right?

8 A. Right. And, similarly, if they're lower,
9 then it would increase the harm.

10 Q. Right.

11 A. It goes either way.

12 Q. Have you read IEU Witness Murray's
13 testimony?

14 A. I did.

15 Q. And you're aware that he conducted also,
16 I wouldn't call it a similar impact analysis but he
17 did make some similar observations, similar in type,
18 but the energy-only auction value that he came up
19 with was more in the \$46 range, are you aware of
20 that?

21 A. I am. I don't know what the difference
22 is.

23 Q. Okay. Maybe we can explore that just a
24 little bit. At any rate, Mr. Murray came up with a
25 value that is \$10 per megawatt-hour lower than the

1 \$56 per megawatt-hour figure that you've used, right?

2 A. Yes. I do know how he came up with it,
3 it just came back to me. What he did was he used, if
4 I recall correctly, a fuel adjustment clause rate and
5 then added the 25 percent premium to it. So, in
6 other words, the \$36 for Columbus Southern
7 effectively became \$45 or \$46, roughly, and that's
8 how he derived his market energy rate.

9 Q. Okay.

10 A. I think the approach that I took is more
11 reasonable and reflects actual market pricing, but
12 that's how he did it so I do know I can reconcile
13 between the two different values.

14 Q. Okay. Thank you, that's helpful.

15 Now let me turn to the 19 million
16 megawatt-hours that you have used as the starting
17 point for your estimate of the nonshopping load that
18 normally gets served by the auction-procured energy,
19 okay?

20 A. Okay.

21 Q. All right. The 19 million megawatt-hours
22 per year value is what? Where did you get that?

23 A. The company provided 2014 and 2015
24 nonshopping energy basically, SSO energy, and what I
25 did was I took the average of those two projections

1 from the company.

2 Q. Okay. So the end result is 19 million on
3 average, right?

4 A. Yes, that's correct.

5 Q. Okay. So it would be reasonable, would
6 it not, to, I don't know if we're interpolating or
7 extrapolating here, but it would be reasonable to
8 extrapolate that the two values were roughly
9 17 million for 2013 and 21 million for 2014, right?

10 A. Could you repeat that?

11 Q. Well, you came up with an average of
12 19 million megawatt-hours per year covering the 2013
13 and 2014 period, right?

14 A. Yes. Either that or the '14 or '15
15 period.

16 Q. It's 2013 and '14.

17 A. Okay, apparently you've looked at my
18 workpapers.

19 Q. I did, yes.

20 A. Good.

21 Q. It's not '14 and '15, it's '13 and '14.

22 A. That's fine.

23 Q. And if you'd like to look at them, I'd be
24 happy to get them for you.

25 A. No, that's fine.

1 Q. Okay. And so then I inferred from that
2 that the values that led to the average would have
3 been somewhere around 21 million for 2013 and
4 17 million for 2014.

5 A. That sounds about right, but it's in the
6 workpapers.

7 Q. Right.

8 A. Yes.

9 Q. All right. But, at any rate, if you
10 average 21 million and 17 million, you get
11 19 million, right?

12 A. You do.

13 Q. And, of course, we know that the -- that
14 the migration continues as we speak, right?

15 A. I would think so.

16 Q. So what's happening is we're going from
17 higher levels of nonshopping load to reduced --
18 increasingly reduced levels of nonshopping load as
19 time goes by, right?

20 A. I would think so.

21 Q. Okay.

22 A. The other way of stating that is more
23 shopping as time goes on.

24 Q. So, at any rate, based on the inference
25 that I drew, the nonshopping load that you used for

1 2013 is about 4 million megawatt-hours higher than
2 the amount you used for 2014, right?

3 A. I think that's right.

4 Q. Okay.

5 A. I didn't really view it that way, I was
6 trying to get just an average.

7 Q. Yeah. I noticed that, and I, I don't
8 know why, but I instinctively went in the direction
9 that I did which was to ask the question, well, which
10 way is this nonshopping load going, directionally.
11 Is it going down, or is it going up? Must be going
12 down so that's why I focused on it.

13 But let me get to the point of it. Most
14 of the period that you analyzed is actually in 2014,
15 right?

16 A. Well, I analyzed on an annualized basis
17 because I didn't know when in 2013 the 10 percent
18 tranche would commence.

19 Q. Yeah.

20 A. So I simply looked at it on an annualized
21 basis, and that then would cover the -- some portion
22 of '13 and five months of '14.

23 Q. Well, in the example I've been describing
24 to you we have two months in 2013 and 12 months in
25 2014 of this auction delivery period that we're

1 looking at. So in that example you'd agree obviously
2 most of the time for the delivery is going to be in
3 2014, not 2013.

4 A. I would agree there's more months in 2014
5 than there will be in 2013 for the delivery periods;
6 there's no question about that. And, remember, I did
7 preface this, I said it's difficult to quantify
8 precisely how much the harm is, but I took a, I think
9 a reasonable approach to make a quantification, and
10 it could be more or less.

11 Q. Do you think it would be, or would you
12 agree it would be more reasonable to simply use the
13 value, the average amount of nonshopping load for
14 2014 and just, you know, skip the 2013 part of it to
15 use for your analysis since we have all this, we have
16 the continuing decline of the nonshopping load, and
17 since most of the period under review is 2014?

18 A. Well, you could certainly do that
19 calculation. I would simply say that these were
20 projections by the company and I just simply took the
21 average as a proxy for the overall time period.

22 Q. Okay. But would you agree with me that
23 if we simply used the 2014 value, the 17 million
24 megawatt-hour value, and plugged it into the
25 analysis, it would tend to shave off another

1 10 percent off of your impact, your adverse impacts,
2 that you've calculated? 19 over 17, roughly, you
3 know, something over 10 percent.

4 A. Well, it would be scaled down, there's no
5 question about that. Because this is a harm to the
6 SSO customers. If you have fewer customers or fewer
7 sales, obviously, the harm is less.

8 Q. Yeah. And let me just, not to beat a
9 dead horse here too long, but in 2014 even when most
10 of the -- in the heaviest part of the energy
11 procurement at the total of 60 percent level, that is
12 with the incremental 50 percent procurement, it's
13 mostly at the tail end -- or, that's not fair. It's
14 in the second half of 2014, is it not?

15 A. The final seven months is 60 percent, the
16 first five is 10.

17 Q. So maybe even taking the average
18 megawatt-hours for 2014 for the nonshopping load is
19 really not a fair way to approach it, it ought to be
20 weighted towards whatever is the nonshopping load at
21 the end of 2014, right?

22 A. Well, we can do all of these different
23 sensitivity analyses. I did what I did and I think
24 it's a reasonable quantification of potential harm,
25 and we can scale the SSO load up or down.

1 Q. Yeah.

2 A. If you believe that, you know, the
3 shopping load will continue to grow, and I think
4 that's a reasonable assumption, then you can refine
5 the analysis and reduce the harm. You can change the
6 prices. You can increase the harm, you can reduce
7 the harm. You can make different permutations of
8 this.

9 It's simply an attempt to demonstrate
10 that it was significant harm, and even if you scale
11 it down somewhat, it's still significant harm.

12 Q. Well, we don't want to be unduly alarmist
13 about what we're recommending or what we're doing, do
14 we?

15 A. Well, I think what we want to do is we
16 want to get to a reasonable resolution of this that
17 doesn't harm SSO customers.

18 Q. Let me go to another aspect of the
19 analysis, I'm just about finished with it, but --

20 A. I've heard those stories before.

21 Q. -- and that's the value you extracted
22 from the FirstEnergy utilities' auction results,
23 okay?

24 A. Okay.

25 Q. You came up with a deduction of I think

1 \$2.36 that you backed out of the all-in price from
2 the FirstEnergy utilities' auction; is that right?

3 A. I think that's right.

4 Q. Okay. And that was based on a capacity
5 price that prevailed or prevails when? Now?

6 A. I believe it was the '14-'15 delivery
7 period.

8 Q. So you think that it was --

9 A. I would have to go back, though, and
10 confirm, but that's my recollection.

11 Q. You wouldn't probably, maybe you will,
12 would you be willing to accept, subject to check,
13 that what you used was the capacity price, the RPM
14 price, for the 2013-'14 delivery period?

15 A. I may have.

16 Q. Okay. Which is 24-1/2 bucks, roughly?
17 On a dollars per megawatt-day basis.

18 A. I knew that's what you meant. That's
19 very close.

20 Q. Okay. And then is it your understanding
21 or do you have an understanding about what the RPM
22 price is scheduled to be for the 2014-'15 period?

23 A. Yes. It goes up to about \$126 per
24 megawatt-day.

25 Q. And then what happens in 2015-'16?

1 A. I think it drops down to about \$60.

2 Q. During the 2014-'15 period that would --
3 where it goes up to \$126, that would cover the
4 June 2014 through May 2015 period?

5 A. Yes, it would.

6 Q. So don't you think it would have been
7 more appropriate to use that capacity price, \$126 per
8 megawatt-day capacity price, then the \$24-1/2 per
9 megawatt-day capacity price?

10 A. Well, it was a three-year auction product
11 that FirstEnergy was competitively bidding so it
12 covered really all of those time periods, and --

13 Q. I'm sorry, you said it covered?

14 A. It covered multiple PJM delivery years.

15 Q. The capacity price deducted covered
16 multiple periods or the auction itself?

17 A. No; the auction product itself.

18 Q. Okay. I'm sorry.

19 A. And because we were dealing with the
20 data, the company's projections of the nonshopping
21 load, everything was done on a consistent data basis.

22 Now, we could have moved it forward in
23 time or we could have selected a subset of the future
24 period. There's a number of different ways you could
25 do the analysis, I'm the first one to admit that and

1 agree to that, but what I did was take an analysis
2 and say this is the harm that could be visited upon
3 SSO customers. We can make that more or less
4 depending on the assumptions.

5 Q. Wouldn't you agree with me that not using
6 the \$126 per megawatt-day value for the 2014-'15
7 period at June 2014 through May 2015, that not using
8 that value has rendered your offset from the
9 FirstEnergy price inaccurate?

10 A. No. I wouldn't agree with that. I would
11 suggest to you that if you wanted to modify the
12 analysis, you could take a three-year,
13 three-delivery-year average of the RPM. If you
14 wanted to do that, you could.

15 Q. I'm sorry.

16 A. You could have taken a three-year average
17 if you wanted to do that.

18 Q. The three-year average of the -- on the
19 one hand the \$25 per megawatt-day and on the second
20 hand the \$126 per megawatt-day and on the third hand
21 the capacity price for the third year?

22 A. Right.

23 Q. Because what you said was \$60, I think,
24 right?

25 A. That's right.

1 Q. But let me ask you about that if you
2 don't mind.

3 Isn't the price that applies to the
4 FirstEnergy utilities the ATSI, the ATSI price?

5 A. I believe so.

6 Q. And didn't that come in at an eye-popping
7 level, it kind of surprised people here at the
8 Commission and elsewhere?

9 A. No.

10 Q. It was more than \$60, wasn't it?

11 A. No, no, I'm not sure it was the ATSI
12 price. In fact, I don't think it was.

13 Q. Okay. But, okay, at any rate, we should
14 come up with some -- if we're going to follow your
15 approach, we need to deduct a number that reflects
16 the actual capacity prices that were prevailing for
17 the FirstEnergy utilities' all-in full-requirements
18 auction, right?

19 A. Right. You can do that over the entirety
20 of the auction period. I just used the '13-'14
21 12-month period because that was what I had data for,
22 and I chose to make everything consistent in the
23 computations that I made.

24 Q. Okay. And then, finally, well, actually,
25 not finally --

1 A. Promises, promises.

2 Q. Did you review the bid specifications for
3 the FirstEnergy utilities' argument which defined
4 what the SSO supply included, that is what was the
5 different components of it and what the companies
6 were supplying and what the bidders had to include
7 to -- had to agree to furnish and then bid on to
8 supply?

9 A. Not with that level of specificity.

10 Q. Okay. So you don't know whether there
11 was anything else other than energy on the one hand
12 and capacity product on the other hand that had to be
13 supplied by the bidders.

14 A. Well, if there were additional ancillary
15 services to be provided or what?

16 Q. Exactly. Were there any other ancillary
17 services or transmission services?

18 A. I didn't look at it that specifically.

19 Q. Okay. If there were, it would affect
20 your calculations, right?

21 A. It might marginally.

22 Q. Okay.

23 A. But I don't think very significantly.

24 Q. All right. Do you recall testimony by
25 Mr. Roush in response to several inquiries by counsel

1 in which he explained that the energy procured for
2 the fuel adjustment clause, to provide that supply
3 through the company's generation, was supplied on an
4 economic basis?

5 A. I think he said that he was not a
6 generation planner and he didn't really have anything
7 beyond a very basic understanding of the process.
8 But he did refer to an economic dispatch of the
9 company's generation resources.

10 Q. Well, is it your understanding that
11 energy is supplied to the company's SSO customers on
12 an economic basis by the company's owned generation?

13 A. It's a combination of resources both
14 owned generation and purchases, and some of it is
15 must run and some of it is economically dispatched.

16 Q. Yeah.

17 A. I'm reasonably familiar with the
18 interconnection agreement and the operation of the
19 AEP system.

20 Q. Is it your understanding that the energy
21 displaced by the 10 percent auction, for example,
22 would be, hopefully I'll say this correctly, it will
23 be displacing energy that will be procured through
24 the FAC at the high end in costs on the stack of
25 energy available to the company to purchase through

1 the FAC mechanism?

2 A. Well, first of all, it depends on whether
3 or not it's purchased from a third party as opposed
4 to AEP Generation Resources. And then second of all
5 it would depend on the allocation of the fuel costs
6 by AEP.

7 Q. I'm sorry, I'm talking about the way the
8 fuel adjustment clause works right now.

9 A. Oh, oh.

10 Q. Okay. Is it your understanding that the
11 energy being supplied to the company's customers
12 that's being managed or it's being procured through
13 the fuel adjustment clause or through the mechanism
14 that feeds the fuel adjustment clause, that that
15 energy is supplied on an economic basis to the
16 company and, as a result, when you displace part of
17 it, for example through the 10 percent auction, that
18 what's going to happen is that the more expensive
19 pieces of energy available will be displaced first as
20 opposed to the most expensive?

21 A. I don't know that that will happen.
22 Typically that's the way a fuel adjustment clause
23 would work.

24 Q. Okay.

25 A. But I don't know if that would happen. I

1 haven't seen any testimony to that effect.

2 Q. If that were the case, if it were done on
3 that basis, not on some average basis, would you
4 agree that the impact analysis that you've come up
5 with would end up overstating the impacts?

6 A. Not necessarily, because the displacement
7 as I understand it from the company's proposal is to
8 blend the fuel adjustment rate, in other words,
9 whatever is in the fuel adjustment rate, with the
10 cost of the auction purchases, and that really
11 depends on what ends up in that fuel adjustment
12 clause rate. I don't know what will end up in there.

13 Under an economic dispatch you would
14 expect purchases at whatever price because they will
15 become a take-or-pay type of purchase that it would
16 displace generation and you would hope that it would
17 displace it at the margin, but we don't know that,
18 and plus there's the interaction of the
19 interconnection agreement as well which will remain
20 in effect through the end of the year.

21 Q. But if, in fact, what would happen is
22 that the most expensive sources of the company's
23 owned generation were displaced first, then it would
24 be overstating the impacts to assume that an
25 average -- an average price is being displaced.

1 A. I don't think I can agree with that
2 hypothetical. To the extent that there's excess
3 generation, then that simply means there's less
4 generation being sold in the market or to the sister
5 companies, and there may be, in fact, even a fuel
6 increase rather than a reduction on an average per
7 kilowatt-hour basis.

8 Q. In response to a question from
9 Mr. Alexander earlier, FirstEnergy Solutions'
10 counsel, I believe you stated that the proposed CBP
11 rules, which are Exhibit A to the application in this
12 case, say that AEP Ohio would purchase energy from
13 AEP GenCo under its contract using existing FAC
14 prices. Do you recall that Q and A?

15 A. I recall a Q and A of that nature, but I
16 don't recall that there was a Q and A with respect to
17 purchasing at existing FAC prices. I think what I --
18 I think what were described was that there would be
19 some cost-based, in other words, AEP/Ohio Power would
20 pay AEP Generation Resources, Inc. on a cost basis
21 computed in the same manner that the fuel adjustment
22 clause presently is computed.

23 Q. Do you have Exhibit A to the CBP rules in
24 front of you?

25 A. I do not.

1 MR. CONWAY: Your Honor, may I approach?

2 EXAMINER TAUBER: You may.

3 Q. I'm going to hand you Exhibit A,
4 Mr. Kollen, to the CBP rules which were filed with
5 the companies' application on December 21st, 2012.

6 MR. CONWAY: My plan is not, again, your
7 Honors, is not to mark it as an exhibit, it's already
8 been filed in the docket.

9 EXAMINER TAUBER: Correct. You're
10 referring to Attachment A?

11 MR. CONWAY: Yes.

12 EXAMINER TAUBER: Or Exhibit A?

13 MR. CONWAY: Yes. Thank you.

14 Q. (By Mr. Conway) And the question I have
15 for you is that if you could look through the rules
16 and show me where you found -- where you find support
17 for the statement that AEP GenCo would be
18 contractually obligated to provide SSO energy at the
19 FAC rate if the auction fails.

20 A. First of all, my understanding was
21 informed through responses to discovery, and I don't
22 have those with me that I can refer to, but
23 nevertheless, that was my understanding that AEP
24 Generation Resources was responsible pursuant to
25 contract with AEP/Ohio Power to provide all SSO load

1 requirements other than the CBP energy-only. And
2 you'll have to give me a moment.

3 Okay, let me just make sure I understand
4 the question. Your question is where in the auction
5 rules does it say that if the auction fails, that AEP
6 Generation Resources will supply AEP/Ohio Power? Or
7 was your question something different?

8 Q. My question is based on an exchange you
9 had with Mr. Alexander where I believe, what I recall
10 you saying is that -- to a question what happens if
11 the auctions don't end up procuring power, either
12 because of the reserve price or for some other reason
13 they fail, either in whole or in part, what happens,
14 and I thought you said that what happens is that AEP
15 GenCo ends up supplying power at the FAC rate.

16 A. Well, I said that AEP/Ohio Power then has
17 to supply the SSO load and that it has a contract
18 with AEP Generation Resources to provide that
19 capacity and energy.

20 Q. At the FAC rate I thought you said.

21 A. At the cost which would be comparable to
22 the FAC rate.

23 Q. Maybe not. So you're saying it's not the
24 FAC rate or it is?

25 A. Well, there won't be a FAC any longer so

1 how can it be the FAC rate? That's why I said it was
2 comparable.

3 Q. Okay. Could you turn to article 7,
4 contingency plans of the Exhibit A --

5 A. Yes.

6 Q. -- to the competitive bidding process
7 rules?

8 A. Okay.

9 Q. What does it indicate -- if you could
10 read, excuse me, if you could read 7.1.2 and then
11 when you've finished reading that, let me know.

12 A. Okay, do you want me to read it out loud?

13 Q. No --

14 A. Is that what you --

15 Q. -- I want you to read it to yourself just
16 to familiarize yourself with it. Or refamiliarize
17 yourself with it.

18 A. Okay. I've read it.

19 Q. Okay. So under this contingency
20 provision, if not all available tranches are procured
21 in an auction, if the auction fails in whole or in
22 part, the first thing that happens is the unfilled
23 tranches will be offered in the next auction process
24 under the CBP, right?

25 A. That's what it says. That's inconsistent

1 with my recollection of the company's responses to
2 discovery, but that's what it says.

3 Q. And that in between when the next auction
4 process is completed or up until that time what does
5 the first bullet point say that will be the mechanism
6 for procuring energy for the load?

7 A. Well, it says that the corresponding
8 energy load in the PJM-administered markets.

9 Q. So the energy will be purchased at market
10 prices then; is that right?

11 A. Well, this is under a contingency plan as
12 defined in article 7.1.1.

13 Q. But I suppose the -- okay, it's 7.1.2
14 that we were looking at, right?

15 A. Yeah. And, you know, I mean, this is
16 certainly taken out of context. I mean, it's under
17 an article 7 entitled "Contingency Plans" and, you
18 know, I will readily admit that I haven't reviewed
19 this document in that level of detail, but I, quite
20 frankly, am relying on discovery responses and to the
21 extent that those discovery responses are
22 inconsistent with this, then that's unfortunate.

23 Q. I mean, you indicate at page 21 of your
24 testimony, do you not, lines 5 through 7, that if the
25 auctions fail, that what will happen is that AEP Ohio

1 will continue to provide energy to its standard
2 service offer customers at the FAC rates through
3 December 31, 2014, and then the way it will do that
4 is that AEP Ohio will continue to obtain all of its
5 energy from AEP Generation Resources.

6 A. Right. And that's my understanding from
7 the responses to discovery based upon a contractual
8 arrangement between AEP/Ohio Power and AEP Generation
9 Resources.

10 Q. And do you have the discovery responses
11 you keep referring to up there?

12 A. No, I said I don't.

13 Q. Okay. But the provision in article 7
14 that is 7.1.2 does address this topical area, does it
15 not?

16 MR. KURTZ: Your Honor, could I interpose
17 an objection at this point? I object to counsel's
18 use of the proposed bidding rules that AEP Ohio has
19 submitted which is, of course, the issue in this case
20 as being a definitive -- definitive pronouncement of
21 how things will occur and using it to, therefore,
22 cross-examine the witness.

23 The proposed rules are just proposed and
24 that's what we're here to decide.

25 MR. CONWAY: Well, your Honor, actually

1 the subject that I've been addressing with him is his
2 comment which is not to worry if the auctions don't
3 work out because we'll just default, we'll go back to
4 AEP Ohio and AEP Generation Resources and energy
5 supplied at a FAC rate and the basis for it, as I
6 understand it, was his understanding that the
7 competitive bidding process rules provided that --
8 for that result.

9 And so I think it's -- I don't think it's
10 improper to explore with him the basis for his
11 assurance that if the auctions fail, a particular
12 result that he's enamored with will occur.

13 MR. KURTZ: That mischaracterizes his
14 testimony because he said he's relying on two things,
15 discovery responses and the FERC contract, FERC
16 pro -- proposed FERC contract between AEP Ohio and
17 AEP Generation Resources that was submitted to FERC
18 to effectuate the ESP 2 decision of this Commission
19 where post-divestiture AEP Ohio would have generation
20 supply to carry out this Commission's ESP plan.

21 MR. CONWAY: Well, now Mr. Kurtz is
22 testifying again.

23 EXAMINER TAUBER: I think at this point
24 the area we've ventured into is outside the scope,
25 not necessarily of this proceeding, but of this

1 hearing, the narrow three issues that we're here for.
2 So I'm going to sustain the objection.

3 MR. CONWAY: All right.

4 Q. (By Mr. Conway) Mr. Kollen, is it your
5 expectation that AEP Generation Resources will be
6 leaving its assets idle and unhedged to address the
7 contingency that one of these future auctions will
8 fail?

9 A. I have not inquired into AEP Generation
10 Resources' fuel and operating procedures. All I know
11 is that there's a contract, a proposed contract
12 between the two entities to provide whatever energy
13 is necessary for the SSO load, that's what I know.

14 MR. CONWAY: Your Honor, I have no
15 further cross-examination.

16 EXAMINER TAUBER: Thank you.

17 Before we go on to Mr. Reilly, I just
18 want to go back, backtrack a little bit on the
19 blending that you touched on. You mentioned
20 asymmetrical blending. What do you mean by
21 "asymmetrical blending"? Are you talking about the
22 capacity and energy not being the same percentage?

23 THE WITNESS: Yea.

24 EXAMINER TAUBER: Or not being market
25 based?

1 THE WITNESS: Yes, that's correct.
2 Essentially, when you've got the long-standing base
3 generation charge that would cover the capacity
4 costs, that's not being reduced until January 1 of
5 2015, and effectively that's the analog of a
6 cost-based rate even though it was, you know,
7 established over many years and it isn't a
8 market-based rate.

9 And it's very high. And it drops down to
10 \$188 per megawatt-day on January 1st so that you
11 get a closer matching on that date, still not a
12 market-based capacity rate in conjunction with the
13 market-based energy rate but at least it's better
14 than over the next number of months through the end
15 of '14, because you have this base G rate that, you
16 know, depending on which number you use, is \$340 per
17 megawatt-day or \$350 per megawatt day.

18 The market rate right now is in the range
19 of \$25 per megawatt-day, it goes up temporarily to
20 about \$125 and then back down to \$60. So you can see
21 that there's a real mismatch where you have this
22 10 percent tranche of energy-only products being
23 matched with a legacy rate that is largely cost
24 based.

25 EXAMINER TAUBER: So let me make sure I'm

1 not mischaracterizing your testimony. So the
2 position you're advocating is to have a -- similar to
3 an MRO or market rate offer percentages, so it would
4 be 90 percent energy, 90 percent capacity.

5 THE WITNESS: Yes.

6 EXAMINER TAUBER: And in light of the
7 Commission's capacity decision in the capacity order
8 you're suggesting that it be 188.88 for the
9 10 percent?

10 THE WITNESS: Yeah, that would be one
11 solution to the problem. That would bring a closer
12 match. The other option, which is the one that I
13 explicitly addressed in my testimony, is leaving the
14 base G alone, or the capacity component alone as the
15 Commission did under one interpretation of the ESP 2
16 order. I know it's not the interpretation that FES
17 has, but -- and then coupling that with a cost-based
18 fuel adjustment clause type of rate.

19 So, in other words, either match it on a
20 cost basis, capacity and energy, or match it on an
21 energy basis, capacity and energy, but to mismatch it
22 this way ends up being a higher result than either of
23 the other two ways.

24 And FirstEnergy Solutions has a different
25 proposal that would result in a matching and I would

1 find that acceptable, or our proposal which I find
2 acceptable.

3 EXAMINER TAUBER: Thank you.

4 THE WITNESS: You're welcome.

5 EXAMINER TAUBER: Mr. Reilly.

6 MR. REILLY: No questions, your Honor,
7 thank you.

8 EXAMINER TAUBER: Redirect, Ms. Grady?

9 MS. GRADY: No, no thank you, your Honor.

10 EXAMINER TAUBER: Thank you.

11 Thank you. You may be excused.

12 THE WITNESS: You're welcome. Thanks.

13 MS. GRADY: Your Honor, at this time we
14 would move for the admission of Joint Exhibit No. 1.

15 EXAMINER TAUBER: Are there any
16 objections to OCC and OEG Joint Exhibit No. 1?

17 (No response.)

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

20 (EXHIBITS ADMITTED INTO EVIDENCE.)

21 EXAMINER TAUBER: Let's go off the record
22 real quick.

23 (Discussion off the record.)

24 EXAMINER TAUBER: Let's go back on the
25 record.

1 We'll adjourn for today and reconvene
2 tomorrow morning at 9:00 a.m. Thank you.

3 (Hearing adjourned at 5:54 p.m.)

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CERTIFICATE

I do hereby certify that the foregoing is a true and correct transcript of the proceedings taken by me in this matter on Monday, June 24, 2013, 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.

(72728-MDJ)

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Summary: Transcript in the matter of Ohio Power Company hearing held on 06/24/13 - Volume I electronically filed by Mrs. Jennifer Duffer on behalf of Armstrong & Okey, Inc. and Jones, Maria DiPaolo Mrs.