

BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

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In the Matter of the :
Application of Ormet :
Primary Aluminum : Case No. 09-119-EL-AEC
Corporation for Approval :
of a Unique Arrangement :
with Ohio Power Company. :

- - -

PROCEEDINGS

before Ms. Sarah Parrot, Attorney Examiner, at the
Public Utilities Commission of Ohio, 180 East Broad
Street, Room 11-A, Columbus, Ohio, called at 10:00
a.m. on Wednesday, August 28, 2013.

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VOLUME II

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1 Wednesday Morning Session,
2 August 28, 2013.

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4 EXAMINER PARROT: Let's go on the record.
5 Let's begin with brief appearances, just names and on
6 whose behalf you're here today, thank you. We'll
7 start again with Ormet.

8 MR. PETRICOFF: Thank you. On behalf of
9 the company, we have Howard Petricoff and Dan
10 Barnowski.

11 MR. NOURSE: Thank you, your Honor. On
12 behalf of Ohio Power Company, Steven T. Nourse and
13 Andrew C. Emerson.

14 MR. McNAMEE: On behalf of the staff, Tom
15 McNamee.

16 MR. BERGER: Your Honor, on behalf of the
17 Office of Ohio Consumers' Counsel, Tad Berger and
18 Maureen Grady.

19 MR. BOEHM: Your Honor, on behalf of the
20 Ohio Energy Group, David Boehm, Mike Kurtz, and Jody
21 Kyler-Cohn.

22 MR. DARR: On behalf of IEU-Ohio, Frank
23 Darr and Joe Oliker.

24 EXAMINER PARROT: Thank you, everyone.

25 Mr. Petricoff, are you ready to proceed?

1 MR. PETRICOFF: Thank you, your Honor.
2 At this time we would like to call to the stand Jorge
3 Vazquez.

4 EXAMINER PARROT: Please raise your right
5 hand.

6 (Witness sworn.)

7 EXAMINER PARROT: Please be seated.

8 THE WITNESS: Thank you.

9 MR. PETRICOFF: Your Honor, I'd like to
10 have marked as Ormet Exhibit No. 6 the direct
11 prepared testimony of Jorge Vazquez.

12 EXAMINER PARROT: So marked.

13 (EXHIBIT MARKED FOR IDENTIFICATION.)

14 - - -

15 JORGE VAZQUEZ
16 being first duly sworn, as prescribed by law, was
17 examined and testified as follows:

18 DIRECT EXAMINATION

19 By Mr. Petricoff:

20 Q. Good morning, Mr. Vazquez.

21 A. Good morning.

22 Q. Would you please state your name and
23 business address for the record.

24 A. My name is Jorge Vazquez, and our office
25 is at 8601 Ranch Road 2222, Building 1, Suite 103,

1 Austin, Texas.

2 Q. Thank you.

3 And do you have with you a copy of your
4 direct prepared testimony which has now been marked
5 as Ormet Exhibit No. 6?

6 A. Yes, I do.

7 Q. Are there any changes or corrections that
8 need to be made to that document?

9 A. Yes. Page No. 4, sentence 10, instead of
10 2019 it should have read "2017."

11 Q. Are there additional changes as well on
12 that page?

13 A. Yes. Sentence No. 19, instead of 1896 it
14 should have read "1919" per metric ton. And instead
15 of 25.5 percent it should have read "5 percent."

16 Q. Are there any other changes you would
17 like to make to the testimony?

18 A. Not at this point.

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

21 A. It was prepared by me.

22 Q. And if I were to ask you the same
23 questions today that are contained in Ormet Exhibit
24 No. 6, would your answers be the same?

25 A. Yes.

1 MR. PETRICOFF: Your Honor, the witness
2 is available for cross-examination.

3 EXAMINER PARROT: Thank you.

4 AEP?

5 MR. NOURSE: No questions. Thank you,
6 your Honor.

7 EXAMINER PARROT: All right. OCC?

8 MR. BERGER: Thank you, your Honor.

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10 CROSS-EXAMINATION

11 By Mr. Berger:

12 Q. Good morning, Mr. Vazquez. We previously
13 spoke at your deposition on Friday, and I have some
14 questions basically following along the lines that we
15 did at that deposition.

16 First of all, let me ask you, Ormet's a
17 long-term customer of your company, HARBOR
18 Intelligence, isn't it?

19 A. They have been our clients for --
20 since -- for five years now.

21 Q. Okay. And Ormet has been in the business
22 of doing long-term as well as short-term forecasting
23 since the 1990s, right?

24 A. 1995 we have been forecasting.

25 Q. And you've been doing forecasts for

1 annual periods of 12 or 24 months since 2000; is that
2 correct?

3 A. Yes --

4 Q. 2001.

5 A. -- we have been forecasting market
6 variables and industry key metrics depending on the
7 span; if it's monthly forecasts, we provide usually
8 12 months, if it's annual forecasts, we provide up to
9 30 yearlong forecasts.

10 Q. Did you say up to 30 years?

11 A. Yes.

12 Q. But normally your forecasts are two years
13 in advance?

14 A. Depending on the report the forecast term
15 varies or changes, so it all depends what we're
16 doing, what report we are talking about.

17 Q. Now, you're aware that OCC requested your
18 long-term forecast since the year 2001. Do you
19 remember that?

20 A. I was requested to provide the forecasts
21 that we provide in our Aluminum Intelligence report
22 monthly and that's the forecasts that we provided.
23 Those are the monthly reports that we provided as
24 requested.

25 Q. But are you aware that OCC requested your

1 forecasts since the year 2001, but that there was an
2 objection and that the only forecasts that were
3 provided were forecasts since 2010?

4 MR. PETRICOFF: Your Honor, I'm going to
5 object to the question. As you can tell from the
6 preface, this has to do with the settlement of a
7 discovery issue, it does not involve the witness.

8 EXAMINER PARROT: Response.

9 MR. PETRICOFF: And there was a
10 settlement on the discovery dispute.

11 MR. BERGER: I don't recall that there
12 was a settlement. There was no discussion of that
13 particular -- there was an objection and the only
14 forecasts that were provided were from 2010 to the
15 present; that's the only thing I'm seeking to
16 establish.

17 MR. PETRICOFF: Well, your Honor, in that
18 case I would object to the question because there has
19 been no discovery dispute that has been brought to
20 this Commission in the form of a motion to compel.
21 We have provided the information that we thought fit
22 the guidelines and the requirements of discovery.

23 EXAMINER PARROT: Any further response,
24 Mr. Berger?

25 MR. BERGER: No, your Honor.

1 EXAMINER PARROT: I'll allow the
2 question.

3 If you could answer. If you know.

4 A. Can you repeat it, please?

5 Q. (By Mr. Berger) Yes. Are you aware that
6 OCC requested forecasts from your -- forecasts from
7 your company since the year 2000 for 24 -- 12-, 24-,
8 and 36-month periods but that the only forecasts that
9 were provided were forecasts since 2010?

10 A. I'm aware that we were requested to
11 provide our reports, our monthly reports, and the
12 forecasts that are included in those reports. To
13 amplify the spirit of my answer, when I say that we
14 provide up to 30 yearlong forecasts, we do that for
15 special clients that order long-term forecasting.

16 When our clients want to understand what
17 is the latest data in the industry suggesting about a
18 long term, then they'll hire us and we will provide
19 them with those forecasts. But it is not something
20 that we provide in a monthly basis or in a
21 commercial/publication basis; that's on request.

22 Q. Let me clarify. Do you remember a
23 question, a request for production of documents that
24 was asked of Ormet that asked for your forecasts for
25 12-, 24-, and 36-month periods since 2000? Do you

1 remember the question?

2 MR. PETRICOFF: Your Honor, I'm going to
3 object again. These were discovery requests. These
4 are not something that goes to the witnesses. There
5 has been a production of discovery in regards to the
6 requests. This is irrelevant.

7 EXAMINER PARROT: Again, I'm going to
8 allow the question and see where this is headed. So
9 tread lightly, Mr. Berger.

10 Q. Do you remember that request?

11 A. I remember that I was requested to
12 provide our forecasts that are provided in our
13 monthly reports reflecting what we were forecasting
14 for 20 -- for 2009, 2010, '11, '12; that's what I
15 provided.

16 Q. Okay. Thank you.

17 Now, in doing your forecasts you
18 performed three scenarios which have been called base
19 case scenario, upside scenario, and downside
20 scenario. Are you familiar with that?

21 A. Yes, I am familiar.

22 Q. And in your methodology in doing those
23 forecasts, those three scenarios add up to a hundred
24 percent odds of those three scenarios occurring in
25 combination.

1 A. Correct.

2 Q. So normally, am I correct that your base
3 case scenario has, say, a 40 to 60 percent odds of
4 occurrence based upon your projections?

5 A. Correct.

6 Q. And your downside and upside scenario
7 would make up the difference between a hundred
8 percent; is that correct?

9 A. Yes, correct.

10 Q. And why do you determine that when you're
11 trying to put odds on these scenarios, that they
12 should add up to a hundred percent?

13 A. When our clients ask us: In your view of
14 the incoming intelligence on the industry and the
15 markets that surround this industry, what would you
16 say is a reasonable range in terms of prices that we
17 should expect, then we answer that question by
18 saying, "Well, we think prices are going to move
19 within this particular range, highly likely." And if
20 you ask me within that range where do we think most
21 of the time prices should be trading at, we express
22 that view by assigning possibilities or odds.

23 So if we show that the base scenario has
24 50 percent odds of occurrence and, let's say,
25 40 percent for the upside scenario, we are expressing

1 the view that the data is suggesting that we should
2 expect prices to primarily trade between the
3 midpoint, or the base case scenario, and the upside.

4 And then we express the view that the
5 odds for prices to trade mainly between the midpoint
6 or the base scenario and the downside scenario are
7 much lower than between the up -- between the base
8 scenario and the upside scenario. So by assigning
9 those probabilities, we are trying to express to our
10 clients where the data is telling us the price is
11 highly likely should be trading at given the incoming
12 data.

13 Q. Now, would you agree with me that if your
14 base case or what you call your realistic scenario is
15 50 percent, that means that the likelihood of being
16 close to that -- that there's a 50 percent likelihood
17 of being close to that scenario? Is that right?

18 A. The spirit of assigning those odds are
19 more related to where we expect the primarily range
20 to be. So the base case scenario, it's the middle
21 point, let's put it that way, and then by assigning
22 probabilities we're expressing the view which we
23 think prices are primarily going to trade between the
24 midpoint and the high point or between the midpoint
25 and the low point. That's what we are really trying

1 to accomplish by following that methodology, which
2 was created by the request of our different types of
3 clients.

4 Q. Would you agree with me that if you're
5 putting 50 percent odds on something, that that's
6 equal to the flip of a coin?

7 A. No, I wouldn't agree with that because
8 when you flip a coin, there's no analysis behind it.
9 There's no real pondering of possibilities. I
10 wouldn't represent what we do, nor the odds of what
11 we express in that particular case of our different
12 three scenarios, I wouldn't relate that to flipping a
13 coin.

14 Q. But you would agree with me that the
15 mathematical likelihood that when a coin is flipped,
16 that it will be 50 percent heads and 50 percent
17 tails.

18 A. Yes, when you flip a coin, statistically
19 half of the time we should expect heads and half of
20 the time we should expect tails.

21 Q. Would you agree with me that even if you
22 do a lot of work to determine that there's a
23 50 percent chance of being close to a particular
24 projection, that doesn't make the mathematical
25 certainty of that projection any greater than

1 50 percent? Is that correct?

2 A. Well, it's difficult to answer that
3 question in those terms because, again, in our view
4 that's not what's behind the intention of the
5 developments of those numbers.

6 Q. Would you agree with me that you haven't
7 been able to find a quantitative model that develops
8 your forecast or the odds that you assigned to that
9 forecast; is that correct?

10 A. No, no, we are really robust
11 quantitatively and I think that's, in a way, clear by
12 the material that we produce. I think in the world
13 HARBOR Aluminum has one of the largest, if not the
14 largest, database related to their industry and to
15 the market.

16 The forecasts that we produce are the
17 result of thousands of numbers that we collect and
18 analyze, and those numbers and that data, again, once
19 we analyze, once we ponder those numbers together,
20 then we express what that means for the price of
21 aluminum using data points like what's the true
22 production cost of aluminum; how the flow of funds
23 affects the movement of the price related to that
24 average cost of producing aluminum; how inventory
25 levels affect the price at the margin under different

1 conditions; what and how currencies affect the price
2 statistically speaking.

3 We have a really prepared and
4 knowledgeable econometrician that works with us in
5 trying to quantify the effect of the different
6 industry and market variables have on the aluminum
7 price.

8 One thing I'm certain, and it is that our
9 forecasts are the result of the analysis of probably
10 the biggest quantitative expression available in the
11 market with respect to the aluminum industry.

12 Q. But, Mr. Vazquez, am I correct that in
13 coming up with your determination of whether the base
14 case scenario has a 50 percent likelihood or a
15 60 percent likelihood, whether the downside scenario
16 has a 20 percent likelihood or a 30 percent
17 likelihood, that your determination of those
18 percentages is not a calculation but more a judgment
19 call as to the percentage that you associate with
20 these scenarios?

21 A. When we provide those odds, we take into
22 account all of the statistical data, what that means,
23 how our models interpret that, and then we express
24 that in the odds that we present in each of the
25 different scenarios.

1 Q. But you don't use a calculation, that's a
2 judgment call as to the percentage you place on that.

3 A. I'll say both. We use a calculation and
4 then after we have that calculation, understanding
5 that every econometrical model has a margin of error,
6 we try to diminish or reduce that margin of error by
7 including also our best quantitative view on top of
8 that economic calculation or mathematical
9 calculation.

10 MR. BERGER: Your Honor, at this time I
11 want to show the witness page 64 of the confidential
12 transcript associated with his deposition where I
13 asked him whether he uses a calculation to come up
14 with this.

15 EXAMINER PARROT: So are you actually
16 questioning him with respect to confidential
17 information?

18 MR. BERGER: Yes.

19 EXAMINER PARROT: Is that where this is
20 headed then?

21 MR. BERGER: Yes. Should I wait till
22 later?

23 EXAMINER PARROT: Wait till the end for
24 any confidential.

25 MR. BERGER: Okay.

1 Q. (By Mr. Berger) Would you agree,
2 Mr. Vazquez, that your methodology of how you --
3 whether you're using quantitative or qualitative
4 factors is not a confidential issue even though it's
5 in the confidential transcript of this deposition?

6 A. The fact that we use quantitative and
7 qualitative analysis to provide -- when we provide to
8 our clients is not a matter of confidentiality per
9 se.

10 MR. BERGER: So, your Honor, I'd like to
11 be able to use this right now to impeach the witness
12 to the extent that I can.

13 EXAMINER PARROT: Okay. Well, it sounds
14 like you ought to be able, I'm thinking, to restrict
15 your question to information that is not itself
16 confidential so --

17 MR. BERGER: I may approach?

18 EXAMINER PARROT: -- I think you're all
19 right.

20 MR. BERGER: May I approach the
21 witness --

22 EXAMINER PARROT: You may.

23 MR. BERGER: -- and provide him with a
24 copy of the deposition transcript?

25 Q. (By Mr. Berger) Mr. Vazquez, when I asked

1 you the question there about your scenarios and I
2 asked you "But you don't use a calculation, an
3 individual makes a judgment call about that," on page
4 64, and I asked you "is that correct?" would you
5 please read your answer there.

6 A. "What we will usually do, we will use our
7 notes and then conceptually draw the combination of
8 qualitative and quantitative factors and then we
9 will, in light of that, assign a number that
10 represents the analysis."

11 Q. Would you agree with me that there's not
12 a calculation that you utilize to come up with that
13 number?

14 A. We do. We do. We have plenty of
15 spreadsheets that we use to calculate what we
16 calculate.

17 Q. From one report to the next would you
18 agree with me that you don't have a consistent
19 methodology for calculating that number?

20 A. No, I wouldn't agree with that. Very
21 consistent.

22 Q. Would you agree that on page 63 to 64 you
23 say it is a result of pondering qualitative and
24 quantitative variables?

25 A. We use quantitative and qualitative

1 variables in our analysis, yes.

2 Q. Thank you.

3 If I asked you for your formula, could
4 you provide me a formula for how you do the
5 calculations?

6 A. Well, that's proprietary.

7 Q. Would you agree with me, Mr. Vazquez,
8 that, generally speaking, the further out you
9 forecast -- your forecast goes, the percentage error
10 will tend to increase?

11 A. Not necessarily. If we're talking about
12 monthly forecasts, that's one metric. If we are
13 talking about annual forecasts, that's another
14 metric. So it all depends.

15 Usually monthly forecasts are used to
16 give a guidance for the next quarter or two, and
17 annual forecasts are used for long-term planning or
18 medium-term planning, meaning more than a year. So,
19 of course, if you try to use monthly forecasts to
20 predict a particular price level 20 years from now,
21 it's going to be a tougher endeavor versus taking
22 annual forecasts versus the annual average of that
23 year. So it all depends what we are using.

24 Q. Would you agree that forecasts become
25 less accurate the further out you go?

1 A. It depends what type of pricing or type
2 of forecasting we're talking about. Again, daily,
3 weekly, monthly, annual.

4 Q. Would you look at your testimony on
5 page -- from the deposition on pages 24 to 25 where
6 Mr. Oliker asked you "Would you agree that the
7 increase in the differential between 2014 and 2015 is
8 due to the fact that forecasts become less accurate
9 the further out you go?"

10 And would you state your response there
11 on page 25.

12 MR. PETRICOFF: Well, your Honor, before
13 he reads from the transcript, shouldn't he answer the
14 question first? I mean, this is supposed to be -- if
15 this is supposed to be impeachment, you ask the
16 question first and then impeach.

17 MR. BERGER: I asked him, your Honor,
18 whether forecasts become less accurate the further
19 out you go and that's what he responded to.

20 MR. PETRICOFF: That's right. And this
21 is limited to a two-year period, 2014 to 2015.

22 MR. BERGER: I disagree. It says it's
23 due to the fact that forecasts become less accurate
24 the further out you go. So I asked him whether
25 forecasts become less accurate the further out you

1 go. I think it's a fair question. I think it's
2 proper impeachment.

3 EXAMINER PARROT: And I'll allow the
4 question.

5 Did you find the reference, though? We
6 didn't really give you time to find it.

7 THE WITNESS: Page 25.

8 EXAMINER PARROT: Can we make sure the
9 witness has found the --

10 A. Page 25?

11 Q. (By Mr. Berger) Page 25, the first line
12 there, would you please read --

13 A. The first line?

14 Q. -- your answer to the question that I
15 just stated.

16 A. It says, "Okay. Would you agree that
17 current LME prices are being driven by a oversupply
18 of aluminum?"

19 Q. No, I'm talking about the question that
20 begins at the bottom of page 24 --

21 A. Okay.

22 Q. -- and the first line of page 25.

23 A. Oh. "And do you agree that the large
24 differential between 2014 and 2015 your -- strike
25 that.

1 "Would you agree that the increase in the
2 differential between 2014 and 2015 is due to the fact
3 that forecasts become less accurate the further out
4 you go?"

5 Okay. Okay, I answer, "Has more margin
6 of error, correct."

7 Q. Thank you.

8 MR. BERGER: Your Honor, at this point
9 I'd like to mark a confidential exhibit and I'd like
10 to go into the confidential record at this point in
11 time. Or do you want to go through each of the --

12 EXAMINER PARROT: I'd like to wait. If
13 you have questions that pertain to information that's
14 confidential, I'd like to reserve those to the end if
15 we can.

16 MR. BERGER: Then I just have a couple
17 more questions on the public transcript. And do you
18 want to wait until all the parties, then, are done
19 with their public questions and then --

20 EXAMINER PARROT: No, I don't think we
21 need to do that, but I'd like you to keep as much of
22 it on the public portion of your questioning together
23 as you can and then we'll proceed to the
24 confidential.

25 Q. Mr. Vazquez, would you agree with me that

1 in forecasting aluminum prices there are always
2 factors that can't be accurately predicted such as,
3 for example --

4 MR. BERGER: Actually, that comes from a
5 confidential report so I'm going to hold -- I'm going
6 to ask the rest of my questions on the confidential
7 record, your Honor.

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

10 (Discussion off the record.)

11 EXAMINER PARROT: Let's go back on the
12 record. At this point we are on the confidential
13 portion of the transcript again.

14 (CONFIDENTIAL PORTION EXCERPTED.)

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(OPEN RECORD.)

EXAMINER PARROT: At this point we are going to return to the open portion of the transcript and pick up with OEG.

MR. BOEHM: I have no questions for this witness, your Honor.

1 EXAMINER PARROT: All right. IEU?

2 MR. OLIKER: Your Honor, I just have a
3 few public questions and then I'll probably need to
4 move to the confidential record.

5 - - -

6 CROSS-EXAMINATION

7 By Mr. Oliker:

8 Q. Good morning, Mr. Vazquez. My name's Joe
9 Oliker. I represent IEU-Ohio.

10 A. Good morning.

11 Q. Would you agree that you were retained by
12 Ormet to provide a forecast of aluminum prices?

13 A. We were retained by Ormet to share our
14 view of the aluminum industry and that included the
15 pricing.

16 Q. And when we refer to "aluminum prices,"
17 you would agree we're referring to prices on the
18 London Metal Exchange?

19 A. Correct.

20 Q. So for purposes of our discussion if I
21 refer to the "LME," you would understand I'm
22 referring to the London Metal Exchange?

23 A. Yes.

24 Q. Thank you.

25 You are familiar with the term

1 "locational premiums," correct?

2 A. Correct.

3 Q. Would you agree that locational premiums
4 are an additional amount of compensation that Ormet
5 receives in addition to the LME price?

6 A. Correct.

7 Q. And you would agree that the LME recently
8 passed a regulation designed to decrease the amount
9 of locational premiums that are available.

10 A. Incorrect. The LME proposed to reverse
11 the record queues present in Vlissingen and Detroit
12 and Belgium. There -- those queues are over 100
13 days. In the particular case of Vlissingen and
14 Detroit we're talking about queues of over 18 months
15 long, so the LME proposed to tackle those record
16 queues, but it's not locational premiums what they're
17 talking about or trying to address per se in that
18 particular proposal.

19 Q. Thank you for that clarification. But,
20 Mr. Vazquez, the effect of the regulation has been to
21 reduce locational premiums, correct?

22 A. We don't have a regulation yet, so that
23 sentence precisely is not appropriate of what's going
24 on. But the announcement of the consideration of a
25 possible change has affected a bit premiums and

1 premiums have come down from a record high of 12.5
2 cents to 10.7 cents -- no, I'm sorry. 11.5 cents to
3 10.7 cents per pound since then.

4 Q. Thank you.

5 This might be my last series of public
6 questions. Mr. Vazquez, isn't it true that Ormet
7 relied upon a forecast provided by HARBOR in its 2009
8 reasonable arrangement proceeding?

9 A. I don't know. I don't know what they
10 relied on. I know they subscribed to our reports but
11 I haven't -- I don't know if they relied on ours or
12 on other sources that they may have.

13 Q. HARBOR did create analysis in 2009,
14 correct?

15 A. We create -- we always analyze the market
16 and provide monthly reports, but I cannot tell you if
17 they relied on ours or not, but they do receive our
18 reports.

19 Q. If I were to place a report from 2009 in
20 front of you, would you be able to identify it?

21 A. Yes.

22 MR. OLIKER: May I approach the witness,
23 your Honor?

24 EXAMINER PARROT: You may.

25 MR. OLIKER: Your Honor, at this time I'd

1 like to mark for identification IEU-Ohio Exhibit 3
2 the document that contains a April 2009 HARBOR
3 Intelligence aluminum market analysis and price
4 outlook intelligence.

5 EXAMINER PARROT: So marked.

6 (EXHIBIT MARKED FOR IDENTIFICATION.)

7 Q. Mr. Vazquez, do you recognize the
8 document I've placed in front of you?

9 A. Yes.

10 Q. Was this document prepared by you or
11 under your direction?

12 A. Yes, it was.

13 Q. Does this represent a forecast of
14 aluminum prices in Aluminum Outlook [verbatim] from
15 2009?

16 A. Yes.

17 Q. And if you turn to page 15, please, do
18 you see where it says the Realistic case?

19 A. I do.

20 Q. Is that the same thing as the base case
21 scenario?

22 A. Yes, it is.

23 Q. And would you agree that HARBOR back in
24 2009 was forecasting the price of aluminum to be
25 \$2,700 in 2010?

1 A. To answer the question correctly and
2 completely, as I explained earlier, see the odds,
3 60 percent chance realistic scenario, downside
4 30 percent, that was expressing the view that we were
5 expecting prices to trade in the particular case of
6 2010 between 2700 average and 2300 average; between
7 2800 average and 2100 average for 2011; and for 2012
8 between 2700 and 2,000.

9 We think that particular inclination of
10 the possible range, that was expressing that we were
11 expecting within that particular range prices to
12 trade a little bit closer to the realistic number
13 versus the downside. So the forecast that we are
14 expressing here is, again, mainly trading between the
15 realistic and downside, slightly more towards the
16 realistic than the downside, correct.

17 Q. Just to follow that up, you would agree
18 that the realistic case that you projected in 2011 is
19 2800 and the realistic case you projected in 2012 is
20 2700?

21 A. Yeah, we were projecting the prices were
22 going to trade between 27- and 2300 for 2010, mainly
23 that was where most of the odds were, between 2800
24 and 21; 27 in 2000 -- being the realistic, the
25 gravitational point more than the downside.

1 Q. Yes.

2 MR. OLIKER: Can I have one minute, your
3 Honor, to see if I have any other public questions?

4 EXAMINER PARROT: You may.

5 MR. OLIKER: Your Honor, could we go off
6 the record for one second?

7 EXAMINER PARROT: Yes. Let's go off the
8 record.

9 (Discussion off the record.)

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

12 Mr. Oliker.

13 MR. OLIKER: Your Honor, at this time I
14 think counsel and IEU would like to make a
15 stipulation regarding an exhibit. I'd like to
16 approach the court reporter and the witness.

17 EXAMINER PARROT: You may.

18 MR. OLIKER: And I'd like to mark
19 IEU-Ohio Exhibit 4 Ormet's response to IEU-Ohio's
20 interrogatory 1-6.

21 Counsel for IEU-Ohio and Ormet would like
22 to stipulate that this document represents historical
23 aluminum prices on the London Metal Exchange.

24 EXAMINER PARROT: The document shall be
25 marked IEU Exhibit 4.

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(EXHIBIT MARKED FOR IDENTIFICATION.)

MR. OLIKER: I think that's all of the public questions I have.

EXAMINER PARROT: All right. Let's go off the record again.

(Discussion off the record.)

(CONFIDENTIAL PORTION EXCERPTED.)

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(OPEN RECORD.)

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

At this point we're returning to the open portion of the transcript, and before we move on from Mr. Oliker, if you want to go ahead and clear up the issue you identified with Mr. Petricoff in regards to IEU Exhibit 4, let's go ahead and do that now.

MR. OLIKER: Sure. We previously stipulated that Ormet's response to IEU-Ohio Interrogatory 1-6 represents the LME prices January

1 2010 to July 2013. We just wanted to mention that
2 the additional document, the previous page, would not
3 be cited and the reason why it was provided was to
4 show Interrogatory 1-6 to which the attached sheet is
5 a response.

6 MR. PETRICOFF: Obviously, I was thinking
7 to make it even easier than that, and that is when we
8 submit IEU Exhibit No. 4 into the record, we just
9 don't attach the first page.

10 MR. OLIKER: I'm fine with that.

11 EXAMINER PARROT: Okay. Very good.

12 MR. PETRICOFF: Then we don't have to
13 explain anything later on.

14 EXAMINER PARROT: As long it's on the
15 record.

16 MR. PETRICOFF: You know, there won't be
17 the chance of error.

18 EXAMINER PARROT: Very good. Thank you.
19 Thank you, Mr. Oliker.

20 MR. OLIKER: Thank you.

21 EXAMINER PARROT: Staff.

22 - - -

23 CROSS-EXAMINATION

24 By Mr. McNamee:

25 Q. Good morning.

1 A. Good morning.

2 Q. Earlier in your cross-examination I
3 believe you indicated that the London Metal Exchange
4 has taken a step to reduce a queue. Do you remember
5 that?

6 A. Yes.

7 Q. What is a "queue"?

8 A. If you buy metal in the LME, you have the
9 choice of settling your contract either financially
10 or physically. If you decide to settle your contract
11 physically, which means you want to take delivery of
12 the metal, you'll go to the -- the LME will assign
13 you a piece of paper that we call warrant. That
14 paper will give you ownership of a particular lot in
15 a particular warehouse in a particular location.

16 And then if you want to load out or take
17 delivery of that metal because you need the metal,
18 you notify the warehouse, "Hey, guys, I want to pick
19 up my metal because I need it to produce whatever I
20 need to produce." The warehouse will tell you today,
21 if it's in the case of Detroit, they will tell you,
22 "Okay. Waiting time, it's 19 months." So if you
23 want to take your metal out of the warehouse, there's
24 a queue of 19 months and you need to wait. In the
25 meantime, you have to pay rent, full rent.

1 So when we say "queue," that means the
2 time you have to wait in order to deliver out the
3 metal that belongs to you.

4 Q. Okay. That raises a host of interesting
5 questions, none of which are relevant I suspect.

6 How, if at all, is this queue related to
7 Midwest Premium?

8 A. Yes. The Midwest Premium is the, in
9 practice, is the logistical cost, the full logistical
10 cost you have to bear in order to move the metal from
11 the supplier source into your own plant or facility.
12 The queue, or the warehouse, participates within
13 several equations that determine the logistical cost
14 of sourcing out metal.

15 One choice the consumer has is buy metal
16 from the producer or buy metal from the trader or buy
17 metal from the LME. So if you buy metal from the
18 LME, how much is the full logistical cost of moving
19 that metal out of the warehouse into your own plant?
20 That logistical cost for doing that is 19 months of
21 full rent for storage, the finance cost of that, FOT,
22 which means how much that warehouse is going to
23 charge you for loading that metal into your truck,
24 plus the freight from the warehouse to your location.

25 So queues participate in these overall

1 sets of equations that determine the Midwest Premium.
2 So if the cost for a consumer or any player to source
3 out metal from the LME goes up logisticallywise, that
4 will impact the Midwest Premium. So the lengthier
5 the queue, the higher the premium for logistical
6 reasons, logistical cost reasons.

7 That's the relationship between the queue
8 and the Midwest Premium.

9 Q. Okay. And so the London Metal Exchange
10 has taken some sort of step to reduce this queue.

11 A. They have proposed --

12 Q. Proposed.

13 A. -- changes to address changes in the
14 structure of the warehousing regulatory framework to
15 address those queues and make sure those queues come
16 down from 19 months to 100 days or less.

17 Q. If the metal's sitting in a warehouse,
18 how can it possibly take 19 months to move it out?

19 A. Fair question. I think it's in the
20 public record that the DOJ, the CFTC, and the Federal
21 Reserve are looking into that and we have more than
22 five, in my understanding we have already five but I
23 know two more are coming, antitrust class action
24 lawsuits related to that case.

25 Q. Okay. Regardless of any of that, this is

1 not a matter that the Commission here need to concern
2 itself with in this case, is it?

3 A. I think yes. Let me tell you why. Funds
4 play an important role in determining the LME price.
5 More than 70 percent of the volume that is traded in
6 the London Metal Exchange has nothing to do with real
7 physical aluminum demand and supply, it has to do
8 with funds participating in this market taking
9 positions, expressing views.

10 The warehousing situation, which is
11 unprecedented, evident in these record queues have at
12 the end of the day costs, two things that have
13 effected the LME price: Number one, it incentivizes
14 metal to flow to the LME. Instead of metal flowing
15 outside the LME for organic purposes, working
16 inventory, et cetera, there's an incentive to bring
17 more metal into the LME than would be the case if
18 those queues were not present.

19 So if metal is coming to LME flooding the
20 warehouse because there's an incentive to do so, and
21 I don't need to explain what's the incentive, that
22 affects the psychology of the market because the
23 market will start to see, hey, we're having a lot of
24 buildups, that means the market is in a huge
25 oversupply; that affects the psychology and that

1 affects the price.

2 And, number two, regardless of that
3 effect, when funds read that there's something
4 smelly, they will take positions at the margins.
5 Some macroplayers will say stay away from aluminum,
6 some of them will say stay away from aluminum, this
7 is not right, there is so much uncertainty, the
8 system is -- has a problem, so let's wait until
9 that's resolved and then we will express our
10 fundamental view of the industry.

11 If indeed the LME turns that proposal
12 into action, that will imply two things: Queues
13 coming down and premiums coming down to normal
14 levels, which we're talking about \$50 downside, 50-,
15 75 dollars downside from where we stand, but that
16 will give momentum to the LME price which has a much
17 bigger base than the Midwest Premium, okay?

18 Why momentum? Because that will imply
19 that we will see less LME inventory buildups at the
20 margin because we will not have the incentive we had
21 in the past all the way around, we're going to start
22 to see outflows of metal from the LME, and LME metals
23 are going to come down, okay, at the margin, that's
24 going to impact the psychology of the market.

25 And at the same time those macrofunds who

1 are not going long on aluminum because something was
2 not right or something was smelly or there was too
3 much uncertainty embedded in the system, now they're
4 going to have a bigger incentive or finally an
5 incentive to get long or invest in the aluminum
6 price.

7 So the bottom line is if these proposals
8 go ahead, the net effect on the aluminum realized
9 price is rather positive than neutral -- or neutral.

10 Q. Okay.

11 A. We need to understand that today the LME
12 price signal is such that it's telling us that
13 47 percent of global aluminum production shouldn't be
14 producing and we don't have a 47 percent gap between
15 supply and demand. We believe that the situation
16 related to the queue explains a portion of that
17 deviation between the price signal LME-wise and real
18 industry fundamentals.

19 MR. McNAMEE: Thank you. No further
20 questions.

21 EXAMINER PARROT: Any redirect?

22 MR. PETRICOFF: Yes, your Honor.

23 - - -

24

25

REDIRECT EXAMINATION

1
2 By Mr. Petricoff:

3 Q. Good morning, Mr. Vazquez. If you would,
4 could you take a look at OCC Exhibit number, I guess
5 it's Exhibit No. 3. This is the one that is the base
6 case scenario forecast to actual.

7 A. Yes.

8 Q. Now, in this chart this appears to be a
9 calculation of percentage of errors; is that a
10 correct summary?

11 A. Correct.

12 Q. And can you tell me just briefly how the
13 OCC is calculating error in this chart.

14 A. They are taking the monthly forecast and
15 comparing that particular monthly forecast to the
16 actual price and then they're calculating the
17 deviation between the forecast and the actual price.

18 Q. So it's a ratio over what the forecast is
19 and against the actual price.

20 A. Correct.

21 Q. Okay. Is that -- is that a methodology
22 that's used in the industry to determine error?

23 A. No, it's not a methodology that's used in
24 the industry to determine error when forecasting.

25 Q. Why not?

1 A. They use annual forecasts. They'll
2 analyze not monthly forecasting, but annual
3 forecasting, and they'll do three things: Number
4 one, compare what was the direction that the analyst
5 was expecting prices to go, if that direction was
6 correct; number two, compare what was -- once we
7 settle that, if the direction was correct or not,
8 then use the standard deviation between that
9 forecast, that annual forecast, and the forecast --
10 and the real price.

11 So, basically, they do two things,
12 calculate if the direction of the forecast was
13 correct and then once they calculate that, then we
14 calculate the margin of error.

15 Q. Besides HARBOR are there other
16 consultants that publish aluminum price components?

17 A. Basically, there's four consultants per
18 se that publish aluminum prices but over 60 analysts
19 that forecast aluminum prices.

20 Q. Do any of them use a method similar to
21 what the OCC is projecting here to determine accuracy
22 of forecasts?

23 A. Not that I'm aware of.

24 Q. Now let's take a look at OCC No. 4.
25 Well, before we do that, on OCC No. 3, have you seen

1 this before today?

2 A. Yes.

3 Q. And this is what was used in your
4 deposition?

5 A. Yes.

6 Q. Now I want you to look at OCC No. 4.
7 Have you seen this prior to today?

8 A. No.

9 Q. From just looking at it quickly can you
10 derive what the methodology is here for determining
11 the percentage error?

12 A. It seems to me it's the same.

13 Q. And, once again, is that used in the
14 industry to determine accuracy of forecasts?

15 A. This was the first time I saw this
16 methodology.

17 Q. Okay. If you -- how does the industry
18 look at accuracy of forecasts? What's the usual
19 measure that they use?

20 A. They use -- usually they use, again,
21 direction of forecast, annual average error in the
22 long run.

23 Q. And how does HARBOR compare to the other
24 three major publishers, consultant publishers?

25 A. In my understanding we're first place.

1 Q. And what is your average annual error?

2 A. 7.7 percent.

3 Q. Now I want to switch and ask you a
4 question that -- a follow-up on the discussion that
5 you had with counsel for IEU. There was a discussion
6 looking at inventories that are nominal and
7 inventories that are based on consumption. Can you
8 explain the two different measures of inventories and
9 then tell us which one's more important for gauging
10 prices?

11 A. Yes. Nominal inventories represent the
12 actual tons of aluminum that the market has. And
13 aluminum inventories in terms of weeks of
14 consumption, it's a similar exercise like when we use
15 nominal prices and real term prices.

16 See, 1 million tons of aluminum today
17 represent less weeks of consumption than what they
18 represented ten years ago because demand or
19 consumption has increased.

20 So just to adjust by the fact that
21 consumption is growing every year the market uses
22 inventory levels or analysts and consultants use
23 inventory levels in terms of either days or weeks of
24 consumption and they take that metric to evaluate
25 where operations stand as an expression or as an

1 approach of fundamental industry analysis.

2 So they'll take the price and compare
3 that price with the evolution of low inventories in
4 terms of weeks of consumption and, as the data shows,
5 there's a pretty strong correlation, there's
6 causation between inventory levels in terms of weeks
7 of consumption towards prices and then that's how the
8 market analyzes inventory levels when trying to
9 evaluate where prices stand relative to industry
10 fundamentals.

11 Q. Now. In your calculation on page 5 and
12 your forecast for the 2014 and the 2015 metal prices,
13 LME metal prices, did you use the method of
14 inventories, I guess the ratio of inventories to
15 consumption?

16 A. Yes, we did.

17 Q. Now I want to move on and follow up on
18 staff's questions about the queue line. The
19 discussion about the -- that you had about the FTC
20 and the Justice Department looking into -- well,
21 actually let me withdraw that. Let me start this
22 way: The proposed rule from the LME, did you
23 consider the impacts of that proposed rule when you
24 came up with your estimates on page 5?

25 A. On the LME price, not at that point.

1 Q. Okay. So this doesn't contain, the two
2 prices that we have here on page 5 do not contain an
3 adjustment for the rule change.

4 Based on what you know now, would the
5 effect of the rule change be to raise those numbers
6 or lower those numbers?

7 A. Raise those numbers.

8 MR. PETRICOFF: I have no further
9 questions. Thank you, your Honor.

10 EXAMINER PARROT: Any recross from AEP?

11 MR. NOURSE: No, your Honor. Thank you.

12 EXAMINER PARROT: OCC?

13 - - -

14 RECROSS-EXAMINATION

15 By Mr. Berger:

16 Q. Mr. Vazquez, you don't disagree that the
17 calculations we've provided on exhibits -- OCC
18 Exhibits 3 and 4 are a normal way to calculate the
19 percentage difference between the two numbers.

20 A. Can you rephrase it or repeat it again,
21 sorry, just to make sure I answer correctly?

22 Q. The numbers on OCC Exhibits 3 and 4
23 reflect a percentage difference between two numbers.

24 A. Yes, that's the percentage difference
25 between two numbers.

1 Q. Okay. And what you're disputing is not
2 that that doesn't reflect the percentage difference,
3 but that the industry's view of a percentage error in
4 forecasting is calculated differently; is that right?

5 A. The way the industry assessed the
6 accuracy of a forecaster is different, yes.

7 Q. And the difference is that the industry
8 does its margin of error calculation on an annual
9 basis and not a monthly basis; is that correct?

10 A. They use a directional and then they use
11 the average of between -- or, deviation between the
12 forecasted price and the actual price.

13 Q. Okay. And looking at Exhibit 3, can you
14 give me the formula for the calculation of how the
15 industry calculates the margin of error between one
16 of these forecast numbers and one of the actual
17 numbers?

18 A. Yeah. They will not use monthly, so
19 they'll just use the annual, and they'll say two
20 things; was the direction correct and, number two,
21 what was the deviation between the annual price
22 and -- the annual actual price and the annual
23 forecasted price and they'll show that in a
24 percentage basis.

25 Q. Okay. So, as I understand what you're

1 saying, they would not calculate a percentage of
2 error for any of the numbers on Exhibit 3; is that
3 right?

4 A. They won't take monthly. They will take
5 the annual.

6 Q. Now, looking at Exhibit 4, OCC Exhibit 4,
7 can you give me the formula for calculation of the
8 percentage error, let's say, for -- let's look at the
9 first number there on the first page. February 2009,
10 you projected 1635 for the price for 2009 in February
11 '09 and the actual price for the year turned out to
12 be 1664.

13 A. Usually what they do, they won't use this
14 exercise of every month. What they will do is they
15 will take December of the prior year, what was the
16 analyst forecasting for the following year, and
17 they'll compare that December number with the actual
18 number of the following year and that's the
19 methodology that they'll use.

20 Q. Okay.

21 A. Or another way they do it is they take
22 the most updated forecasting, the fourth quarter of
23 the previous year, to evaluate how accurate their
24 analyst was for the following year.

25 Q. Let's look at HARBOR's forecast in

1 December 2010 for the year 2011. Is that what you're
2 saying that they --

3 A. Yes.

4 Q. -- the industry would do?

5 A. Yes, that's what they would do.

6 Q. And would you take the number 2557 and
7 subtract it from the actual of 2398?

8 A. Correct.

9 Q. And then divide it by the actual or by
10 the forecast?

11 A. We will, if we want to express the
12 deviation versus the actual, you would take the
13 actual number. You'll subtract what you forecasted
14 and then divide that over the actual number.

15 Q. Can you do that for me for that -- for
16 that month?

17 A. Do you have a calculator?

18 Q. I do not, other than on my telephone.

19 A. Yeah, that works.

20 Q. I'll be happy to provide that.

21 A. So in the case of December 2010, if we
22 wanted to see how accurate we were, we will take the
23 average price that we were forecasting for 2011 and
24 compare that to the actual price, which was 2398, and
25 the deviation that you show here is 6.6 --

1 MR. PETRICOFF: Your Honor,
2 unfortunately, these were both confidential. We were
3 not into the numbers before, we're into the numbers
4 now and this is -- well, I guess is this . . .

5 Are these historical or projections? Are
6 these confidential numbers or are these public
7 numbers?

8 THE WITNESS: They're not public, only
9 our clients have them.

10 MR. PETRICOFF: Well, let me ask this
11 question: Do you consider this proprietary? If so,
12 we'll go into --

13 THE WITNESS: I'm not sure we want this
14 to be in the public domain.

15 MR. PETRICOFF: Your Honor, at this point
16 could we move this discussion to the confidential
17 section.

18 EXAMINER PARROT: Let's go off the record
19 for a moment.

20 (Discussion off the record.)

21 EXAMINER PARROT: Let's go back on the
22 record. The witness has a calculator.

23 A. So December 2011 forecasting. No,
24 December 2010 forecasting 2011. So I'll take the
25 forecast, which was 2557, less the actual price,

1 which was 2398, and then divide that over the actual
2 price, which was 2398. It has only one decimal so it
3 says 7 percent.

4 Q. (By Mr. Berger) Seven percent. So the
5 6.63 percent may be accurate.

6 A. Yes. Probably, yes. Yes, it should be
7 because it's rounding the number.

8 Q. Okay. And so there's nothing complex
9 about the industry calculation, it's just that you
10 use only the December 2010 information to calculate
11 for the following year; is that correct?

12 A. Correct.

13 Q. And do you also do a percentage accuracy
14 calculation for the year after?

15 A. For the --

16 Q. If you're projecting for 2012 in December
17 2010, do you use that --

18 A. Usually we only express one year
19 forecasting accuracy, because most of the analysts,
20 they usually provide one year.

21 Q. But HARBOR provides two years.

22 A. We provide more, up to three years in our
23 regular reports and, as I mentioned also, in the
24 consulting work we do up to 30 years. But the
25 methodologies that since few analysts or not many

1 analysts provide more than one year forecast, usually
2 all we do is measure one year accuracy.

3 Q. You do agree with me that HARBOR's
4 forecasts of annual price numbers change with every
5 monthly forecast it does.

6 A. Can you repeat it again, please? Sorry.

7 Q. Yes. If you look at the green report on
8 Exhibit 2, your annual forecasts change in each of
9 these reports.

10 A. Not every month.

11 Q. Not every single month, but --

12 A. No. We will make revisions during the
13 month probably once, twice, depends on the year.
14 Sometimes we don't make revisions. Sometimes we do
15 three, four. It all depends on how the market is
16 doing and what new chocks have happened or just major
17 adjustments that we're doing to the incoming data,
18 but it depends.

19 Q. If anybody wanted to know, well, was that
20 forecast that HARBOR made in July of 2012 for --

21 A. We have in past arbitration cases or
22 legal disputes in which a particular month is
23 relevant, they'll take that particular month to say
24 as of that month was the forecast reasonable and was
25 there a robust methodology; we have done that, but

1 it's not something that is done regularly. It's just
2 under special occasions.

3 MR. BERGER: Thank you. That's all I
4 have.

5 EXAMINER PARROT: Thank you.

6 OEG? IEU?

7 MR. OLIKER: I might have one or two
8 questions, your Honor, and I think I can ask them in
9 the public record.

10 Counsel, please interrupt me if you don't
11 agree.

12 - - -

13 RE-CROSS-EXAMINATION

14 By Mr. Oliker:

15 Q. Mr. Vazquez, at the time -- first of all,
16 you previously mentioned you have recently issued the
17 August monthly report, correct?

18 A. Correct.

19 Q. And at the time you issued the monthly
20 report in August you were aware of the effect of the
21 proposed LME regulation related to warehouse queues,
22 correct?

23 A. We knew about that going on, yes.

24 Q. Would you agree that the probability of
25 the base case scenario occurring and the probability

1 of the downside case occurring was the same between
2 the June-July report and the August report?

3 A. It was the same because we hadn't
4 incorporated that yet in our forecast. We're not --
5 we're not incorporating that yet. We're not done yet
6 with the full analysis. We're expecting to revise
7 these numbers in the months ahead.

8 We're collecting more intel as to the
9 details of what's going on and how some market
10 participants are reacting; that's going on as we
11 speak. So we're waiting to have more clarity on the
12 details about all of this before we change our
13 numbers. But we will revise them to the up side or
14 at least change the odds to the up side or both.

15 Q. Part of the reason you're waiting is
16 because the new proposed regulation was only
17 announced in July, correct?

18 A. No. We're waiting for the debate to have
19 more direction and that's what we're waiting for. It
20 is under a period of consultation which ends at the
21 end of September and then we're going to have a
22 decision by October. So we're still pondering if we
23 should change the numbers prior to the final decision
24 or wait until the final decision is done just to be
25 more robust on that.

1 At this point we don't feel we need to
2 change the numbers right now at this point but,
3 rather, tell our clients that we are going to revise
4 them to the up side.

5 MR. OLIKER: Thank you, Mr. Vazquez.

6 I have no more questions, your Honor.

7 EXAMINER PARROT: Staff?

8 MR. McNAMEE: No questions.

9 EXAMINER PARROT: Thank you very much.

10 THE WITNESS: Thank you.

11 EXAMINER PARROT: You're excused.

12 Mr. Petricoff.

13 MR. PETRICOFF: Yes, your Honor, at this
14 time we would move for admission of Ormet Exhibit
15 No. 6.

16 EXAMINER PARROT: Very good. Are there
17 any objections?

18 (No response.)

19 EXAMINER PARROT: Hearing none, Ormet
20 Exhibit 6 is admitted.

21 (EXHIBIT ADMITTED INTO EVIDENCE.)

22 EXAMINER PARROT: Mr. Berger.

23 MR. BERGER: We would move for the
24 admission of OCC Exhibits 2, 3, and 4.

25 EXAMINER PARROT: Are there any

1 objections?

2 MR. PETRICOFF: Yes, your Honor, we would
3 object to 3 and 4 from coming in. There has been
4 no -- no testimony on here to establish that these
5 are methods that are used in the industry. In fact,
6 the evidence shows these are not methods that are
7 used in the industry and, therefore, they should not
8 come into the record.

9 EXAMINER PARROT: Response?

10 MR. BERGER: Your Honor, I've gone
11 through a mathematical calculation with the witness,
12 he's admitted that the calculations are accurate, and
13 whether you call it percentage of error or percentage
14 of difference makes no difference. The fact that
15 he's testified as to what the industry does doesn't
16 make the calculations inaccurate. Thank you.

17 EXAMINER PARROT: All right. Very good.
18 Thank you.

19 OCC Exhibit 2 shall be admitted. With
20 respect to OCC Exhibits 3 and 4, I am also going to
21 admit those and allow the Commission to determine
22 their proper weight.

23 (EXHIBITS ADMITTED INTO EVIDENCE.)

24 EXAMINER PARROT: Mr. Olikier.

25 MR. OLIKER: Thank you, your Honor. I

1 believe IEU-Ohio Exhibit No. 4 has already been moved
2 into evidence, but in case it hasn't, I would re-move
3 that exhibit, and I also would move IEU-Ohio Exhibit
4 No. 3 and No. 5.

5 EXAMINER PARROT: Are there any
6 objections to the admission of any of IEU-Ohio's
7 Exhibits 3, 4, or 5?

8 MR. PETRICOFF: No objection, your Honor.

9 EXAMINER PARROT: Very good. IEU
10 Exhibits 3, 4, and 5 are also admitted.

11 (EXHIBITS ADMITTED INTO EVIDENCE.)

12 EXAMINER PARROT: Let's go off the record
13 briefly.

14 (Discussion off the record.)

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

17 Mr. Petricoff.

18 MR. PETRICOFF: Yes. At this time we'd
19 like to call Henry Fayne to the stand.

20 EXAMINER PARROT: Please raise your right
21 hand.

22 (Witness sworn.)

23 EXAMINER PARROT: Please be seated.

24 MR. PETRICOFF: Your Honor, at this time
25 we would like to have marked as Ormet Exhibit No. 7

1 the direct prepared testimony of Henry W. Fayne.

2 EXAMINER PARROT: So marked.

3 (EXHIBIT MARKED FOR IDENTIFICATION.)

4 - - -

5 HENRY W. FAYNE

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

8 DIRECT EXAMINATION

9 By Mr. Petricoff:

10 Q. Good afternoon, Mr. Fayne.

11 A. Good afternoon.

12 Q. Would you please state your name and
13 business address for the record.

14 A. My name is Henry Fayne, my business
15 address is 140 East 83rd Street, New York,
16 New York, 10028.

17 EXAMINER PARROT: Can we go off the
18 record, I'm sorry, for a moment.

19 (Off the record.)

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

22 Q. And, Mr. Fayne, on whose behalf do you
23 appear today?

24 A. I appear on behalf of Ormet Aluminum.

25 Q. And do you have in front of you a copy of

1 the document that has just been marked as Ormet
2 Exhibit No. 7?

3 A. I do.

4 Q. And is that your direct prepared
5 testimony?

6 A. It is.

7 Q. And are there any changes or corrections
8 you would like to make to that document?

9 A. Yes, there are. And if I may, I'm going
10 to start at the back on page 10, and at the bottom of
11 page 10 there is a schedule. The first change is
12 related to the fixed generation rate which shows a
13 cost of \$3.4 million based on updated -- which is
14 information we had originally received from AEP.
15 Based on updated information that was filed with the
16 testimony of David Roush, that number appears now to
17 be \$6 million so, just to be consistent with AEP's
18 numbers, I would propose to make that a \$6 million
19 number.

20 That change also needs to be made at the
21 bottom of page 4 which is the original reference to
22 the \$3.4 million, it should read "\$6 million" on line
23 23 on page 4.

24 If I may, back to the exhibit on the
25 bottom of page 10. The second change update would be

1 related to the first line under the Denial of Motion
2 which says "Lost Recovery of Deferred Billing
3 Amounts," the \$27 million that was shown there were
4 the deferred bills at the time the testimony was
5 prepared. Since that time, I believe it was last
6 week, the Commission approved additional deferral
7 amounts, an accumulative amount of \$10-1/2 million,
8 so to update that to reflect that order, the
9 \$27 million would be adjusted to \$37-1/2 million.

10 The third change is related to the Lost
11 Contribution to Nonbypassable Riders, which is the
12 second line in the column on the right. The
13 \$27.8 million that appears there erroneously only
14 reflects the riders associated with a four-line
15 operation for the period through May of 2015. So it
16 would be for the period September 2013 through May of
17 2015.

18 All of the other numbers in this schedule
19 relate to the proposed amounts which cover a period
20 from September of 2013 through December of 2015 and
21 assume that lines 1 through 4 operate for that full
22 period and lines 5 and 6 operate beginning in July of
23 2014.

24 So to make that consistent, that number,
25 instead of 27.8 million, should be 50.6 million.

1 A. Good afternoon.

2 Q. Just to make sure we're clear on the
3 number that you changed relating to the fixed
4 generation component of the proposal, and you changed
5 the 3.4 million to 6 million in the chart on page 10,
6 and so if there are other references in the testimony
7 to that 3.4 million, you would have intended to
8 change that to 6 million as well?

9 A. Right. I believe the only other
10 reference, at least that I noticed, was the bottom of
11 page --

12 Q. Four?

13 A. -- 4. I don't believe there was another
14 reference, but if there was, I missed it.

15 Q. Okay. All right. First, before getting
16 back into your testimony I'd like to go back and
17 discuss a little bit of I guess context and history
18 for Ormet and starting with a couple general
19 questions I think you're fully aware of.

20 So would you agree that prior to the turn
21 of the century Ormet was a customer of AEP Ohio for a
22 number of decades?

23 A. Yes.

24 Q. Okay. And right at the end of the '90s,
25 I guess -- late-'90s, Ormet sought special permission

1 to leave AEP Ohio's service territory and to be
2 served by South Central Power Company?

3 A. I can't remember the dates, but, yes,
4 that did occur somewhere in there.

5 Q. Okay. And at that time, and I believe it
6 was to be effective December 31st, 1999, the
7 intention was to permanently leave AEP Ohio's service
8 territory and permanently be part of South Central
9 Power Company's territory, correct?

10 A. Yes.

11 Q. Okay. And, by the way, when I say
12 "AEP Ohio," I think you understand at that time it
13 was Columbus Southern Power and Ohio Power Company
14 and they've since merged and so over these time
15 frames I'm, just for simplicity, referring to
16 AEP Ohio. You understand that, correct?

17 A. I understand that, though it actually was
18 just Ohio Power. Columbus Southern was not a
19 participant with Ormet at that time.

20 Q. Okay. We'll get to that. That's right,
21 thank you.

22 And, if you recall, did the advent of
23 retail choice in Ohio for all the other customers
24 occur a bit later? Correct?

25 A. The advent of customer choice for all

1 customers in Ohio began later. The rural electric
2 had that opportunity prior.

3 Q. Right. Okay. And so the advent of
4 customer choice for all other customers was --
5 started at the very beginning in 2001; is that
6 correct?

7 A. Again, I don't recall the date but it was
8 subsequent.

9 Q. Okay. And then, by the way, you were
10 actually at AEP during that time period when Ormet
11 left AEP, correct?

12 A. Yes, I was.

13 Q. Okay. And what was your involvement or
14 role in that whole process with Ormet?

15 A. I was -- could be described as the lead
16 person at AEP during that process.

17 Q. So you, from a, let's call it from a
18 regulatory standpoint, you dealt with Ormet leaving
19 AEP on behalf of AEP.

20 A. Yes.

21 Q. And at that time was AEP supportive of
22 Ormet's decision to leave?

23 A. Yes.

24 Q. Okay. And, okay, so then Senate Bill 3
25 was enacted, customer choice was implemented in Ohio

1 starting in the early-2000s, and what happened next
2 relative to the Ormet situation?

3 A. Actually, the Ormet situation, and I
4 can't recall the timing of the details with any
5 precision, but had really nothing to do with customer
6 choice or retail wheeling in Ohio. It was simply the
7 fact that Ormet was essentially a customer of South
8 Central with the understanding that South Central
9 would provide a very small portion of the energy
10 requirements of Ormet and Ormet would purchase the
11 majority of its requirements from the market.

12 Q. Right.

13 A. And that was the case for a period of
14 time. I did not follow Ormet closely at that point
15 in time. They ultimately declared bankruptcy in that
16 process and shut down.

17 Q. Okay. And that may have been,
18 coincidentally, about the same time you left AEP,
19 correct?

20 A. I don't think it was -- that had nothing,
21 again, to do with my departure.

22 Q. I didn't mean to suggest that, that's why
23 I said "coincidentally." I'm just trying to put the
24 time frame together here.

25 A. Correct.

1 Q. Okay. So you left AEP around 2004 --

2 A. Yes.

3 Q. -- correct?

4 A. Yes.

5 Q. And Ormet filed bankruptcy around 2004.

6 A. Again, I don't recall the date, but yeah,
7 that sounds correct.

8 Q. And then after that, shortly after that,
9 is it your understanding then Ormet, not having a
10 successful venture into the market rates at that
11 time, came back and petitioned the PUCO for
12 permission to come back to AEP Ohio's service
13 territory?

14 A. It was a -- again, I was not involved in
15 the case directly. I think it was a little bit more
16 complicated than that in the sense that their
17 supplier also indicated that they were no longer --
18 they were not capable of supplying Ormet directly.
19 So that with the understanding that the market was
20 not an option and their official supplier indicated
21 its lack of ability to supply, it was under those
22 circumstances they came back to Ohio Power.

23 Q. Okay.

24 A. Or requested that AEP continue to serve
25 or resume service.

1 Q. And asked the PUCO for permission to come
2 back to AEP Ohio's service territory.

3 A. That is correct.

4 Q. And AEP Ohio objected to that request,
5 correct?

6 A. I honestly don't recall.

7 Q. All right. Now, do you know if when the
8 Commission ultimately accepted Ormet's proposal to
9 come back to AEP Ohio's service territory, that at
10 that time is what you referred to earlier, I believe,
11 that there was a new service territory, there was a
12 joint service territory as between Ohio Power Company
13 and Columbus Southern Power such that each of the two
14 AEP Ohio companies would serve 50 percent of Ormet's
15 load?

16 A. Again, I'll accept your interpretation
17 since you are the legal person, but my understanding
18 was it was simply a requesting of rates. That it was
19 being served by AEP, I didn't know which companies,
20 but the rates were based on 50 percent from each
21 company. Whether it was a service territory issue or
22 not, I don't know.

23 Q. Fair enough. So then is it your
24 recollection that when Ormet came back and the
25 Commission gave Ormet permission to come back to

1 AEP Ohio's service territory, that there was a rate
2 above tariff, it was basically what was called an
3 administrative market rate that AEP Ohio was entitled
4 to collect at that point?

5 A. Yes. As I recall, that was \$47 a
6 megawatt-hour at that time.

7 Q. Okay. And that was above the otherwise
8 applicable GS-4 tariff rates, correct?

9 A. Yes.

10 Q. And do you recall the rationale for why
11 AEP Ohio was permitted to collect a rate higher than
12 tariff?

13 A. As I recall, and it may not be an
14 accurate characterization, it was a circumstance that
15 since AEP at the time -- the alternative for AEP at
16 the time would be to sell that power into the
17 marketplace in order not to have an adverse effect on
18 AEP, that rate to Ormet should be the same as what
19 the alternative would be.

20 Q. Okay. So then the next step -- stage in
21 our background history lesson here for Ormet is that
22 when Senate Bill 221 was enacted in 2008 and all the
23 electric distribution utilities, including AEP Ohio,
24 came in to establish an SSO plan -- which I think you
25 know what I'm referring to when I say "standard

1 service offer," SSO plan.

2 A. I do.

3 Q. In fact, the brand of SSO that AEP Ohio
4 sought was the electric security plan, or ESP, and
5 that coincided with the expiration I believe of the
6 prior Ormet arrangement when they came back to
7 AEP Ohio that we discussed just previously. Does
8 that sound about right?

9 A. I'd have to accept your -- it doesn't
10 sound wrong, I just don't know the detail.

11 Q. You were the witness that represented
12 Ormet and sponsored what's now the current unique
13 arrangement earlier in this proceeding, correct?

14 A. I was one of the witnesses that I believe
15 simply described what the proposal was.

16 Q. Okay. You described and you defended the
17 proposal, correct?

18 A. I know I described it, and I'd have to go
19 back and see what I said to find out whether I
20 defended it, but I -- I don't object to that.

21 Q. You certainly didn't undermine it.

22 A. I would hope not.

23 Q. All right. And do you recall that during
24 2009 there was an interim rate agreement in effect
25 for about three-quarters of 2009?

1 A. Yes.

2 Q. In between that prior agreement and this
3 current agreement/unique arrangement being adopted.

4 A. I do recall there was a interim agreement
5 and that the final agreement adjusted the year, but I
6 don't recall the details of the interim agreement.

7 Q. Okay. But is it fair to say, then, the
8 current unique arrangement that's still in effect
9 today and started in 2009, I believe September, was
10 the point at which AEP Ohio stopped collecting the
11 above-tariff administrative market price and actually
12 under this current agreement collects, after being
13 reimbursed through the delta revenue collections,
14 collects tariff rates now for Ormet?

15 A. Well, I can certainly agree with the
16 latter part, that since the agreement, the current
17 agreement was in effect you collect -- AEP collects
18 just the tariff rate.

19 I can't -- I didn't think that that 47 --
20 that above -- that rate continued for the first half
21 of '09 but it was corrected with the agreement. So
22 in '09, in the end result, AEP did not collect
23 above-tariff rates.

24 Q. Well, we'll leave that open for the
25 record to determine.

1 A. Sure.

2 Q. Actually, it's still pending, believe it
3 or not, but, okay. But for sure we went from
4 collecting an above-tariff rate to now in this
5 agreement collecting the tariff rate after the delta
6 revenues were sorted out, correct?

7 A. Correct.

8 Q. Now, do you agree in the current unique
9 arrangement that Ormet's not permitted to shop?

10 A. I agree that that was part of the
11 agreement, yes.

12 Q. Okay. And, in fact, I'd like to show you
13 a pleading that Ormet filed, make sure I have the
14 right one here. This is a public brief --

15 MR. NOURSE: Your Honor, I don't intend
16 to mark this as an exhibit but I want to show the
17 witness and ask him questions.

18 Q. I'd just like to show you page 7. Take
19 your time and look at it if you need to. And you can
20 look at the front page, I should have asked you, so
21 you understand the context. This is a merit brief
22 that Ormet filed in the recent ESP proceedings, we
23 call it ESP 2 proceedings for AEP Ohio. Do you see
24 that?

25 A. I do.

1 Q. And I think it was page 7 I asked you to
2 look at.

3 A. Yes.

4 Q. There's a heading A. Can you read the
5 heading?

6 A. The heading says "The Commission should
7 not apply the RSR to customers who cannot shop like
8 Ormet."

9 Q. Okay. And then can you read the
10 highlighted sentence I highlighted for you there?

11 A. The sentence reads, "No party disputes
12 that under Ormet's September 16th, 2009, power
13 agreement Ormet may not shop."

14 Q. Okay. Thank you. We'll revisit this
15 document later.

16 Okay. Now, so through the current
17 proposal that's at issue right now in this hearing,
18 is it fair to say that Ormet is again asking to leave
19 AEP Ohio's generation service and never return to the
20 SSO?

21 A. The proposed amendment basically -- yes,
22 under the proposed amendment that is the case.

23 Q. Okay. Now, would you agree in your
24 experience and based on your knowledge that the
25 ratepayer assistance and funding that Ormet has

1 received over the years is the -- is the largest
2 ratepayer subsidy in the history of Ohio regulation?

3 A. I have no basis to judge that. I do
4 agree it is a significant amount.

5 Q. Are you aware of any that's larger?

6 A. No, I don't have any -- I have no idea of
7 anything that's larger, but I have no basis to reach
8 the conclusion you suggested.

9 Q. If we just look at the current state of
10 affairs as opposed to all of regulatory history,
11 would you agree that Ormet's the largest in the state
12 of Ohio currently?

13 A. Again, I am not aware of anything larger,
14 that's all I can say.

15 Q. Okay. Now, do you know -- I know you
16 talk in your testimony about various aspects of the
17 proposal and how that relates in different ways to
18 the cost to ratepayers. One thing I didn't see in
19 there I wanted to ask you about was in relationship
20 to the proposed gas plant, the power plant that's
21 being planned by Ormet. Are you aware that the bonds
22 that are going to help the financing of the power
23 plant would be backed by the state of Ohio?

24 A. I have no knowledge of that.

25 Q. You don't know whether they are or

1 whether they're not.

2 A. I don't know.

3 Q. Okay. All right. Let's get in your
4 testimony a little bit here. So on page 2 in line
5 19, you talk about the minimum cash flow necessary to
6 sustain operations. Can you just, I guess, expand on
7 what you mean by "minimum" necessary? Is that --
8 first of all, that's not saying that that's a
9 guarantee that Ormet will sustain operations through
10 2015 based on the Commission's approval of your
11 proposal, correct?

12 A. I believe that was covered in the
13 testimony of Mr. Riley, or should have been, in the
14 sense that this is -- all I'm doing here is
15 describing the intent. I have not evaluated the
16 financial performance of the company or --

17 Q. Right.

18 A. -- determined precisely what it means,
19 but that is the goal. I believe Mr. Riley's
20 testimony expanded on that.

21 Q. Okay. But your understanding of the
22 language you used in your testimony about minimum
23 cash flow necessary to sustain operations, that's not
24 a guarantee that Ormet will succeed, to your
25 understanding of that proposal.

1 A. I don't believe anything in here is a
2 guarantee.

3 Q. And the use of the word "minimum"
4 suggests that they could need more to sustain
5 operations during this period, correct?

6 A. I believe that this is -- the way the
7 proposal has been drafted is an amendment to define
8 what is required to maintain operations through this
9 period based on a reasonable set of assumptions, and
10 though I have not looked at it at all, I would assume
11 that Ormet is professional enough that it would have
12 considered a variety of contingent outcomes.

13 Q. Now, on page 3 in answer 8 one of the
14 items, I guess it's item 6, is talking about the
15 deferred payments, bills that were due last fall in
16 2012. Now, you mentioned the recent deferral I think
17 in your updates and corrections to your testimony,
18 but you do acknowledge that there was a recent
19 request for additional deferrals of payments in the
20 motion related to August and September, correct?

21 A. Yes.

22 Q. And -- let me back up. So you're
23 familiar with the bankruptcy proceeding that was
24 filed I believe in February of this year; that's an
25 understatement.

1 A. Only in the broadest of terms.

2 Q. Okay. And as part of that bankruptcy
3 filing there was a proposal, I think it's referred to
4 as the stalking horse proposal, where the long and
5 short of it is that Wayzata, and maybe backed by
6 Wells Fargo or some combination thereof, is proposing
7 to purchase Ormet and create a smelter something, I
8 can't remember the full name of the company that will
9 emerge from bankruptcy, but they're proposing to
10 purchase the entity and bring it out of bankruptcy
11 with some conditions, correct?

12 A. Without going through the detail you just
13 went through, yes, there is a party who is proposing
14 to purchase the smelter and bring it out of
15 bankruptcy on the one gating position, one gating
16 issue which is the electricity price.

17 Q. Okay. And the gating -- that's the one
18 gating issue that's left to be resolved at this
19 point, correct?

20 A. Correct.

21 Q. Was there a deadline in the stalking
22 horse agreement that was originally I believe June
23 2013?

24 A. I can't -- there was a date; I do not
25 recall precisely what it was. I believe it was June

1 or July. I can't recall.

2 Q. And was it your understanding that
3 Wayzata had the option of extending that deadline by
4 30-day increments up to six times?

5 A. I don't have that -- I don't know the --
6 I don't know that detail. I'm sorry.

7 Q. Have you understood or been aware of a
8 decision by Wayzata to extend the deadline since June
9 of 2013?

10 A. Yes, I have.

11 Q. And how many times has that occurred?

12 A. I don't know.

13 Q. And has Wayzata put additional money into
14 the Ormet bankruptcy entity?

15 A. Not to my knowledge.

16 Q. Since June 2013?

17 A. Since June -- not to my knowledge since
18 June.

19 Q. Okay. Now, you, I guess, again, it's
20 item 6 on page 3, you talk about the restructuring of
21 the deferral repayment. So Ormet's proposing here to
22 spread out the deferral repayment for a longer period
23 of time, I think it was 17 months and you're
24 extending it to 24 months; is that correct?

25 A. It has moved around a lot. This is

1 simply an attempt to have the payment over the
2 remaining life of the contract, of the proposed
3 contract term.

4 Q. Okay. Now, would you recognize that
5 there's a cost to AEP Ohio of spreading that payment
6 out over a longer period of time?

7 A. If you're referring to a carrying cost,
8 yes.

9 Q. Okay. So not receiving that payment for
10 a longer period of time into the future does impose a
11 real financial cost on AEP Ohio; would you agree?

12 A. A modest one, yes.

13 Q. Modest in terms of incremental or -- is
14 that what you meant?

15 A. Yes. We're talking about a difference
16 between 17 months and 24 months.

17 Q. Okay. But -- and that assumes that
18 AEP Ohio's not entitled to a carrying charge for the
19 first 17 months.

20 A. That is a PUCO decision, not mine.

21 Q. Okay. Can you turn to page 4. In
22 answer -- question and answer 9 at the top of the
23 page you're talking about the component of the
24 proposal that would shorten the duration of the
25 unique arrangement and I guess, in effect, spread the

1 discounts that would have been paid under a longer
2 term over a shorter period of time, correct?

3 A. I think you're putting together two
4 pieces, but ultimately, yes.

5 Q. Okay. Now, was it your understanding
6 from the earlier phase of this case and under the
7 existing unique arrangement that there was an
8 expectation that Ormet would have become profitable
9 by now?

10 A. I don't know whether there was the
11 expectation. It clearly was the desire --

12 Q. Right.

13 A. -- for that to be the case.

14 Q. Okay. And there were provisions, in
15 fact, in the agreement for Ormet to pay back or
16 reduce the path for delta revenue based on expected
17 LME pricing that would have occurred, correct?

18 A. I know there was a calculation for
19 premiums, there was clearly a major desire to have
20 those premiums paid and, as you know, there was a
21 provision which allowed the Commission to revisit in
22 the event the premiums were not paid by, I can't
23 recall the date, 2013. Somewhere in 2013 or 2012, I
24 can't recall.

25 Q. Okay. Is it fair to say that this --

1 overall this Ormet proposal currently being advanced
2 is, the ultimate success of that is dependent on this
3 gas plant being built within the cost parameters that
4 are currently anticipated?

5 A. I think that the issue of long-term
6 sustainability is the issue, and Ormet has indicated
7 that they believe by constructing a gas plant, that
8 their long-term sustainability is very reasonable.
9 That doesn't mean that there couldn't be alternatives
10 to that, but at this point the current plan is the
11 gas plant.

12 Q. So if Ormet does become profitable, and
13 I'm using the term "Ormet" I guess to cover whatever
14 the post-bankruptcy may be as well as any other
15 owners such as Wayzata, but if Ormet becomes
16 profitable in that future time frame and builds the
17 gas plant, let's just say 2015-2016 time frame, is
18 there a plan to pay back the ratepayers for the funds
19 that have been extended to Ormet through this period?

20 A. There is no -- that has not been
21 addressed in the proposal.

22 Q. Okay. And is it also possible that Ormet
23 or the smelter acquisition entity would fail during
24 this period and then Wayzata or the other owners
25 would just operate the gas plant as a merchant plant

1 going forward?

2 A. I believe it is a possible and
3 not-intended outcome that if the smelter were shut
4 down and the gas plant were there, that it would then
5 become a merchant plant.

6 Q. Now, building the power plant is a
7 substantial capital investment and a substantial
8 outlay of capital, correct?

9 A. I would assume that's true.

10 Q. And so I guess the question is how is it
11 that Wayzata or Ormet's financiers can build a power
12 plant like that involving that kind of investment but
13 it can't afford to pay its electricity bills?

14 A. I'm not the right person to ask.

15 Q. You don't have an answer to that
16 question?

17 A. I don't have an answer.

18 Q. In terms of the proposal to shop for
19 generation service, you're familiar with that
20 aspect --

21 A. Yes.

22 Q. -- of the deal, right? Now, have you
23 been involved in the analytics for that scenario?

24 A. What do you mean by "analytics"?

25 Q. Have you been involved in the scenario of

1 running numbers, making assumptions, considering what
2 the CRES -- what the competitive generation offers
3 will be?

4 A. No, I have not.

5 Q. I guess you weren't here at the hearing
6 yesterday but I'll represent that Ormet Witness Riley
7 indicated that the net rate that Ormet would pay,
8 all-in net rate after discount for the shopping
9 scenario, was less than \$30 per megawatt-hour, okay.
10 Did you hear that or --

11 A. I did not hear that.

12 Q. -- were you aware of that?

13 A. And before I could respond I'd have to
14 understand the context.

15 MR. PETRICOFF: Yeah, we'd also object at
16 this point that a foundation's not been laid.

17 MR. NOURSE: Well, I just asked him about
18 the CRES option and that he said he was familiar with
19 that part of the proposal; he's discussing it in his
20 testimony. So I'm going to get into some additional
21 detail now so I asked him whether he was aware of the
22 target price, and I'm reciting exactly what Mr. Riley
23 said yesterday.

24 MR. PETRICOFF: I guess, first of all, he
25 indicated he was not involved in the shopping so I

1 think at this point, unless we get something else in
2 here, we're not going forward.

3 And I guess I would object to the \$30 as
4 a mischaracterization unless it is hemmed in as to
5 what that covered and the time period involved
6 because that was heavily dependent on the outcome of
7 the discounts and it was just for a small period of
8 time.

9 MR. NOURSE: Well, first of all, I don't
10 think he said that he's -- all he said "No" about so
11 far was that he wasn't involved in the analytics of
12 running the numbers. But he did say he was familiar
13 with that part of the proposal and he's discussing it
14 in his testimony; page 5.

15 EXAMINER PARROT: I think I'm going to
16 allow you to continue, Mr. Nourse. I think he
17 already answered with respect to the question that's,
18 well, it's not really pending, he's already answered
19 he didn't hear that, he wasn't here yesterday.

20 MR. NOURSE: Yeah, I can go forward on
21 that basis.

22 EXAMINER PARROT: You can move from that
23 point.

24 Q. (By Mr. Nourse) So, Mr. Fayne, are you
25 aware of any CRES -- are you familiar with the

1 acronym "CRES" that I'm using?

2 A. I am familiar, yes.

3 Q. Are you aware of any CRES offers or
4 contracts that exist currently for -- to serve Ormet
5 beginning 2014?

6 A. No, I am not.

7 Q. And, in fact, by that answer are you
8 confirming, consistent with the company's discovery
9 responses to AEP, that there are no CRES deals that
10 currently exist?

11 A. I have no basis to confirm that. I am
12 not aware of any.

13 Q. Okay. So the -- whatever the target
14 price is, and that's already a matter of record, is
15 the success of Ormet's component for shopping here
16 depending on -- dependent upon getting an actual
17 offer from an actual provider that's in the range of
18 that target price?

19 A. Again, Mr. Riley is the financial
20 witness. I am not the financial witness nor do I
21 have any real access to their financials to be able
22 to answer that question.

23 Q. Okay. But -- I'm accepting that you're
24 not aware of what's in the record and what's already
25 been stated yesterday in the record, but whatever

1 that number is I represented that he said it would be
2 an all-in net price of less than \$30 a megawatt-hour,
3 that -- I'm asking you just to simply acknowledge
4 that since there isn't a CRES offer, the success of
5 this proposal is dependent on getting a CRES offer in
6 the future.

7 A. And that's where --

8 MR. PETRICOFF: Please. I want to renew
9 the objections as to the characterization of
10 Mr. Riley's testimony.

11 MR. NOURSE: That's, again, I said
12 whatever the record said, and I made that caveat
13 already. I don't have the transcript, but I'm
14 certain what he said.

15 EXAMINER PARROT: With that
16 clarification, he can answer the question.

17 A. Now, as I indicated to you, I did not
18 prepare the financial nor review the financial
19 forecast that Mr. Riley prepared, so I don't know the
20 issues around sensitivity related to the cost of
21 electricity that he included in those forecasts to
22 reach the conclusion that they can be successful. So
23 I have no idea how precisely it relates to the
24 numbers you're referring to.

25 Q. Okay. So do you know, are the company,

1 AEP Ohio's, GS-4 energy rates higher or lower than
2 market rates for 2014?

3 A. I believe they are higher.

4 Q. "They" being --

5 A. I believe the GS-4 tariff rate is higher
6 than the current or projected market rates.

7 Q. And what is your understanding of what a
8 projected energy rate would be for 2014?

9 A. My understanding is that the energy, the
10 market energy rates, depending on whether you add the
11 AEP riders on top or not, which way would you like
12 it?

13 Q. Well --

14 A. Would you like the actual cost, all-in
15 cost, which would include transmission as well as the
16 nonbypassable riders? My understanding is it ranges
17 somewhere between 45 and 50 dollars a megawatt-hour.

18 Q. Okay. Well, just to back up and clarify,
19 I don't want you to include nonbypassable riders
20 because those would be paid by a shopper anyway, so
21 those are neutral to the price to compare.

22 A. My understanding is that excluding those
23 numbers, again, these are rough estimates and it's
24 really based on conversations, not my own analysis of
25 the market, is that the market prices would then

1 range somewhere between 45 -- 40 and 45 dollars a
2 megawatt-hour including transmission.

3 Q. Okay. Now, the other thing that Ormet
4 would avoid if it's permitted to shop would be
5 AEP Ohio's base generation rates, correct?

6 A. I'm not sure I'd use the word "avoid."
7 They would no longer be responsible for paying.

8 Q. They would avoid paying the base
9 generation rates like other shoppers, correct?

10 A. They would no longer be charged that
11 rate, I agree.

12 Q. Okay. And the CRES provider that would
13 serve Ormet would be responsible to pay AEP Ohio an
14 RPM, a reliability pricing model, applicable rate for
15 capacity, correct?

16 A. Yeah, you're getting a little bit out of
17 my comfort zone here in terms of my knowledge, but,
18 yeah, I believe that is correct.

19 Q. Okay. Now, would you also agree that in
20 order to get this future CRES offer to serve Ormet's
21 huge load there would be the need to provide credit
22 and collateral, address those kinds of issues?

23 A. Typically there is a -- there are credit
24 requirements when you do market purchases, yes.

25 Q. Okay. Now, one of the things we've heard

1 about in Ormet's testimony is that the, you know, the
2 AEP Ohio electricity rates are what's bringing Ormet
3 into -- for this case and causing Ormet to want to
4 make a new proposal; is that correct?

5 A. Yes.

6 Q. All right. So, first of all, you would
7 agree that LME pricing is also a major factor for
8 Ormet's success or failure under any electricity
9 price, correct?

10 A. Yes.

11 Q. Okay. Now, would you agree that Ormet
12 has known about the expected increases in fuel rates
13 that occurred this year, Ormet's known about that for
14 some time?

15 A. I don't know what your reference is for
16 "some time." I can assert that in the course of
17 negotiations Ormet was led to believe that fuel would
18 be flat.

19 Q. Okay. Well, let's pull out these briefs
20 again from the ESP case, and this time I'm actually
21 going to hand you -- before we used the public
22 version of the brief and now I've got the
23 confidential version of the same brief, it's Ormet's
24 July -- June, excuse me, June 29th, 2012,
25 post-hearing brief in the ESP 2 proceeding.

1 MR. PETRICOFF: Just for my own
2 edification, is this the one that -- is this copy the
3 one that's on file publicly now?

4 MR. NOURSE: No. The public version is
5 redacted; that's the one I used earlier. This is the
6 confidential that's been docketed but it's under
7 seal.

8 MR. PETRICOFF: Right. And this has not
9 been made public yet.

10 MR. NOURSE: Well, the redacted portions
11 are clearly marked in here and so it is the one
12 that's filed under seal.

13 MR. PETRICOFF: Right.

14 MR. NOURSE: The area, your Honor, that I
15 want to ask him about actually does have one figure
16 that's been designated as confidential. It's at that
17 time an AEP Ohio fuel forecast number for 2013, which
18 I'm here to waive confidentiality on this and I'd
19 like to have him actually disclose it as part of this
20 cross-examination today.

21 MR. PETRICOFF: Could I have one minute,
22 your Honor?

23 Your Honor, we will waive this and have
24 it be open, however, once it is open he should be
25 able to comment fully upon it and including things

1 that have happened since then.

2 MR. NOURSE: Sure. Sure.

3 Q. (By Mr. Nourse) Mr. Fayne, I'm going to
4 hand you this brief, it's the same brief we talked
5 about earlier but instead of blacking out portions
6 this has got confidential information that has an
7 indication where it says "Begin confidential" and
8 "End confidential."

9 So I want to ask you about pages 13 and
10 14 there briefly as to your -- to clarify your
11 statement about what Ormet knew about the fuel
12 forecast and when it knew it.

13 So if you could look at page 13 there,
14 and if you could read, first of all, the last
15 sentence on page 13 out loud.

16 A. This is the one highlighted?

17 Q. Yes.

18 A. It says, "The FAC component of that rate
19 has increased 60 percent since 2009 and 22 percent
20 since 2011."

21 Q. Okay. And since it referred to "that
22 rate," why don't we go back and read the first
23 sentence. I apologize. Read both of them, please.

24 A. "Take, for example"?

25 Q. Yes.

1 A. "Take, for example, the impact that the
2 FAC has on the GS-4 tariff rate. The FAC component
3 of that rate has increased 60 percent since 2009 and
4 22 percent since 2011."

5 Q. Okay. Now, the following -- following
6 that statement there's a table at the top of page 14,
7 correct?

8 A. Correct.

9 Q. And one of the line items in the table is
10 AEP Ohio's estimated FAC for 2013, and even though
11 that was at that time designated as confidential by
12 AEP Ohio, I'm waiving that confidentiality for that
13 number today and would like you to read the 2013
14 estimated FAC into the record.

15 A. Okay. The chart indicates that
16 AEP Ohio's estimated FAC for 2013 is \$41.60, I assume
17 that's per megawatt-hour.

18 Q. Yes.

19 Okay. Now, just for clarity can you turn
20 to the front page of this document and indicate the
21 date that's stamped on the front?

22 A. The date is dated June 29th, 2012.

23 Q. Okay. Thank you.

24 Now, so we'll talk a little about that
25 \$41.60 rate, okay. So the 4160, I want to ask you a

1 couple additional questions about that.

2 A. Okay.

3 Q. But that rate is what I'm talking about.
4 So that was the -- at that time in the middle of 2012
5 that was the estimate for the 2013 fuel rate for
6 AEP Ohio, correct?

7 A. That is the estimate, apparently, that
8 occurred in the course of a proceeding and,
9 obviously, appears in that brief. Subsequent to
10 that, however, there was some concern and confusion
11 and actually I sent a note to AEP Ohio indicating
12 that there was some concern about the increase in
13 fuel cost and confusion because we had heard that it
14 wasn't going to go up and then it was.

15 And I received directly an e-mail from
16 the person who was responsible for rates at AEP Ohio
17 at the time indicating that there was confusion but,
18 in fact, it would be flat.

19 Q. Okay. Do you have that communication
20 with you, Mr. Fayne?

21 A. I don't have it with me but I'm happy to
22 have it provided.

23 Q. What time period was this supposed
24 representation made?

25 A. It was subsequent to this date, but I

1 don't recall the precise date.

2 Q. Okay. Is it your understanding that
3 Ormet, I'll say vociferously protested to the
4 expected FAC rates as part of the EFC proceeding?

5 A. I don't know.

6 Q. And you can take time to look at that
7 brief a little bit more if you'd like. That section
8 that I quoted you from and the table of contents --

9 A. Well, I'm not sure I understand the
10 question. Are you asking me whether Ormet was
11 unhappy about the increase and objecting to it?

12 Q. Yes.

13 A. I have no doubt that that would be the
14 case.

15 Q. And so Ormet fully expected a significant
16 FAC increase in 2013, correct?

17 A. Based on the information in the ESP
18 hearing, that was the case, but it was later
19 confirmed that that was not the correct information.

20 Q. Okay. Well, that's not something I guess
21 we're going to have to, you know, I won't say accept
22 what you said in the record because I think that's
23 incorrect, but you don't have any documentation so
24 you're saying someone told you that, you know,
25 disregard all the forecasted data and all the fights

1 we've had in the ESP and just don't worry about it,
2 it's going to be a flat rate.

3 MR. PETRICOFF: Your Honor, I object.
4 First of all, it's not a question, it's really just
5 an argument, and it ought to be stricken.

6 MR. NOURSE: I'm responding to his
7 statement.

8 Q. But I'd like to move on and ask you about
9 my premise that Ormet expected a fuel increase and
10 complained about it in the ESP -- as of the ESP
11 proceeding.

12 MR. PETRICOFF: Your Honor, before we do
13 that, I would like a ruling on the extraneous
14 comment.

15 (Record read.)

16 EXAMINER PARROT: And your motion to
17 strike is granted, Mr. Petricoff. Let's move it on.

18 MR. NOURSE: Okay.

19 All right. Counsel, do you have the
20 workpapers for Mr. Roush provided, OCC set 1, RFP
21 No. 1? I'd like to discuss Attachment 6 with the
22 witness.

23 MR. BARNOWSKI: I'm sorry, can you walk
24 through that again?

25 MR. PETRICOFF: Yeah, at the moment he

1 has his testimony, that's all.

2 MR. NOURSE: Yeah, it's this thing right
3 here.

4 MR. PETRICOFF: He doesn't have this up
5 there.

6 MR. NOURSE: No, I wanted to hand him
7 that one, if you have a copy you can follow along.

8 MR. PETRICOFF: I believe we do.

9 MS. GRADY: Mr. Nourse, what was the --
10 can you give me the --

11 MR. NOURSE: It's Mr. Roush's workpaper,
12 it's OCC set 1, RFP No. 1, Attachment 6, the
13 five-page document.

14 MS. GRADY: Thank you.

15 MR. PETRICOFF: Hold on one second,
16 please.

17 MR. BARNOWSKI: Yes, I have it.

18 MR. PETRICOFF: We do have it. If you
19 wish, I can just hand that to him.

20 MR. NOURSE: Yeah, I'm actually going to
21 do another -- you can hand it to him now if you want
22 to.

23 Q. (By Mr. Nourse) Before we get to that,
24 Mr. Fayne --

25 A. Yes, sir.

1 Q. -- are you familiar with the ESP decision
2 that the Commission issued last summer in the AEP
3 case?

4 A. Not offhand. If you refer me to
5 specifics, I might be familiar with it.

6 Q. Okay. I'd like to show you the opinion
7 and order in that case dated August 8th, 2012, and
8 I direct you to pages 16 and 17, there's a section on
9 the FAC; do you see that?

10 A. Yes.

11 Q. Okay. And I'd like you to read the first
12 highlighted sentence that in the Commission's order
13 summarizes what Ormet was arguing.

14 A. "Ormet argues that the FAC has caused
15 significant increases in the cost of electric
16 service, rising 22 percent for GS-4 customers since
17 2011."

18 Q. Okay. And that's consistent with that
19 table we just looked at in Ormet's brief, correct?

20 A. Yes.

21 Q. And can you turn the page, and there's a
22 highlighted section of the decision portion of the
23 opinion and order in that FAC section, can you read
24 that aloud, please.

25 A. "We interpret Ormet's arguments to more

1 accurately request the institution of a fuel rate cap
2 on the FAC or to revise the FAC rate design. The
3 Commission rejects Ormet's request to review and
4 redesign the FAC."

5 Go to the next part?

6 Q. Yeah.

7 A. "Furthermore, as AEP Ohio notes, Ormet's
8 rates are set pursuant to its unique arrangement as
9 opposed to the company's SSO rates paid by other
10 high-load industrial and commercial customers. By
11 way of Ormet's unique arrangement Ormet is provided
12 some rate stability and rate certainty, and we see no
13 need to redesign the FAC for Ormet's benefit."

14 Q. Thank you, Mr. Fayne.

15 So is your understanding of that decision
16 that the Commission understood Ormet's concerns about
17 the rising FAC and rejected Ormet's proposal to
18 modify the FAC?

19 A. It's impossible for me really to
20 interpret the PUCO decision. My lay approach,
21 interpretation of that, is that the Commission
22 decided not to redesign or change the FAC, but no, I
23 do not think they understood the Ormet argument.

24 Q. They didn't understand Ormet's concern
25 about rising FAC rates?

1 A. I do not believe they understood the
2 implication fully of rising FAC rates on Ormet's
3 rates.

4 Q. Okay. But Ormet understood it, correct?

5 A. Yes.

6 Q. And did Ormet challenge that decision or
7 appeal it to the Ohio Supreme Court?

8 A. Not to my knowledge.

9 Q. Okay. And so, just back to your
10 statement about what you received from AEP in an
11 e-mail, how did that affect Ormet's decision-making
12 process in arriving here today?

13 A. Before Ormet arrived here today with this
14 proposal many months were spent trying to negotiate
15 an arrangement to produce a result that would allow
16 Ormet to continue forward. As a part of that, those
17 negotiations, there was an underlying premise based
18 on those direct communications, not on the ESP, but
19 under subsequent direct communications, suggesting
20 that the fuel rate would not -- would be flat.

21 When Ormet then discovered that the fuel
22 rate, in fact, would not be flat, which was with the
23 second quarter increase that AEP filed, we discovered
24 that all of the approaches that were being considered
25 up until then would no longer work because of the

1 incremental cost that those FAC changes would impose
2 which is what resulted in, number one, a significant
3 delay in filing a proposal which made it an extremely
4 compressed time frame given the timing in the
5 bankruptcy proceeding and that's how that led to this
6 final filing.

7 Q. How long had Ormet planned to file
8 bankruptcy before it filed bankruptcy?

9 A. I don't know.

10 Q. Were you the person that was responsible
11 for tracking these FAC matters for Ormet?

12 A. No.

13 Q. You mentioned the second quarter. I
14 assume you're talking about the second quarter of
15 2013.

16 A. Yes.

17 Q. And are you aware that there was a
18 significant credit that was in the FAC prior to then
19 that had fallen off with the second quarter filing?

20 A. I'm aware that your adjustment in the
21 second quarter was a function of more than simply an
22 increase in fuel costs.

23 Q. Right. So your knowledge of a fuel
24 clause has components of actual fuel coming through
25 as well as projected fuel costs as well as a

1 reconciliation component, right? There's basically
2 those three components?

3 A. Well, apparently there's one more and,
4 apparently, the issue which we did discover after
5 that increase was put in place is that there are
6 fixed-cost components which don't change but increase
7 as the denominator or the load decreases, and that
8 was something we were clearly not aware of prior to
9 the second quarter.

10 Q. Okay. Well, that's -- that may be, but
11 those are part of the actual fuel costs category
12 number 1, correct?

13 A. I'm not disputing the appropriateness of
14 those mechanics; they are what they are.

15 Q. All right. So the three components I
16 listed, you're familiar with that and that's what
17 happens --

18 A. Right.

19 Q. -- with the fuel clause.

20 A. And I was just adding the fourth.

21 Q. And the reconciliation was the large
22 credit that was in there that fell off in the second
23 quarter; is that your understanding?

24 A. I don't have the detail but I understand
25 that was a component.

1 Q. I'd ask you to turn to the discovery
2 response that your counsel handed you a few minutes
3 ago.

4 A. Yes.

5 Q. And it's Attachment 6. Okay, can you
6 turn to page 4 of 5.

7 A. I'm sorry. Okay, page 4?

8 Q. Page 4 of 5.

9 A. Yes.

10 Q. Attachment 6. And I'll note that while
11 this document is labeled "Competitively Sensitive,"
12 the columns -- the rows that I'm going to ask you to
13 look at are actual rates that have already been filed
14 with the PUCO so they're not confidential. So if you
15 could just refer to those columns on the record, that
16 would keep us in an open session, okay?

17 A. Yes.

18 Q. All right. So if you could look at --
19 what we have here is the top half is Columbus
20 Southern Power rate zone, and the bottom half Ohio
21 Power rate zone, and various riders, and there is a
22 line item called "FAC," which is the fuel adjustment
23 clause. Do you see that?

24 A. I do.

25 Q. And I'd ask you to look at the actual

1 fuel costs, I guess, year to date. So let's look
2 through August 2013, from January to August, and you
3 can look at both rate zones. And my question is
4 whether the actual FAC rates in 2013 are coming in
5 below the 2013 forecast of \$41.60 that we talked
6 about from last summer.

7 A. Well, there are some issues with my
8 making that calculation. One is there is no
9 year-to-date number on this schedule.

10 Q. Right.

11 A. So it would be simply an estimate. And
12 the 4160 is a relation -- is a combined number, I
13 believe for AEP Ohio. So it is both CSP and Ohio
14 Power.

15 Q. Right.

16 A. I have no idea what the relationship is
17 between, what percentage is the Ohio one and what
18 percentage is the Columbus Southern one.

19 Q. Okay. Well, we talked earlier, I thought
20 you had understood already that per the Ormet
21 agreement it's 50/50, so it's just a simple average
22 of the two.

23 A. No. No. I understood that. Is the 4160
24 just the 50/50?

25 Q. That's an all-in average number.

1 A. That was the issue. So I didn't know
2 whether that number is the same as the 50/50 here. I
3 don't believe it is.

4 Q. You're saying is it weighted by load as
5 opposed to --

6 A. I was assuming that the actual fuel cost,
7 since the two companies are combined, is a weighted
8 average based on generation from each of the -- on
9 related generation, which is not necessarily
10 equivalent to a 50 percent CSP and a 50 percent Ohio.
11 I may be wrong, but that was a question really.

12 Q. Okay. Well, with that caveat, you've got
13 the rates for CSP and OP, the actual rates, and we
14 know Ormet has 50/50 in their rate calculation, so it
15 would be a simple average of these monthly numbers
16 for both rate zones for purposes of what Ormet's
17 actual year-to-date fuel clause would -- fuel rate
18 would be, correct?

19 A. Correct.

20 Q. And that's the number I'm asking you to
21 look at and see if it's below \$41.

22 A. Well, let me -- I'll answer it with a
23 caveat. These are numbers that are shown monthly for
24 CSP and then monthly for Ohio Power, and simply
25 scanning them and assuming a 50/50 split I would

1 agree it is probably lower than 4160.

2 Q. Okay. Thank you. We can move on.

3 Let's see. Now, would your expectation
4 be, under Ormet's shopping proposal and given the
5 proposed discounts that you're advocating for 2014,
6 let's just say 2014 for purposes of this question,
7 would you expect that the bill from AEP Ohio would
8 actually be a credit every month to Ormet?

9 A. Explain to me what you mean by "a
10 credit."

11 Q. That the discount that's conveyed would
12 be larger than the nonbypassable riders and
13 distribution charges.

14 A. Well, I have no doubt that the discount
15 would exceed the nonbypassable riders, but I don't
16 believe that the discount would exceed the payments
17 that would be made to AEP.

18 Q. What other payments are you talking
19 about; distribution rates?

20 A. The payback of the deferred billing
21 amounts and the transmission rates.

22 Q. So is the -- are you saying that the
23 discount that you're asking ratepayers to fund is
24 allocated specifically to the prior payments that
25 were deferred?

1 A. I'm not saying it's allocated to
2 anything. This is -- you have to understand, which
3 I'm sure you do, that the proposal that is being made
4 in the main is really all designed to produce an end
5 result energy price. The components from Ormet's
6 perspective are not relevant, it's just simply a way
7 of getting to an end result.

8 The discount that is being proposed does
9 not exceed the payments that ultimately go back to
10 AEP, being transmission, the riders, and the payment
11 for the bill. So it's not that -- simply put, no one
12 would have to write a check to Ormet. All of the
13 discount really would be retained by AEP.

14 Q. So you've done that calculation?

15 A. I have.

16 Q. And for what period of time? My question
17 related to 2014 but your answer --

18 A. My answer related to 2014 but it would
19 equally apply to 2015.

20 Q. Okay. But so you've done annual
21 calculations in that regard?

22 A. Yes.

23 Q. And you've done a calculation for the
24 whole period?

25 A. I've done annual -- I did a calculation

1 for 2014 and a calculation for 2015.

2 Q. Okay. Now, the proposal to shop, Ormet
3 is not just asking to get a market rate, is it? That
4 wouldn't be good enough, would it?

5 A. Ormet is asking for the ability to shop
6 as well as a variety of discounts in addition.

7 Q. So it has to be a subsidized effort into
8 the market, not just a market rate.

9 A. I don't accept the word "subsidized," but
10 they are asking for a discount.

11 Q. And market rates are not good enough by
12 themselves; that would not sustain Ormet would it?

13 A. During the period that we're talking
14 about here during the restart to come out of
15 bankruptcy and the -- to restart a variety of lines
16 and to embark on the construction of a generating
17 plant they are asking for incremental support.

18 Q. Okay. Now, on page 5 of your testimony,
19 line, I guess it's question and answer 13, that's a
20 nice short answer there, so I like short answers, but
21 I have to ask you to elaborate a little bit on that.
22 You're saying here that the EDR, there is no impact
23 in the EDR under the proposal; is that correct?

24 A. Yes.

25 Q. Okay. But to focus in on the word

1 "impact," what you're really saying is that it
2 wouldn't be increased. Is that accurate?

3 A. That's correct.

4 Q. But it also wouldn't go down, correct?
5 Even though it would have gone down --

6 A. It does go down, just to follow your
7 point, it does not go down as quickly as it would
8 have under the current arrangement, but under the
9 current arrangement there is no Ormet.

10 Q. Okay. But there is an impact on the EDR.

11 A. The purpose here was to -- the question I
12 posed and the answer I gave was intended to suggest
13 is that there would not be an incremental impact on
14 the level of the rider as is proposed today. The
15 mechanics you're talking about I would certainly
16 agree with.

17 Q. But there is an incremental impact that
18 doesn't go down as quickly as expected, correct? You
19 just agreed to that.

20 A. I didn't ask that question of myself, so
21 I asked the question of is there an impact, which I
22 interpreted to mean will there be any increase. The
23 answer is No. If you're asking me compared to where
24 we are today would it go down, I would agree with
25 you.

1 Q. Let's move on. Do you have a copy of the
2 current agreement, unique arrangement --

3 A. No, I don't.

4 Q. -- with you? Okay.

5 MR. NOURSE: Could counsel provide that,
6 it's AEP Exhibit 1.

7 MR. PETRICOFF: May I approach, your
8 Honor?

9 Q. All right. So you're familiar with this
10 unique arrangement, the current agreement --

11 A. Yes, sir.

12 Q. -- certainly.

13 A. I am.

14 Q. We marked it up many times, I think.
15 Okay. So you don't have to, you know, look at
16 particular language, I want you to have it in case
17 you want to refer to it. I just want to ask you some
18 general questions.

19 So are you familiar with Article Three,
20 Early Termination?

21 A. Generally, yes.

22 Q. And are you familiar with 3.01(c) in
23 particular regarding modifications by the Commission
24 that are adverse to one of the parties?

25 A. I do recall.

1 Q. All right. And would it be your
2 understanding that if the modification that you're
3 currently asking for is adopted by the Commission,
4 that's something that AEP would consider to be an
5 adverse modification?

6 A. I can't make that determination, but what
7 I've heard so far I would assume that would be the
8 case.

9 Q. Okay. And so the -- would you agree that
10 your understanding of this article and these
11 provisions in Article Three would, if that condition
12 is satisfied, would present the prospect of early
13 termination of the unique arrangement?

14 A. Can you clarify that question? Or repeat
15 it.

16 Q. Yeah. I can rephrase. What I'm asking
17 you is that, is it your understanding of this
18 article, presuming that 3.01(c) is triggered, that
19 the result could be that the current unique
20 arrangement is terminated early?

21 MR. PETRICOFF: Your Honor, objection.
22 That calls for a legal conclusion. The witness is
23 not a lawyer. If he wants to opine on a personal
24 opinion, he can give that, but it cannot be given
25 weight.

1 MR. NOURSE: Okay. Well, I don't know
2 about the last part, but I didn't ask him for a legal
3 opinion. He stated that he is the one that helped
4 devise this agreement, he sponsored it earlier in
5 this case, and he's certainly very familiar with it.

6 EXAMINER PARROT: And please answer the
7 question.

8 A. Okay, I'll give you my quasi legal
9 opinion. This agreement was drafted, as I recall, on
10 the premise that we were filing -- Ormet and AEP were
11 filing a joint application originally. And it was a
12 mutually acceptable agreement.

13 In fact, the agreement that the -- or,
14 the unique arrangement that the Commission ultimately
15 approved did not bear any resemblance, or limited
16 resemblance, to what was proposed.

17 Both parties agreed to do it. There were
18 subsequent issues where the Commission modified the
19 agreement or modified the relationship which were
20 adverse to AEP, and at least my understanding of that
21 is that the Commission has the authority to determine
22 the terms of unique arrangements and it does not
23 require the utility to agree to it.

24 So no -- so my belief, based on those
25 facts, which may not be complete or legally binding,

1 is that it would not trigger an early arrangement --
2 agreement -- an early termination if the Commission
3 decides to modify the agreement in any way it chooses
4 to do.

5 Q. Okay. So what I handed you and what has
6 been marked as AEP Ohio Exhibit 1 is not the proposal
7 that Ormet filed at the beginning of the case.
8 It's -- if you look at the back, you'll see that it's
9 signed by Mr. Tanchuk dated September 15th, 2009,
10 which is after the Commission's decision in this
11 case. Do you see that?

12 A. Oh, I have no doubt that it was signed to
13 conform to the Commission order.

14 Q. Yes.

15 A. But it was subsequent to this that the
16 Commission, I believe, indicated that it could make
17 modifications to this and it did not require the
18 utility to concede, nor would it trigger a
19 termination. I believe that was the case. Now,
20 again, I'm not an attorney so that's something you
21 can argue whenever.

22 Q. Well, okay. But you're not saying your
23 attorneys made a mistake in giving -- formulating
24 this particular contract for signature and compliance
25 with the opinion and order, are you?

1 A. I'm not commenting one way or the other.
2 You're asking me whether I thought it would trigger a
3 termination, and my understanding of the facts is it
4 would not, but it will be what it will be.

5 Q. But your understanding was, as I
6 understood your explanation, was that the contract
7 was designed before the decision was made that was
8 adverse to AEP Ohio; that was your explanation,
9 right?

10 A. I'm sorry? Can you repeat that.

11 MR. PETRICOFF: Your Honor, could we have
12 the question read back?

13 (Record read.)

14 A. The framework -- my understanding is, and
15 recollection is that the framework of this agreement
16 was developed along with the original proposal. It
17 was then modified to conform to the arrangement, the
18 unique arrangement, that the Commission finally
19 approved and I don't know that there was any focus on
20 the applicability of those terms.

21 Those terms were somewhat tested later
22 when the Commission addressed the issue of POLR cost
23 recovery and I believe, again this is purely
24 recollection, that AEP objected claiming it was
25 adverse and the Commission ruling -- and the Supreme

1 Court confirmed that the Commission has the authority
2 to impose whatever unique arrangements it determines
3 are fair, just, and reasonable whether or not the
4 utility agrees.

5 Q. Okay. Well, we don't need to debate the
6 Supreme Court's decision, but your point you just
7 made once again about later, you said that happened
8 later, is it your understanding that the opinion and
9 order from July 15th, 2009, permitted AEP to
10 recover POLR from Ormet?

11 A. I don't know whether that -- oh, recover
12 POLR from Ormet? I don't recall whether that was an
13 exclusive issue at the time.

14 Q. Okay. If you look at the -- we've been
15 discussing 3.01(c) so far, if you look at the
16 immediately following provision, 3.01(d), would it be
17 your understanding from reviewing that, which carries
18 over to page 10, that this contract incorporated
19 consideration of the July 15th, 2009, opinion and
20 order in this case?

21 A. I don't recall the date so I can't really
22 comment. Can you tell me what the July 15th
23 opinion and order related to?

24 Q. It was the decision adopting Ormet's
25 proposal and modifying it for the -- that formed the

1 basis for this unique arrangement.

2 A. Okay. Then I'm not sure I understand
3 your question.

4 Q. Wouldn't you agree from the face of that
5 that this version of the contract signed by both
6 parties incorporated consideration of the July
7 15th, 2009, opinion and order?

8 A. Yes, it did.

9 Q. Okay. So let me move on from there and
10 ask you, regardless of our varying views whether they
11 vary or not about the contract, if, in fact, the
12 operation of section -- Article Three would result in
13 the early termination of the unique arrangement, is
14 that something that Ormet would desire?

15 MR. PETRICOFF: Your Honor, I would
16 object here. This assumes that this contract is
17 still in effect and would not be superseded by the
18 decision in this case, which I think the witness did
19 an excellent job of explaining might in fact be
20 the -- might be the outcome. So it would have to be
21 contingent upon that interpretation being accepted.
22 With that, we'll accept the question.

23 Q. Well, let's back up, then, if that was
24 your position that you stated as interpreted by
25 Mr. Petricoff. Is the explanation you gave a few

1 questions ago, does that suggest that the current
2 proposal, even though there's nothing in testimony or
3 any of the pleadings, was intended to modify
4 Article Three?

5 A. First of all, the unique arrangement
6 itself I don't believe has any of these terms
7 whatsoever. The Commission order, to the best of my
8 knowledge, does not address the issues of early
9 termination.

10 The best answer I can give you, again, is
11 that we are seeking -- Ormet is seeking to modify the
12 agreement, the unique arrangement, to produce certain
13 outcomes. Those outcomes are listed in the motion to
14 amend and they are solely those outcomes, and if the
15 Commission determines that there are other costs that
16 need to be addressed such as what you're referring to
17 as an early termination cost or an exit fee or the
18 right of a party to basically not honor the
19 Commission's decision, that would have to be in the
20 Commission's decision.

21 I don't think that anything in here would
22 override the Commission's order.

23 Q. So your expectation is the Commission's
24 order would be applied retroactively to the
25 current --

1 A. No, I don't believe it's retroactive at
2 all. I think it's all prospective. The Commission
3 basically will, as I see it, and again you're asking
4 me legal opinions, but my belief is the Commission
5 will issue an order, let's assume they approve it
6 just because that's better for me to say, let's
7 assume that the Commission approves the proposal as
8 requested and amends this entire agreement to produce
9 those outcomes, then those will be the outcomes,
10 plain and simple.

11 Q. Yeah, but you wouldn't think rights that
12 the parties have under this contract that Ormet
13 signed would simply not apply.

14 MR. PETRICOFF: Objection. Asked and
15 answered.

16 Q. I'm trying to clarify, but let's just
17 move on. You'll hear more about this in the briefs.

18 So what my question was before we had
19 that version was whether, regardless of our
20 differences, if Article Three triggers an early
21 termination, is that something Ormet desires?

22 A. I don't understand the question. Ormet
23 does not desire an early termination.

24 Q. Okay.

25 A. Ormet is requesting a modification of the

1 agreement.

2 Q. So you don't want to see the agreement
3 terminated, you want to see it modified.

4 A. That is what we are seeking, yes.

5 Q. Okay. And certainly one way to go
6 shopping would be to have the unique arrangement
7 terminated, correct?

8 A. The issue is not -- you're piecemealing
9 the proposal. We are not seeking simply to go
10 shopping. We are simply -- we are seeking a
11 framework to produce an electric price that allows
12 the company to continue to operate.

13 Shopping is a component of it; simply
14 terminating the unique arrangement would not produce
15 that result.

16 Q. So you want to go shopping and get the
17 subsidy to go shopping.

18 A. We are looking to get an electric price,
19 the components of it include shopping as well as
20 discounts.

21 Q. So terminating the agreement and going
22 shopping would not satisfy Ormet's needs nor would it
23 be a desired outcome.

24 A. That is correct.

25 Q. Thank you.

1 Q. Now, you indicated in response to
2 questions from counsel for AEP that you had provided
3 testimony earlier in this proceeding, correct?

4 A. Yes.

5 Q. And in that earlier testimony you
6 described the Ormet arrangement that you proposed as
7 being based on a minimum cash flow basis; is that
8 correct?

9 A. That's correct.

10 Q. And that was an analysis that you were
11 familiar with but did not conduct yourself, correct?

12 A. I'm not sure what you mean by "familiar
13 with." It was simply -- I was simply informed by
14 Ormet that the schedule, the index, for the LME price
15 versus the electricity price was designed to
16 produce -- to produce zero free cash flow in the
17 original agreement.

18 Q. Yes. And you accepted the analysis for
19 purposes of your testimony in the first phase of this
20 proceeding, correct?

21 A. Correct.

22 Q. Now, is it your understanding that the
23 current arrangement approved and in existence set a
24 target price based on an annual price, annual LME
25 price?

1 A. Yes.

2 Q. And that annual LME price was described
3 as the price which Ormet could afford to pay to the
4 AEP Ohio tariff rate and yet maintain sufficient cash
5 flow to sustain its operations, correct?

6 A. You're back in the existing agreement.

7 Q. Yes.

8 A. Yes.

9 Q. Now, in the -- coming forward, in this
10 case, you are proposing amendments to the unique
11 arrangement and you have changed your approach, have
12 you not?

13 A. Yes.

14 Q. And you indicate on page 2, lines 16
15 through 17, now you are seeking a cost of electricity
16 that Ormet can afford; is that right?

17 A. That's what it says, yes.

18 Q. And you define that cost for 2013 as
19 \$45.89 a megawatt-hour?

20 A. For 2013 that is the cost of base
21 generation, not the total cost.

22 Q. But we would add to that the FAC and the
23 AER riders; is that right?

24 A. No, the 4589 is the base generation cost
25 plus the FAC plus the AER. It does not include any

1 of the other riders which would be added on top.

2 Q. Okay. So the cost that Ormet can afford
3 is the 4589 plus the other riders.

4 A. Correct.

5 Q. Now, for 2014 have you identified what
6 the cost of electricity that Ormet can afford is?

7 A. Have I identified -- I can -- I have not
8 identified the cost precisely since it would, in fact
9 I have not identified that at all because the market
10 price in 2014 is a variable. What is being proposed
11 in 2014 are the discounts. One can impute a cost,
12 and Mr. Riley in all likelihood has done that, I have
13 not actually calculated what the net cost would be.

14 Q. Going back for a moment for 2013, do you
15 have the net cost of electricity that Ormet can
16 afford? Have you calculated that?

17 A. I have not calculated that, though it is
18 certainly possible to do since we have a fixed
19 starting point. But I have not calculated what the
20 net cost is.

21 Q. Can you do that as we sit here today?

22 A. With certain assumptions. What we don't
23 have here today is precisely the load levels for each
24 month in 2013 which, to do with any precision, would
25 be required so that we understood what the discount

1 produced on a dollar per kilowatt-hour basis.

2 So, no, I can't do it sitting here today
3 unless someone provides me some data.

4 Q. And, likewise, for 2014 and 2015 you
5 can't recite, as you sit here today, what the cost of
6 electricity that Ormet can afford.

7 A. No, we can determine -- no, I can't.

8 Q. Do you know how Ormet came up with the
9 cost of electricity that it could afford and
10 structured the agreement to reach that point?

11 A. I don't have the detail. It was the --
12 it was the outcome of running a variety of financial
13 models to understand what that number could be, but
14 no, I was not privy to reviewing that data.

15 Q. Do you know if the cost of electricity
16 that Ormet could afford is tied in any way to a
17 target price for the LME?

18 A. I would assume it is not tied to a
19 specific price but, rather, a range of prices.

20 Q. Do you know what that range of prices
21 would be?

22 A. No. Mr. Riley would have that
23 information.

24 Q. Can you tell me why Ormet changed its
25 approach to structuring the unique arrangement from

1 the approach that it originally took in the
2 reasonable arrangement?

3 A. The essential difference between the two
4 is that one was an LME index and the other is, in
5 effect, a predetermined discount level, if you will.
6 Those are the primary differences between the two
7 approaches.

8 The reason for the current and proposed
9 approach is, one, it is much simpler to understand
10 and to quantify what the impact is, it's covering a
11 much shorter period of time, essentially two,
12 two-plus years, and it's a period during which the
13 company needs to come out of bankruptcy, a new buyer
14 needs to pick it up in order for that to happen so
15 there needs to be some price certainty and
16 predictability and their building -- proposing to
17 build a gas plant.

18 So really it was just designed to
19 simplify the process so all parties would understand
20 what the impact would be and it would be either
21 accepted or not accepted.

22 Q. Now, when you refer in your testimony at
23 page 2, lines 19 and 20, going back to the
24 arrangement being structured to provide a cost of
25 electricity that Ormet can afford, when you speak

1 about Ormet, are you considering Ormet as a whole or
2 are you referring to the smelting operations of Ormet
3 in Hannibal only?

4 A. That's a good question. I wasn't making
5 a distinction, but it would be related -- I believe
6 it would be related to Ormet as a whole. But, again,
7 it is really predicated on the data that Mr. Riley
8 has provided and if his data is Ormet as a whole,
9 that's what it is, and if his data was the smelter
10 only, then that's what it is, because it's all driven
11 by that.

12 Q. And do you understand the corporate
13 structure of Ormet?

14 A. At this point, no.

15 Q. Do you recall whether or not Ormet as a
16 whole would include the Burnside operations in
17 Louisiana?

18 A. When I refer to Ormet as a whole, I was
19 assuming it included Burnside but, again, it really,
20 this is purely a function of what Mr. Riley told you
21 yesterday.

22 Q. Now, when you refer to electricity being
23 produced in the gas-fired generating plant to sustain
24 long-term operations, and I'm speaking of your
25 testimony on page 2, lines 19 and 20, again, I'm

1 going to ask you, are you speaking of Ormet as a
2 whole or are you limiting that to the smelting
3 operations in Hannibal?

4 A. The primary focus are the smelting
5 operations in Hannibal. But, again, I can't say with
6 certainty whether the degree to which the operation
7 of Burnside facility impacts the Hannibal operation
8 because you do understand that does supply some of
9 the raw material. So, again, that's a question more
10 for Mr. Riley or Mr. Tanchuk.

11 Q. Now, on page 2 of your testimony at the
12 very bottom you state that, in simple terms, the
13 unique arrangement is designed to avert a complete
14 shutdown and the resulting loss of jobs and severe
15 economic penalty. Do you see that?

16 A. I do.

17 Q. Now, you are referring there, are you
18 not, to the impacts described by Dr. Coomes in his
19 July 30th, 2013, report?

20 A. Correct.

21 Q. And for purposes of your testimony you
22 have merely accepted the economic impact analysis
23 conducted by Dr. Coomes?

24 A. I have.

25 Q. And you have done no independent analysis

1 of that, correct?

2 A. That's correct.

3 Q. And when you use the term "severe
4 economic penalty," that's your terminology, is it
5 not, and not Dr. Coomes' terminology?

6 A. That is mine. I can't recall whether he
7 used something similar, but it is mine here.

8 Q. Now, in your testimony on page 3 you
9 describe the components of relief sought by Ormet in
10 its June 14th, 2013, motion to amend and you list
11 eight different items. Do you see that?

12 A. Yes.

13 Q. And one of the items that you list is,
14 that being item No. 1, is to shorten the duration of
15 the unique arrangement by three years, correct?

16 A. Yes.

17 Q. Am I correct that it was Ormet who
18 initially proposed ten years for the arrangement?

19 A. Yes.

20 Q. And at the time that Ormet proposed a
21 ten-year arrangement, it was because Ormet needed to
22 attract capital to continue to maintain and operate
23 its smelter?

24 A. Yes.

25 Q. Now, on page 4 carrying over to page 5,

1 you indicate that the cost of the fixed generation
2 rate was estimated to be, and you've corrected that
3 to \$6 million based on the four potlines.

4 A. Right.

5 Q. And then you state that with Ormet going
6 to two potlines in August, the actual cost is
7 probably going to be substantially lower, and you
8 make that statement at the very top of page 5.

9 A. Yes.

10 Q. By "substantially lower" what do you
11 mean?

12 A. It was probably just a turn of phrase. I
13 don't -- didn't have a -- I simply should have said
14 "lower."

15 Q. So as you sit here today you don't know
16 how much lower that would be?

17 A. Well, I believe the \$6 million figure
18 that we now have from AEP already reflects the two
19 potlines.

20 Q. So the actual cost will not be lower, it
21 will be the 6 million, is that --

22 A. I believe -- yes. And this comes from
23 the testimony of David Roush, so you can confirm that
24 when he's on the stand.

25 Q. And the confirming I would need to do is

1 whether that applies to the two potlines, correct?

2 A. Yeah, I believe it's based on the year
3 and it goes out through December. My understanding
4 of his workpapers is that it went down to two
5 potlines; that one needs to be confirmed, of course.

6 Q. And if Mr. Roush's testimony is based on
7 four potlines, would that mean that the actual cost
8 will be lower?

9 A. I would expect it would be lower, but
10 Mr. Roush can confirm or contradict that.

11 Q. Now, counsel for AEP asked you about your
12 question and answer on page 5, lines 10 through 13,
13 and I would like to ask you about that as well but in
14 a different respect. You indicate there that the
15 economic development rider will not be impacted if
16 the PUCO allows Ormet to transition to choice,
17 correct?

18 A. Correct.

19 Q. Now, you would agree with me that the
20 other rates collected from customers will be impacted
21 if the PUCO allows Ormet to transition to choice,
22 correct?

23 A. I would agree that they may be impacted.
24 I think that's an issue of what kind of recovery the
25 PUCO allows and over what time frame.

1 Q. And when you say "what kind of recovery
2 the PUCO allows," you're talking about whether the
3 PUCO allows AEP to collect those increased costs from
4 customers or whether the Commission requires AEP to
5 bear those costs.

6 A. Well, let me clarify just to make sure
7 we're talking about the same thing. I believe your
8 reference and my response was all related to where
9 things are today. That is not a -- that is not a
10 reference that has any meaning or -- whatsoever
11 because if the agreement is proposed there's -- if
12 the amendment is approved, there's one outcome, and
13 if the amendment is denied, there's another outcome.
14 Neither of those outcomes is simply continuing on
15 with the current agreement.

16 So the question is, as posed here, is is
17 the rider affected by shopping, and the answer is no,
18 because whether we shop or not doesn't affect the
19 economic development rate. When you look at the
20 impact on rates generally, then it's a comparison of
21 what happens to rates to the customers if Ormet shuts
22 down versus what happens to rates to the customer if
23 Ormet shops.

24 Q. Well, let's --

25 A. So this is just to clarify to make sure

1 we're talking about the same thing.

2 Q. Let's just focus on Ormet going forward
3 as an entity and the Commission allowing Ormet to
4 shop. Under that scenario can we identify what other
5 rates would potentially increase or be affected by
6 the transition -- Ormet's transition to shopping?

7 A. Sure. And I believe I did that on the
8 table, well, no, I didn't do it on the table so
9 that's wrong.

10 If Ormet shops, what would happen is, my
11 understanding, and I probably don't have all of the
12 detail, I'll watch Mr. Nourse's face to know if I've
13 missed something, but what would happen is there
14 would be a capacity deferral --

15 Q. Yes.

16 A. -- which would at some point come back
17 and have to be recovered by customers in some way.
18 To the degree there were fixed costs included in the
19 fuel cost, those costs would either be absorbed by
20 AEP or allocated to other customers.

21 And in the course of shopping there would
22 still be a shortfall of between what AEP is currently
23 collecting through the current arrangement and what
24 occurs based on the capacity deferral. And if AEP
25 sought to recover that amount and the Commission

1 approved it, there would be that rate impact as well.

2 I think those would be the three primary
3 impacts that I can think of.

4 Q. Do you know if there would be an
5 impact -- let me strike that.

6 Are you familiar with the retail
7 stability rider in place?

8 A. Only in general terms, but yes.

9 Q. Okay. Would you understand that if Ormet
10 is permitted to transition to choice, there would be
11 an impact on the retail stability rider?

12 A. Well, my understanding is that, and this
13 may be incorrect, that Ormet would continue to pay it
14 while it was shopping. I think the issue would only
15 be if they left the system that it becomes a problem.
16 But that's not a shopping issue, that's a subsequent
17 issue. If I have it right.

18 Q. Now, let's talk for a moment about the
19 capacity deferrals. Would it be your understanding
20 that if Ormet transitions to shopping, greater
21 capacity deferrals would be created?

22 A. Greater than if they weren't shopping
23 but --

24 Q. Yes.

25 A. -- less than if they shut down.

1 Q. Correct.

2 A. Right.

3 Q. And with respect to the FAC rates, what
4 would happen is the fixed costs that are currently
5 being paid for by Ormet would be absorbed by the
6 standard service offer customers who continued to
7 take under the FAC rate, correct?

8 A. Again, that's a PUCO decision but it
9 either goes there or AEP absorbs it, but yes,
10 essentially.

11 Q. Do you know under the current -- under
12 AEP's current approved ESP plan whether or not the
13 fixed costs that would be associated with Ormet would
14 be, as a matter of course, absorbed by SSO customers
15 if Ormet shopped?

16 A. What you're saying is a matter of course,
17 I'm not sure --

18 Q. Without any action by the PUCO.

19 A. Again, I don't know the detail. I would
20 assume it would require action by the PUCO, but I
21 don't know that for a fact.

22 Q. And with respect to the capacity
23 deferrals that we spoke of and the increase to
24 capacity deferrals that would occur if Ormet shopped,
25 do you know whether or not that -- those increases to

1 other customers would be something that occurs as a
2 matter of course or would require Commission approval
3 or action?

4 A. Well, in the end result everything
5 requires Commission approval because they -- my
6 presumption is if the Commission determines some
7 different outcome was just and reasonable, they could
8 make that happen.

9 My guess is -- my assumption, however, is
10 absent any action by the PUCO it would naturally be
11 deferred and fall into place.

12 Q. Now, on page 6, lines 3 through 7, you
13 indicate that accelerating the discount does not
14 increase the monthly costs that other customers are
15 currently paying for the EDR. Do you see that?

16 A. I do.

17 Q. And you claim this because the EDR
18 already reflects the impact of the \$5.5 million
19 annual, or \$5.5 million monthly discount to Ormet,
20 correct?

21 A. Correct.

22 Q. Are you assuming there that AEP would not
23 otherwise adjust the EDR to exclude further discounts
24 to Ormet once Ormet reached its \$44 million 2013 cap?

25 A. I'm -- obviously, under the terms of the

1 current agreement the rate would drop. I'm not sure
2 what the timing is of the lag may be, but the rate
3 would drop once they hit the cap. All that I was
4 saying here is today the \$5-1/2 million is reflected
5 in bills.

6 So other customers would not see any
7 change, they -- absent this they might see a change,
8 but they wouldn't see a change from where they are
9 today, that's all that this was saying.

10 Q. But in September of this year the
11 customers would see a drop, all other things being
12 equal, would see a drop in the EDR rate because the
13 \$44 million discount to Ormet had been used up,
14 correct?

15 A. I don't know. Again, I thought it was
16 done on a quarterly basis, so I don't know what the
17 timing would be, but absent approval of this other
18 customers would see a drop. All that this is saying
19 is based on what they are paying today they would not
20 see a change.

21 Q. And as far as the quarterly rate, is it
22 your understanding that the EDR rates are trued up or
23 adjusted so that even if the -- an adjustment was not
24 made in September on a going-forward basis it would
25 catch up, the adjustment and reduction would catch up

1 to customers?

2 A. My assumption is AEP only recovers
3 whatever the discount is. The timing and the
4 mechanics I don't -- not familiar with. I would
5 assume it's similar to a fuel clause concept.

6 Q. Now, Mr. Fayne, would you agree with me
7 that there's a cost to customers of paying discounts
8 now versus later?

9 A. I'm going to answer that yes and no, and
10 it's yes if you go with the time value of money and
11 it's no if you deal with the alternative. So it may
12 be cheaper for customers to pay the discount now than
13 to pay the higher rates than they otherwise would
14 pay, it's that kind of a concept.

15 Q. And if we take just the first part of
16 that, assume that we're not in the situation where
17 Ormet is going to go out of business and customers do
18 end up paying, the Commission approves the proposal
19 as structured and customers do pay the rate -- the
20 discount to Ormet over an accelerated period of time,
21 would you agree with me that in that situation the
22 customers lose the time value of money?

23 A. They lose the time value of money but one
24 cannot, though I understand your assumption, you
25 cannot ignore the fact that the alternative is worse.

1 Q. But in terms of informing the Commission
2 as to what the cost of the proposal is, wouldn't you
3 agree with me that the cost that you have presented
4 to the Commission does not take into account the time
5 value of customers' money?

6 A. I would agree that one could add that as
7 a cost.

8 Q. Now, on page 6, lines 20 through 21, you
9 indicate that in light of the shutdown of potlines 3
10 and 4, it is unlikely that such an expansion could
11 take place in July of 2014. Do you see that?

12 A. Yes.

13 Q. Can you tell me what expansion you're
14 referring to there?

15 A. This is all related to the restart of
16 lines 5 and 6 which at the time we did the testimony
17 was the next step. Since that time lines 3 and 4
18 have been shut down, as you know, Ormet is operating
19 on two lines. So the process now of restoring lines
20 3 and 4 would delay the restart of 5 and 6 and that's
21 all that this was referring to.

22 So the economics or the quantification I
23 included in here assumed 5 and 6 would start in July,
24 which -- and we were requesting a shopping credit
25 associated with 5 and 6, and I quantified that

1 amount. If we delay 5 and 6, we also don't get the
2 shopping credit so that the cost is somewhat lower.

3 Q. Do you know, given what has occurred with
4 the shutdown of 3 and 4 when you are -- or whether
5 Ormet is anticipating restarting potlines 5 and 6?

6 A. No, I don't have that information.

7 Q. And so do you know, Mr. Fayne, how much
8 of the shopping credit would no longer be in play as
9 a result of the delay in starting potlines 5 and 6?

10 A. Since I don't know the timing, I don't
11 know. We can certainly convert the \$9 a
12 megawatt-hour shopping credit proposed for a monthly
13 figure so I can certainly determine what it is by
14 month and -- but I don't know how many months we're
15 talking about.

16 Q. Now, and associated with the operations
17 of potline 5 and 6 we would assume that there will be
18 increased employment associated with that; is that
19 correct?

20 A. That's correct.

21 Q. Now going to page 8, you summarize the
22 total impact of the motion to amend. Do you see
23 that?

24 A. Referring to lines 17 through 23?

25 Q. Yes.

1 A. Okay. And then not to jump, but I just
2 found another place that we should change the 3.4 to
3 6.

4 Q. And where would that be, Mr. Fayne?

5 A. Line 17.

6 Q. Now, you mention in this discussion the
7 advancing of the discount, and you provide no cost to
8 that; is that correct?

9 A. That's correct.

10 Q. And that's consistent with the discussion
11 we just had where you indicate that there is a cost
12 to customers of advancing the discount but you have
13 not included that in the total impact on the motion
14 to amend.

15 A. Correct.

16 Q. With respect to the figure, the
17 \$53.5 million figure of additional relief shown on
18 line 16, should that be increased as well?

19 A. Yes. I apologize. That would be
20 increased by \$2.6 million to be a total of
21 \$56.1 million to reflect the change on the fixed
22 generation cost.

23 Q. Thank you.

24 Now, is the \$56.1 million total cost, is
25 that a cap on the relief that's being requested by

1 Ormet?

2 A. I would argue -- there was no concept of
3 a cap, but I would argue that there is almost no
4 possibility the number would be higher.

5 Q. And when you say there was no concept of
6 a cap, can you tell me, are you saying that Ormet is
7 not proposing a cap on the amount of relief it's
8 requesting?

9 A. Well, I'm not suggesting that it's
10 inappropriate to say it's a cap, but it was never
11 addressed and I don't want to speak totally for Ormet
12 sitting here this way.

13 The numbers are simply the calculation,
14 and if we look at, you know, since we addressed it,
15 the fixed cost generation, the discounts we're
16 talking about are fixed so they're not going to
17 change. The shopping credits are a function of load,
18 so it's a rate times generation.

19 I think we have picked a reasonable level
20 of generation to support lines 1 through 4, they may
21 even be a little bit high. We certainly have picked
22 an earlier date for lines 5 and 6 than we expect. So
23 I think it all will drop down, but it was based on a
24 rate times a load level.

25 Again, I would have -- I would personally

1 have no problem saying that it's not going to be any
2 higher than this and it's a cap, but it's mechanics.

3 Q. Do you know, as you sit here today, can
4 you say that it is a cap? Is it Ormet's proposal, if
5 you know, to present the \$56.1 million request for
6 rate relief as a cap, as the maximum amount during
7 the time frame till the end of the proposed
8 arrangement?

9 A. I would say that's okay.

10 Q. It is a cap?

11 A. It is a cap.

12 Q. Do you know if under the arrangement that
13 you're proposing, whether there is a floor to what is
14 being proposed? And by "floor" I mean a minimum
15 amount that Ormet should be required to pay in terms
16 of its electric bill.

17 A. Oh. That was, again, not addressed,
18 unless I work with Ormet to figure out whether or not
19 that was a possible concept, it was just -- it was
20 just never addressed as a concept so I really can't
21 answer.

22 Q. Mr. Fayne, is it your understanding that
23 the PUCO has found that generally unique arrangements
24 must contain a floor and a cap?

25 A. No, I'm not aware of that.

1 Q. Are you familiar with the Ormet opinion
2 and order which discussed the importance of a unique
3 arrangement containing a floor and a ceiling?

4 A. I do remember the discussion. I'd have
5 to put it back in context. It was a long time ago.

6 Q. Perhaps if I showed you that order, would
7 that help refresh your memory?

8 A. It would help.

9 MS. GRADY: If I may have a moment, your
10 Honor.

11 EXAMINER PARROT: Let's go off the
12 record.

13 (Discussion off the record.)

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

16 At this point we're going to take a lunch
17 recess and we'll reconvene at 10 till 3. Thank you.

18 (At 2:05 p.m. a lunch recess was taken
19 until 2:50 p.m.)

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1 Wednesday Afternoon Session,
2 August 28, 2013.

3 - - -

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

6 Ms. Grady.

7 MS. GRADY: Thank you, your Honor.

8 - - -

9 CROSS-EXAMINATION (continued)

10 By Ms. Grady:

11 Q. Mr. Fayne, if you recall, before lunch we
12 were discussing the concepts of floors and ceiling.
13 Do you recall that?

14 A. I do.

15 Q. And we've established for purposes of
16 cross that when we refer to a floor, I'm referring to
17 a minimum amount that Ormet would be required to pay,
18 and when I refer to a ceiling, I use that
19 interchangeably with the word "cap" as the maximum
20 amount that customers should bear with respect or
21 should pay with respect to the delta revenues caused
22 by a reasonable arrangement. Can we agree on those
23 definitions?

24 A. Absolutely.

25 Q. Okay. Now, when we left, my question was

1 do you have an understanding that the PUCO has found
2 that generally unique arrangements must contain a
3 floor and a ceiling?

4 A. Yes.

5 Q. And you do have that understanding.

6 A. I do.

7 Q. And you gained that understanding over
8 lunch by reviewing the Ormet opinion and order,
9 correct?

10 A. Yes, but let me just qualify what I said.
11 I understand the PUCO ruled that, in that case,
12 whether or not they would continue to obviously is
13 their discretion, but let's go on the premise that
14 it's required.

15 Q. And if we look at, in fact, if we look at
16 that opinion and order on page 9, the language -- the
17 paragraph states that the Commission agrees with the
18 staff position that generally unique arrangements
19 must contain a floor, a minimum amount that a party
20 seeking a unique arrangement should be required to
21 pay, and a ceiling, a maximum amount of delta revenue
22 which the ratepayer should be expected to pay.
23 Correct?

24 A. That's right. And it was really the word
25 "generally" that I was referring to which gives them

1 the option of modifying that.

2 Q. That's fair enough. Thank you,
3 Mr. Fayne.

4 Now, also in that opinion and order
5 following that explanation was the representation
6 that Ormet represents that it does not oppose the
7 application of a cap or a floor to its contract. Did
8 you see that as well?

9 A. Yes.

10 Q. Now, to your knowledge, does the current
11 Ormet contract have a, both a floor and a ceiling?

12 A. Essentially, yes.

13 Q. And would you agree with me that the
14 floor is the variable cost of production of
15 electricity consumed by Ormet at full capacity?

16 A. No.

17 Q. And can you describe for me what you
18 understand the floor of the Ormet arrangement is?

19 A. Yeah, let me explain what I see different
20 about this arrangement versus the other, which is --
21 which explains my answer.

22 In the current agreement the rate that
23 Ormet pays is based on the LME index --

24 Q. Yes.

25 A. -- with a cap on the amount that can

1 actually -- a cap on the discount that can be
2 obtained or provided in a given calendar year. The
3 floor, as I understand it, was established by saying
4 that Ormet could not take more than 12-1/2 percent of
5 the annual discount in any month, and that's how the
6 floor is established.

7 The difference -- assuming that's a
8 correct interpretation, the difference in the current
9 agreement or the proposed agreement here is that the
10 discount is a monthly discount, it's not an annual
11 discount. So by basically establishing a floor
12 saying the most you can take is a monthly discount,
13 the \$4-1/2 million a month, for example, in 2014,
14 that implicitly creates a floor. Now, if that floor
15 is not acceptable to the Commission, that's a
16 different issue, but that is the floor in the current
17 agreement.

18 MS. GRADY: Can I have that answer
19 reread, please?

20 (Record read.)

21 MS. GRADY: Thank you.

22 A. And I'll correct that, having heard it,
23 it's the floor in the proposed agreement as opposed
24 to the current agreement.

25 Q. Now let's go back for a moment. I want

1 to pick up on a couple things that you mentioned.
2 You referred to the current Ormet contract as having
3 a cap on a given calendar year. Do you also
4 understand that the current Ormet contract had a
5 overall cap on the amount of delta revenues to be
6 collected from customers beyond an annual cap?

7 A. I do recall that the Commission said
8 \$54 million for years 2010 and '11 as the cap, not in
9 terms of what Ormet would get, but in terms of what
10 is recoverable through the EDR.

11 Q. Do you understand there was an aggregate
12 cap associated with the Ormet current arrangement?

13 A. No.

14 Q. Now, you indicated that -- you disagreed
15 with me with respect to my question -- let me try it
16 this way: You said that the floor in the current
17 Ormet contract is not based on the variable cost of
18 production of electricity consumed by Ormet at full
19 capacity. Do you recall that?

20 A. I do.

21 Q. And I'm going to direct your attention to
22 the opinion and order, if you have that in front of
23 you, please.

24 A. I somehow lost it over lunch. Oh, no, I
25 didn't -- no, I did lose it over lunch.

1 Q. I've got another copy.

2 A. I apologize.

3 Q. That's all right.

4 And, Mr. Fayne, I'm going to direct your
5 attention to the bottom of -- I'd like you to review
6 the bottom of page 9 going over to page 10 and read
7 that to yourself and then I'm going to ask you a
8 question or two about that.

9 Now, having read the Commission order,
10 would agree with me that with respect to the current
11 Ormet arrangement, that the floor of the current
12 Ormet arrangement is the variable cost of production
13 of electricity consumed by Ormet at full capacity?

14 A. Well, the exact language says it has, the
15 Commission has based the floor upon the variable cost
16 of production. I don't know whether that means that
17 it is equal to or that was just a factor, because I
18 don't understand how that works. That looks --
19 because they're now talking about the cap. So I just
20 don't understand this paragraph.

21 Q. That's fair enough.

22 Now, you also indicated that the monthly
23 discount in the currently -- let me strike that.

24 The monthly discount in the proposed
25 Ormet arrangement implicitly creates a floor,

1 correct?

2 A. Correct.

3 Q. And do you know what that floor amounts
4 to in terms of dollars per megawatt-hour?

5 A. Well, obviously that dollars per
6 megawatt-hour result would be a function of the
7 actual load. But it is, for example, no different
8 than in the current agreement where Ormet is
9 permitted to use \$5-1/2 million a month until it's
10 used up the 44 million this year, for example, and
11 that dollar per megawatt-hour will vary depending on
12 the load.

13 So we'd have to figure out what we're
14 referring to and then we could do the calculation.

15 Q. Now, do you know whether or not under the
16 currently -- or, under the proposed Ormet unique
17 arrangement, whether the floor covers the variable
18 cost of production of electricity for Ormet?

19 A. It's very difficult to say because we
20 have a circumstance where it's combined with
21 shopping, and when one shops and pays a price, you
22 don't necessarily know the fixed or variable cost of
23 the supplier.

24 Q. So you're talking, then -- let's
25 segregate or let's try to talk year to year because

1 we have different provisions kicking in for different
2 years. For 2013 when there is a -- no shopping,
3 correct?

4 A. There is no shopping in 2013, correct.

5 Q. So can you tell me, when there's no
6 shopping proposed by Ormet for 2013, whether the
7 implicit floor created by the monthly discount covers
8 the variable cost of production of electricity for
9 AEP Ohio?

10 A. Okay. It depends. And I'm not trying to
11 be difficult here. It depends on the load level.

12 So, for example, if Ormet were operating
13 all six potlines -- I can probably do this with a
14 calculator. Can I get a calculator and I can
15 probably --

16 Q. That would be great, thank you.
17 Mr. Fayne, I hope you learn in your experience to
18 come to the stand with a calculator. Oh, I think it
19 was the other witness that didn't have a calculator.

20 A. That's right.

21 Q. My apologies.

22 A. It's always dangerous to calculate while
23 you're sitting up here but we'll see what we can do.

24 If I'm operating all six potlines, my
25 monthly load is in the neighborhood of 360 plus or

1 minus some gigawatt-hours for the month. So if I
2 took \$5-1/2 million, divided it by, say, 360, it
3 would be in the neighborhood of \$15, \$15.3 per
4 megawatt-hour discount.

5 If I then took a rate at AEP in the
6 neighborhood of \$60 or so a megawatt-hour as an
7 all-in, I would say you're still probably recovering
8 variable costs.

9 Q. Now, you did your calculations assuming
10 all six potlines.

11 A. Right.

12 Q. And during 2013 were all six potlines of
13 Ormet running?

14 A. No. During parts they were, during other
15 parts it was four, and now it's down to two.

16 Q. Okay. So if you wanted to make a
17 calculation based upon what has happened for 2013 to
18 determine whether or not the floor would cover the
19 variable cost of production, what would that
20 calculation look like? Would we expect it to be
21 higher or lower than the calculation that you just
22 went through?

23 A. Okay, the discount on a dollars per
24 megawatt-hour would be higher.

25 Q. Yes.

1 A. The rate, for argument sake, since I
2 can't recall how the rate moves for AEP over the
3 course of the year because of the fuel adjustment,
4 I'm going to just argue it's \$60 for purposes today,
5 the discount would be bigger. I'd have to understand
6 from AEP what their variable cost was. I think it
7 would be a close call for the year.

8 Q. And by "close call" you mean that it may
9 not cover the variable cost of AEP's production of
10 electricity.

11 A. I think it would approximate the variable
12 cost but I can't say with precision which way it
13 would go.

14 Q. Now, you said for 2014 --

15 A. Right.

16 Q. -- it would be more difficult to
17 calculate because of the shopping and the impact of
18 the shopping. And you mentioned that -- you were
19 talking about the variable cost of the CRES provider;
20 is that correct?

21 A. Well, what I'm saying is with AEP it
22 would -- we could easily determine what was fixed and
23 what was variable because it's a rate structure.
24 With a CRES provider you're buying both capacity and
25 energy and it's not necessarily -- I'm just not sure

1 how those rates are determined or communicated by a
2 CRES provider whether or not you have the knowledge
3 of what part is variable and what part is fixed or
4 not. I just don't know what the terms of those
5 contracts.

6 Q. But the CRES provider would be receiving
7 the full payment for the capacity and energy,
8 correct? They wouldn't be receiving a discounted
9 payment.

10 A. No, the CRES provider, right, would
11 receive a full amount.

12 Q. And the discount would come from the
13 regulated operations or the regulated ratepayers.

14 A. That is correct. And as I indicated
15 earlier in testimony, I believe in both 2014 and 2015
16 the discount that is being proposed is approximately
17 equivalent or actually a little bit less than the
18 payments that would be made to AEP to cover the
19 nonbypassable riders, the transmission cost, and
20 repayment of the prior bills.

21 Q. Now, on page 9 of your testimony, you
22 testify that if the PUCO approves the motion to
23 amend, you would expect that there would be certain
24 outcomes. Do you see that?

25 A. Yes.

1 Q. And you indicate that on lines 6 through
2 7 Ormet would construct and operate a gas-fired plant
3 beginning in 2015 which would then provide additional
4 jobs in Southeastern Ohio.

5 A. Yes.

6 Q. Can you tell me how many additional jobs
7 would be created in Southeastern Ohio associated with
8 the construction and operation of the gas-fired
9 plant?

10 A. I don't recall offhand. I believe
11 Mr. Thompson's testimony did provide some numbers,
12 however.

13 Q. And do you know whether those were
14 part-time or full-time jobs and whether those were
15 temporary or permanent jobs?

16 A. I believe, as I recall his testimony, he
17 did talk about construction jobs which, obviously,
18 are -- I would call it temporary, they only exist
19 during the period of construction, and then the
20 full-time jobs to operate the plant thereafter, I
21 believe they were all full-time equivalents.

22 Q. Now, for item 5 you indicate that Ormet
23 would pay the PIRR and the other riders through May
24 31st, 2015, correct?

25 A. That is correct.

1 Q. And by that statement I take it that you
2 are assuming that once the gas generating plant is
3 operational, that Ormet would no longer pay the
4 nonbypassable charges or the distribution charges.

5 A. Let me break that apart --

6 Q. Okay.

7 A. -- because I don't know what the
8 distribution -- how the distribution charges work.
9 So that's -- if you --

10 Q. Okay.

11 A. I would say I don't know on the
12 distribution.

13 On the others, once the plant is
14 operational, the riders would be paid only to the
15 extent that energy was flowing across the grid. As
16 long as the plant was, in effect, an on-site
17 operation supplying Ormet, it would not run through
18 the system at all and, therefore, there would be no
19 basis to pay the riders.

20 Q. And the riders you're referring to are
21 which riders?

22 A. Well, I, again, I won't profess to be an
23 expert here. To the degree that the -- the big ones
24 are the PIRR and the RSR, and to the degree that they
25 continue beyond this period, they would not be

1 applicable. Or there may be another rider that
2 supplant these.

3 Q. Now, with respect to item 6, you indicate
4 that AEP would record deferred capacity costs
5 associated with Ormet once Ormet begins to shop.
6 Correct?

7 A. Correct.

8 Q. Do you know how much the deferred
9 capacity costs would amount to once Ormet begins to
10 shop?

11 A. I've not done that calculation, so I
12 don't have an estimate.

13 Q. Do you know if any Ormet witness presents
14 that estimate?

15 A. No. I believe, and I'm not certain about
16 this, that Mr. Roush may have those numbers in his
17 testimony or in his workpapers.

18 Q. Have you reviewed Mr. Roush's testimony?

19 A. I have.

20 Q. You have?

21 A. Yes.

22 Q. And in particular did you review the
23 termination fee proposal?

24 A. I do recall his suggestion of a
25 termination fee proposal, I don't recall the detail

1 at the moment.

2 Q. Are you aware that he calculates a
3 deferred capacity cost calculation associated with
4 Ormet shopping?

5 A. That's -- I do recall that. I don't
6 recall the calculation, but I do recall that being
7 part of it.

8 Q. Do you agree or disagree with the amount
9 of deferred capacity charge that Mr. Roush attributed
10 to Ormet shopping?

11 A. I have no basis to dispute it.

12 Q. Now, item 7 in your testimony indicates
13 that the fixed costs embedded in the FAC would be
14 allocated to other customers or absorbed by AEP
15 depending on the treatment ultimately approved,
16 correct?

17 A. Correct.

18 Q. And we touched upon this earlier.

19 A. I believe we did.

20 Q. Do you know what the fixed costs per year
21 would be beginning with the time that Ormet begins to
22 shop?

23 A. Again, that was probably included in
24 Mr. Roush's testimony as a part of that termination
25 fee, but I don't recall the number.

1 Q. And do you have a reason to agree or
2 disagree with the number that Mr. Roush presented in
3 his testimony?

4 A. In terms of his calculation of the fixed
5 costs that would otherwise be paid by Ormet, I have
6 no doubt that he's correct.

7 Q. Thank you.

8 Now, on page -- turning to page 9, lines
9 17 through 18, you discuss the outcomes that you
10 expect if the PUCO denies the motion to amend. Do
11 you see that?

12 A. I do.

13 Q. And with respect to item 2, you indicate
14 that Ormet would be unable to pay the deferred
15 billing amounts, and can you tell me, at that point
16 in your testimony you're talking about the
17 \$27 million associated with the October 2012 entry by
18 the Commission?

19 A. At the time I prepared this testimony,
20 yes. At this point it would probably have to be
21 amended to include the additional 10-1/2.

22 Q. And that's what you went through when you
23 re -- or, you updated your tables.

24 A. Correct.

25 Q. Now, with respect to the \$27 million

1 that -- if we could focus on that for a moment, is it
2 your understanding that under the Commission's
3 opinion and order issued in October of 2012 that
4 customers would pay 20 million of that and AEP would
5 pick up 7 million of that?

6 A. That's my understanding, yes.

7 Q. And with respect to the additional
8 \$10 million worth of deferrals, is it your
9 understanding that that \$10 million worth of
10 deferrals in the event that Ormet -- the Commission
11 denies the motion to amend would be picked up by
12 customers as well?

13 A. That's my understanding.

14 Q. Now, under item 3 you indicate that the
15 PIRR and the RSR charges to other customers would
16 increase. Is that because there's less of a customer
17 base to spread the recovery of those costs?

18 A. That's -- yes.

19 Q. Now, on lines 7 and 8 of your testimony
20 on that page you identified that \$250 million of
21 wages and tax payments would be lost. And there
22 you're relying on Dr. Coomes' quantification?

23 A. Yes.

24 Q. And that \$250 million is the total
25 benefit in terms of employee compensation and taxes

1 paid per year by Ormet when it runs at six potlines a
2 year?

3 A. That's right. I think the number is
4 actually 247 million, but, yeah, that comes from
5 Dr. Coomes' testimony.

6 Q. And is it also your understanding that
7 that \$247 million figure is based on benefits to a
8 tri-state region of Pennsylvania, West Virginia, and
9 Ohio?

10 A. Yes, I understand that.

11 Q. And is it also your understanding that
12 58 percent of the Ormet employees reside in Ohio?

13 A. I don't know that number specifically,
14 but it sounds reasonable.

15 Q. Now, Mr. Fayne, do you know how many
16 employees of Ormet have been laid off following the
17 PUCO's rejection of Ormet's request for emergency
18 relief?

19 A. No, I don't.

20 Q. Do you know how many employee layoffs are
21 projected?

22 A. No, I don't.

23 Q. Do you know the current number of
24 employees of Ormet?

25 A. No, I don't.

1 Q. Mr. Fayne, would you accept, subject to
2 check, that the employees that have been laid off --
3 let me strike that.

4 MS. GRADY: Can I have a moment, your
5 Honor?

6 EXAMINER PARROT: Yes.

7 Q. Mr. Fayne, would you accept, subject to
8 check, that -- following the PUCO's rejection of
9 Ormet's request for relief that 203 employees of
10 Ormet were laid off?

11 A. I really have no basis to either accept
12 or reject that statement.

13 MS. GRADY: I would ask counsel if
14 counsel would accept or if counsel would be willing
15 to stipulate, per response to OCC interrogatory 55,
16 that 203 employees have been laid off since --
17 following the rejection of Ormet's request for
18 emergency relief.

19 MR. PETRICOFF: Let me take a look at
20 that if I could have a moment, please.

21 MS. GRADY: Sure.

22 MR. PETRICOFF: Or if you want to hand it
23 to me -- I'll just come over, show me.

24 Your Honor, at this time Ormet will
25 stipulate to the following facts: As of the time --

1 as of August 22nd, 203 employees had been laid off
2 and that the projection at that time was 250
3 employees.

4 EXAMINER PARROT: Thank you.

5 Q. (By Ms. Grady) Now, on page 10, lines 11
6 through 17, you quantify the impact of the
7 consequences that you described, and that's the chart
8 that you updated, correct?

9 A. Correct.

10 Q. And you compared the shutdown of the
11 smelter with the approval of the motion to amend
12 because you believe that's the appropriate
13 comparison.

14 A. That is correct.

15 Q. Now, on line 14 and 15 you indicate that
16 the fixed cost associated with AEP's generation will
17 fall to either AEP or other customers in both of the
18 scenarios, the shutdown of the smelter or the
19 approval to amend, correct?

20 A. Yes.

21 Q. And are you speaking there of the fixed
22 costs embedded in the fuel adjustment clause?

23 A. I was referring to both the fixed costs
24 of generation as well as the fixed costs embedded in
25 the fuel.

1 Q. Now, let's move for a moment to the boxes
2 that you created on that page and let's compare the
3 approval of the motion to amend to the denial of the
4 motion to amend. Under the denial of the motion to
5 amend, if we look at the first category, you have the
6 lost recovery of deferred billing amounts.

7 Mr. Fayne, there you've assumed that none of the 2012
8 deferrals have been repaid as well as the additional
9 2013 deferrals.

10 A. Right. This is all predicated
11 mechanically on -- with the proposal. So the
12 proposal begins or was -- was proposed to begin as of
13 September 1st, 2013. So just for comparison
14 purposes it also assumed that it would be -- have
15 been denied by then and Ormet would have already been
16 shut down. So, obviously, all these numbers adjust
17 based on the delay and the timing of the hearing and
18 the ability of Ormet to struggle along in the
19 interim.

20 Q. And where you identify the loss of
21 contributions to the nonbypassable riders, can you
22 tell me which nonbypassable riders you're associating
23 with the 27.8 million?

24 A. Which has now been adjusted up to 50.9 --

25 Q. I'm sorry.

1 A. -- 50.6. That's okay.

2 The numbers I used were the PIRR, the
3 RSR, and the EE/PDR, that doesn't mean that there may
4 be some other ones, but those were the bigger
5 numbers, and it assumed that they would be -- that
6 they would be lost, one beginning September 1st,
7 and it assumed four potlines running through December
8 of 2015 to be consistent with the proposal, and the
9 incremental lines 5 and 6 beginning in July of 2014
10 through December of '15 to be consistent with the
11 left-hand side.

12 Q. Okay. Now, the economic development loss
13 that you have indicated there, that takes into
14 account all the factors considered by Dr. Coomes
15 including lost wages and lost tax revenues?

16 A. Yes. Essentially, it's that annual
17 number which -- multiplied by the number of months in
18 this period, so it would have been 28 months. And
19 what it doesn't include, again, for comparative
20 purposes -- that was to keep it consistent with the
21 left-hand side recognizing, of course, that whatever
22 you calculate as the lost economic activity continues
23 well beyond the end of 2015.

24 Q. And is it your understanding that assumes
25 a thousand job losses in the tri-state region?

1 A. I think it would be more than a
2 thousand -- oh, you're -- in the tri-state region it
3 would probably be more than that because it would
4 factor in the ancillary jobs as well for economic
5 activity.

6 Q. The spin-off jobs --

7 A. Yeah.

8 Q. -- or the indirect jobs?

9 A. Right.

10 Q. I'm sorry. Thank you.

11 MS. GRADY: Your Honor, at this time I
12 would like to mark for identification purposes a
13 single-page document entitled "Ormet Hannibal Smelter
14 Unique Arrangement Impact of Proposed Amendments -
15 Transition to Market" as OCC Exhibit No. 5.

16 EXAMINER PARROT: So marked.

17 (EXHIBIT MARKED FOR IDENTIFICATION.)

18 MS. GRADY: May I approach the witness?

19 EXAMINER PARROT: You may.

20 Q. Now, I guess before we -- that's been
21 marked for identification purposes, but just before
22 we do that, do you have workpapers that support the
23 new schedule or the new box that you presented in
24 your testimony?

25 A. No, ma'am, I don't.

1 Q. Okay. So we can go forward with, then,
2 this document. Can you identify that, Mr. Fayne,
3 what the document is that I had marked for
4 identification purposes as OCC Exhibit 5.

5 A. Yes. This is the workpaper that I had
6 prepared to just quantify the proposed amendments
7 compared to the current agreement and broadly
8 identify what the impact might be on the average
9 residential customer.

10 Q. Does the copy that I handed you appear to
11 be a true and accurate copy of your workpaper?

12 A. Yes, it is.

13 Q. And it was prepared by you or under your
14 direct supervision or control.

15 A. Yes, it was.

16 Q. Now, if we look at the line entitled
17 "Total Proposed Amendments," can you tell me -- can
18 you tell me what that represents?

19 A. This is the total cost associated with
20 the proposal as amended. So it identifies the -- it
21 quantifies, as I did in my testimony, the cost of the
22 discounts, the cost of the fixed cost -- fixed rate
23 generation cost, though as you note here it's says
24 3.4 million as opposed to the updated 6 -- by the
25 way, I think that's the only change.

1 Q. Okay. So that would be the only thing
2 that would be inaccurate in this document.

3 A. I believe so.

4 It talks about the discounts, the
5 shopping credits and the contingency amounts if the
6 generating plant is not completed by May of 2015 to
7 give you a total cost.

8 Q. Okay. So if we look at the line entitled
9 "Total Proposed Amendments," and we look at the
10 column entitled "Total," we see a figure of 173
11 million 469; is that correct?

12 A. That is correct.

13 Q. Can you tell me why that number differs
14 from the total impact number that you presented in
15 your testimony and revised on page 10 to
16 132.1 million?

17 A. Yeah. This is -- yes, I can. This
18 exhibit was intended to look at the cost that -- the
19 incremental cost going forward, the incremental going
20 forward cost to other customers if the proposal were
21 approved. So it includes the discounts, the fixed
22 cost rate on the premise that AEP would seek recovery
23 of that, and the shopping credits.

24 The schedule that I have on page 10 is an
25 attempt to compare the impact of the amendments

1 compared to a shutdown, and that's why the numbers
2 are somewhat different. There is -- where the
3 numbers -- where I used the same reference like
4 discounts, they're identical. And if you'd like, we
5 can compare the two line by line, if that would be
6 helpful.

7 Q. I guess for purposes of the record I'm
8 trying to -- if the Commission wanted to determine
9 what the cost of the proposed Ormet amendment is to
10 customers, would we be looking at the table on page
11 10 and the total impact of 132.1 million or would it
12 be more appropriate to look at OCC Exhibit No. 5 with
13 the total proposed amendment cost of 173 million 469?

14 A. Okay, the major difference if I look at
15 approval to amend box, which is the 132.1 we referred
16 to, that is -- the only difference between the two is
17 the line called "Total Emergency Relief." And what
18 the workpaper shows is the full amount of discount
19 for 2013, the 66 million, whereas on this other
20 schedule it is just the incremental amount above the
21 44.

22 So, for example, since I was doing the
23 workpaper comparing it to the 120 million, which
24 included the full amount, the top line, the full
25 amount for 2013 and then the amounts for '14, '15,

1 '16, and '17 totaling 120, I started the calculation
2 here for the amount of relief starting January 1,
3 2013, for my workpaper.

4 The decision of the Commission, since the
5 \$44 million essentially has already been used, is
6 only to pick up the \$22 million remaining in 2013,
7 and that's the only reason for the difference between
8 the two.

9 So from a Commission point of view it
10 should use the schedule in my testimony because that
11 is the going-forward amount.

12 Q. So what you're saying is OCC Exhibit
13 No. 5 represents the amount of the discount since --
14 or, since 2013 and adding onto the 2013 discount the
15 proposed amended --

16 A. Since 2012. In other words, this is the
17 discount including the proposed amendments as if this
18 all began in January 1, 2013.

19 Q. And so you're saying that the Commission,
20 what the Commission needs to determine is whether or
21 not the discount on the going-forward basis is
22 appropriate --

23 A. Correct.

24 Q. -- and not necessarily be concerned about
25 the discount that was granted in the past.

1 A. Correct.

2 Q. But if the Commission was wanting to look
3 at the discount that had been granted in the past
4 starting in 2012, the appropriate point of reference
5 would be OCC Exhibit No. 5.

6 A. Starting in 2013.

7 Q. Yes.

8 A. January 2013.

9 Q. Now, if we look at the bottom of OCC
10 Exhibit No. 5, we see some notes and -- or, let me
11 strike that.

12 If we go to the bottom of OCC Exhibit
13 No. 5, we see what you referred to as Monthly Impact
14 on Average Residential Customers (dollars per month),
15 and you have -- under that you have two lines, one
16 With Contingency and one Without Contingency. Can
17 you tell me what each of those lines represents?

18 A. Yes. The absolute proposal -- let's move
19 up above. Under the Non-Emergency Relief I have
20 called the shopping credit from July -- from June 1,
21 2015, through December 2015 the contingency shopping
22 credit because it's available only if the plant is
23 not completed -- the generating plant is not
24 completed. So if the plant is completed in time, it
25 doesn't happen, and that's what I was showing. So

1 the Without Contingency just says assuming you have
2 the plant on line as of May 15th -- the end of May.
3 The other one assumes you don't.

4 The numbers are rough approximations. We
5 had at some point in the process, and I don't have
6 the workpaper, we received some data from AEP which
7 showed how much a discount translated to an average
8 cost per customer so I just used that as a --
9 prorating these numbers.

10 Q. So with respect to the numbers that you
11 show on OCC Exhibit No. 5, for instance, if we went
12 to the 2013 number With Contingency, the \$3.12, is
13 that the total rider or just the incremental increase
14 to the EDR rider?

15 A. That should be -- my understanding is the
16 \$3 range is the equivalent of the \$5-1/2 million a
17 month discount. So with the \$5-1/2 million a month
18 discount which we're proposing be extended, the cost
19 to the average customer is in the \$3, \$3.10 range.

20 Q. And, again, that's specifically with
21 respect to Ormet only and not considering the
22 level -- the EDR rider.

23 A. Oh, yes. Just as it relates to the Ormet
24 discount.

25 Q. Now, you indicate that, in your note (2),

1 that the average residential customer's paying
2 approximately \$2 a month based on the current
3 \$44 million discount. Do you see that reference?

4 A. Yes.

5 Q. And how do you define "average
6 residential customer" there?

7 A. Again, this came from an AEP workpaper so
8 I'd have to rely, and hopefully Mr. Roush can tell
9 us, but I think it's the average customer using
10 somewhere between a thousand and 1300 megawatts a
11 month -- kilowatt-hours a month. I'm not sure if --
12 it falls in that range somewhere.

13 Q. Okay. Thank you.

14 A. But Mr. Roush, I'm certain, can clarify
15 that for you.

16 Q. And the other question I have, Mr. Fayne,
17 is is this for the CSP customer or the OP customer,
18 if you know?

19 A. This is an average for the group. It, as
20 I understand it, would be different for each of
21 those, but I didn't break that down.

22 Q. Now, Mr. Fayne, did you review the PUCO's
23 entry issued August 21st, 2013, which is the latest
24 entry on Ormet's motion to -- emergency motion to
25 amend?

1 A. I know I read it. I don't have a copy or
2 recall it in detail.

3 Q. Do you recall generally what the
4 Commission found with respect to Ormet's request to
5 defer payment?

6 A. No. All I could really recall is it
7 approved the deferral and limited the amounts.

8 Q. Do you understand that the deferral
9 granted for the bill due in August allows Ormet to
10 defer \$5 million of that bill?

11 A. Yes.

12 Q. And do you know the total of that bill?

13 A. No, I don't.

14 Q. Is it your understanding that the bill
15 totals more than 5 million?

16 A. That would be my presumption, but I don't
17 know for sure.

18 Q. And do you also understand that the rate,
19 the \$44 million rate subsidy for 2013 has been used
20 up by Ormet as of the end of August 2013?

21 A. Yes.

22 Q. Is it your understanding that the PUCO in
23 its order did not address any bills beyond September
24 of 2013?

25 A. That's my understanding.

1 MS. GRADY: That's all the questions I
2 have. Thank you, Mr. Fayne.

3 THE WITNESS: Thank you.

4 EXAMINER PARROT: Mr. Boehm?

5 MR. BOEHM: No questions, your Honor.

6 EXAMINER PARROT: Mr. Darr?

7 MR. DARR: Thank you, your Honor.

8 - - -

9 CROSS-EXAMINATION

10 By Mr. Darr:

11 Q. Your proposal, Ormet's proposal, is to
12 basically accelerate the balance of the remaining
13 discounts, correct?

14 A. That is correct.

15 Q. And if I understand it correctly, you
16 believe that there is currently \$76 million in
17 outstanding discounts remaining?

18 A. That would be -- yes.

19 Q. And you're aware that the Commission has
20 retained jurisdiction over this matter, correct?

21 A. Yes.

22 Q. Now, your assumption that \$76 million in
23 remaining discounts are available assumes that the
24 Commission -- excuse me -- assumes that Ormet can
25 satisfy the existing conditions of the current order;

1 does it not?

2 A. If you can -- can you explain what you
3 mean by that?

4 Q. Well, for example -- yes, I think I can.
5 I'll rephrase my question so it might be a little
6 clearer.

7 The current order provides that the
8 discount can be reduced if Ormet reduces its
9 employment below 650 in increments of 50, correct?

10 A. That is correct.

11 Q. And if such a condition were to occur,
12 the discount would decrease by \$10 million for every
13 50 employees below 650, correct?

14 A. Correct.

15 Q. So if that condition were to occur, the
16 \$76 million wouldn't be available to Ormet at this
17 time, correct?

18 A. That is correct.

19 Q. Similarly, you're aware of the fact that
20 the Commission retained jurisdiction to terminate the
21 unique arrangement in the event that the LME prices
22 do not recover as Ormet predicts. You're aware of
23 that.

24 A. Yes.

25 Q. And, in fact, it's fair to say that Ormet

1 has not been making any above-tariff payments since
2 that particular condition kicked in, correct?

3 A. That is correct.

4 Q. And it's also fair to say that -- strike
5 that. I'll move on.

6 Earlier today you indicated some
7 familiarity with the current EDR. You referred to it
8 as a quarterly adjustment. Was that your
9 understanding, or have you updated that understanding
10 in any way?

11 A. I have not updated my understanding. I
12 thought that it was updated quarterly, but --

13 Q. Would you agree, subject to check, that
14 there are semiannual filings?

15 A. I would certainly accept that.

16 Q. And we've already discussed the fact that
17 the current \$44 million that's available for
18 discounts for 2013 has been fully exhausted, correct?

19 A. As of -- yes, as of now.

20 Q. Pretty much --

21 A. No, not quite. We have a few days.

22 Q. Yeah, we've got about four days left on
23 it.

24 A. Right.

25 Q. And is it your understanding that the

1 amount that is allowed to run through the EDR on an
2 annual basis is calculated based on that cap?

3 A. Based on the \$44 million?

4 Q. Yes.

5 A. I don't know the mechanics of how they
6 flow it through each period.

7 MR. DARR: Okay. For purposes of the
8 record, since we can simply point to the
9 Commission's -- AEP's filings, what I would suggest
10 is that we insert what I'd like to have marked as IEU
11 Exhibit 7, which is the most recent EDR filing which
12 contains all of the calculations. I have a certified
13 copy of the Commission record for purposes of
14 authentication. I was wondering if there would be
15 any objection to that.

16 MR. PETRICOFF: Could we see it first?

17 MR. DARR: Sure. Absolutely.

18 MR. McNAMEE: Would it be 6?

19 MR. DARR: I'd like to reserve 3, 4, 5,
20 and 6, so I called this 7.

21 MS. GRADY: Frank, is that the 325 case
22 or the 1379?

23 MR. DARR: The latter.

24 (Discussion off the record.)

25 MR. DARR: Let's call this 6.

1 EXAMINER PARROT: The exhibit will be
2 marked IEU Exhibit 6.

3 (EXHIBIT MARKED FOR IDENTIFICATION.)

4 MR. DARR: And I believe we've got an
5 agreement to stipulate this as an exhibit in this
6 proceeding?

7 MR. PETRICOFF: Yes. We have no
8 objection.

9 MR. DARR: Very good. I'll move on,
10 then.

11 Q. (By Mr. Darr) Given that the discount has
12 been exhausted for the year, if the Commission were
13 to approve the reasonable arrangement and if it were
14 effective September 1, 2013, the amount applicable or
15 recoverable, presumably, from ratepayers at that
16 point would be an additional 4-1/2 million -- or,
17 \$5-1/2 million for the balance of 2013, correct?

18 A. \$5-1/2 million a month for the balance of
19 '13, yes.

20 Q. And, by similar token, there is a cap on
21 the amount of discount that is recoverable from
22 customers in 2014 that's currently set at
23 \$34 million, correct?

24 A. That, I don't know. Oh, for 2014, I'm
25 sorry.

1 Q. 2014, yes.

2 A. The amount of discount that is available
3 to Ormet is \$34 million.

4 Q. And is it --

5 A. The maximum, yes.

6 Q. And is it your understanding that that
7 would be, under the current orders, that would be
8 fully recoverable from customers through the economic
9 development rider in 20 -- through the recovery rider
10 in 2014?

11 A. If the current agreement continues, yes.

12 Q. Now, that amount at the rate of
13 \$4-1/2 million a month would be exhausted in less
14 than a full year, correct?

15 A. Yes.

16 Q. So for the calendar year 2014, again,
17 assuming customers would be paying the full \$4-1/2
18 million, it would exceed the amount that's currently
19 recoverable under the current EDR.

20 A. Yes. The proposal is to have \$54 million
21 in 2014 versus 34.

22 Q. And under your proposal you would
23 continue the collection of the EDR rate -- or, excuse
24 me -- the discount at a \$4-1/2 million pace for the
25 first five months of 2015, correct?

1 A. That is correct.

2 Q. And under the current reasonable
3 arrangement Ormet would be eligible for \$24 million
4 in 2015 total, correct?

5 A. Correct.

6 Q. And so at a \$4-1/2 million rate, that
7 amount would be exhausted in roughly 4 to 4-1/2
8 months; is that fair?

9 A. Sounds right.

10 Q. In fact, if the reasonable arrangement
11 were concluded at the end of May 2015 under the
12 current reasonable arrangement, customers would be
13 only exposed to about \$10 million in potential
14 payments; is that also correct?

15 A. I'm sorry, I lost the beginning of the
16 question.

17 Q. Let me try it again. If the reasonable
18 arrangement, the current reasonable arrangement, were
19 terminated at the end of May --

20 A. End of May what year?

21 Q. 2015.

22 A. Ah.

23 Q. -- those customers of AEP would be
24 exposed to \$10 million of potential EDR payments
25 under the current arrangement, \$2 million a month

1 assuming a \$24 million cap.

2 A. No. The answer is if that were the case,
3 just again for argument sake, Ormet is permitted to
4 take 12-1/2 percent of the annual amount in any given
5 month. So conceivably it could take more than the
6 \$2 million a month. I don't know what the
7 calculation would be, but you're assuming it's
8 prorated in equal amounts in a month.

9 Q. If they maxed it out, it would be roughly
10 25 to 26 percent -- or, 2.5 to 2.6 percent, or more?

11 A. They could take about 62 percent of the
12 total amount in five months so that's a 24-month --

13 Q. \$24 million.

14 A. So they could take about 15 of the 24.

15 Q. And at the \$4-1/2 million clip that would
16 be exhausted at, what, roughly how long?

17 A. How long? Which amount would be
18 exhausted, 15 or 24?

19 Q. The higher number.

20 A. The 24.

21 Q. No, the number that you came up with was
22 about 15 million.

23 A. 15 million.

24 Q. And a \$4-1/2 million clip over those five
25 months, how long would it take to exhaust it?

1 A. Three months.

2 Q. Now, the calculations that we've been
3 talking about do not include anything that might be
4 recovered if the Commission approved the shopping
5 credits and required customers to fund those shopping
6 credits; is that correct?

7 A. Excuse me?

8 Q. Let me try it again. We've been talking
9 about the discounts --

10 A. Right.

11 Q. -- and the interplay between the current
12 reasonable arrangement and the one that Ormet has
13 proposed. We have not been talking about the impact
14 of the shopping discounts which have been proposed,
15 correct?

16 A. Today all we have been talking about,
17 well, we've been talking about a mix of things, we've
18 been talking about the acceleration of the discounts,
19 we've been talking about the incremental \$4-1/2
20 million a month for five months, and then there are
21 the shopping credits associated with lines 5 and 6
22 which is equivalent to the discount, I mean, same
23 concept as the discount just a different form because
24 of the timing is unknown.

25 Q. And that's over and above the discounts

1 that are currently being proposed to be accelerated,
2 correct?

3 A. Yes.

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

6 EXAMINER PARROT: Staff?

7 MR. McNAMEE: Thank you.

8 - - -

9 CROSS-EXAMINATION

10 By Mr. McNamee:

11 Q. Hi, Mr. Fayne.

12 A. How are you, sir?

13 Q. I'm very well.

14 A. Good.

15 Q. Let's turn to page 9 of your testimony.

16 A. Yes, sir.

17 Q. And there you have a list of your
18 expectations should the Commission approve the motion
19 to amend, right?

20 A. Yes.

21 Q. The second of those is that Ormet would
22 construct and operate a gas-fired generating plant,
23 right?

24 A. Yes, sir.

25 Q. Okay. What happens if that expectation

1 does not become reality?

2 A. What happens -- I think the proposal
3 here, I mean, obviously anything can happen at any
4 time, but the plan is to construct it. I think
5 Mr. Thompson was here yesterday providing an
6 explanation of why it is a reasonable and doable
7 project and we can only go on the premise that it
8 will happen.

9 Obviously, if for some reason it didn't
10 happen, that would, in effect, be Ormet's problem to
11 deal with.

12 Q. Why would it be Ormet's problem to deal
13 with? They would still be connected to the AEP
14 system at that point.

15 A. They would either have to pay the -- they
16 would have to pay the rates or find a CRES provider
17 where they could buy from market at lower rates. It
18 would clearly be a different cost structure which is
19 why we're proposing, why Ormet is proposing the gas
20 plant as the best alternative.

21 There could conceivably be other
22 alternatives, there could be other generating plants
23 existing that are up for sale that could be a
24 substitute for this, but, again, as proposed here
25 that is part of the plan to demonstrate to the

1 Commission that there is a sustainable, ongoing plant
2 to keep Ormet operating, but as this is factored this
3 wouldn't be -- the risk is Ormet's.

4 Q. Except for Ormet's ability to come back
5 to the Commission seeking the unique arrangement
6 again.

7 A. Anybody can always come back and ask.

8 Q. Okay. Fair enough.

9 It would seem to me that the only way
10 that this plant would be built would be if it could
11 produce power at a price lower than could be obtained
12 through the market; isn't that right?

13 A. Yes.

14 Q. Equal, perhaps.

15 A. And it has the -- just to clarify, it has
16 the advantage of being, in effect, behind the meter
17 so that it's basically on site. So you save all
18 sorts of costs, transmission costs, et cetera,
19 et cetera. So, yes, it has to be able to produce an
20 all-in cost that is lower than the market.

21 Q. But it has an advantage in doing so.

22 A. Exactly.

23 Q. Fair enough.

24 Oh, let me be clear, though. There is no
25 commitment of any binding sort on Ormet's part to

1 build the plant. I don't know what a binding
2 commitment would even be, but there isn't one, is
3 there?

4 A. I don't know what it could be. I accept
5 your comment. I think Ormet is committed to doing
6 this. There is nothing in writing saying it's a do
7 or die to the best of my knowledge.

8 Q. Okay. One other small area. Page 3, you
9 list off all the various components of Ormet's
10 proposal. Do you see that?

11 A. Yes.

12 Q. It's very complicated, Mr. Fayne, isn't
13 it? There are a lot of pieces there.

14 A. There are pieces.

15 Q. But those pieces aren't individually
16 important, they're only necessary tools which, in the
17 aggregate, get Ormet to a final delivered price of
18 energy that they can afford to pay.

19 A. That's right. Ormet was trying to come
20 up with what they viewed as the least cost approach
21 to accomplish the end result they needed.

22 Q. Okay. If we could sweep away all the
23 history surrounding this, that would be a wonderful
24 thing, but if we could sweep away all the history
25 surrounding the Ormet situation, there would be,

1 presumably, some number. There would be a price of
2 power delivered to Ormet that they would be able to
3 pay and sustain themselves.

4 A. Yes.

5 Q. Now, my next obvious question would be
6 "What is that price?" but that is not what I'm going
7 to ask because I think you already answered that. I
8 believe you told Ms. Grady that you don't know that
9 price.

10 A. Correct.

11 Q. You don't, okay.

12 That's all I wanted, I wanted to verify
13 you didn't know it.

14 MR. McNAMEE: That's all I have. Thank
15 you.

16 THE WITNESS: Thank you.

17 EXAMINER PARROT: Any redirect?

18 MR. PETRICOFF: Yes, your Honor. Could I
19 have one minute?

20 EXAMINER PARROT: You sure may.

21 (Off the record.)

22 MR. PETRICOFF: Thank you, your Honor.

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REDIRECT EXAMINATION

By Mr. Petricoff:

Q. Good afternoon, Mr. Fayne.

A. Good afternoon.

Q. Earlier this afternoon Mr. Nourse asked you a number of questions about the fuel adjustment clause. First, in the application from Ormet how does the fuel adjustment clause come to play?

A. Well, the fuel adjustment clause comes to play in the sense that it is -- the increase in the fuel adjustment clause is the piece that, basically, created a radical change in plans after a bunch of discussions trying to come up with a solution here and the delay in filing with the Commission so that, basically, when Ormet recognized that the fuel cost was, in fact, increasing and projected to increase substantially, much of the discussion that had preceded it, which would be certainly through the first quarter or beyond of this year, we had to change direction to come up with a solution to get the outcome that we wanted and to get it done in time to be consistent with the bankruptcy proceeding, the timing of the bankruptcy proceeding and the acquisition of Ormet.

So, in effect, I would say that the

1 increases and the recognition that they were going to
2 be substantial and continuing to be substantial
3 forced us to change direction and make the filing as
4 it is today.

5 Q. So, to use Mr. McNamee's approach, the
6 discussion that you had then had more to do with the
7 history of what brought the application, the Ormet
8 application, to be filed in this case as opposed to
9 something that's required in the proposal.

10 A. Oh, yes. I think it was also partly the
11 driver to introduce shopping as one of the options.

12 Q. And could you explain for me very briefly
13 how is the fuel adjustment clause set in AEP,
14 briefly.

15 A. Briefly, and I can't tell the mechanics,
16 it's a quarterly adjustment as I recall, based on --
17 and I don't recall at this point, quite frankly,
18 whether it's all historical data or a combination of
19 historical and some limited forecast period, but it
20 is purely intended to reflect the actual cost of fuel
21 and purchased power and to correct, to the degree
22 that the prior amounts were either provided
23 underrecovery or overrecovery.

24 My understanding is it is filed with the
25 Commission, it is automatically implemented, and it

1 is reviewed for prudence periodically, which I
2 believe is every couple of years as opposed to on a
3 quarterly basis.

4 Q. Is there any way, if you're outside the
5 company, to know what the next quarter or two
6 quarters or three quarters out fuel adjustment clause
7 would be in AEP?

8 A. Independently, no. Only through either
9 information or from conversation with AEP.

10 Q. And did you have those kind of
11 conversations before you filed the application?

12 A. With this application, absolutely. I
13 believe, as was introduced earlier, there was a -- in
14 the, I think it was the ESP proceeding, there was
15 clearly a forecast that was presented which indicated
16 that the fuel cost was going up. We understood at
17 the time that it was a forecast and having done
18 forecasts for many, many years I recognized that
19 they're best estimates but they don't always come
20 through.

21 We had some follow-up conversations with
22 senior executives at AEP following that proceeding
23 and, as Mr. Nourse indicated, we did clearly take a
24 very vocal role in that proceeding, but we had
25 follow-up discussions because of the concern of the

1 importance of the fuel, recognizing that every dollar
2 per megawatt-hour the fuel costs go up costs Ormet
3 \$4 million a year, so when we saw the increase in the
4 second quarter of 5- or \$6, that was like an 18- or
5 \$20 million impact on Ormet, that changed -- that's a
6 game changer for a company that has very limited or
7 no liquidity.

8 So we followed up with AEP in various
9 meetings and through various e-mails and were
10 basically advised that while the forecast was true in
11 the ESP, their best estimate, more recent looks
12 suggested that it would be flat, and we proceeded on
13 that basis until we discovered that, in fact, it was
14 going up.

15 Q. I don't have to have names, but can you
16 give me some idea of the level of executives that you
17 were talking with during this period?

18 A. Yeah. All of the contact during this
19 process was with the president of AEP Ohio, the -- I
20 don't know whether it was the vice presidential
21 position but I believe it was vice president of Rates
22 for AEP Ohio were the two primary folks.

23 Q. I want to switch to another topic.
24 Earlier today Mr. Nourse asked you a number of
25 questions as to your understanding about the existing

1 agreement and the unique arrangement. Do you recall
2 that?

3 A. I do.

4 Q. And you're not a lawyer, are you,
5 Mr. Fayne?

6 A. Thank God not.

7 Q. And when you were giving your
8 descriptions and you said -- and talked about
9 contract termination or a new agreement, were you
10 using that in the specific language that a lawyer
11 would as to a particular agreement or a structure of
12 an agreement?

13 A. No. I was simply just talking about the
14 effective outcome of having something new in place
15 that would replace what we have here today.

16 Q. So we should read no legal significance
17 into your use of the words "amend" or "terminate"
18 when referring to contracts or orders.

19 A. That would be correct.

20 MR. PETRICOFF: At this point we have no
21 further questions. Thank you very much, Mr. Fayne.

22 EXAMINER PARROT: Mr. Nourse.

23 MR. NOURSE: Thank you, your Honor.

24 - - -

25

1 it was related to the FAC.

2 Q. Okay. And you understand the difference
3 that we talked about earlier about the three
4 components of the FAC being actual cost, number one,
5 forecasted cost, number two, and reconciliation of
6 the over/under balance, number three.

7 A. Right. And I recall I added a fourth
8 which was a fixed cost and the --

9 Q. Well, those --

10 A. -- and the load.

11 Q. Okay. The fixed costs are part of actual
12 fuel costs, are they not?

13 A. Then the fourth one is the load level.

14 Q. Well, they're part of both, but they're
15 actually --

16 A. We don't disagree.

17 Q. -- purchased power demand charges, right?

18 A. We're not disagreeing.

19 Q. So there is not really a fourth category
20 is there?

21 A. I do believe -- well, you can interpret
22 it either way you want as long as we're clear.

23 Q. Okay. Now, did you, over the lunch
24 break, have the opportunity to retrieve the
25 communication that you relied on?

1 A. I do not have it.

2 Q. So you still don't have that to provide.

3 During your conversations that you're
4 referring to with AEP officials after the ESP case,
5 did you raise the question of what about all the
6 information we had and screamed about at the ESP case
7 about fuel costs?

8 A. Yes, that was the original premise. The
9 premise that, in terms of the discussions, were we
10 heard this, we were comforted a little to say it was
11 only a forecast and it would change, and we were
12 simply asking for updated information. So we
13 believed that we were communicating, and I'm
14 certainly not trying to point fingers at anyone for
15 misleading, but the end result was it was a surprise.

16 Q. Okay. Do you know if the actual fuel
17 costs, let's say for the last 12 months, have been
18 relatively flat for AEP Ohio?

19 A. I don't have the detail.

20 Q. Okay. Because I'd like to -- I'd like to
21 show you a couple filings so we can get down to some
22 more factual information concerning this --
23 concerning this allegation you've made.

24 Let me -- I'm going to give you two of
25 these so I can refer to one and then I'll give you

1 the third one, but we might be able to save a little
2 bit of time if you look at two at once. I'll go
3 through the questions and then I'll give you the
4 third one to see if you have the same answers for the
5 third one.

6 So you can look, take one of those
7 documents and look at the front page and tell me the
8 date you're looking at.

9 A. Okay.

10 MR. PETRICOFF: Counsel, can I --

11 MR. NOURSE: Sure.

12 MR. PETRICOFF: I'll either come over and
13 look at yours or --

14 MR. NOURSE: I've got a different
15 document but they're all the same format.

16 MR. PETRICOFF: May I approach the
17 witness so I can see the document?

18 MR. NOURSE: That's fine with me.

19 Q. (By Mr. Nourse) They're all three
20 quarterly FAC filings and the date at the top of
21 yours is what?

22 A. What I have in front of me is Ohio
23 Power/Columbus Southern Calculation of the Quarterly
24 FAC for Billing During January through March 2013,
25 Summary Proposed FAC Rate.

1 Q. Okay. So what's the date on the front
2 page of the letter, first of all? At the top.

3 A. December 3rd, 2012.

4 Q. And then in the second paragraph, the
5 first sentence, what does it indicate, which quarter
6 FAC? Is that first quarter 2014?

7 A. Where are you? Where am I supposed to be
8 looking?

9 Q. You're still on the cover letter, the
10 second paragraph, it should indicate --

11 A. Yes, company submits its FAC quarterly
12 filing for the first quarter of 2013.

13 Q. First quarter of 2013, thank you.
14 Now if you could turn to, back to
15 Schedule 1 in that filing.

16 A. Yep.

17 Q. And as part of the title it should have
18 the dates --

19 A. Yes, I read that originally, January of
20 2013 through March of 2013.

21 Q. Okay. And can you give me the forecast
22 component?

23 A. Is that column B?

24 Q. It's B, yes. Column B.

25 A. Okay. And did you want it for secondary,

1 primary, and sub-transmission, or all of them?

2 Q. Lets go with sub-transmission since that
3 would affect Ormet.

4 A. Okay. For this period for the Columbus
5 Southern Power zone that number is 4.00023. I don't
6 know what the --

7 Q. Okay.

8 A. -- what it means, but.

9 Q. It's cents per kilowatt-hour?

10 A. I have no idea. It doesn't say.

11 Q. Okay. That's fine. So that's the
12 forecast, the FC component, for the first quarter of
13 2013?

14 A. That's for Columbus Southern. For Ohio
15 Power it is 3.38963.

16 Q. 3.38963?

17 A. Yes, sir.

18 Q. Okay. And I meant to ask you before you
19 went to Ohio Power, can you tell me the
20 reconciliation adjustment and if it would be zero.

21 A. For Columbus & Southern the
22 reconciliation adjustment for sub-transmission is a
23 negative 0.30182.

24 Q. Okay. So that would have been a credit
25 on the bill of \$3 a megawatt-hour, the negative .3?

1 A. If that's cents per -- if that's cents
2 per megawatt-hour -- per kilowatt-hour, yes.

3 Q. Okay. And then please go ahead and
4 indicate the RA for Ohio Power.

5 A. The reconciliation adjustment for Ohio
6 Power rate zone sub-transmission is the same number,
7 it is a negative 0.30182.

8 Q. All right. The other quarter you have
9 there I believe is second quarter of 2013?

10 A. Yes, it is.

11 Q. And can you go to Schedule 1 for that
12 filing.

13 A. Yep. Yes, sir. The Columbus Southern
14 Power rate zone sub-transmission forecast component
15 is 4.13333. The reconciliation adjustment is
16 0.11686.

17 Q. And there's no negative by that one,
18 right?

19 A. That's correct.

20 Q. Okay. Then can you go to Ohio Power,
21 please.

22 A. Ohio Power rate zone sub-transmission
23 forecast component is 3.50241. The reconciliation
24 adjustment is 0.11686.

25 Q. Now let me trade you, take the other two

1 back and give you third quarter so we can get the
2 same information from Schedule 1.

3 A. For the period July through September
4 2013 Columbus Southern Power rate zone
5 sub-transmission forecast component, 4.00848.
6 Reconciliation adjustment, minus 0.16123.

7 For Ohio Power rate zone sub-transmission
8 forecast component is 3.39662. Reconciliation
9 adjustment is the same as Columbus Southern, it is a
10 negative 0.16123.

11 Q. Okay. So I don't know, I'm going to give
12 you, actually give you these back so I can, now that
13 you went through that, ask you a couple more
14 questions about this. So you have them all in front
15 of you there.

16 So, Mr. Fayne, can you look at the
17 Columbus Southern FC component for first, second, and
18 third quarter of 2013 and tell me whether you would
19 characterize those as relatively flat?

20 A. Yes, I would.

21 Q. And for Ohio Power, same thing?

22 A. Less so. There is a fairly -- it's an
23 increase of trying to figure out where the -- \$2,
24 roughly, in fuel cost going for the first and second
25 quarter, that would -- does go down again in the

1 third quarter. So, yes, I could rationalize that as
2 being rather flat.

3 Q. And given that there's 50 percent of each
4 rate in Ormet's bill overall, you'd agree that the
5 fuel costs for this period are relatively flat?

6 A. Again, we were not addressing fuel costs.
7 We were addressing FAC. And I would say the FAC is
8 not flat. The FAC went up \$6 --

9 Q. That's not the question I asked you, sir.

10 A. Well, that's --

11 MR. PETRICOFF: If the --

12 EXAMINER PARROT: Mr. Nourse, will you
13 allow the witness to answer, please.

14 MR. NOURSE: He's answering a different a
15 question.

16 A. That is not the FAC. That is a component
17 of the FAC. And as I indicated before when we were
18 talking about the FAC, whether language was used that
19 confused people I'm not going to comment on, but,
20 nonetheless, the FAC has gone up and that is the
21 driver.

22 MR. NOURSE: Your Honor, could I have the
23 question read back and the witness directed to answer
24 the question.

25 (Record read.)

1 A. I have no basis to answer the question
2 because the forecast component is more than just fuel
3 cost.

4 Q. Okay. So would you agree, given that
5 Ormet's bill contains 50 percent of the forecast
6 component for Columbus Southern, 50 percent for Ohio
7 Power, that the forecast component for this period
8 was relatively flat?

9 A. The forecast component is relatively
10 flat.

11 Q. Okay. Thank you.

12 MR. NOURSE: That's all the questions I
13 have, your Honor.

14 EXAMINER PARROT: Ms. Grady?

15 MS. GRADY: No questions, your Honor.

16 EXAMINER PARROT: Mr. Darr?

17 MR. DARR: No questions, thank you.

18 EXAMINER PARROT: Mr. McNamee?

19 MR. McNAMEE: No questions, your Honor.

20 Thank you.

21 EXAMINER PARROT: Thank you very much,
22 Mr. Fayne.

23 THE WITNESS: Thank you.

24 MR. PETRICOFF: Your Honor, at this time
25 we'd like to move for admission of Ormet Exhibit

1 No. 7 into the record.

2 EXAMINER PARROT: Are there any
3 objections?

4 (No response.)

5 EXAMINER PARROT: Hearing none, Ormet
6 Exhibit No. 7 shall be admitted.

7 (EXHIBIT ADMITTED INTO EVIDENCE.)

8 EXAMINER PARROT: Ms. Grady.

9 MS. GRADY: Thank you, your Honor. At
10 this time we would move for the admission of OCC
11 Exhibit No. 5.

12 EXAMINER PARROT: Are there any
13 objections to the admission of OCC Exhibit 5?

14 MR. PETRICOFF: No objection, your Honor.

15 EXAMINER PARROT: Very good. OCC
16 Exhibit 5 is admitted.

17 (EXHIBIT ADMITTED INTO EVIDENCE.)

18 EXAMINER PARROT: And, finally, with
19 respect to IEU Exhibit 6, I believe there was a
20 stipulation between IEU and Ormet regarding that
21 exhibit; is that correct?

22 MR. PETRICOFF: Yes, your Honor. It's a
23 certificated -- it has a certificate from Docketing
24 and we do not contest the authenticity.

25 EXAMINER PARROT: Any other parties have

1 objections?

2 MR. McNAMEE: No objection.

3 EXAMINER PARROT: Hearing none, IEU
4 Exhibit 6 shall also be admitted.

5 (EXHIBIT ADMITTED INTO EVIDENCE.)

6 EXAMINER PARROT: Let's go off the record
7 at this point.

8 (Discussion off the record.)

9 EXAMINER PARROT: Let's go back on the
10 record. We're going to take just a five-minute
11 recess. Thank you.

12 (Recess taken.)

13 EXAMINER PARROT: Let's go back on the
14 record. Mr. Nourse, I believe we had an issue.

15 MR. NOURSE: Your Honor, before we
16 proceed I just wanted to indicate that I had a
17 discussion off the record with counsel for Ormet
18 trying to follow up on statements that were made on
19 the record earlier by Mr. Fayne about a
20 communication, a written communication from AEP Ohio
21 that he made several characterizations about; I asked
22 him if he had it, he said he did not on the record
23 but he could provide it. I asked him after the lunch
24 break if he had located it, he said he did not.

25 So I was seeking to get an agreement with

1 Ormet counsel that they would provide it and it's my
2 understanding they're not willing to do that.

3 EXAMINER PARROT: Mr. Petricoff.

4 MR. PETRICOFF: Your Honor, Mr. Nourse's
5 understanding is correct. We have not -- we will not
6 voluntarily give that up for a couple of reasons.
7 First, it is not part of his testimony. It only came
8 out in answers to cross-examination questions so it's
9 not something that is part of our direct case.

10 In terms of discovery, the limit on
11 discovery went out a long time ago, expired several
12 weeks ago. This is a new -- this is a new request,
13 and there's really no reason for it to come in at
14 this time.

15 Third is that these are communications,
16 these are e-mails that are coming from -- from other
17 people that you should obviously clear that with them
18 first if we're going to give it up voluntarily, but
19 the main thing is that none of this is relevant.
20 This looks more like -- this has more to do with
21 pride than it has to do with our application.

22 MR. NOURSE: Your Honor, I disagree.
23 Mr. Fayne made several characterizations about why
24 the timing and the plan -- let's see if I have the
25 note here. He said there was a drastic -- a radical

1 change in plans from Ormet based on this
2 communication. And, of course, I didn't ask for it
3 in discovery, it never came up until today, oral
4 examination, so that's beside the point.

5 And whether or not they had it in their
6 application doesn't mean it's not relevant. He's
7 making characterizations about it, making claims
8 about it. I did the cross-examination I could, but I
9 think I'm entitled to get the document since it was
10 referred to and characterized several times.

11 MR. PETRICOFF: Your Honor, there is --
12 there is nothing in the Commission's decision that
13 will change because they read the e-mail chains that
14 led Mr. Fayne to believe that the FAC wasn't going to
15 go up, it's just irrelevant and at this point it's
16 late and there's no reason to do an extraordinary
17 discovery request now.

18 MR. NOURSE: Well, your Honor, it was
19 extraordinary enough that you granted a motion to
20 strike when I said I disagreed and questioned the
21 statements he was --

22 EXAMINER PARROT: I granted a motion to
23 strike because there was no question pending.

24 MR. NOURSE: Okay. Well, I have not been
25 able to challenge it and I think, again, he's made a

1 big deal out of the e-mail and said it radically
2 changed their plans and so the least I can do is get
3 a copy of it. I'm not asking to reopen the
4 proceedings or, you know, convene Mr. Fayne on the
5 stand next week or other things I could request.

6 EXAMINER PARROT: Okay. One last.

7 MR. PETRICOFF: One last, I mean, you
8 just have to -- first, this is an extraordinary
9 request because Mr. Fayne is off the stand and
10 discovery is over. There is nothing in that chain of
11 e-mails that's going to change his testimony. That
12 was his thoughts and his -- what his motives -- what
13 were the factors that drove it is unclear.

14 Furthermore, Mr. Fayne is a consultant
15 and he's not even Ormet. He's a witness for Ormet
16 and he was part of the Ormet team but he can't even
17 speak for Ormet in this case.

18 So -- oh, yeah, and furthermore, the
19 other thing is that when you go back and look at the
20 context, the context of these conversations, a lot of
21 them, which was in his testimony originally, was that
22 these were part of discussions that were part of the
23 settlement, another good reason not to bring the
24 e-mails out.

25 MR. NOURSE: Your Honor, he talked freely

1 about the whole chain of events, so that's a
2 completely spurious argument.

3 EXAMINER PARROT: I think I'm inclined to
4 agree with Mr. Petricoff. I'm just failing to see
5 the relevancy of it. I think you've had the
6 opportunity to, you asked quite a few questions on
7 recross and I think that went a long way towards
8 providing the information we need on this point in
9 the record.

10 Mr. Petricoff, have you -- I think you've
11 completed with your witnesses.

12 MR. PETRICOFF: Oh, yes, your Honor. At
13 this point that is our last direct witness so we are
14 prepared to close our direct case at this time.

15 EXAMINER PARROT: Thank you.

16 Mr. Nourse or Mr. Emerson, then.

17 MR. NOURSE: Yeah, give me a second.

18 AEP Ohio calls David M. Roush to the
19 stand.

20 EXAMINER PARROT: Please raise your right
21 hand.

22 (Witness sworn.)

23 EXAMINER PARROT: Please be seated.

24 THE WITNESS: Thank you.

25 MR. NOURSE: Can I mark his prefiled

1 testimony as AEP Ohio Exhibit No. 2.

2 EXAMINER PARROT: So marked.

3 (EXHIBIT MARKED FOR IDENTIFICATION.)

4 - - -

5 DAVID M. ROUSH

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

8 DIRECT EXAMINATION

9 By Mr. Nourse

10 Q. Mr. Roush, is the document we just
11 labeled AEP Exhibit No. 2 your direct testimony filed
12 on August 16th, 2013, in this case?

13 A. Yes, it is.

14 Q. Was this testimony prepared by you or
15 under your direction?

16 A. Yes, it was.

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

19 A. I have one correction. On page 10,
20 line 9, the first three words say "the Commission's
21 orders," those words should be stricken and replaced
22 by the words "Ohio law."

23 Q. Thank you.

24 Any other changes, additions, or
25 corrections?

1 A. No.

2 Q. If I were to ask you these same questions
3 concerning your testimony and exhibits, would your
4 answers be the same today?

5 A. Yes, they would.

6 MR. NOURSE: Thank you.

7 Your Honor, I move for the admission of
8 AEP Exhibit No. 2 subject to cross-examination.

9 EXAMINER PARROT: All right. Thank you.

10 Mr. Barnowski.

11 MR. BARNOWSKI: Yes, your Honor, thank
12 you.

13 - - -

14 CROSS-EXAMINATION

15 By Mr. Barnowski:

16 Q. Good afternoon, Mr. Roush.

17 A. Good afternoon.

18 Q. Take a look at page 6 of your testimony
19 if you would.

20 A. I'm there.

21 Q. You describe on this page a one-year
22 snapshot of some of the impacts on the rates of other
23 AEP Ohio customers if Ormet liquidates or shuts down,
24 correct?

25 A. Correct. It's a one-year snapshot for

1 2014.

2 Q. And all of your calculations here with
3 the exception of the discount, which is on line 7,
4 are calculated on a four-potline basis, correct?

5 A. Correct, all of the calculations from
6 line 9 through line 17, or 16 I guess, are based on a
7 four-potline operation.

8 Q. Additional losses would occur under each
9 category from when Ormet was operated at a full
10 six-potline capacity, it's just that those losses
11 have already started to be felt because Ormet's
12 already fallen below six potlines, correct?

13 A. Correct. I don't believe Ormet's been
14 operating at six potlines since around late-July/
15 early-August 2012. They've been at four potlines up
16 until recently where they dropped to two potlines so
17 some of these -- so that's why I used four potlines,
18 because that was representative of where they had
19 been up until very recently.

20 Q. Understood. So if we were to take the
21 PIRR contribution, as an example, when Ormet is
22 operating at a six-potline capacity like it was last
23 year, it would be contributing more than the
24 .5 million per month to the PIRR you have here, but
25 because Ormet has already dropped below six lines,

1 some of those losses have already begun to be felt in
2 lost contributions, correct?

3 A. I believe that's correct. Since Ormet is
4 not operating at six potlines. If they were
5 operating at six potlines, they would be contributing
6 something close to, you know, 50 percent more of that
7 half a million. Since they've been only operating at
8 four potlines they've been contributing half a
9 million, as they transition to two potlines that will
10 reduce to roughly a quarter million.

11 Q. And you actually kind of foresaw where I
12 was going. To figure out the losses that will be
13 felt based on a six-potline calculation you just have
14 to increase every figure on this page except the
15 discount by roughly 50 percent because six potlines
16 is 50 percent higher than four, correct?

17 A. That's correct. Roughly 50 percent.

18 Q. And, by the way, just because the losses
19 have already started to be felt, that doesn't mean
20 the losses aren't real or that the other ratepayers
21 won't feel them, it just means that they've already
22 commenced. Fair?

23 THE WITNESS: Could you read me that one
24 back?

25 (Record read.)

1 A. I think that's fair. To the extent that
2 Ormet is contributing less than they would have at
3 six potlines, that's either presently already
4 impacting customers or will impact customers in the
5 future.

6 Q. Okay. So let's look at, you have four
7 bullet points, the four bullet point losses that
8 you've identified here, take the PIRR first. If we
9 were to gross that up to account for a six-potline
10 loss, that number would go from a half a million
11 dollars per month to \$750,000 per month in losses if
12 Ormet were to liquidate, correct?

13 A. I think your arithmetic's correct. I
14 guess what I'm struggling with is, and it may go back
15 to your previous question, is that, you know, since
16 late-July/early-August of '12 they've already been
17 operating at four potlines and since very recently
18 they've been operating at two, so those losses are
19 already occurring, then there would be further losses
20 if Ormet shuts down, and the aggregate of all that in
21 total, I agree, would be the three-quarters of a
22 million dollars per month.

23 Q. Right. So if what we were to do is
24 compare the losses that would be suffered if Ormet
25 were to liquidate against the contributions that were

1 made four months ago, using a four-potline analysis
2 would do it. But if we were to compare the losses
3 that would be suffered if Ormet were to liquidate
4 against the contributions that Ormet was making a
5 year ago, a six-potline calculation would be it, but
6 that's the only plan that I make, fair?

7 A. Yes, I agree. Roughly a year ago,
8 because I think it was either late-July or
9 early-August.

10 Q. Great. And the lost contribution to the
11 fixed costs of the FAC that you have on here, that
12 would go from \$1 million per month to roughly
13 \$1.5 million per month, correct?

14 A. Agreed.

15 Q. And the lost contribution to the energy
16 efficiency and peak demand rider that you have on
17 here would go from .14 million dollars per month to
18 roughly .21 million dollars a month, correct?

19 A. Agreed.

20 Q. The lost contribution to the RSR would go
21 from .7 million dollars per month to approximately 1
22 to 1.1 million dollars per month, correct?

23 A. Agreed.

24 Q. So if you were to add these calculations
25 up, based on a six-potline operation you get total

1 lost Ormet contributions, if it were to liquidate, of
2 approximately \$3-1/2 million per month, right?

3 A. Your arithmetic's correct, yes.

4 Q. Which is about \$700,000 per month more
5 than the monthly discount provided in 2014, correct?

6 A. Agreed. Your arithmetic's correct.

7 Q. And these calculations do not include the
8 \$37 million in deferred bill repayments that would be
9 lost if Ormet liquidates, correct?

10 A. That's correct.

11 Q. And that's another couple hundred
12 thousand dollars per month if Ormet liquidates; fair?

13 It depends on how --

14 A. I'm sorry, were you doing -- if you're
15 doing 37 million over, say, 24, that's more than a
16 month.

17 Q. Right. It depends on how you amortize
18 it, right?

19 A. Yeah, over what period you're dividing
20 the 37 million, yes.

21 Q. Let's take three years because that's
22 what's being studied in the application, so that
23 would be about a million dollars a month, fair?

24 A. Correct.

25 Q. So that means that the net, if we were to

1 use that number in a six-potline operation, would be
2 a loss of around \$1.7 million per month every single
3 month, correct, in 2014?

4 A. The arithmetic sounds right, yes.

5 Q. And all those amounts lost from Ormet
6 would impact the rates of other AEP Ohio customers,
7 correct? Meaning that a loss of --

8 A. All I said --

9 Q. I'm sorry. Meaning that a loss of .7 to
10 \$1.7 million per month every single month would have
11 to be made up by other AEP Ohio customers, right?

12 A. All except for the 7 million of the
13 37 million that the Commission did not allow the
14 company to defer for collection from other customers.

15 Q. So you're talking about of the
16 \$37 million that's been deferred only \$30 million can
17 be passed on, if not paid, to the other ratepayers
18 correct?

19 A. That's correct.

20 Q. So we could have to reduce my number of
21 \$1.7 million a month by around a hundred thousand
22 dollars, so about \$1.6 million a month every month,
23 fair?

24 A. I think it would be closer to 200,000,
25 but fair.

1 Q. And there are other losses that would be
2 occasioned by Ormet going out of business too, losses
3 that might not impact other ratepayers' rates but
4 losses nonetheless, right?

5 A. There would be other losses, for example,
6 the -- from the company's perspective the loss of
7 base generation revenues, and I'm certainly not an
8 expert, but I heard Mr. Coomes talk about the losses
9 societally.

10 Q. Let's take the first one. The lost fixed
11 generation cost contribution, that would be around
12 \$4 million lost every single month by the company,
13 right?

14 A. That seems like a rough ballpark based on
15 a six-potline operation.

16 Q. Okay. So if we add those two up, we're
17 now at 4 million per month plus 1.5 million per
18 month, we're now at a lost \$5.5 million per month
19 every single month, correct?

20 A. I think that's correct, I'm just having
21 trouble keeping track of the numbers as we're tracing
22 them through this chain. That sounds right. I think
23 it was about a million and a half and this was about
24 4 million.

25 Q. That's almost twice the \$2.8 million per

1 month discount in 2014, isn't it?

2 A. I'd say it's closer to like 160 percent,
3 somewhere around there.

4 Q. And that's also not taking into account
5 the 210- to \$250 million in lost economic
6 contributions that Mr. Coomes testified to yesterday,
7 correct? We're just not even talking -- we're not
8 even dealing with that right now.

9 A. I have no basis to talk about that.
10 That's not an area of expertise of mine for sure.

11 Q. And, by the way, when we compare the lost
12 contributions against the lost discount that you use
13 on page 6, to be clear, the discount you used was the
14 2014 discount, right, or the average monthly 2014
15 discount, right?

16 A. It is the average monthly 2014 discount
17 under the current contract.

18 Q. Correct. And 2014 happens to be the
19 highest discount provided in any year remaining under
20 the unique arrangement, correct?

21 A. Of any year after 2013, yes. The
22 discount declines each year for the remaining '13,
23 '14 -- or, '14, '15, '16, '17, and '18, the
24 remaining five years of the current contract.

25 Q. 2015 it drops to 2 million per month, and

1 then 2016 less than 1.2 per month, then around
2 350,000 per month in 2017, and in 2018 it's zero,
3 correct?

4 A. You did the math really quickly for me
5 there. I would look at my testimony, page 3 --

6 Q. I'll do it again.

7 A. -- where in 2015 it's roughly 2 million a
8 month, in 2016 it's roughly 1.2 million a month, in
9 2017 it's roughly 300,000 a month, and in 2018 it's
10 zero.

11 Q. And can you and I agree that if we were
12 to add up and then average the monthly discount
13 provided for under the remaining life of the unique
14 arrangement, it would come out to approximately
15 \$1.25 million per month?

16 For the record, that would be 2.8 plus 2
17 plus 1.2 plus 350 plus zero divided by five, which
18 would equal 6.35 million divided by five, or
19 1.25 million a month. Fair?

20 A. Give me a second.

21 Q. Sure.

22 A. I'm not phoning a friend, I'm using my
23 calculator.

24 Actually, if I take the values and say
25 the remaining discount for '14 through '18 is 76

1 million, divided by 60 months I get 1.26 million and
2 change.

3 Q. So that's roughly \$4.4 million less than
4 the \$5.5 million in monthly contributions made by
5 Ormet, correct?

6 A. I guess I go to roughly 5.5 million minus
7 roughly 1.3, I get 4.2 million.

8 Q. Now, your Exhibit DMR-4 provides your
9 estimate of the costs of Ormet's proposal, right?

10 A. I'm sorry, you referenced DMR-4?

11 Q. Correct.

12 A. Those are only certain elements of the
13 total cost of Ormet's proposal. Kind of a total
14 summary is in Exhibit DMR-1 and 2.

15 Q. I apologize. I misspeak. DMR-1,
16 correct?

17 A. Correct.

18 Q. And the top item calculates the cost if
19 Ormet's generation rate is frozen at 4589 per
20 megawatt-hours for the entire year 2013, correct?

21 A. Correct. Before discounts.

22 Q. Look at item next -- No. 3 on that page.
23 You have three items listed there, the top one of
24 \$18 million is supposed to represent the difference
25 between the generation rate paid by Ormet and the

1 188.88 per megawatt-day rate AEP would receive if
2 Ormet shops, correct?

3 A. I believe that's correct, but I just want
4 to restate it to make sure that we're clear. It's a
5 calculation for what Ormet would pay under the base
6 generation rates in 2014 versus what Ormet would pay
7 for capacity -- not what Ormet would pay, what
8 capacity revenue would be at 188.88 for 2014.

9 Q. And, just to be clear, the generation
10 rate contributions that might come from Ormet will be
11 lost if Ormet liquidates, right?

12 A. Correct. If Ormet is not operating, the
13 company will not receive base generation rate revenue
14 unless, I mean, there are tariff minimums that I
15 don't know -- we would probably bill under those, but
16 I don't know whether we could collect them or not,
17 I'm not a bankruptcy person.

18 Q. And I'm going to use the word "liquidate"
19 a couple times today. When I say "liquidate," I mean
20 it goes out of business. Poof, it's gone. There's
21 no one -- there's no successor. There's no company
22 that's there to pick up the bag.

23 If Ormet liquidates that generation
24 component that you lay out in the first item of No.
25 3, it's going to be lost anyway, correct?

1 A. I believe so. But as I was indicating,
2 we may continue to bill it, I just don't know whether
3 we have any chance of collecting it. And you seem to
4 be indicating there wouldn't be.

5 Q. So it's not really a cost of Ormet's
6 proposal really, since under either the proposal or
7 the alternative of Ormet liquidating its
8 contributions are gone, correct?

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

11 (Record read.)

12 A. I guess I would agree with you that if
13 Ormet liquidates or Ormet's proposal as filed is
14 adopted, in either event those contributions are
15 gone, but I think it is a cost of Ormet's proposal in
16 that Ormet's proposal is to remove itself or modify
17 or I guess motion to amend the existing agreement,
18 which doesn't allow them to shop, and allows them to
19 shop, then this is a ramification of that
20 modification.

21 Q. A ramification that would also exist if
22 Ormet liquidated.

23 A. I'm sorry. I lost the last part of your
24 question.

25 Q. That's all right. I'll strike it and

1 move on.

2 By the way, you calculated this cost by
3 multiplying Ormet's GWh usage by its base generation
4 rate and then subtracting its GWh usage multiplied by
5 188.88 per megawatt-day, correct?

6 A. Not quite.

7 Q. What did I miss?

8 A. The first part was correct, using the six
9 potline GWh times the base generation rates times 12
10 months. The second part of capacity revenue at 188 a
11 megawatt-day is not a function of GWh, it's a
12 function of their peak load contribution.

13 Q. Got it. Okay. Then in doing these
14 calculations, I think you already answered this
15 question, but you used Ormet's GWh usage on a
16 six-potline average even though it's not using six
17 potlines now and its own plan says that it won't be
18 using six potlines until no earlier than July 1,
19 2014, correct?

20 A. That's correct. Because the company has
21 to stand ready at all times to be able to provide six
22 potlines and, further, the company has set aside
23 capacity to meet its obligation to stand ready to
24 serve six potlines throughout this entire period
25 under its FRR plan.

1 Q. But if Ormet were to somehow continue
2 operating under four potlines, you wouldn't get the
3 six-potline number you calculated, you'd get a
4 four-potline number. Or if Ormet kept operating at a
5 two-potline rate like it is doing right now, you'd
6 get a two-potline number, not a six-potline number,
7 correct?

8 A. The arithmetic would work that way,
9 correct.

10 Q. And, in fact, all of the calculations
11 under No. 3 here for 2014, you assumed a six-potline
12 operation, right?

13 A. That's not correct.

14 Q. Which one doesn't use a six-potline
15 operation?

16 A. The capacity deferral component on
17 Exhibit DMR-1, item 3, does not use a six-potline
18 computation.

19 Q. Okay. So the first and third do?

20 A. That's correct.

21 Q. And these calculations are supposed to
22 show costs imposed by Ormet's proposal in 2014,
23 correct?

24 A. The first item, the capacity component,
25 is only for 2014. The second item, the capacity

1 deferral component, is for 2014 and the first five
2 months of '15. And the third item, the fixed FAC
3 component, which is shown on Exhibit DMR-5, is for
4 January 2014 through May 2015. And I think all of
5 those are conservative given that the contract
6 really -- the current contract extends through 2018.

7 Q. Okay. So all of these are designed to
8 show costs imposed by Ormet's proposal in 2014 and
9 two of them are designed to also show costs imposed
10 in a few months of 2015; fair?

11 A. Correct. And, just to clarify, when we
12 say "costs imposed," they're either in -- either in
13 some instances lost revenues, in other instances
14 they're costs that will have to be borne by other
15 AEP Ohio customers.

16 Q. But you went ahead and assumed a
17 six-potline operation despite the fact that Ormet's
18 proposal is very clear it will not be operating on a
19 six-potline basis until no earlier than July 1, 2014,
20 correct?

21 A. Correct. Because our current contract
22 obligates us to stand ready at all times to be able
23 to serve six potlines to Ormet.

24 Q. And, to be clear, when you were
25 calculating the costs imposed by Ormet's proposal in

1 2014, the costs, you assumed six potlines, but when
2 you were calculating the harms caused by Ormet going
3 out of business in the exact same year, 2014, you
4 assumed four potlines, correct?

5 A. Correct, because I believe they're two
6 different calculations.

7 Q. And all else being equal, can you agree
8 with me that using six potlines for these
9 calculations results in a bigger number than using
10 four potlines for these calculations?

11 A. I believe we discussed the calculations
12 on page 6, and I've already identified where numbers
13 would change based on four or six potlines as far as
14 on Exhibit DMR-1. I guess we discussed the first
15 item and the third item would change based on a six-
16 or four-potline assumption, but the second item, the
17 capacity deferral component, would not change.

18 Q. By the way, are you aware the Commission
19 held last year that AEP Ohio's cost of capacity is
20 188.88 per megawatt-day?

21 A. I'm generally aware that they determined
22 a cost of capacity that would be applicable to
23 suppliers or applicable to capacity sold to CRES
24 providers.

25 Q. Yet you're trying to collect as a cost of

1 Ormet's proposal a generation rate that is above
2 188.88 per megawatt-day; is that correct?

3 A. Under the current contract and under the
4 ESP plan the presumption was always that Ormet was a
5 nonshopping SSO customer as part of the ESP plan and
6 fundamentally in that plan was the assumption that
7 Ormet paid AEP Ohio's base generation rates through
8 2014 and then paid 188 like all other nonshopping
9 customers beginning in 2015.

10 Q. So the answer is "yes"?

11 MR. NOURSE: I object, your Honor.

12 A. No, I don't think so. The answer is my
13 answer.

14 Q. Okay. Well, the question was, I think it
15 was a pretty straightforward "yes" or "no" question,
16 you are trying to collect as a cost of Ormet's
17 proposal a generation rate that is above 188.88
18 megawatt day -- per megawatt-day, correct? The
19 answer I think is yes, you are. Right?

20 MR. NOURSE: Your Honor, I object. He's
21 already answered the question, given his explanation
22 why the two are different and why it's inapplicable.
23 So he has to accept the witness's answer, not give
24 his own answer to his own questions.

25 MR. DARR: I object, your Honor, to the

1 speaking objection. If we're going to be doing this
2 all afternoon, we're going to be here a really long
3 time.

4 MR. BARNOWSKI: Your Honor, I don't have
5 any problem with him explaining his answer, but I
6 would like an answer to it, and I didn't get a yes or
7 no.

8 EXAMINER PARROT: Thank you.

9 All right. I agree, Mr. Barnowski.
10 Let's take another shot at it.

11 Do you want the question reread,
12 Mr. Roush?

13 THE WITNESS: Please, because I think the
14 two questions -- the two times he asked it were
15 different.

16 MR. BARNOWSKI: I can rephrase it, your
17 Honor, just to move a little quicker.

18 EXAMINER PARROT: All right.

19 Q. (By Mr. Barnowski) You're trying to
20 collect as a cost of Ormet's proposal a generation
21 rate that is above 188.88 per megawatt-day, correct?

22 A. Yes, because Ormet under the current
23 contract is obligated to pay the base generation rate
24 through 2014 and would receive a -- the 188.88
25 effective rate beginning in 2015 under the ESP order.

1 Q. Go back to DMR-1 again, the second item
2 listed there is a cost of Ormet's proposal, it's what
3 you call the capacity deferral component, correct?

4 A. The second item under No. 3, yes.

5 Q. Correct. And that reflects the
6 difference between AEP Ohio's cost of capacity,
7 188.88 per megawatt day, and what a CRES provider
8 would pay at RPM, right?

9 A. It reflects the difference between 188.88
10 a megawatt-day and RPM pricing consistent with the
11 construct the Commission created in the retail
12 stability rider in the ESP.

13 Q. And that's the amount that the RSR rider
14 is designed to help AEP Ohio recover, correct?

15 A. I think that's an element of the retail
16 stability rider is the recovery of that difference.
17 I think there are other elements of the retail
18 stability rider.

19 Q. By the way, you said earlier that this
20 number would not go up if you used a six-potline
21 assumption instead of a four, but if you used a
22 six-potline assumption, you're creating more
23 deferrals than if you use a four-potline assumption.

24 A. No, that's not correct.

25 Q. Not correct?

1 A. No.

2 Q. Okay. We'll come back to that in a
3 minute.

4 Ormet is already paying the RSR, correct?

5 A. Correct.

6 Q. And has been paying the RSR for a full
7 year, correct?

8 A. Since whenever the RSR started pursuant
9 to the Commission's ESP order.

10 Q. And its proposal provides it will keep
11 paying the RSR through 2015, correct?

12 A. Correct.

13 Q. And, in fact, Ormet is the biggest
14 contributor to the RSR on the entire AEP system,
15 correct?

16 A. It may have occurred at four potlines,
17 I'm not sure at two.

18 Q. Under your proposal Ormet would have to
19 pay the RSR twice, first by paying the RSR created by
20 other customers who are shopping, the RSR it's
21 already paying, and then again it would have to pay
22 the entire RSR component created by its own shopping,
23 correct?

24 A. No. I disagree with the characterization
25 of them paying it twice. The Commission established

1 in the ESP a couple things, I think everyone here
2 agrees that Ormet, under the current contract, could
3 not shop, and I believe in the ESP order the
4 Commission said that Ormet would pay the RSR and so
5 they're paying the RSR pursuant to the Commission
6 order.

7 Because Ormet is now seeking to shop,
8 something that was not factored into the ESP order at
9 all, the additional deferral that's being created by
10 Ormet's request to shop ought to be borne by Ormet.

11 Q. Okay. And, to be clear, when you say it
12 "ought to be borne by Ormet," that's your opinion?

13 A. Absolutely it's my opinion.

14 Q. Okay. Let's break down my question.
15 Ormet -- under your proposal Ormet would have to pay
16 the RSR created by other customers who are shopping.
17 The RSR it's already been paying -- has been paying
18 for a year and has agreed to pay until May of 2015,
19 correct?

20 A. I believe Ormet is paying the RSR, and I
21 believe we established the RSR is partly due to the
22 difference between 188 and RPM for shopping customers
23 and partly due to other factors, and Ormet is
24 obligated to pay it under the Commission's order.

25 Q. So under your proposal, your proposal,

1 not the Commission order, your proposal, under your
2 proposal Ormet would have to keep paying that RSR
3 component created by other customers shopping, yes?

4 A. I think we covered that earlier Ormet has
5 to continue paying the RSR but the RSR is more than
6 just paying for capacity deferrals paid for by other
7 shopping customers, it has other elements there.

8 Q. And your proposal would also have Ormet
9 paying the entire RSR component created by its own
10 shopping, correct?

11 A. Yes. My proposal is that Ormet should
12 pay the entire cost of this unanticipated, unexpected
13 increase in the RSR deferrals that are resulting from
14 Ormet shopping when they have a contract that says
15 they won't shop till -- couldn't shop through 2018.

16 Q. To be clear, not a single other customer
17 of AEP Ohio has to pay the RSR in the way you just
18 recommended, correct?

19 A. No. And no single other AEP Ohio
20 customer has the contract Ormet does.

21 Q. Look at the last item under No. 3 on
22 DMR-1 now, the fixed FAC component. This item is
23 designed to compensate AEP Ohio for the fixed costs
24 associated with the FAC after Ormet starts shopping,
25 correct?

1 A. Yes and no. It's designed to compensate
2 AEP Ohio but ultimately reduce the charges for other
3 AEP Ohio customers with regards to the fixed FAC
4 component that Ormet would have paid, could have paid
5 under the -- if they had continued as a nonshopping
6 customer of AEP Ohio.

7 Q. So am I correct that it is designed to
8 compensate AEP Ohio for the fixed costs associated
9 with the FAC after Ormet starts shopping? It's just
10 a "yes" or "no."

11 A. No. It's designed to compensate -- to
12 offset costs that other AEP Ohio customers would have
13 to pay. AEP Ohio doesn't retain that money.

14 MR. BARNOWSKI: May I approach the
15 witness, your Honor, with his deposition?

16 EXAMINER PARROT: You may.

17 Q. You remember being deposed just two days
18 ago, right?

19 A. Yes, I do.

20 Q. Showing you your transcript right here,
21 if you look at page 81, I'm going to read to you
22 lines 4 to 10 and you just tell me if I read it
23 correctly: "This is designed to recover the fixed
24 FAC costs from January, 2014, through May, 2015,
25 after Ormet leaves Ohio Power if it is allowed to

1 shop, correct?"

2 Answer: "Correct. It is designed to
3 collect the fixed FAC component that Ormet would have
4 otherwise paid from January, 2014, through May,
5 2015."

6 Did I read that correctly?

7 A. You left off the word "and" at the
8 beginning I believe.

9 Q. Other than leaving off the word "and,"
10 did I read it correctly?

11 A. I believe you read it correctly, but it
12 sound liked a different --

13 Q. But the --

14 A. -- question than --

15 MR. NOURSE: Your Honor.

16 THE REPORTER: Wait a minute.

17 EXAMINER PARROT: Let's all stop talking
18 over each other. Allow the witness to finish before
19 we object.

20 MS. GRADY: Your Honor, in that case I'm
21 going to object. I think that's improper use of
22 impeachment. That was not inconsistent, it was a
23 different question.

24 EXAMINER PARROT: And I'm going to allow
25 the witness to answer for himself.

1 Mr. Roush, you can -- I think you had
2 started a thought, if you'd like to continue it,
3 please.

4 THE WITNESS: Thank you.

5 I just think the language that was read
6 from the deposition, the question was different than
7 the question I was asked immediately prior.

8 MR. BARNOWSKI: Okay. The record is what
9 it is. I'll move on.

10 Q. (By Mr. Barnowski) You call this a cost
11 of Ormet's proposal, but you and I can agree that
12 this cost would be created and would not be paid by
13 Ormet if Ormet liquidates too, correct?

14 THE WITNESS: Can you read that back.

15 (Record read.)

16 A. No, I can't agree to that. The costs
17 exist, they just -- so they are -- they would not not
18 be created. The costs would exist, they just would
19 not be collected from Ormet.

20 Q. Okay. The other ratepayers are going to
21 have to bear these fixed costs of the FAC under
22 either Ormet's proposal or if Ormet liquidates,
23 correct?

24 A. Correct.

25 Q. And you are not aware of a single other

1 former customer of AEP Ohio who was forced to
2 continue paying AEP Ohio's fixed fuel costs after
3 they stopped being a customer, correct?

4 A. No, I'm not. As I stated previously, I'm
5 not aware of any other customer that would be -- is
6 seeking to get out of a contract that doesn't allow
7 them to shop.

8 Q. Taking a step back now, AEP Ohio asked
9 the Commission to force Ormet to pay a \$61 million
10 exit fee, but you made no attempt whatsoever to
11 determine if Ormet could afford a \$61 million exit
12 fee, correct?

13 A. I did not look at Ormet's financials at
14 all.

15 Q. And you know of no one else at AEP Ohio
16 who made such an effort, correct?

17 A. I'm not aware if anyone has.

18 Q. Nor can you name a single other customer
19 of AEP Ohio who was charged an exit fee, correct?

20 A. No, I'm not, because I'm not aware of any
21 other customer that has asked to be relieved from a
22 contract that doesn't allow them to shop.

23 Q. Let's talk about, a little bit about the
24 reasonableness of asking for a \$61 million exit fee
25 to cover costs imposed by Ormet. The way you got --

1 strike the last two words, last four words, I'm
2 sorry.

3 The way you got to the \$61 million number
4 is by calculating the costs or what you contend to be
5 the costs or losses in one year, 2014, and a little
6 bit of 2015 of Ormet leaving AEP Ohio, correct?

7 A. I think that's generally correct.

8 Q. And just dividing by 12, 61 million
9 divided by 12 gets you a rough monthly average of
10 around 5 million, correct? In costs.

11 A. The arithmetic's correct, but I think, as
12 you stated earlier, it's really over -- part is over
13 12 months, part is over 17 months.

14 Q. By the way, who is Nicholas Akins?

15 A. He's the CEO of the company.

16 Q. He's the chief executive officer, the
17 president, a director, a member of the executive
18 committee and member of the policy committee?

19 A. I don't know that. I don't know all his
20 titles.

21 Q. Who is Brian Tierney?

22 A. I believe he's the CFO.

23 Q. The chief financial officer and an
24 executive vice president?

25 A. Again, I don't know all his titles.

1 Q. Are these gentlemen your bosses?

2 A. Mr. Akins would be one of my boss's
3 bosses; Mr. Tierney would not.

4 Q. Do you agree that the chief financial
5 officer and the chief executive officer would be in a
6 pretty good position to know the actual costs imposed
7 by Ormet leaving?

8 A. I don't know.

9 Q. So you're not sure whether the chief
10 financial officer of the company is in a good
11 position to know what the costs of Ormet, of
12 AEP Ohio's largest customer, leaving the company is?

13 MR. NOURSE: Your Honor, I object. It's
14 asked and answered and I question the relevance.

15 MR. BARNOWSKI: Your Honor it's clearly
16 relevant what -- when he's seeking a \$61 million exit
17 fee for costs imposed by Ormet leaving what other
18 AEP Ohio senior executives have said about those
19 costs.

20 MR. NOURSE: There's no foundation for
21 that statement.

22 MR. BARNOWSKI: Well, if you give me a
23 minute, we'll get there.

24 A. I have not spoke --

25 EXAMINER PARROT: All right.

1 I agree, it's been asked and answered.

2 Q. (By Mr. Barnowski) Do you know what an
3 earnings call with investors is?

4 A. Generally.

5 Q. You understand that it's very important
6 to be truthful and accurate in disclosing information
7 to investors of a publicly traded company, correct?

8 A. That's not in my area of responsibility
9 so I don't deal with that so I can't say what all the
10 standards might be.

11 Q. I understand you're not an expert in this
12 area, but can you and I agree that the SEC,
13 Securities Exchange Commission, generally doesn't
14 like it when you provide inaccurate or incomplete
15 information to your investors?

16 MR. NOURSE: Your Honor, I object. You
17 know, he has no foundation. If he has a document he
18 wants to show somebody, he can pull it out and show
19 somebody. It's a little too much drama here.

20 EXAMINER PARROT: Response?

21 MR. BARNOWSKI: I'm going to mark the
22 document, your Honor, I promise, but I'd like to lay
23 a foundation for the reliability of comments made at
24 an investor call.

25 EXAMINER PARROT: All right. Well, let's

1 do that.

2 MR. BARNOWSKI: I'm sorry, can he answer
3 or --

4 EXAMINER PARROT: No. I want you to move
5 on and lay the foundation.

6 MR. BARNOWSKI: Okay.

7 Q. (By Mr. Barnowski) I'm not marking this
8 just yet, I'd like to show you a document, the title
9 it is "American Electric Power Company, Inc. (AEP)
10 Management Discusses Q2 2013 Results - Earnings Call
11 Transcript," and then it lists a whole bunch of
12 executives including the two we just talked about,
13 and it is 15 pages long, bears a date of July 29th,
14 2013, on the bottom.

15 If you go to page 12, the last paragraph,
16 I'm going to read you a couple paragraphs, I'd like
17 to know whether you considered these in putting
18 together your costs.

19 Question comes from Jonathan P. Arnold,
20 Deutsche Bank AG, Research Division. "Okay. And
21 then could I just squeeze in one other thing? On the
22 whole -- this conversation going on with the
23 commission and Ormet around trying to reduce tariff,
24 does -- how does -- how should we -- is there any
25 kind of guidance exposure to that? Or how should we

1 be thinking about that as we watch it play out?"

2 And Mr. Tierney, who you identified a
3 little earlier as the CFO, responds, "We -- so I
4 wouldn't want to talk specifically about the
5 discussions with the commission that we're having.
6 There are issues related to whether or not Ormet
7 stays in business or not altogether. And those items
8 are fairly small for us. If Ormet were to stop
9 operations altogether, the pretax would be about
10 \$2.8 million per month, so for the balance of the
11 year, maybe \$.025, and for all of 2014 maybe \$.045
12 per share."

13 Follow-up question from Mr. Arnold:
14 "That would be the -- that would be not -- but the
15 incremental would be the difference?"

16 Answer from Mr. Tierney: "That would be
17 if they -- that's right. And that would be if they
18 ceased operations altogether. But remember,
19 Jonathan, there will be some offset for that as well
20 in off-system sales as we've had the incremental
21 energy to take out to the market."

22 And then Mr. Akins, who you identified a
23 little bit earlier as the CEO, chimes in: "Yes.
24 It's a large load, like many of these industrials,
25 but that one in particular. And if you -- we don't

1 hardly make any money off it to begin with. But
2 then, if it did go away, then we'd be selling it at
3 any off-system market, so" -- then it goes dot dot
4 dot and the operator jumps in.

5 Did I read that correctly?

6 A. Generally, yes. I wasn't ticking and
7 tying everything word for word.

8 Q. Were you aware that AEP's CFO told
9 investors that the cost of losing Ormet was only
10 about \$2.8 million per month a month ago when you put
11 together your testimony?

12 A. I was not. And based on looking at this
13 it looks like my numbers are too low then because the
14 only item that I would say is comparable to the
15 2.8 million a month and my testimony is the
16 capacity -- is the capacity deferral component. I'm
17 sorry, the capacity component.

18 Q. Well, to be clear, the \$2.8 million a
19 month, that's before AEP resells the electricity
20 formally used by Ormet into the market, correct?

21 A. It appears to say that, but I can't say
22 for sure since these are not my statements.

23 Q. And the actual amount would be, if those
24 statements are correct, would be less than
25 \$2.8 million per month. But sitting here today you

1 have no idea what price AEP is able to sell its
2 freed-up energy on the market for, correct?

3 A. I do not know. That's not my area of
4 expertise.

5 Q. So you don't know how much less than
6 \$2.8 million per month AEP is hurt by Ormet's
7 leaving, correct?

8 A. I don't know if it's any less.

9 MR. NOURSE: Your Honor, I'm trying to
10 squeeze in an objection without -- he's going so fast
11 here. I would like him to go back and finish his
12 original explanation of why he thought his numbers
13 were too low before Mr. Barnowski interrupted him.

14 MR. BARNOWSKI: Your Honor, I did not
15 interrupt the witness, and if Mr. Nourse has
16 follow-up questions, he is certainly free to do that.
17 Right now he doesn't like the answers and so he's
18 trying to build in his own questions in the middle of
19 my cross.

20 I have one more question on this topic
21 and then I'm moving on.

22 MR. NOURSE: I just want him to finish
23 his answer, that's all, your Honor. I'm trying to
24 not chop on his quick, rapid-fire questions.

25 EXAMINER PARROT: I'm going to overrule

1 the objection. Mr. Nourse, if you wish to revisit
2 this on redirect, of course you may, but it looks
3 from reading the transcript like we have a complete
4 answer to the questions.

5 MR. BARNOWSKI: Thank you, your Honor.

6 Q. (By Mr. Barnowski) By the way, you said
7 you thought the numbers that you used might be a
8 little low but, to be clear, the \$5 million per month
9 that you estimate are all losses to AEP, it's just
10 that some of those the Commission allows AEP to
11 recover those losses from the other ratepayers,
12 correct?

13 A. Well, what I was saying was --

14 MR. BARNOWSKI: I'm sorry, your Honor.
15 I'm sorry, your Honor. The answer simply was -- I
16 asked him a very direct question and his answer is
17 "what I was saying was"; that cannot be responsive to
18 my question.

19 EXAMINER PARROT: Let's see where it goes
20 before we interject, please.

21 Mr. Roush, please continue.

22 A. What I was saying was that the -- when I
23 looked at the 2.8 million and I compared it to the
24 18 million, the 18 million is the only value that, as
25 you said, would not be collected from other

1 customers. The 16 and 27 million would be collected
2 from other customers so there wouldn't be an earnings
3 impact.

4 And my understanding of this document,
5 having just seen it today, is that the discussion
6 here is on an earnings impact.

7 Q. These numbers in No. 3 that you list in
8 your DMR-1, those are all costs to AEP, it's just
9 that some of those costs the Commission allows the
10 company to recover from other ratepayers, correct?

11 A. I would say yes, but not exactly. The
12 items like we were discussing, the cost is actually
13 the cost of the power supply agreement. For example,
14 the fixed FAC component, that's the cost of the
15 purchased power; that's the cost incurred. What I
16 quantify is the fact that that cost won't be
17 collected from Ormet under Ormet's proposal but will
18 be collected from other customers, so I think we're
19 disconnecting on the term "cost."

20 Q. Do you agree with the company's CEO that
21 AEP Ohio doesn't, quote, hardly make any money off
22 Ormet to begin with?

23 A. I have no basis to disagree with him.

24 Q. Do you agree with the company's CFO that
25 those items that would be lost if Ormet were to go

1 out of business are, quote, fairly small, end quote,
2 for AEP?

3 A. I have no reason -- no basis or reason to
4 disagree with him.

5 Q. Take a look at DMR-3, if you would. You
6 set forth here a nonshopping alternative, right?

7 A. Correct, a nonshopping alternative
8 through June of -- June 1st of '15.

9 Q. But, to be clear, when I asked you two
10 days ago whether this was a proposal AEP Ohio was
11 willing to accept and live with without objection,
12 you didn't know one way or the other, correct?

13 A. At that time I did not. Today I do.

14 Q. And what's the answer today? "Yes" or
15 "no"?

16 A. The answer today is the company is
17 comfortable with the nonshopping alternative. The
18 reason why I wasn't sure of the answer is because the
19 company is not taking a position whether Ormet
20 deserves an additional discount or not; that's
21 something that the Commission will determine. If the
22 Commission determines that, then this nonshopping
23 alternative the company is generally comfortable
24 with.

25 Q. This proposal seeks to show what kind of

1 discounts would be necessary to get Ormet to the
2 45.89 per megawatt-hour number plus riders for 2013
3 through '15 that Ormet requested as the frozen
4 average generation price for 2013, and then to reduce
5 that price by the discounts sought in Ormet's
6 proposal; fair?

7 A. That was fairly long but I think it was
8 pretty accurate.

9 Q. Okay. So just to break it up a little
10 bit, because I want to make sure we're on the same
11 page, what you tried to do here was figure out what
12 kind of discounts would be necessary to get Ormet to
13 4589 per megawatt-hour which is the number Ormet
14 requested for 2013 as the frozen generation rate, and
15 then reduce that number by the discounts sought in
16 Ormet's proposal, right?

17 A. I think that's generally correct.

18 Q. Okay. It doesn't -- I'm sorry.

19 A. The one thing to note is that I've done
20 this in two scenarios, \$40 and \$45, not knowing what
21 the actual combination of FAC and auctions will
22 produce during that timeframe.

23 Q. It doesn't seek to figure out the
24 generation rate that forms the basis of Ormet's
25 proposal for 2014 and 2015, correct?

1 A. No, I do not know what generation rate
2 before discounts Ormet assumed.

3 Q. And it does not seek to include the
4 impacts. I'm sorry, strike that.

5 And your proposals here do not seek to
6 include the impacts of the shopping credits in 2015
7 that Ormet's proposal seeks, correct?

8 A. I guess on Exhibit DMR-3 I identify the
9 discount that would be needed to be comparable to the
10 \$9 a megawatt-hour shopping credit through May 31,
11 2015, on usage for potlines 5 and 6 and that's what's
12 stated as the additional monthly discount of a
13 million and a half per month --

14 Q. We -- go ahead.

15 A. -- under FAC/Auction at 40 and 2.2
16 million a month for FAC/Auction at 45, but I have not
17 specifically in this exhibit, DMR-3, addressed the
18 shopping credit during any portion or all of the
19 June 1, 2015, through December 31, 2015, period on
20 Ormet's entire usage if their proposed power plant is
21 not in full operation.

22 Q. And this proposal does not seek to -- it
23 doesn't represent any offer to lock in these rates,
24 correct? These are just illustrations.

25 A. Correct. These are illustrations.

1 Q. And you have no idea whatsoever whether
2 this proposal would be sufficient to enable Ormet to
3 stay in business or not, correct?

4 A. No, I do not. As I indicated, I was
5 using the value that they said they needed for 2013
6 and using that for '14 and '15.

7 MR. BARNOWSKI: No further questions.
8 Thank you, Mr. Roush.

9 EXAMINER PARROT: OCC?

10 MS. GRADY: Thank you, your Honor.

11 - - -

12 CROSS-EXAMINATION

13 By Ms. Grady:

14 Q. Good afternoon, doctor -- or, Mr. Roush.

15 A. Thank you. I got a promotion.

16 Q. Mr. Roush, currently the Ohio Power
17 Company has in place an economic development rider
18 that collects delta revenues created under unique
19 arrangements, correct?

20 A. That's correct.

21 Q. And that EDR -- an EDR application is
22 filed by Ohio Power with the PUCO and then the rate
23 is approved by the PUCO, correct?

24 A. That's correct.

25 Q. And the rate is then updated six months

1 later or trued up.

2 A. That's correct, there are filings roughly
3 every six months.

4 Q. Now, the latest approved economic
5 development rider application is what the PUCO
6 approved in Case No. 13-325-EL-RDR?

7 A. That's correct, that's the basis for the
8 current rate.

9 Q. Yes. And there has been a subsequent
10 filing in Case No. 13-1739-EL-RDR which was admitted
11 as an IEU exhibit?

12 A. There has been a subsequent filing, the
13 docket number escapes me at the moment.

14 Q. Was it your understanding that that
15 application was put into the record by IE -- or, was
16 introduced as an exhibit by IEU?

17 A. I believe it was, but I can't say for
18 sure.

19 Q. Now, the company's EDR rate is based on
20 delta revenues plus carrying costs resulting from the
21 reasonable arrangements?

22 A. Correct. The EDR filing is -- consists
23 of a projection of delta revenues, a reconciliation
24 of actuals to projections, and then carrying charges.

25 Q. And is it your understanding that the

1 company has reasonable arrangements with Ormet,
2 Eramet, Globe Metallurgical, and Timken?

3 A. Yes, that's correct, those are the four.

4 MS. GRADY: Your Honor, at this time I
5 would like marked for identification purposes as OCC
6 Exhibit No. 6 a multi-page document which is an
7 application by the company dated February 1st,
8 2013.

9 (EXHIBIT MARKED FOR IDENTIFICATION.)

10 Q. Do you have that before you, Mr. Roush?

11 A. I have a copy of that.

12 Q. Is that the latest approved economic
13 development rider application by the company, if you
14 know?

15 A. Yes, because -- at least as far as I
16 know, unless the latest one was approved today, this
17 is, as far as I know, the latest approved.

18 Q. Now, I would like you to go for a moment
19 to the Schedule 1 on that application. Will you turn
20 to that, please.

21 A. I'm there.

22 Q. And if we go to line 12, we see a label
23 that says "Total Revenue Requirement." Do you see
24 that?

25 A. Yes, I do.

1 Q. And that total revenue requirement shows
2 the total delta revenue plus carrying charges plus
3 over- and undercollections, correct?

4 A. Correct, those are the elements of the
5 total revenue requirement.

6 Q. And, Mr. Roush, those are revenue
7 requirements associated with the delta revenues for
8 reasonable arrangement that OP currently has with
9 entities which include Ormet, correct?

10 A. Correct.

11 Q. And from that revenue requirement on
12 line 12, Schedule 1, we derive the EDR cost recovery
13 rider of 10.79310 percent, correct?

14 A. Correct.

15 Q. And that is by dividing the -- by
16 dividing the annual base distribution revenue -- let
17 me strike that.

18 And the 10.79310 is the approved EDR
19 rider that is currently in effect.

20 A. Correct.

21 Q. And that 10.79310 percent is then applied
22 to the distribution charges without the riders and
23 then an EDR charge results from that, correct?

24 A. Correct. The rider is applied to base
25 distribution billing excluding riders.

1 Q. And when we go to Schedule 2.1 of that
2 filing, we can see that the estimated Ormet delta
3 revenues for 2013 total \$44 million, correct?

4 A. Correct.

5 Q. And the information from Schedule 2.1
6 carries over to line 5 of Schedule 1.

7 A. That's correct.

8 Q. And line 5 of Schedule 1 shows the total
9 Ohio Power estimated delta revenues for 2013 of
10 65,340,448, correct?

11 A. Correct.

12 Q. So, Mr. Roush, mathematically speaking,
13 the \$44 million of Ormet estimated delta revenue
14 accounts for 67.34 percent of the total estimated
15 delta revenues shown on line 5, correct?

16 A. Correct.

17 MS. GRADY: Your Honor, at this time I
18 would like marked as OCC Exhibit No. 7 a two-page
19 document created by OCC intending to show the Ormet
20 portion of the residential EDR monthly rates.

21 EXAMINER PARROT: So marked.

22 (EXHIBIT MARKED FOR IDENTIFICATION.)

23 Q. Mr. Roush, can you take a moment to
24 review that document.

25 A. I've reviewed it.

1 Q. And you've seen this document before,
2 have you not?

3 A. Yes.

4 Q. In fact --

5 A. During deposition.

6 Q. Yes. Thank you.

7 Would you agree, Mr. Roush, that this is
8 a fair representation of the Ormet portion of the
9 residential EDR monthly rates?

10 A. I would say it's generally fair. Kind of
11 as we discussed when we were looking at Schedule 1,
12 the percentage we're computing is the 44 million as a
13 percentage of the 65 million and change on line 5,
14 and then there's about another 3.6 million of items
15 related to the true-ups and carrying costs that we
16 can't specifically identify which contract those
17 might be related to.

18 So the vast majority of it is the
19 65 million, so it's in the right ballpark. It's not
20 perfectly precise because there isn't a way to get a
21 perfectly precise number.

22 Q. Now, is it your understanding that when
23 we look at OCC Exhibit No. 7, it contains the
24 currently-approved EDR percent of 10.79310?

25 A. Yes, it does.

1 Q. And the 67.34 percent calculation shown
2 under the Ormet column is the same percent we
3 calculated for the Ormet portion of the total
4 estimated delta revenues shown on OCC Exhibit No. 6,
5 correct?

6 A. Correct. On Schedule 1, line 5.

7 Q. Now, Mr. Roush, I want to talk to you a
8 little bit about the AEP nonshopping alternative that
9 Mr. Barnowski spoke with you earlier today about. If
10 you go to page 7 of your testimony, lines 11 through
11 17, you testified that Ormet cannot shop under the
12 current contract, and that conclusion is based on
13 your -- the advice of counsel?

14 A. That's correct.

15 Q. And you state that then given this legal
16 position, rather than approve Ormet's proposal, an
17 alternative is to modify the Ormet discount to
18 achieve the equivalent financial outcome as Ormet's
19 proposal. Do you see that on page 7, lines 8 through
20 9?

21 A. My line numbering might be different. I
22 see it on line 13 and 14.

23 Q. But generally that's why you are
24 proposing this alternative.

25 A. Yes. Generally proposing this

1 alternative because the contract doesn't allow for
2 Ormet to shop, so if the Commission desires to abide
3 by that, a way to address it, and if the Commission
4 deems it appropriate to give Ormet additional
5 discounts, a way to do that is on this methodology
6 that I've laid out here.

7 Q. Now, under the Schedule DMR-3 you list
8 the cost of the alternatives under the -- under two
9 prices, under the \$40 a megawatt-hour price and a
10 \$45 megawatt-hour price. Do you see that?

11 A. Yes.

12 Q. And under the \$40 a megawatt-hour price
13 the cost of the alternative that you list is
14 42 million; is that correct?

15 A. Correct, 42 million above the original
16 discount in the current contract.

17 Q. Yes. And then for the estimated cost of
18 the FAC/Auction at 45 you identify \$61 million
19 incremental costs.

20 A. Correct. And I just wanted to clarify
21 that there would be an additional cost based on the
22 language just below there for any time that potlines
23 5 and 6 operated during 2014 and January through May
24 2015, and then this also doesn't address any discount
25 post-May 31, 2015.

1 Q. Now, the estimates that -- the 42 million
2 and the 61 million with the caveats that you gave,
3 those represent dollars that are incremental to the
4 original Ormet discount? The one that exists
5 currently.

6 A. That's correct.

7 Q. But if we wanted to know the price of
8 your alternative vis-a-vis the Ormet proposal in this
9 case, we would calculate the cost at the 40
10 megawatt-hours to be 195 million compared to
11 Ormet's -- let me strike that. Let me try to break
12 it down and be simple here.

13 Your Exhibit DMR-3 does not indicate the
14 price of the nonshopping alternative compared to
15 Ormet's proposal in this case, correct?

16 A. That's correct.

17 Q. And if we wanted to make that
18 comparison -- well, let me strike that.

19 Have you done that comparison between the
20 nonshopping alternative and Ormet's proposal in this
21 case?

22 A. We kind of did that during deposition.

23 Q. And --

24 A. Constructed it.

25 Q. Thank you.

1 And do you recall that when we did that
2 construction during the deposition, that indicated
3 that that comparison would result in an estimated
4 cost for the nonshopping alternative at the \$40 FAC
5 price of \$195 million?

6 A. Roughly. The number I penciled in is
7 193.7 and how we got there was we took the
8 162 million that's shown on Exhibit DMR-3, took the
9 additional monthly discount of a million and a half
10 per month times 11 months to come up with an
11 additional 16-1/2 million, and then also added in the
12 15.2 million which is related to the shopping credit
13 during June to December 2015 as shown on Exhibit
14 DMR-1 to get to a total of 193.7 million.

15 Q. And that 193.7 million for the
16 nonshopping alternative at the \$40 FAC/auction would
17 then be compared to the \$237 million that you compute
18 as the cost of Ormet's proposal; is that correct?

19 A. Correct. I think that once we made those
20 additions that it would be an apples-to-apples
21 comparison as shown on Exhibit DMR-2.

22 Q. And, similarly, we went through the
23 calculation of the cost of the nonshopping
24 alternative compared to the Ormet proposal in this
25 case at the \$45 level, correct?

1 A. That's correct.

2 Q. And, if you recall, the cost of the
3 nonshopping alternative at the FAC auction of \$45 was
4 determined -- was calculated by you to be
5 \$220 million, correct?

6 A. Correct. My notes show 220.4 million.

7 Q. And can you tell me how you reached that
8 number as well?

9 A. Certainly. I started with the
10 \$181 million value, then I had to add to that the
11 additional monthly discount of 2.2 million per month
12 for 11 months for potlines 5 and 6, so that's an
13 additional 24.2 million, and then I also had to add
14 in the shopping credit for June 1, '15, through
15 December 31, 2015, of 15.2 million, so 181 plus 24.2
16 plus 15.2 gets you 220.4 million.

17 Q. And, again, if we wanted to understand
18 the comparison between the nonshopping alternative at
19 \$45 per megawatt-hour to the Ormet proposal in this
20 case, we would be comparing the 220.4 million with
21 the 237 million that you compute to be the cost of
22 Ormet's proposal.

23 A. Correct. And -- correct.

24 Q. So under your alternative, under your
25 nonshopping alternative which you indicated you're

1 comfortable with or the company's comfortable with,
2 as the FAC/auction price increases, so does the cost
3 of the nonshopping alternative that you present,
4 correct?

5 A. Correct. The cost of the nonshopping
6 alternative is higher because, recall, the underlying
7 assumption in my nonshopping alternative is hitting
8 that 4589 target price.

9 Q. And if the FAC/auction price is above the
10 45 megawatt-hour price that you indicate on -- or
11 that you used as illustration on DMR-3, you would
12 agree, would you not, that the gap between your --
13 the cost of your nonshopping alternative and the
14 Ormet proposal would lessen and, in fact, at some
15 point would flip?

16 A. Yes, I'd agree. I think it's generally
17 linear so if we said we're at -- going from 40 to 45
18 is roughly a \$19 million increase, then going from 45
19 to 50 I think generally would be another \$19 million
20 increase which would put it above Ormet's proposal.

21 Q. So with respect to the FAC price, the 40
22 and 45 you indicated are just used for illustrative
23 purposes; is that correct?

24 A. Correct. Because I have no -- I have no
25 knowledge of what the combined FAC/auction may

1 produce over this period of time.

2 MS. GRADY: That's all the questions I
3 have. Thank you, Mr. Roush.

4 THE WITNESS: Thank you.

5 EXAMINER PARROT: Mr. Darr?

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

7 - - -

8 CROSS-EXAMINATION

9 By Mr. Darr:

10 Q. Mr. Roush, am I correct that in terms of
11 unpaid bills currently Ormet owes \$27 million for
12 bills suspended last year for November and December
13 of 2012 and that there is a current deferral of
14 \$5 million for the bill that was due on August
15 21st, 2013?

16 A. The deferrals, the unpaid bills for
17 October and November 2012, I believe you're correct,
18 sir, are roughly 27 million. I think it's actually
19 27.3.

20 The deferral for the bill for July usage
21 which was due in August was 5 million, so I believe
22 you were correct on both values.

23 Q. And with regard to any current usage, the
24 expectation now as we sit here today is that apart
25 from the issues that came up yesterday, which I don't

1 know if you were here for that or not, as to whether
2 the \$5.5 million deferral applies to the September
3 bill or what would be billed in October, effectively
4 as we sit here today Ormet is current; is that
5 correct?

6 A. Correct. I believe they made their
7 payment on the bill that was due in August and there
8 won't be another bill rendered until right around
9 September 1st, 2nd, or 3rd; I'm not sure which
10 day.

11 Q. Are you aware of any amounts that are
12 owed by AEP Ohio to Ormet at this time?

13 A. Are there any offsets? I'm not aware of
14 any.

15 Q. I want to look at a couple of issues real
16 quickly in your testimony. Actually, maybe an easier
17 way to do this would be to look at DMR-4. Could you
18 turn there, please.

19 A. Yes, sir, I'm there.

20 Q. The \$18 million that you calculated is
21 based on the difference between the current base
22 generation revenue and capacity revenue that is
23 calculated with a starting point of 188.88 per
24 megawatt-day and applying the current PLC applicable
25 to Ormet; is that correct?

1 A. Not quite. The actual computation of the
2 capacity revenue at 188.88 uses the PLC that would
3 apply to Ormet for January through December 2014, and
4 the PLC value changes with the planning year so it
5 changes in June of 2015, so I had to use an estimate
6 of that value.

7 Q. Okay. With that qualification are we on
8 the same page?

9 A. I believe so.

10 Q. And what you're calculating here is the
11 amount that would not be recovered that exceeds the
12 effective rate of 188 -- \$188.88 per megawatt-day
13 that's embedded in the current base generation rate
14 found in the GS-4 tariffs, correct?

15 A. Basically that's correct. I'm comparing
16 a bill, what they pay for base generation revenue as
17 a nonshopper to what would be their -- the capacity
18 related, either revenues or deferral amounts that
19 would be -- result from 188.88.

20 Q. Well, you used the term "deferral
21 amount." I believe the deferral amount refers to the
22 difference between 188 and the RPM price, correct?

23 A. That's correct. And I guess breaking the
24 188.88 out into, it's really two pieces, part is
25 going to actually be collect -- because the RPM

1 element of 188 is going to be collected from whoever
2 their CRES is and then there's the remaining amount
3 that goes into the deferral to build up to the full
4 188.

5 Q. And I want to keep that part separate for
6 a moment.

7 A. Okay.

8 Q. The difference contained in the
9 18 million calculation refers exclusively to the
10 amount above the 188 threshold, the difference
11 between the base generation capacity rate and the
12 calculation based on \$188.88 that comes out of the
13 capacity order; is that correct?

14 A. Yes, it's the difference between the base
15 generation rate and capacity, 188.88.

16 Q. And this, if I understand correctly,
17 represents the amount that would be unrecoverable if
18 Ormet shopped based on the discussion that we had
19 earlier today between you and Mr. Barnowski.

20 A. Yes, that's my basic understanding.

21 Q. Now, with regard to the \$16 million
22 contained in the second section of DMR-4, this is the
23 piece that we were just discussing which is the
24 difference between the 188.88 rate and the current
25 expected RPM -- current RPM rates, correct?

1 A. Correct, as long as you when you say
2 "current," you mean the current rates that would be
3 applicable for each planning year.

4 Q. Yes. And with that, let's use that as an
5 ongoing understanding. If we have that as an ongoing
6 understanding, are you comfortable with that?

7 A. Yes.

8 Q. And these RPM rates that we're talking
9 about are the amounts that are set by the three-year
10 forward base residual auction and the incremental
11 auctions that are run by PJM Interconnection,
12 correct?

13 A. Yes, that's my basic understanding. And
14 that the Commission determined would be what AEP Ohio
15 would charge CRES providers.

16 Q. And currently on a current basis AEP for
17 load that shops is collecting effectively the RPM
18 rate, correct?

19 A. For load that shops we're collecting the
20 RPM rate from the suppliers.

21 Q. Through a settlement process with PJM,
22 correct?

23 A. Correct.

24 Q. And the delta or the difference between
25 \$188.88 per megawatt-day and the RPM rate is the

1 amount that's currently being deferred pursuant to
2 the orders coming out of the capacity case; is that
3 correct?

4 A. I believe so, but it may be the orders
5 coming out of the ESP, not the capacity case.

6 Q. Fair enough. The combination of those
7 two orders, the capacity case authorized accounting
8 changes, the ESP case then identified the way that
9 the deferrals would be -- would be amortized; is that
10 a fair characterization? If you know.

11 A. Yeah, I don't know that I know to that
12 fine of a detail what was in each order.

13 Q. The company is currently amortizing a
14 portion of that deferral through the RSR, the retail
15 stability rider, correct?

16 A. Correct. A portion of those as those
17 deferrals are computed, I believe \$1 of the RSR
18 collections are going to write down those deferrals.

19 Q. And the balance of that collection will
20 be determined at the conclusion of the ESP, if I
21 understand it correctly, correct?

22 MR. NOURSE: I'm sorry. Could I have
23 that question read back?

24 I'm not sure, Mr. Darr, if you meant the
25 collection of that balance or the balance of that

1 collection.

2 MR. DARR: What I meant to ask -- let me
3 rephrase. If it's confusing, let's make sure it's
4 accurate.

5 Q. The deferral balance, that is the
6 remaining amount, would be determined at the
7 conclusion of the current ESP under the current
8 orders, correct?

9 A. I think you're correct, once this ESP
10 period is done you'd be able to compute what the
11 final balance was and then I believe the ESP order
12 said something about collection over three years.

13 Q. At this point, then, it would require a
14 subsequent Commission order to establish a rate to
15 collect that balance; would it not?

16 MR. NOURSE: I'm sorry, I just object.
17 When you say "collect it," are you saying before the
18 end of the ESP 2 or --

19 MR. DARR: No, I'm talking about -- I
20 think it was in perfect context.

21 Q. I'm talking about at the point of the
22 conclusion of the ESP there's going to need to be a
23 rate set to collect the deferral balance, correct?

24 MR. NOURSE: I'd just object to the
25 extent that it's a legal conclusion about what's

1 required. You know, if he gives his lay opinion, I'm
2 fine with that.

3 MR. DARR: I'm not asking for his legal
4 opinion.

5 EXAMINER PARROT: All right. With that
6 qualification, please continue, Mr. Roush, with your
7 answer.

8 A. I believe once that final balance is
9 determined, some sort of rate will have to be
10 established. I think there could be any number of
11 possible ways to do that including continuing the
12 current level of the rate or -- so I'm not sure how
13 it will play out ultimately.

14 Q. And you're aware, of course, that both
15 the capacity order and the ESP 2 order with regard to
16 both the determination of the 188.88 amount and any
17 deferral or collection of that deferral is under
18 appeal, correct? Are you aware of that?

19 A. It seems like a lot of our orders are
20 under -- a lot of orders related to our cases are
21 under appeal, so that wouldn't surprise me.

22 Q. Especially from my office, correct?

23 A. I wasn't going to say that.

24 Q. You don't have to, I can do it for you.
25 More than happy to do it for you.

1 With regard to the fixed FAC component,
2 that's an issue that came up recently in testimony
3 that you provided concerning the competitive bidding
4 process, correct?

5 A. Yes.

6 Q. And there has not at this point been a
7 determination as to the treatment for shopping
8 purposes of the fixed component of the FAC that
9 you've identified?

10 A. That's correct. Generally, I think the
11 issue was the collection from nonshopping customers.

12 Q. Am I correct that there were issues
13 raised as to whether or not there was potentially a
14 double-collection of the amounts contained in account
15 555 as between what's being collected in capacity
16 charges versus what might be collected through the
17 FAC?

18 MR. NOURSE: Your Honor, I'd just object.
19 Number one, I don't see the relevance here. Number
20 two, you know, the issues pending in the CBP case as
21 to whether the Commission will make a decision to
22 change the current recovery of the FAC I think is,
23 you know, asking him to speculate and just, I don't
24 see the relevance.

25 MR. DARR: Your Honor.

1 EXAMINER PARROT: We may get to the point
2 where I agree with that, but I'm going to allow this
3 particular question.

4 MR. DARR: Thank you.

5 THE WITNESS: Maria, can you read it
6 back, please?

7 (Record read.)

8 A. I think that was one of the issues.
9 There were a number of issues raised in that case
10 and, believe it or not, that already seems like so
11 long ago.

12 Q. You also prepared some documentation
13 about bill impacts concerning the existing FA -- or,
14 excuse me, concerning the existing ESP 2 rates
15 compared to the ESP 1 rates as part of your work on
16 the competitive bidding case. Do you recall that?

17 A. I recall doing bill impacts and providing
18 them in discovery and I think I may have even been
19 cross-examined with some of those. I don't recall
20 what they were comparing, whether they were the ESP 1
21 to 2 or ESP 2 before and after auction; I just don't
22 recall.

23 MR. DARR: Well, at this point then, I'd
24 like to have marked as IEU Exhibits, would be 7
25 through 10?

1 EXAMINER PARROT: Yes, you're at 7.

2 MR. DARR: Okay. With the Bench's
3 permission, I'd like to take over that corner
4 because, otherwise, I'm going to be going back and
5 forth several times.

6 MR. PETRICOFF: We'd be glad to clear him
7 a place.

8 MR. DARR: I don't need a chair, I just
9 need a . . .

10 (EXHIBIT MARKED FOR IDENTIFICATION.)

11 Q. Let me show you what's been marked as IEU
12 Exhibit No. 7. Do you recognize this, Mr. Roush?

13 A. Yes.

14 Q. Could you describe it for us, please.

15 A. It looks like typical bill calculations
16 for August 2012 for the Columbus Southern rate zone
17 and -- looks like it's just the Columbus Southern
18 rate zone.

19 Q. Was this a document prepared by you?

20 A. It was prepared under my direction.

21 Q. And what does this purport to
22 demonstrate?

23 A. It looks like, to me, typical bills for
24 the month of August 2012.

25 Q. And would this be pre-ESP 2 rates or

1 post-ESP 2 rates?

2 A. It appears to be before-ESP 2 rates but
3 I'm not certain.

4 Q. Is there something that would help you to
5 be more certain?

6 A. By having the whole Excel file that this
7 came out of would have helped me a lot. It's hard
8 from the pages, it's a little tougher.

9 Q. What about comparing it to a document
10 that shows current rates?

11 A. It may or may not help. It looks like
12 it's -- okay, something jogs my mind. The
13 environmental rider is shown here and that would have
14 been a rider that was in existence pre-ESP 2 case.

15 Q. Okay. So that --

16 A. Looks like it's pre-ESP 2.

17 Q. Very good.

18 (EXHIBIT MARKED FOR IDENTIFICATION.)

19 Q. Let me show you what's been marked as IEU
20 Exhibit No. 8. Could you identify it for us, please?

21 A. Looks like, again, a Columbus Southern
22 Power rate zone calculation under current rates at
23 the time it was prepared, which I'm not sure what
24 month that would have been. But it looks like it is
25 post-ESP 2 because it includes the retail stability

1 rider.

2 Q. And is this document similar in form and
3 function as IEU Exhibit No. 7?

4 A. Yes.

5 (EXHIBIT MARKED FOR IDENTIFICATION.)

6 Q. Let me show you what's been marked as IEU
7 Exhibit No. 9, ask you to identify that for us,
8 please.

9 A. It looks like the same thing as IEU
10 Exhibit No. 7 but for the Ohio Power Company rate
11 zone which is typical monthly bills for August 2012.

12 Q. And, again, is this a document that you
13 prepared or was it prepared under your direction?

14 A. It was prepared at my direction.

15 Q. And would that also be true for IEU
16 Exhibit No. 8?

17 A. Yes, it would.

18 (EXHIBIT MARKED FOR IDENTIFICATION.)

19 Q. Finally, let me show you what's been
20 marked as IEU Exhibit 10. And, again, can you
21 identify that for us, please?

22 A. Certainly. It looks like the same
23 document as IEU Exhibit No. 8 except for the Ohio
24 Power Company rate zone, it's typical net monthly
25 bills for current rates post-ESP 2 but I'm not sure

1 which month.

2 Q. Now I'd like to turn your attention to
3 what I believe is the last page of IEU Exhibit No. 7.
4 Could you go to that, please.

5 A. I'm there.

6 Q. And could you describe what's detailed
7 out on the last page of that document?

8 A. IEU Exhibit No. 7, which is August 2012
9 bills for the Columbus Southern Power rate zone, this
10 looks like Schedule GS-4 bills at four different
11 usage levels.

12 Q. Okay. If we go to the highest level of
13 usage, 50,000 kVA -- excuse me, 50,000 kW and
14 32,500,000 kWh, would I be correct that the total
15 bill for that customer as of August 2012 would be
16 \$1.856 million?

17 A. Correct. Rounded.

18 Q. I'd like to turn your attention to IEU
19 Exhibit No. 8. I again direct your attention to the
20 last page of that document.

21 A. I'm there.

22 Q. And, again, we would be looking at the
23 bill impacts for, again, a GS-4 customer, correct?

24 A. Per the bill calculation, yes.

25 Q. Okay. And if we go to the same level of

1 usage, the total bill for this customer would be as
2 of current rates \$2.248 million, correct?

3 A. Correct. Rounded. And just kind of
4 looking at this it appears this must have been
5 current rates as of either April, May, or June of
6 this year.

7 Q. And how did you determine that?

8 A. I was looking at the fuel adjustment
9 clause value and I know that value has gone down
10 since then.

11 Q. And if we turn to IEU Exhibit No. 9, and
12 this is for the Ohio Power Company, correct?

13 A. Correct.

14 Q. And, again, if we turn to the last page,
15 we would be looking at various rates for various
16 levels of GS-4 customers, correct?

17 A. Correct, GS-4 transmission voltage
18 customers.

19 Q. And if we look at the highest level for
20 that customer set, the bill as of August 2012 would
21 be \$1.877 million?

22 A. Correct. Rounded.

23 Q. Now turning your attention to IEU Exhibit
24 No. 10 and, again, if we go to the last page, we see
25 a set of bill impacts or bill calculations for GS-4

1 customers, correct?

2 A. Correct.

3 Q. And for the highest level of customer the
4 current bill would be \$2.295 million, correct?

5 A. Correct. Rounded.

6 Q. And these are all monthly bills that
7 we've been talking about.

8 A. Correct.

9 Q. Unlike my colleague, I'll not ask you for
10 the percentage increase year over year. Save us all
11 that mathematics one last time.

12 You're also aware that the company,
13 AEP Ohio, has requested an increase in the
14 transmission rates; is that correct?

15 A. I know we've filed to update the
16 transmission cost recovery rider, I believe it's an
17 increase but I didn't work on that filing.

18 Q. And, in fact, we got an order today
19 concerning that filing, correct?

20 A. That's what I heard. I haven't seen it.

21 Q. And you've reviewed this filing in the
22 past?

23 MR. NOURSE: Objection. What filing are
24 you referring to?

25 MR. DARR: The TCRR filing.

1 MR. NOURSE: I'd object to continuing
2 this line of questioning about various updates in
3 various AEP cases without connecting them to
4 Mr. Roush's testimony.

5 MR. DARR: Mr. Roush's testimony goes to
6 the reasonableness of whether or not the Ormet
7 modification should go through, he's offered an
8 alternative plan as well; all of that is determined
9 by whether or not on a -- whether or not the plan was
10 reasonable, fair, and just. That's the standard. To
11 determine whether it's fair, reasonable, and just you
12 look not only at Ormet, not only at AEP, but at
13 everybody else which is why the rest of us are in the
14 room.

15 MR. NOURSE: Your Honor.

16 MR. DARR: Whether or not it is
17 reasonable or not goes to whether or not the current
18 rate increases have to be -- whether or not the
19 current rate increases need to be taken into account,
20 and the point of this line of questioning is to point
21 out that not only has AEP raised its rates over the
22 last year through the ESP 2, but is proposing to
23 continue to do so through the TCRR.

24 MR. NOURSE: First of all --

25 EXAMINER PARROT: I've heard enough.

1 Mr. Darr, are you referring to the
2 present TCRR filing?

3 MR. DARR: Yes, ma'am.

4 EXAMINER PARROT: I believe he already
5 testified that he didn't work on that filing.

6 Is that correct, Mr. Roush?

7 THE WITNESS: Yes.

8 EXAMINER PARROT: I think he already
9 answered your question that's pending.

10 MR. NOURSE: Your Honor, I'd like to
11 correct for the record the mischaracterization that
12 Mr. Roush is advocating for particular results here.
13 He's providing quantitative data and he's indicated
14 how he's incorporated certain positions that have
15 been articulated by the company previously. He's not
16 advocating a particular outcome.

17 EXAMINER PARROT: Thank you.

18 Do you have a follow-up question? I just
19 feel like your most recent question was already
20 answered by the witness. I'm not trying to --

21 MR. DARR: I understand, your Honor.

22 EXAMINER PARROT: If you have a follow-up
23 to that one, I'll allow you to continue.

24 MR. DARR: I did have a follow-up and
25 then there was an objection, so I guess the follow-up

1 is whether or not he had reviewed the current
2 application.

3 EXAMINER PARROT: Okay. I will allow him
4 to answer that question. I think he's already
5 answered it, but maybe not.

6 A. Yeah, I didn't work on it. I may have
7 looked at it after it was filed.

8 Q. (By Mr. Darr) In fact, do you recall
9 during your CBP testimony being presented with the
10 application and going through it with Mr. Pritchard?

11 A. I may have. It's possible.

12 MR. DARR: May I approach? Thank you,
13 your Honor.

14 EXAMINER PARROT: You may.

15 MR. DARR: Let the record to reflect I'm
16 showing the witness the application in Case
17 No. 13-1406.

18 A. Thank you.

19 Q. Just take an opportunity to take a look
20 at that, see if it refreshes your recollection.

21 A. Okay, I've looked at it.

22 Q. Does that refresh your recollection?

23 A. It probably depends on the depth of your
24 questions. I haven't studied this in detail, I'm
25 sure I've read it some time ago, but it depends on

1 the depth of your questions.

2 Q. Well, let's simplify this: Are you aware
3 that the company, as set out in Schedule B-2 of this
4 application, is seeking an increase in the TCRR of
5 42 percent?

6 MR. NOURSE: Your Honor, I just object.
7 You know, IEU was able to present their own witness
8 if they wanted to. He's not made connections to
9 Mr. Roush's testimony, he's just trying to dump all
10 this information in the record from other cases.
11 He -- it could have been presented through IEU's own
12 witness and I don't see the connection. He's not
13 being required to make a connection to Mr. Roush's
14 testimony, which should be required in
15 cross-examination.

16 MR. DARR: The scope of cross-examination
17 under both the Ohio rules and the federal rules
18 allows examination -- I take that back. Under the
19 Ohio rules it allows it as to any relevant matter.
20 This Commission is governed by the Ohio rules, at
21 least indirectly, and has often relied on the Ohio
22 rules as a basis for ruling on cases.

23 I've already demonstrated the relevance
24 of the matter as to the rate increases being sought
25 by AEP and how those may impact the Commission's

1 decision. It is relevant, and the objection is
2 unwarranted.

3 EXAMINER PARROT: I'm going to overrule
4 the objection.

5 THE WITNESS: Can you read back the
6 question?

7 (Record read.)

8 A. Based on the document you handed me, I
9 looked at the total percent difference and I see
10 33.24 percent. On Schedule B-2?

11 Q. (By Mr. Darr) I believe there are
12 multiple schedules. Could you take a look at those,
13 please.

14 A. All I see is a total percent increase in
15 transmission revenues of 33.24 percent.

16 Q. And do you know what the total bill basis
17 would be from that increase?

18 A. I believe there are typical bills filed
19 in this filing, so let's see here, Schedule B-5 has
20 typical bills which show percentage increases --

21 Q. And what's the range of --

22 A. -- on a total bill basis.

23 Q. I'm sorry, I stepped on your answer.

24 A. I was done.

25 Q. Okay. What's the range of those

1 increases?

2 A. From my cursory inspection it looks like
3 a range from 0.9 to 6.7 percent depending on the
4 tariff and rate zone.

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

6 EXAMINER PARROT: Thank you, Mr. Darr.

7 Staff?

8 MR. McNAMEE: No questions.

9 EXAMINER PARROT: Okay. Any redirect?

10 MR. NOURSE: Your Honor, could I have a
11 break?

12 EXAMINER PARROT: Five minutes?

13 MR. NOURSE: That would be plenty.

14 EXAMINER PARROT: Okay, very good. Let's
15 take a five-minute break.

16 (Recess taken.)

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

19 Any redirect, Mr. Nourse?

20 MR. NOURSE: Yes, your Honor.

21 - - -

22 REDIRECT EXAMINATION

23 By Mr. Nourse:

24 Q. Mr. Roush, earlier you had some
25 cross-examination from Mr. Barnowski about monthly

1 items, the cost of monthly -- on a monthly basis of
2 various items of costs, and I think the main
3 scenarios were the Ormet proposal as well as a
4 liquidation scenario, but -- and most of the
5 discussion Mr. Barnowski wanted to cover related to a
6 six-potline operation. Do you recall that?

7 A. Yes.

8 Q. And I believe as part of the monthly
9 numbers that were discussed during that
10 cross-examination there was an item that was not
11 discussed relating to the \$9 per megawatt-hour credit
12 for potlines 5 and 6 being restarted. Do you recall
13 that?

14 A. Yes. I don't recall that item coming up
15 during the conversation, but as shown on Exhibit
16 DMR-1, that is -- that shopping credit is just over a
17 million dollars a month for potlines 5 and 6.

18 Q. Okay. Thank you.

19 And with regard to the other scenario of
20 Ormet liquidating, do you recall or is it your
21 understanding that -- let me back up because some of
22 the dollar amounts that Mr. Barnowski asked you about
23 I think he characterized them as being lost under a
24 Ormet liquidation scenario. Do you recall that?

25 A. Yes.

1 Q. And is it your understanding under the
2 ESP order that AEP has an option to reopen the ESP
3 and address costs that relate to Ormet going out of
4 business should that occur?

5 A. I generally recall that there was a
6 provision specifically in the ESP related to should
7 Ormet go out of business, all the details of it I
8 don't recall, but I remember there was a provision
9 related to that issue in the ESP.

10 Q. Okay. So it's possible that some costs
11 relating to Ormet liquidating or going out of
12 business could be recovered by AEP Ohio and not
13 necessarily be lost under that scenario, correct?

14 MR. BARNOWSKI: Your Honor, I object to
15 this line of questions. The questions were losses to
16 both ratepayers and AEP. If AEP recovers -- or,
17 loses the money and recovers it through ratepayers,
18 it's a lost contribution by Ormet either way.

19 MR. NOURSE: Your Honor, I'm entitled to
20 ask this question on redirect and he can recross if
21 he wants to, but this is simply a clarifying matter.

22 EXAMINER PARROT: All right.

23 MR. BARNOWSKI: All I'm objecting to is
24 the mischaracterization of the questions. If he has
25 a question, I think Mr. Nourse should ask the

1 question, he shouldn't characterize my questions and
2 then build the straw man and knock it down and ask
3 his own question. He should just ask his own
4 question.

5 EXAMINER PARROT: The objection is
6 overruled.

7 Q. (By Mr. Nourse) Do you recall the
8 question, Mr. Roush?

9 A. No, I don't.

10 Q. Okay.

11 MR. NOURSE: Could you read it back?

12 (Record read.)

13 A. Correct. My understanding is that there
14 could be some costs under the provision of the ESP
15 that AEP Ohio could seek to recover through a kind of
16 reopener provision.

17 Q. Thank you.

18 And, Mr. Roush, do you still have the
19 document, I don't believe this was marked as an
20 exhibit, but it's a second quarter 2013 earnings call
21 transcript?

22 A. Yes, I have that.

23 Q. First of all, can you read the
24 second-to-last paragraph on page 1, please, in the
25 record?

1 A. "Today, we will be making forward-looking
2 statements during the call. There are many factors
3 that may cause future results to differ materially
4 from these statements. Please refer to our SEC
5 filings for a discussion of these factors."

6 Q. Thank you.

7 And do you recall the discussion earlier
8 about comments from Mr. Akins and Mr. Tierney
9 concerning this case?

10 A. Yes, the elements that were read.

11 Q. And there was a discussion of a, I
12 believe it was 2.8 million per month figure.

13 A. Yes.

14 Q. Okay. And would it be your understanding
15 that that would be a figure that relates to earnings
16 which was the purpose of this call?

17 MR. BARNOWSKI: Objection, your Honor.
18 He's asking the witness to give his understanding of
19 the words used by another person.

20 MR. NOURSE: Your Honor, this was the --
21 this was the whole purpose of cross-examination. He
22 used this document --

23 EXAMINER PARROT: I agree. The objection
24 is overruled.

25 A. I guess the statement says the pretax

1 would be about 2.8 million per month, so to me in the
2 context the "pretax" means pretax earnings.

3 Q. Thank you.

4 And with regard to the other items of
5 your -- of your termination fee calculation that
6 relate to fixed FAC and capacity deferrals, would you
7 expect any developments with Ormet that would cause a
8 temporary nonrecovery of either of those items to be
9 impacting -- earnings impacting, recognizing that
10 you're not an accountant, I just want to get your
11 understanding of whether that would be earnings
12 impacting developments.

13 A. No. I think, as I stated earlier, the
14 whole reason for those is that they -- those items
15 are protection that AEP Ohio would not retain those
16 funds, that those would be used to reduce the cost
17 impact on other AEP Ohio customers.

18 Q. So would -- I'm sorry. Would it be your
19 understanding, then, that Ormet-related developments
20 might affect the regulatory asset balance but the
21 question of whether and the extent to which those
22 impacts would be recovered from other ratepayers
23 would be determined subsequently?

24 A. Correct. With respect to the capacity
25 deferral component, it would just impact the balance.

1 With respect to the fixed FAC, it would affect the
2 balance which would, the over/underrecovery balance
3 basically in the fuel cost.

4 MR. NOURSE: Thank you. That's all I
5 have, your Honor.

6 EXAMINER PARROT: Mr. Barnowski?

7 MR. BARNOWSKI: Nothing further, your
8 Honor.

9 EXAMINER PARROT: Ms. Grady?

10 MS. GRADY: No questions, your Honor.

11 EXAMINER PARROT: Mr. Darr?

12 MR. DARR: No, thank you.

13 EXAMINER PARROT: Mr. McNamee?

14 MR. McNAMEE: No questions.

15 EXAMINER PARROT: Thank you, Mr. Roush.
16 You're excused.

17 Mr. Nourse, I believe you already moved
18 your exhibit.

19 MR. NOURSE: Thank you. I thought you
20 were prompting me again.

21 EXAMINER PARROT: You've already done it.
22 Are there any objections to the admission
23 of AEP Exhibit 2?

24 MR. BARNOWSKI: Yes, your Honor, just as
25 to two lines or, I'm sorry, two portions, page 7,

1 lines 8 to 11, and page 10, lines 6 to 9 for the same
2 reason. In both of those sections of the witness's
3 testimony he repeats legal advice given to him by
4 lawyers who he doesn't identify. I think that legal
5 advice should not be coming into the record, it's
6 improper legal conclusions.

7 EXAMINER PARROT: Well, it routinely does
8 in Commission proceedings, so I'm going to overrule
9 your objection. AEP Exhibit No. 2 shall be admitted.

10 (EXHIBIT ADMITTED INTO EVIDENCE.)

11 EXAMINER PARROT: Ms. Grady.

12 MS. GRADY: Thank you, your Honor. I
13 move for the admission of, I believe it's OCC 6 and
14 7.

15 EXAMINER PARROT: Yes. Are there any
16 objections to the admission of OCC Exhibit 6 or 7?

17 (No response.)

18 EXAMINER PARROT: Hearing none, OCC
19 Exhibits 6 and 7 are admitted.

20 (EXHIBITS ADMITTED INTO EVIDENCE.)

21 EXAMINER PARROT: Mr. Darr.

22 MR. DARR: Move the admission of IEU-Ohio
23 Exhibits 7, 8, 9, and 10.

24 EXAMINER PARROT: Are there any
25 objections to the admission of IEU Exhibits 7 through

1 10?

2 MR. NOURSE: Yes, your Honor. I think
3 the vast majority of this information was not
4 discussed, you know, with the witness, and I think
5 there are only a couple pages of materials that were
6 even discussed. And he was fairly reticent to -- he
7 didn't recall much about these documents and, you
8 know, didn't make any connection to his testimony so
9 I think it would be inappropriate just to dump
10 these -- this is a lot of data into this record.

11 EXAMINER PARROT: Response?

12 MR. DARR: Certainly, your Honor.
13 Clearly, the document as a whole is relevant, it goes
14 to rate impacts of all customer classes. I
15 identified obviously the importance of it to the
16 clients that we represent, the GS-4 clients. There
17 was no indication that it's inaccurate. It was
18 prepared by the company and, in fact, if I had asked
19 for an admission, I'm certain I could have gotten an
20 admission of it through discovery. There's just no
21 point in not including this in the record and I
22 believe the objection is unwarranted.

23 MR. NOURSE: Your Honor, I didn't
24 question the authenticity. I questioned the
25 relevance and the lack of connection. Just because

1 there are rate impacts from other cases, you know,
2 again, IEU could have brought their own witness to
3 formulate the theory that they want to advance about
4 what these mean and why they're relevant but it
5 didn't happen during the cross-examination.

6 MR. DARR: I think I clearly established
7 through the examination, your Honor, the relevance of
8 the document. It goes to the overall effect of the
9 current rates and whether or not in this environment
10 it's appropriate or not to grant some of the
11 additional increases being sought by Ormet. The
12 whole document -- that doesn't change the relevance
13 of the document.

14 EXAMINER PARROT: All right. Thank you
15 both. I think at this point I am going to admit IEU
16 Exhibits 7 to 10 and allow the Commission to
17 determine their proper weight.

18 (EXHIBITS ADMITTED INTO EVIDENCE.)

19 EXAMINER PARROT: I think that concludes
20 our witnesses. Let's go off the record briefly.

21 (Discussion off the record.)

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

24 We have briefly discussed a briefing
25 schedule for the case. We are going to have only one

1 round of briefing so simultaneous briefs, meaning all
2 parties file one brief on the same date, and that due
3 date will be Monday, September 9th, 2013. And I
4 ask that the briefs be served on all the parties as
5 well as the attorney examiner by electronic mail.

6 MR. NOURSE: Your Honor, I'm sorry, I
7 thought we were talking about September 12th.

8 MR. PETRICOFF: Thirteenth.

9 EXAMINER PARROT: That's what was
10 proposed, and I'm saying that the deadline will be
11 September 9th. Monday, September 9th, 2013.

12 Anything further for the good of the
13 order?

14 (No response.)

15 EXAMINER PARROT: Okay. Seeing or
16 hearing nothing, we are adjourned.

17 MR. DARR: Thank you, your Honor.

18 EXAMINER PARROT: Thank you.

19 MR. BERGER: Thank you, your Honor.

20 (The hearing concluded at 6:56 p.m.)

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CERTIFICATE

I do hereby certify that the foregoing is a true and correct transcript of the proceedings taken by me in this matter on Wednesday, August 28, 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.

(73241-MDJ)

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in

Case No(s). 09-0119-EL-AEC

Summary: Transcript in the matter of Ormet Primary Aluminum Corporation hearing held on 08/28/13 - Volume II electronically filed by Mrs. Jennifer Duffer on behalf of Armstrong & Okey, Inc. and Jones, Maria DiPaolo Mrs.