

1 Q. What is your business address?

2 A. The corporate address is 1901 North Moore
3 Street, Suite 1200, Arlington, Virginia, 22209.

4 Q. You're aware, are you not, that there are
5 essentially two audit cases going on simultaneously
6 here?

7 A. Yes.

8 Q. Okay. Were you involved in those, in the
9 preparation of those audit reports?

10 A. Yes.

11 Q. Do you have in front of you what's been
12 marked for identification as Staff Exhibits 1, 1A, 2,
13 and 2A?

14 A. Yes.

15 Q. Could you tell me what, if any, your
16 involvement was with those documents?

17 A. I was involved with writing and reviewing
18 all aspects of the documents.

19 Q. Okay. All aspects of the management
20 performance portion of the documents or all of it all
21 of it?

22 A. Well, as Mr. Smith pointed out, EVA is
23 prime on this engagement so as part of this I read
24 and reviewed his section as he read and reviewed or
25 Larkin read and reviewed our sections. So it was a

1 joint effort but ultimately it was my responsibility
2 to get the document out.

3 Q. As you were the contractor.

4 A. Correct.

5 Q. Okay. So then are there any additions or
6 corrections that you'd like to make to these Staff
7 Exhibits 1, 1A, 2, and 2A?

8 A. No.

9 Q. Are the contents of what's been marked
10 for identification as Staff Exhibits 1, 1A, 2, and 2A
11 true to the best of your knowledge and belief?

12 A. Yes.

13 MR. McNAMEE: Okay. With that, your
14 Honor, she's available for cross.

15 EXAMINER PARROT: Thank you. OMA?

16 MS. MOHLER: No questions.

17 EXAMINER PARROT: IEU?

18 MR. PRITCHARD: Yes, your Honor.

19 - - -

20 CROSS-EXAMINATION

21 By Mr. Pritchard:

22 Q. Good morning, Ms. Medine.

23 A. Good morning.

24 Q. My name is Matt Pritchard and I'm
25 representing the Industrial Energy Users of Ohio.

1 Do you have in front of you the 2011
2 audit?

3 A. The audit of 2011?

4 Q. Correct.

5 A. Yes.

6 Q. Would you turn to page 1-13.

7 A. Yes.

8 Q. Referencing the first bullet point on
9 this page, you referenced an argument from the 2009
10 FAC audit case, correct?

11 A. Yes. But actually what I was doing in
12 this section is just repeating what was in the entry
13 on rehearing.

14 Q. And this bullet point references what has
15 been labeled as the "contract support agreement." Do
16 you see that reference?

17 A. Yes, I do.

18 Q. And the references to "contract support
19 agreement," do you have an understanding about what
20 supplier that agreement is with?

21 A. I believe I do.

22 Q. And is it your understanding that
23 contract support agreement references the contract
24 with [REDACTED]

25 A. That's my understanding.

1 Q. And in the 2010 and 2011 audits that are
2 the subject of this case the [REDACTED] is
3 discussed in the audit reports, correct?

4 A. Yes.

5 Q. Sticking on page 1-13, this is your
6 summary of the parties' arguments and the
7 Commission's response to arguments from the 2009
8 case, correct?

9 A. Yes.

10 Q. At the end of the paragraph am I correct
11 that you indicated that it's your belief that the
12 Commission held that the contract support agreement
13 and the arguments parties had previously raised could
14 be the subject -- or, sorry, may be examined in a
15 future audit of AEP Ohio's fuel costs?

16 A. Yes.

17 Q. And as part of the 2010 or -- let me back
18 up a minute.

19 Could you -- what is your understanding
20 of the [REDACTED] as it pertains to what's been
21 reported in the audits in this case?

22 A. The company has had an agreement with
23 [REDACTED] for coal to go to [REDACTED], and it
24 had a number of iterations and amendments throughout
25 its term. In [REDACTED] the company [REDACTED]

1 for a period -- excuse me. The company [REDACTED]
2 [REDACTED], I believe it's
3 [REDACTED] or [REDACTED].

4 And so the issue that was raised by the
5 audit was simply whether the decision to [REDACTED]
6 [REDACTED] that contract or [REDACTED] that contract [REDACTED]
7 was a reasonable decision.

8 Q. And referencing this bullet point on
9 1-13, is it your recollection that the summary of the
10 arguments here were IEU-Ohio's objection that
11 customers [REDACTED] in [REDACTED] under
12 the agreement and the agreement then provided
13 AEP Ohio with the [REDACTED] coal [REDACTED]
14 [REDACTED] in [REDACTED]?

15 A. I would just like to go back to the
16 discussion.

17 Q. And if it helps refresh your
18 recollection, in the 2010 audit, page 3-29, in the
19 2011 audit page 3-33 includes EVA's review of this
20 contract.

21 A. Sorry. I think there are a couple of
22 different issues [REDACTED]. I think
23 what that entry referred to, and not what I referred
24 to later, was [REDACTED] of the contract
25 where there was [REDACTED]

1 ██████████, if I'm correct. Which I would like to
2 refresh.

3 Can you ask your question again? Sorry.

4 MR. PRITCHARD: Will you have the
5 question read back into the record, please.

6 (Record read.)

7 A. Can you restate it one more time? I'm
8 sorry.

9 Q. Yes. Is it your recollection that what
10 you were summarizing was IEU-Ohio's arguments and the
11 Commission's response in, and I believe I indicated
12 the entry on rehearing in the '09 case about IEU-Ohio
13 arguing that their customers ██████████
14 ██████████ but ██████████, and
15 I believe at the end of the bullet point you
16 summarized your belief of the Commission's response
17 which is it may be examined in future audits.

18 A. Yes.

19 Q. Which audit do you have in front of you
20 right now?

21 A. I have three audits. What would you
22 like?

23 Q. If you'll turn to page, of the 2011
24 audit, page 3-33.

25 A. I'm on that page.

1 Q. And in response a few minutes ago you had
2 indicated that it was your belief that the agreement
3 had [REDACTED]. Would you review right under the
4 first chart, I believe it's the third sentence which
5 discusses the [REDACTED], and let me know
6 after you've had a chance to read that.

7 A. Yes.

8 Q. Is it your belief after reading this that
9 this contract has been [REDACTED]?

10 A. I'm sorry, I have [REDACTED]. Am I
11 missing . . .

12 Q. On page 3-33, let me know if I'm reading
13 this correctly, the audit report states "As explained
14 above, under the amended agreement" --

15 A. Yes, I'm sorry, yes, [REDACTED].

16 Q. Thank you.

17 A. I apologize.

18 Q. That's all right.

19 And as part of the recommendations in
20 this case the issue that was discussed about the
21 [REDACTED] was
22 a recommendation made about how that [REDACTED]
23 should be flowed back through to customers?

24 A. Was a recommendation made by me or by --

25 Q. In this -- to the best of your knowledge

1 in this audit report.

2 A. Well, the audit report basically assumed
3 that if the contract would continue at the [REDACTED]
4 [REDACTED], the issue was the [REDACTED]
5 [REDACTED], so the only recommendation that was made was
6 basically that if there were, in fact, [REDACTED]
7 [REDACTED] as a
8 result of [REDACTED], that they not be allowed to
9 be passed through the FAC.

10 And, similarly, that any dollars received
11 from the [REDACTED], again because of the
12 way this extension was done, also go through the FAC.

13 Q. And by implication if that was the
14 recommendation related to the [REDACTED], there
15 was not a recommendation that the Commission, for
16 instance, credit now [REDACTED].

17 A. No, there was no recommendation.

18 Q. Now, generally speaking, the cost of coal
19 of a particular plant would flow through to customers
20 by way of the FAC to the extent that that power plant
21 was allocated on an economic dispatch model to the
22 SSO; is that your understanding?

23 A. That's my understanding.

24 Q. And, likewise, so any increases and
25 decreases in the cost of coal are picked up in the

1 economic dispatch model when they're allocated to SSO
2 customers.

3 A. Actually, my understanding, it depends,
4 utilities vary whether they use actual contract
5 prices or whether they use replacement prices or
6 market prices. So there are a lot of different
7 mechanisms on how utilities actually dispatch the
8 power plants. So those costs -- so it depends on
9 their methodology so it's not necessarily specific
10 to . . .

11 Q. But once the units are dispatched --

12 A. Then you would do a calculation to find
13 out what the actual costs were, correct.

14 Q. Okay. And then once you figure out which
15 units are dispatched based on the economic dispatch
16 model to be assigned to the SSO, those costs of the
17 power plants are flowed through the FAC, correct?

18 A. Correct.

19 Q. So, hypothetically speaking, if there is
20 not an FAC at a specific point in time, there would
21 be no mechanism to flow through cost of coal back to
22 customers, correct?

23 A. The market would determine what you could
24 charge customers, correct.

25 Q. And, hypothetically speaking, if AEP's

1 price of coal at a specific unit decreased in 2010
2 and that unit was assigned to the FAC, SSO customers
3 would have seen a reduction in FAC costs, correct?

4 A. Say that sentence again.

5 Q. Sorry, it's a two-part hypothetical. If
6 AEP has a specific unit whose coal costs decreased
7 from 2009 to 2010 and that unit in the economic
8 dispatch model was assigned to the SSO load, the FAC
9 would have reduced from the otherwise a portion of
10 those costs from 2009 to 2010, correct?

11 A. Yes.

12 Q. So, hypothetically speaking, if AEP Ohio,
13 if we move away from an FAC approach and AEP's energy
14 to serve SSO load is secured through a competitive
15 auction, a future market discount available to
16 AEP Ohio would not necessarily flow back through to
17 customers because there would be no FAC.

18 MR. SATTERWHITE: Objection, your Honor.
19 At this point we're dealing with the 2010-'11 audit
20 and there's been a Commission order for the review of
21 the next FAC, so I think this is beyond the scope of
22 this proceeding.

23 MR. PRITCHARD: My question is two part;
24 one, it's a hypothetical, and two, it's a
25 hypothetical that assumes there's no FAC. If there's

1 no FAC, there can't be an audit of the FAC during
2 that period of time.

3 MR. SATTERWHITE: If I may, your Honor.
4 If he could -- I'm sorry.

5 MR. PRITCHARD: Just a brief response.
6 I'm tying back to the auditor's belief that the
7 Commission said this issue could be addressed in a
8 future proceeding and whether or not this issue has
9 been addressed in these audit reports or should be
10 addressed.

11 MR. SATTERWHITE: Your Honor, he could
12 ask a hypothetical if Superman didn't have a cape,
13 could he fly and, therefore, how will that affect the
14 future FAC if it doesn't exist. It doesn't make it
15 less relevant. We have a future FAC, we're dealing
16 with a 2010-2011 FAC right now.

17 EXAMINER PARROT: I'm going to allow the
18 question.

19 A. Just to add one level of complexity to
20 the answer is that every decision -- every prudent
21 fuel procurement decision is not based upon getting
22 necessarily the lowest cost at any one point in time.

23 So if you look back to 2009 when there
24 was [REDACTED], one
25 could make the argument that that was not a prudent

1 thing to do, yet if you audit it, it was a reasonable
2 thing to do then, it was a reasonable thing in
3 hindsight.

4 So I think the reason that that decision
5 was made with respect to [REDACTED] was not necessarily
6 because it was going to get the lowest cost at that
7 moment, it was to try to preserve a supply
8 relationship.

9 Subsequently, you know, from subsequent
10 audits you know that I'm less skeptical about
11 preserving that relationship and I think it's costing
12 customers money, so you were probably rushing in
13 raising it earlier than I was, but I think you have
14 to keep in mind it's not always just simply is that
15 dollar incurred today the lowest cost -- the right
16 way you should be approaching the fuel supply. But
17 there's no question that's an issue.

18 And particularly because you have an
19 expiring FAC. And if you went back to the 2012
20 audit, the audit that was done in '12 of '11, there
21 was particular concern raised on a similar issue
22 relating to some [REDACTED]
23 [REDACTED] that was very [REDACTED] and as a concern it
24 wasn't clear that FAC would continue into '12, but
25 somehow that benefit went back to 2011 customers.

1 MR. SATTERWHITE: Your Honor, I'm going
2 to move to strike the question. I think we had a
3 question on the hypothetical and we got speeches on
4 different parts of the report, what she thinks now
5 and at a later date looking back at different
6 suppliers. I think it was just an opportunity to
7 give a speech there versus answering the question.

8 MR. PRITCHARD: In response, I believe
9 she gave context to whether it would be appropriate
10 to address the issue now. I believe I have a
11 follow-up question but I believe it's contextual to
12 the issue I'm discussing here and whether it's ripe
13 for review now or later.

14 MR. SATTERWHITE: Your Honor, it should
15 be -- sorry.

16 MR. McNAMEE: I think it's apparent from
17 her answer that she believed the question was perhaps
18 not as focused as it might have been and she was
19 providing clarity to address it appropriately.

20 EXAMINER PARROT: And I'm going to allow
21 the answer to stand.

22 Q. (By Mr. Pritchard) And to clarify my
23 question, which might have been a little awkward and
24 a little vague, leaving out the issue of whether the
25 2009 increased costs were prudent or not, if

1 customers paid increased costs in 2009 for a future
2 discount, all else being equal, if the FAC existed in
3 those future years, the increased costs in 2009 could
4 possibly be offset by [REDACTED] in future
5 years, correct?

6 A. In theory, yes.

7 Q. And taking it one step further, though,
8 if there's not an FAC in those future years, there's
9 not necessarily any mechanisms for that [REDACTED]
10 [REDACTED]
11 [REDACTED], there's not that future mechanism necessarily
12 that will exist to flow through that [REDACTED] back to
13 SSO customers.

14 A. Correct. Unless you think that by doing
15 that ultimately you've led to reduced costs in the
16 future.

17 MR. PRITCHARD: Thank you. I have no
18 further questions.

19 EXAMINER PARROT: OCC?

20 MR. ETTER: No questions, your Honor.

21 EXAMINER PARROT: Duke?

22 MR. D'ASCENZO: No questions, your Honor.

23 EXAMINER PARROT: AEP Ohio?

24 MR. SATTERWHITE: Thank you, your Honor.

25 - - -

CROSS-EXAMINATION

By Mr. Satterwhite:

Q. Hi, Ms. Medine.

A. Hi.

Q. Piggybacking off the questions you just answered, there is a future FAC period where this could be reviewed, correct?

A. Where what could be reviewed?

Q. The costs we're talking about now associated with the supplier.

A. You're talking about the specific ones referenced in there.

Q. The cross-examination that Mr. Pritchard just went over with you, I'm trying to stay away from saying confidential stuff so as much of the record can be available to the public as possible but you were just talking about a certain amount.

A. So I think there are two issues: The actual dollar amount can be calculated in the future particularly related to that particular item, in general, though, what one does in this case in a contemporaneous basis is determining prudence, not necessarily determining costs.

Q. Right. But there is a future FAC where the Commission will see what the costs are of that

1 management decision and be able to judge whether it
2 was a prudent decision or not, correct?

3 A. No. That's what I'm trying to explain.
4 The prudence is decided independent of outcome. So
5 if the decision was right or wrong, it's independent
6 of what happens ultimately.

7 Q. Let me ask it a different way, then. I
8 understand from an audit point of view you're judging
9 prudence at the time you're sitting there in those
10 shoes, but there is a bit of a delay there and the
11 Commission will have a chance to look at the actual
12 facts in the next audit period to see what the
13 outcome of that was, correct?

14 A. Again, that would not influence the
15 prudence decision that should only influence whether
16 there's a financial adjustment.

17 Q. But I'm correct, right?

18 A. You can always look back and see
19 ultimately what the costs were but the point is
20 prudence is, generally in my business prudence is
21 decided based upon when the decision was made not
22 what the outcome is.

23 Q. And you previously in other places in the
24 report I believe mentioned that it was prudent for
25 the company to take some action to help sustain the

1 sustainability of this supplier, correct?

2 A. No, not in 2011 I did not.

3 Q. In 2009 previously?

4 A. Right. I think I spoke to that
5 specifically in 2011 by saying, you know, sort of
6 enough already.

7 Q. And I understand you made a prudence
8 decision at the time which you looked at, but that
9 moved forward and that [REDACTED] moved forward over
10 time and that [REDACTED] moved forward over time that
11 could provide [REDACTED] going forward,
12 correct?

13 A. That's what the option provided for, but
14 again, the prudence decision was based upon the time
15 the commitment was made.

16 Q. I under -- I'm sorry, I didn't mean to
17 cut you off. I understand that, I'm just talking
18 about when we're looking at now. I want to clear up
19 one point too, if you could go to page 3-33 I believe
20 of the 2011, which is what you have in front of you,
21 and Mr. Pritchard was asking you some questions about
22 the [REDACTED] versus what's been [REDACTED] and it was
23 [REDACTED].

24 A. I got a little confused.

25 Q. Do you want to clear that up?

1 A. I'm not sure I can clear it up by looking
2 at the report so it looks to me one place it said the
3 contract was [REDACTED] and there may be a
4 remaining [REDACTED], but then my
5 recollection is that it might be [REDACTED]. So I
6 have to say looking back, I don't know if it's [REDACTED]
7 [REDACTED], but I'm sure Mr. Henry would know that.

8 Q. The words here say the [REDACTED]
9 [REDACTED] and AEP agreed to [REDACTED]
10 [REDACTED], correct?

11 A. That's what it says. But then I was
12 doing some subsequent review and it challenges maybe
13 what it says in here. So I would think Mr. Henry
14 could clear that up.

15 Q. That's something that could be asked of
16 the AEP witness.

17 A. Yes.

18 Q. But as far as you know here what's
19 represented here is --

20 A. It looks like the [REDACTED]
21 and then it's [REDACTED].

22 Q. Okay.

23 A. But I . . .

24 Q. Thank you.

25 MR. SATTERWHITE: One second, your Honor,

1 I'm crossing stuff off.

2 That's all I have. Thank you,
3 Ms. Medine.

4 EXAMINER PARROT: Any redirect?

5 MR. McNAMEE: Let me have a chat.

6 EXAMINER PARROT: You may have a moment
7 or two.

8 (Off the record.)

9 MR. McNAMEE: I do.

10 - - -

11 REDIRECT EXAMINATION

12 By Mr. McNamee:

13 Q. Ms. Medine, you were asked a number of
14 questions actually by IEU about certain adjustments
15 to a contract on a basis of a recommendation. Would
16 you clarify what that recommendation means.

17 A. Sure. In the audit of 2011 we made a
18 recommendation that if there were any subsequent
19 [REDACTED]
20 through the remaining term of the FAC, that they not
21 be recoverable in the FAC. And that was a distinct
22 difference than the -- than the entry referred to, a
23 different event.

24 Q. What event did that entry refer to?

25 A. It referred to a [REDACTED] of

1 [REDACTED] in which the [REDACTED] in
2 exchange for [REDACTED]

3 MR. McNAMEE: Okay. That's all I have.

4 EXAMINER PARROT: OMA?

5 MS. MOHLER: No questions, your Honor.

6 EXAMINER PARROT: IEU?

7 MR. PRITCHARD: No recross.

8 EXAMINER PARROT: OCC?

9 MR. ETTER: No questions, your Honor.

10 EXAMINER PARROT: Duke?

11 MR. D'ASCENZO: No, your Honor.

12 EXAMINER PARROT: AEP Ohio.

13 MR. SATTERWHITE: No. Thank you for the
14 clarification.

15 EXAMINER PARROT: Thank you very much.

16 MR. McNAMEE: Staff would move for the
17 admission of Staff Exhibits 1, 1A, 2, and 2A.

18 EXAMINER PARROT: Any objections?

19 MR. SATTERWHITE: No.

20 EXAMINER PARROT: Hearing none, Staff
21 Exhibits 1, 1A, 2, and 2A are admitted.

22 (EXHIBITS ADMITTED INTO EVIDENCE.)

23 EXAMINER PARROT: Let's go off the record
24 briefly.

25 (Discussion off the record.)

1 EXAMINER PARROT: Let's go back on the
2 record. At this point we're going to take a
3 45-minute recess for lunch, thank you.

4 (Luncheon recess taken.)

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Monday Afternoon Session,

November 18, 2013.

- - -

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

Staff, do you have any further witnesses?
I don't believe so.

MR. McNAMEE: No, we do not.

EXAMINER PARROT: Very good. I think
Mr. Henry then is our next witness. I'm sorry,
Mr. Dooley.

MR. ALAMI: Thank you, your Honor. The
company calls Timothy Dooley.

EXAMINER PARROT: Please raise your right
hand.

(Witness sworn.)

EXAMINER PARROT: Please be seated.

- - -

TIMOTHY H. DOOLEY

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

DIRECT EXAMINATION

By Mr. Alami:

Q. Mr. Dooley, you submitted or had
submitted on your behalf nine pages of prefilled

1 direct testimony consisting of questions and answers
2 on November 8th, 2013, in this proceeding; is that
3 correct?

4 A. That is correct.

5 Q. Do you have any additions, deletions,
6 corrections to make to that testimony here today?

7 A. No, I do not.

8 Q. And if I were to ask you the same
9 questions, would you give me substantially the same
10 answers here today?

11 A. Yes, I would.

12 MR. ALAMI: I have extra copies if folks
13 need them, but if I could have Mr. Dooley's testimony
14 marked for identification, your Honor, as AEP Exhibit
15 2.

16 EXAMINER PARROT: So marked.

17 (EXHIBIT MARKED FOR IDENTIFICATION.)

18 MR. ALAMI: And with that Mr. Dooley is
19 available for cross-examination.

20 EXAMINER PARROT: All right. Thank you.

21 I guess we'll just work our way back the
22 opposite direction for a change.

23 MR. D'ASCENZO: No questions, your Honor.

24 EXAMINER PARROT: All right. OCC?

25 MR. ETTER: Just a couple very brief

1 questions, your Honor.

2 - - -

3 CROSS-EXAMINATION

4 By Mr. Etter:

5 Q. Good afternoon, Mr. Dooley.

6 A. Good afternoon.

7 Q. On pages 6 and 7 of your testimony you
8 discuss management audit recommendation No. 20 from
9 the 2010 audit in which EVA recommended that AEPSC
10 correct the allocation of the 2010 solar obligation
11 so that the accounting procedures would be clear
12 should any force majeure situations occur in the
13 future. Do you see that?

14 A. I recall that recommendation.

15 Q. And at the top of page 7 you state that
16 AEP has updated the report even though it does not
17 anticipate any future force majeure issues.

18 A. Yes.

19 Q. Why doesn't AEP anticipate any future
20 force majeure situations regarding allocation of
21 solar obligations?

22 A. In general, the solar market is much
23 improved since that first year of the FAC and so
24 they're more readily available.

25 Q. But, well, "force majeure" by definition

1 means beyond the control of the company, so it's
2 something that's basically not foreseen possibly. So
3 how do you anticipate force majeure issues, I guess
4 is the question.

5 A. I don't know how you do that.

6 Q. Okay.

7 MR. ETTER: That's all I have. Thank
8 you.

9 EXAMINER PARROT: IEU?

10 MR. OLIKER: Thank you, your Honor.

11 - - -

12 CROSS-EXAMINATION

13 By Mr. Oliker:

14 Q. Mr. Dooley, my name is Joe Oliker, I
15 represent IEU-Ohio. Just a few questions for today.

16 A. Okay.

17 Q. In your testimony there is discussion of
18 Lawrenceburg, right?

19 A. In my testimony there was a discussion of
20 Lawrenceburg.

21 Q. Just generally speaking. I can maybe --

22 A. I don't recall that specifically other
23 than I guess there is one, yes.

24 Q. So could you explain your duties related
25 to the fuel adjustment clause, please?

1 A. My duties as the director of Energy and
2 Accounting are to direct the accounting for all the
3 fuel emission allowance activity, renewable energy
4 credits, and then to also direct and oversee the
5 accounting for the fuel clause for Columbus &
6 Southern Power and Ohio Power.

7 Q. So you were familiar with the purchased
8 power contracts of Columbus Southern Power and Ohio
9 Power Company.

10 A. In general, yes.

11 Q. Okay. From a high level Columbus
12 Southern Power Company has a purchased power contract
13 with AEP Generating for Lawrenceburg, right?

14 A. That's correct.

15 Q. And Columbus Southern Power Company also
16 has a purchased power contract with the Ohio Valley
17 Electric Corporation, also known as "OVEC," right?

18 A. That is correct, they have those two
19 agreements.

20 Q. And Ohio Power Company also has a
21 purchased power contract with OVEC, right?

22 A. Yes.

23 Q. And from a very high level these
24 purchased power contracts, the terms of them are
25 traditional cost-based rates with a rate of return,

1 right?

2 MR. ALAMI: Your Honor, I think at this
3 point I'll object. Although Mr. Dooley's testimony
4 does reference Lawrenceburg on page 8 in response to
5 the question that begins on the bottom of page 7, the
6 question and answer are very narrow and actually
7 relate to one specific accounting entry, they don't
8 relate to the broader power purchase agreements of
9 Lawrenceburg and OVEC. So to the extent that the
10 questions go any broader than the scope of
11 Mr. Dooley's testimony here, I would object that
12 that's improper.

13 MR. OLIKER: Your Honor, in Ohio
14 cross-examination is available on any issue relevant
15 to any material matter in the proceeding. It's not
16 limited to his direct testimony. I am allowed to ask
17 him questions on anything he knows about that is
18 relevant to this case.

19 MR. ALAMI: Your Honor, there are other
20 AEP Ohio witnesses here that can speak to -- to the
21 extent Mr. Olier wants to go into broader PPA
22 issues. Mr. Dooley has indicated that his knowledge
23 is very high level and his testimony is on that
24 specific point, again, as I indicated.

25 EXAMINER PARROT: I'm going to overrule

1 the objection. I think we'll allow a little leeway
2 here and see where we're headed, but we do need, as
3 you mentioned yourself, Mr. Olikar, to keep it to
4 things that are relevant to the proceedings.

5 MR. OLICKER: Of course, your Honor.

6 Q. (By Mr. Olikar) And of course to the
7 extent you don't know the answer to my questions, let
8 me know. If you don't know, that's your answer.

9 MR. OLICKER: Please have the pending
10 question reread and then I'll probably restate it.

11 (Record read.)

12 Q. So just to restate that, for example,
13 AEP -- restate that again.

14 Columbus Southern Power Company has
15 agreed to pay AEP Generating a traditional cost-based
16 rate for the output of the Lawrenceburg generating
17 unit. If you know.

18 A. Well, I do know how we accounted for it
19 as purchased power in account 555. How the rates
20 were determined and how they were negotiated I can't
21 speak to.

22 Q. Are you familiar -- have you ever seen or
23 discussed the contract with AEP Generating for the
24 Lawrenceburg generating unit?

25 A. No. Not to the best of my recollection.

1 Q. Is there anyone in this room today who
2 you believe could answer that question?

3 A. I don't know.

4 Q. And just to be clear, my previous
5 question was about the Lawrenceburg generating unit.
6 Isn't it true that Columbus Southern Power Company
7 and Ohio Power Company have agreed to pay OVEC a
8 cost-based rate for the output from its generating
9 units?

10 A. I know how it was accounted for in
11 purchased power account 555. I do not know how they
12 negotiated whatever rates were attributable to that
13 contract.

14 Q. That will shorten your cross-examination.
15 And there was some discussion of this
16 earlier today: Fuel related to generating units and
17 purchased power contracts is only allocated to SSO
18 customers if the units producing power are allocated
19 within the AEP stack toward SSO sales, correct? If I
20 didn't butcher that question.

21 A. Yeah, I don't get involved with -- I know
22 we stack them from highest to lowest; highest going
23 to the off-system sales, lowest to retail load.
24 That's all I know.

25 Q. Okay. And we'll get to this in a second,

1 but stepping back and talking about OVEC, Ohio Power
2 Company and Columbus Southern Power Company, they
3 don't have a right to all of the power produced by
4 OVEC, right? Just a portion.

5 A. That's my understanding.

6 Q. Would you agree that Columbus Southern
7 Power Company and Ohio Power Company's right to the
8 power from OVEC is equivalent to 100 percent of their
9 power participation ratio?

10 A. I don't know.

11 Q. And, if you know, is Columbus Southern
12 Power Company's right to OVEC approximately 4-1/2
13 percent of the output?

14 A. I don't know.

15 Q. Okay, fair enough.

16 And is there an AEP Ohio witness that
17 would be better suited answering that question?

18 A. I don't know.

19 Q. Now, regarding Lawrenceburg, isn't it
20 true that Columbus Southern Power Company has a right
21 to a hundred percent of the power, if you know?

22 A. Yes, that's my understanding, yes.

23 Q. Okay. Maybe I can -- isn't it true that
24 not all of the energy from Lawrenceburg is allocated
25 SSO sales because of the stacking system that

1 Columbus Southern Power uses? Right?

2 A. I'm not sure I understand your question.

3 Q. Okay. Say hypothetically the
4 Lawrenceburg generation unit produced, you know, a
5 small number, a hundred megawatt-hours, and you don't
6 believe that the fuel costs associated with all 100
7 hours would be allocated SSO sales because there may
8 be times when there are other resources that are less
9 expensive.

10 A. I understand Lawrenceburg is used as a
11 resource by CSP and it's part of the stacking. I
12 don't know where it fits in or how it fits in.

13 Q. Did you review any discovery requests
14 from IEU-Ohio in this proceeding, Mr. Dooley?

15 A. I did.

16 Q. Did you help respond to any of those
17 requests?

18 A. I did.

19 Q. Okay. And isn't it true that IEU-Ohio
20 requested data on the generation output of
21 Lawrenceburg and the OVEC generating units?

22 A. I understand that. I did not prepare
23 that.

24 Q. But you did review them.

25 A. No, I can't say as I necessarily reviewed

1 those particular ones.

2 MR. OLIKER: Can I mark a document.
3 Could we go off the record for a second, your Honor?

4 EXAMINER PARROT: You may.

5 (Discussion off the record.)

6 EXAMINER PARROT: Back on the record.

7 MR. OLIKER: Can I please mark a
8 document, your Honor.

9 I'd like to mark as IEU-Ohio Exhibit 13 a
10 set of responses to discovery, to IEU-Ohio's first
11 set of discovery on AEP Ohio.

12 EXAMINER PARROT: So marked.

13 (EXHIBIT MARKED FOR IDENTIFICATION.)

14 Q. (By Mr. Olikier) Mr. Dooley --

15 A. Yes.

16 Q. -- do you see what has been marked as
17 IEU-Ohio Exhibit No. 13?

18 A. Okay.

19 Q. Does this appear to be a set of data
20 requests served on AEP Ohio by IEU-Ohio?

21 A. It does.

22 Q. And let's first look at, how about
23 IEU-Ohio INT-1-2.

24 A. Okay.

25 Q. Do you recognize this question?

1 A. I've seen this question. I did not
2 review this question before it was submitted to IEU.

3 Q. Okay. Now, would you agree -- do you
4 have any reason to doubt the validity of AEP Ohio's
5 response?

6 A. No, I don't.

7 Q. So would you agree that if counsel served
8 these responses for interrogatory on IEU-Ohio they
9 can be trusted as being truthful?

10 A. Yes.

11 Q. Before we were talking about the
12 generation output of the Lawrenceburg generating
13 units, if you look at interrogatory 1-2 would you
14 agree that the total output for the Lawrenceburg
15 generating unit in 2010 was 1,547,862,000
16 kilowatt-hours?

17 A. Okay.

18 Q. And then if we move on to the next
19 interrogatory, No. 1-3, would you agree that AEP Ohio
20 only allocated 1,341,643,000 kilowatt-hours to CSP
21 customers through the FAC?

22 A. To the internal customers. Yes, I would
23 agree. It looks like a substantial amount.

24 Q. But you would agree it was not a hundred
25 percent.

1 A. Yes, I would agree it's not a hundred
2 percent.

3 Q. So that means that there were, is that
4 about 15 percent was not allocated to the internal
5 load?

6 A. Was not? Yes, probably in the teens
7 somewhere.

8 Q. Okay. So there could potentially be
9 off-system sales margins for those sales, right?

10 A. For the other kWh?

11 Q. Right.

12 A. Yes.

13 Q. Would you agree that AEP Ohio does not
14 share any of those sales with SSO customers in any
15 way?

16 A. That's my understanding.

17 Q. You were in the room earlier today, you
18 would agree that 100 percent of the nonfuel costs
19 associated with Lawrenceburg are borne by Columbus
20 Southern Power customers.

21 A. Only a portion for Lawrenceburg. It's
22 not a hundred percent of the nonfuel.

23 Q. The hundred percent of the depreciation
24 capacity of Lawrenceburg --

25 A. Of that, yes.

1 Q. Okay. Now, if you look at interrogatory
2 No. 4, would you agree that the total kilowatt-hour
3 output of Lawrenceburg in 2011 was 4,027,173,000
4 kilowatt-hours?

5 A. Yes.

6 Q. And then on the next interrogatory it
7 shows that about 3.5 billion kilowatt-hours was
8 allocated to internal load.

9 A. That's correct.

10 Q. So, again, not all of the output was
11 allocated to internal load and there were off-system
12 sales associated with that unit.

13 A. Yes. I believe there would be for
14 off-system, yes.

15 Q. Again for 2011, to the extent that
16 margins existed for those off-system sales, they were
17 not shared with Columbus Southern Power customers.

18 A. That's my understanding.

19 Q. Let's look at interrogatory No. 8. Now,
20 would you agree that the total kilowatt-hour output
21 of the OVEC units in 2010 was 14.6 billion
22 kilowatt-hours, approximately?

23 A. That was our response.

24 Q. Okay. You have no reason to doubt that?

25 A. I have no reason to doubt it.

1 Q. Okay. And then what's interesting, if we
2 go to interrogatory 9, total kilowatt-hours of
3 electricity allocated to OPCo and CSP customers,
4 let's see, for CSP 455,000,000 kilowatt-hours and for
5 Ohio Power about 1.7 billion kilowatt-hours.

6 A. They're not comparable, but --

7 Q. Right. Now, I was hoping you could shed
8 some light on the power participation ratios so we
9 could see why there's such a big difference, but we
10 can maybe do that with someone else because right
11 there that -- would you agree that does not look like
12 much of the power was allocated to CSP or Ohio Power
13 customers?

14 A. Well, I believe the 14 billion relates to
15 all of the generation from the OVEC units, including
16 those that were sold to other owners or participants.

17 Q. Right. So you're saying to know how much
18 the percentage of the total power that Ohio Power
19 Company and Columbus Southern Power Company had a
20 right to call versus the amount they allocated, we
21 need to know the power participation ratio.

22 A. And I do not know those.

23 Q. Okay.

24 MR. OLIKER: Matt, would you stipulate to
25 the OVEC contract filed at FERC or would you rather I

1 do it with another witness? It's a public document.

2 MR. SATTERWHITE: One second. Yaz is
3 sponsoring, but let us talk.

4 MR. OLIKER: Sorry, Yaz.

5 MR. ALAMI: It would be better and we
6 would think it might be more fruitful for you to do
7 it through another witness.

8 MR. OLIKER: Are you offering another
9 witness that can talk about this?

10 MR. ALAMI: Mr. Nelson is here and will
11 take the stand and can speak to this issue.

12 MR. OLIKER: Okay, I just want to make
13 sure I have the chance.

14 MR. ALAMI: Understood.

15 Q. (By Mr. Oliker) I'm just going to ask you
16 a few more questions before we move on to that. Like
17 the Lawrenceburg generating units you would agree
18 that if there are off-system sales from the OVEC
19 generating units, that revenue and the margin from
20 that is not shared with Columbus Southern Power
21 Company and Ohio Power Company customers.

22 A. As I said before, that's what I
23 understand.

24 Q. Okay. Now I just have a few more
25 questions. If you'd turn to interrogatory 11.

1 A. Okay.

2 Q. Would you agree that in 2011 the OVEC
3 generating units produced approximately 14-1/2
4 billion kilowatt-hours?

5 A. That appears to be OVEC's total net
6 generation.

7 Q. And if you look at interrogatory 12 --
8 hold on. Before we get there, you'd agree that the
9 2010 output number is fairly similar to the 2011
10 output number.

11 A. It does.

12 Q. It's approximately 14-1/2 billion
13 kilowatt-hours.

14 A. That's right.

15 Q. And then if we look at interrogatory 9,
16 you're allocating about half of the 500 million
17 kilowatt-hours to CSP and 1.7 million kilowatt-hours
18 to Ohio Power, right?

19 A. Yeah, you had indicated that earlier.
20 Correct.

21 Q. Then if we look at interrogatory 1-12,
22 although the output remains very similar, the amount
23 allocated to Columbus Southern Power Company and Ohio
24 Power Company customers is substantially less; would
25 you agree?

1 A. I would say it's different. I don't know
2 if it's substantial or not.

3 Q. Would you agree that it is half as much
4 for each company?

5 A. Yeah, a little bit north of half.

6 Q. Okay. But in 2010 and 2011 Ohio Power
7 Company and Columbus Southern Power Company allocated
8 all of the demand charges for OVEC to the FAC.

9 A. That's right. That was according to what
10 was to be included in the FAC for those periods.

11 Q. Okay.

12 MR. OLICKER: Your Honor, if I can have
13 just a minute, I might be done.

14 Maybe two more questions, your Honor,
15 please don't hold me to that, though.

16 Q. As you sit here today could you identify
17 the amount of margin the Lawrenceburg generating unit
18 made on off-system sales in 2010 and 2011?

19 A. I do not know.

20 Q. And would your answer be the same for the
21 OVEC generating units?

22 A. Yes, it would. I don't know.

23 MR. OLICKER: I believe I have no more
24 questions, your Honor.

25 Thank you, Mr. Dooley.

1 EXAMINER PARROT: OMA?

2 MS. MOHLER: No questions.

3 EXAMINER PARROT: Staff?

4 MR. McNAMEE: No questions.

5 EXAMINER PARROT: Mr. Alami, redirect?

6 MR. ALAMI: No redirect, your Honor.

7 EXAMINER PARROT: Thank you very much,
8 Mr. Dooley.

9 Your exhibit.

10 MR. ALAMI: Yes, your Honor, thank you.

11 I'd move for the admission of AEP 2.

12 EXAMINER PARROT: Any objections?

13 (No response.)

14 EXAMINER PARROT: Hearing none, AEP Ohio
15 Exhibit 2 is admitted.

16 (EXHIBIT ADMITTED INTO EVIDENCE.)

17 MR. OLIKER: Your Honor, I would move for
18 the admission of IEU-Ohio Exhibit No. 13.

19 EXAMINER PARROT: Any objections?

20 MR. ALAMI: No, your Honor.

21 EXAMINER PARROT: Very good, IEU Exhibit
22 13 is also admitted.

23 (EXHIBIT ADMITTED INTO EVIDENCE.)

24 EXAMINER PARROT: Ready to proceed with
25 Mr. Henry now?

1 MR. SATTERWHITE: Thank you, your Honor.
2 The company would call Mr. James Henry to the stand.

3 EXAMINER PARROT: Please raise your right
4 hand.

5 (Witness sworn.)

6 EXAMINER PARROT: Please be seated.

7 - - -

8 JAMES D. HENRY

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

11 DIRECT EXAMINATION

12 By Mr. Satterwhite:

13 Q. Could you please state your name and
14 business address for the record.

15 A. James D. Henry, H-e-n-r-y, 155 West
16 Nationwide Boulevard, Columbus, Ohio, 43215.

17 Q. And by whom are you employed, and in what
18 capacity are you employed?

19 A. I work for American Electric Power, I'm
20 the vice president of Fuel Procurement.

21 Q. And did you cause in this case testimony
22 to be filed, try to be filed on November 8th but
23 filed the following week --

24 A. Yes.

25 Q. -- a confidential version and a redacted

1 version?

2 A. Yes, I did.

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

5 EXAMINER PARROT: You may.

6 (EXHIBITS MARKED FOR IDENTIFICATION.)

7 Q. I've put in front of you what I've marked
8 as AEP Exhibit No. 3, which is the confidential
9 version of your testimony, and AEP Exhibit 3A, which
10 is the public redacted version of your testimony.
11 Can you identify those exhibits by number, please?
12 What they are.

13 A. Yeah, they're my prefiled testimony.

14 Q. So Exhibit 3 is the -- can you confirm
15 what 3 is and what 3A is.

16 A. Yes, 3 is the -- 3 is the -- 3A is the
17 public and 3 is the other.

18 MR. SATTERWHITE: And just for purposes
19 of the record, your Honor, I'd note that the
20 confidential version has the 2010 confidential data
21 marked in green, highlighted in green, and the 2011
22 in yellow.

23 EXAMINER PARROT: Thank you.

24 MR. SATTERWHITE: I don't know if that
25 will show up in Docketing. I guess it won't be in

1 Docketing, so.

2 Q. All right. Do you have any changes or
3 corrections to this testimony?

4 A. Actually I do. On page 12, line 12, I
5 think the first word on that line needs to be struck.
6 Other than that I believe that's it's already struck
7 in 3A but -- it's not showing in 3A but in 3 it is
8 showing.

9 Q. So the word "This" needs to be struck
10 from page 12, is that correct, on line 12?

11 A. That is correct.

12 Q. Okay. Any other changes or corrections?

13 A. No other changes or corrections.

14 Q. Do you adopt this testimony as your
15 testimony in this proceeding?

16 A. I do.

17 MR. SATTERWHITE: Your Honor, I'd move
18 for admission of AEP Exhibits 3 and 3A and tender the
19 witness for cross-examination.

20 EXAMINER PARROT: Duke.

21 MR. D'ASCENZO: No questions, your Honor.

22 EXAMINER PARROT: OCC?

23 MR. ETTER: Thank you, your Honor.

24 - - -

25

CROSS-EXAMINATION

By Mr. Etter:

Q. Good afternoon.

A. Good afternoon.

Q. Let's turn to pages 4 and 5 of your testimony, and there you discuss AEP's coal procurement strategy, and on page 5, actually on line 7 you state that "AEP has increased its tolerance for open positions at the beginning and during the year." Do you see that?

How has AEP done that?

A. Well, what we've done is because of the current market conditions, volatility in the gas pricing and the parity of gas versus coal generation, we're looking at -- we've looked at actually reducing our committed position moving forward so that basically our committed position is going to be less over time than it has been historically.

Q. And that's different than what you applied at the time of the 2010 audit; is that correct?

A. At the 2010 audit we had a situation where our burn had dropped significantly from the 2008 time frame so we had a lot of contracts which made our committed position fairly high, and as the

1 burn went down, that percentage of committed
2 positions stayed relatively high.

3 What we're doing is as those contracts
4 come off, we are basically reducing those
5 obligations, those that we can, under our agreements.

6 Q. Okay. And on page 5 down on lines 17 to
7 19 you state that "AEPSC uses a varied approach to
8 determine market conditions," and you mention in
9 there three things, three of the things the company
10 looks at: RFP, monitoring published pricing data,
11 and discussions with suppliers.

12 But you also say later on in the last
13 sentence on that page "At times, a variety of
14 indicators are reviewed to assess the market and to
15 decide how the proposed purchase compares to the
16 market."

17 Are there times when you only look at one
18 indicator?

19 A. Well, as far as indicator, let me explain
20 to you what we mean by "indicator." So on a regular
21 basis trading organizations as well as the
22 publications that are out in the marketplace, they'll
23 publish pricing, whether it's NYMEX or NAPCO or
24 things like that, so we'll look at those items.

25 We'll also do RFPs. Usually we do one if

1 not two a year based on what our conditions are, what
2 the marketplace conditions are and what our needs are
3 because, like we said, our volume has dropped
4 significantly over the past couple years so we
5 haven't had to go out as often in the past because of
6 our position.

7 So we will use multiple indicators.
8 We'll try to use whatever we have available and not
9 just look at one, if we can look at more than one and
10 it's available.

11 Q. But are there times that you only look at
12 one, when only you rely on one?

13 A. Define "one" for me.

14 Q. Well, you mention in there a variety of
15 indicators and you listed, you say "including but not
16 limited to." How many indicators do you usually look
17 at?

18 A. Well, for instance, we have, like I was
19 saying, we have market-based indices that in the
20 marketplace that's published on a regular basis,
21 those are published sometimes daily, sometimes
22 weekly. So we have that history. It's not only
23 individual coal products but multiple coal products,
24 so we can see how those items are varying in
25 marketplaces associated with that.

1 And then we have our RFPs. When we go
2 out for an RFP, if we need to, depending on timing,
3 we'll use that data if it's appropriate, if it's not
4 too old I'll say, and then we'll also be talking to
5 suppliers and other folks to try to determine where
6 the market is.

7 So do we use just one? I would say my
8 definition, no, I don't believe we use just one. We
9 use whatever is available in the marketplace at the
10 time to try to determine pricing.

11 Q. Do you rely on one type of indicator more
12 than others?

13 A. Coal has different qualities so each coal
14 quality has different types of indicators, so it
15 depends on the coal type and also how a coal product
16 can be used at a power plant. So you could have two
17 different types of coal that could be used at a
18 single power plant, we'll look at those multiple
19 indicators and try to figure out which would be our
20 lowest-cost option.

21 So no, I mean, we look at whatever is
22 available for the situation we have.

23 Q. Now, on pages 6 and 7 you discuss your
24 opposition to the procedural manual recommended by
25 the auditors, and you state on lines 20 and 21 there

1 on page 6 that AEPSC's fuel procurement personnel are
2 guided by FEL's fuel procurement policies to achieve
3 the lowest reasonable fuel cost for ratepayers. What
4 are those policies?

5 A. Well, I mean, what we do is we look at
6 the fuel type that's available, the type of fuel that
7 the plant can use so we try to optimize let's say
8 base and spreads and things like that to try to
9 minimize those costs.

10 We'll look at suppliers at times as well
11 as, you know, the performance because it's not
12 only -- in the situation that we're at, you know,
13 being able to receive the coal is an important thing,
14 to supply electricity to the ratepayers, as well as
15 the price itself.

16 So we'll look at -- we'll look at the
17 quality aspects, we'll look at the price, we'll look
18 at the producers and their ability to perform, we'll
19 look at the credit associated with those producers
20 and try to determine whether we can reasonably
21 receive that coal in a time frame and manner that we
22 need.

23 Q. Are these procedures written down or
24 policies and procedures written down anywhere?

25 A. No. We have a general policy, and from a

1 procedures standpoint many years ago we had a
2 procedures manual and what we found was as the
3 marketplace changed or became more volatile, we do
4 things and, you know, you may have step A, B, C, and
5 D in a procedure manual, okay.

6 Well, what we found historically is when
7 we had a procedure manual and you did A, C, B, D, as
8 an example, well, some -- an auditor would come back
9 and say, "Well, you didn't follow the procedure
10 identically so, therefore, you're not being prudent
11 in the process that you follow."

12 So our goal is to provide the lowest
13 reasonable cost to the ratepayers, and what we do is
14 we focus on the information that we have available
15 and we use that information to get that lowest cost.

16 Q. So are these hard-and-fast policies that
17 your personnel have to follow or do they have a lot
18 of latitude in how they do this?

19 A. Generally we follow the same process. If
20 you look at some of the comments that the auditors
21 made about our documentation, as an example, we go
22 through extensive documentation and she compliments
23 us on the documentation and the processes that we go
24 through really in order to determine, you know, what
25 those costs are.

1 So we've used those for years, we are
2 using the same processes basically in all of our 11
3 jurisdictions and have really had no issues with
4 this.

5 So, you know, it's something that I think
6 is reasonable as a policy manual we established and
7 we've got a very professional team that basically
8 understands what needs to be looked at, they
9 understand the market conditions. You know,
10 historically we've bought, you know, over
11 70 million tons of coal so we know what to look for
12 and how to look at those things and that's how we do
13 it.

14 Q. Now, on page 8 you discuss the rejection
15 and suspension limits, specifically let's start I
16 guess at lines 15 through 17 is where you begin. How
17 hard and fast are those rejection and suspension
18 limits?

19 A. Qualify for me what you mean by "hard and
20 fast."

21 Q. Are they set limits? If something, you
22 know, is not within that limit, is it automatically
23 rejected or suspended?

24 A. Sure.

25 Q. Or is there a little more latitude given

1 on those limits?

2 A. So I'll answer that in two pieces. One
3 is we have power plants that basically have ultimate
4 minimums established in them. Generally we try to
5 establish a contract that doesn't get us to those
6 minimums. We can't always do that depending on the
7 situation.

8 For instance, we had a power plant that
9 is in Ohio Power's jurisdiction several years ago
10 before it got scrubbed, it was a compliance plant,
11 had to be 1.2 pounds SO2 otherwise our emissions
12 limits were exceeded. So we were very strict on that
13 1.2 to the point where we knew before we unloaded
14 that barge of coal whether it exceeded the limit of
15 1.2 or not.

16 Other times when we're not pressing up
17 against plant limitations or environmental
18 limitations we'll go ahead and try to establish
19 ourselves on the latitude of the contract and we'll
20 use the contract basically to manage that latitude
21 that we've got.

22 Each contract has specific language
23 associated with it that defines what the suspension
24 and the rejection limits are. We have a contract
25 spec. The contract spec. is just for pricing

1 purposes more than anything else.

2 We've done this for years. The suppliers
3 understand that they have a band that they can work
4 in. And if you understand coal, you understand that
5 it's not a widget and there's different qualities and
6 they have to blend and mix and they can never hit a
7 perfect number. So we understand that, we build that
8 into our contracts.

9 Q. How often do you reject a load, reject a
10 contract?

11 A. Well, it depends on the supplier and
12 whether they're not meeting the obligation under the
13 contract or not. So, for instance, this year I've
14 had a couple of letters I've had to send out because
15 a supplier wasn't meeting, for instance, suspension
16 limits. Not in this jurisdiction, but in other
17 jurisdictions.

18 MR. ETTER: That's all the questions I
19 have. Thank you.

20 EXAMINER PARROT: IEU?

21 MR. OLIKER: I have no questions, your
22 Honor.

23 EXAMINER PARROT: OMA?

24 MS. MOHLER: No questions.

25 EXAMINER PARROT: Staff?

1 MR. MCNAMEE: No, thank you.

2 EXAMINER PARROT: Redirect?

3 MR. SATTERWHITE: One second, your Honor.

4 - - -

5 REDIRECT EXAMINATION

6 By Mr. Satterwhite:

7 Q. Mr. Henry, you were asked some questions
8 by counsel, by the Ohio Consumers' Counsel dealing
9 with the policies versus procedural manual. Do you
10 remember those?

11 A. Yes.

12 Q. And you had testified that historically
13 you had a procedural manual but you found that there
14 were problems if you didn't exactly follow the
15 sequence of events.

16 A. Yes.

17 Q. Why could you not just follow the
18 sequence of events? What's the harm in just
19 following the sequence of events so you were in
20 compliance with the procedures manual?

21 A. So, again, our primary goal is to
22 optimize or lower the -- generate the lowest
23 reasonable cost, and what we want to do -- that's
24 what our goal and that's what we're trying to get to.
25 So what we're doing here is basically focusing on the

1 ultimate goal which is lowest reasonable cost. And
2 following a procedure A, B, C, D, E, whatever the
3 order might be, can harm kind of that process.

4 So if we don't have let's say a specific
5 procedure defined, all right, for instance we've had
6 discussions in these proceedings before about doing
7 things a little different with coal suppliers under
8 unique circumstances, those wouldn't necessarily have
9 been in a procedure manual and, you know, would we
10 have been dinged for that because we didn't follow
11 that as that procedure?

12 We don't believe that that's the right
13 way to look at it and we think the policy manual
14 defines well enough what we're really trying to do
15 and how we're trying to do that.

16 Q. How much control do you think, from a
17 regulator looking at it, should they be worried that
18 a policy manual doesn't have any kind of control and
19 gives complete latitude to a company?

20 A. Sure. And, again, we're in 11
21 jurisdictions. We don't have a procedure manual in
22 any of our jurisdictions that I'm aware of. No, we
23 don't have.

24 So the thing that you have to recognize
25 is that we're audited all over the country and we're

1 looked at all over the country and, you know, we're
2 looked at from a prudence perspective and that's what
3 we base the work that we do.

4 MR. SATTERWHITE: Thank you, Mr. Henry.
5 That's all I have.

6 EXAMINER PARROT: Duke?

7 MR. D'ASCENZO: No, your Honor.

8 EXAMINER PARROT: OCC?

9 MR. ETTER: No, your Honor.

10 EXAMINER PARROT: IEU?

11 MR. OLIKER: No, thank you, your Honor.

12 EXAMINER PARROT: OMA?

13 MS. MOHLER: No, your Honor.

14 EXAMINER PARROT: Staff?

15 MR. McNAMEE: No, thank you.

16 EXAMINER PARROT: Thank you, Mr. Henry.

17 MR. SATTERWHITE: At this time, your
18 Honor, the company would move for admission of AEP
19 Exhibits 3 and 3A.

20 EXAMINER PARROT: Are there any
21 objections?

22 (No response.)

23 EXAMINER PARROT: Hearing none, AEP
24 Exhibits 3 and 3A are admitted.

25 (EXHIBITS ADMITTED INTO EVIDENCE.)

1 MR. SATTERWHITE: Next the company would
2 like to call Philip Nelson to the stand, please.

3 EXAMINER PARROT: Raise your right hand.
4 (Witness sworn.)

5 EXAMINER PARROT: Please be seated.

6 - - -

7 PHILIP J. NELSON

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

10 DIRECT EXAMINATION

11 By Mr. Satterwhite:

12 Q. Afternoon, Mr. Nelson. Can you please
13 state your full name and business address for the
14 record.

15 A. Philip J. Nelson. My business address is
16 1 Riverside Plaza, Columbus, Ohio, 43215.

17 Q. And by who are you employed and in what
18 capacity?

19 A. I'm employed by American Electric Power
20 Service Corporation as managing director of
21 Regulatory Pricing Analysis.

22 Q. And did you have testimony filed under
23 your name in this docket or these dockets?

24 A. Yes, I did.

25 MR. SATTERWHITE: May I approach, your

1 Honor?

2 EXAMINER PARROT: You may.

3 (EXHIBIT MARKED FOR IDENTIFICATION.)

4 Q. Mr. Nelson, I've put in front of you a
5 document I've marked as AEP Exhibit No. 4. Can you
6 please identify that document.

7 A. Yes. It's my prefiled testimony in this
8 proceeding.

9 Q. Is that your prefiled testimony prepared
10 by you or under your direction for this proceeding?

11 A. Yes, it was.

12 Q. And do you have any corrections to this
13 testimony?

14 A. No, I do not.

15 Q. Do you adopt this testimony as your
16 testimony for these proceedings?

17 A. I do.

18 MR. SATTERWHITE: Your Honor, I'd move
19 for admission of AEP Exhibit No. 4 pending
20 cross-examination, and the witness is available.

21 EXAMINER PARROT: Duke?

22 MR. D'ASCENZO: No questions, your Honor.

23 EXAMINER PARROT: OCC?

24 MR. ETTER: Yes, your Honor, just a
25 couple of questions.

1 - - -

2 CROSS-EXAMINATION

3 By Mr. Etter:

4 Q. Good afternoon.

5 A. Good afternoon.

6 Q. If you'd turn to page 10 of your
7 testimony, you discuss financial audit
8 recommendations 21 and 22 from the 2010 audit, and
9 you use the term there, well, it's a quote from the
10 recommendation, but the term there is "ADIT." What
11 does that stand for?

12 A. Accumulated deferred income taxes.

13 Q. And on the next page you state that the
14 issues, those issues have been resolved by the
15 Commission; is that correct? And you quote there
16 from two or at least the order in Case No. 08-917,
17 correct?

18 A. That's correct.

19 Q. That refers back to the ADIT issue; is
20 that correct?

21 A. Yes, and the net of tax versus gross of
22 tax issue that was litigated in that proceeding.

23 Q. Okay. Are you an attorney, Mr. Nelson?

24 A. No, I'm not.

25 Q. So you are not giving a legal opinion in

1 this response; is that correct?

2 A. No. What I'm referring to is the
3 Commission's orders and quoting Commission's orders,
4 and I believe this issue was raised in that case and
5 resolved in that case.

6 Q. And do you know whether the issue
7 regarding ADIT and its treatment for FAC purposes is
8 before the Supreme Court in Ohio right now?

9 A. I believe it is.

10 MR. ETTER: That's all I have. Thank
11 you, your Honor.

12 EXAMINER PARROT: IEU?

13 - - -

14 CROSS-EXAMINATION

15 By Mr. Olikar:

16 Q. Good afternoon, Mr. Nelson.

17 A. Good afternoon.

18 Q. Good to see you again.

19 I believe a few questions have been
20 deferred to you about purchased power contracts.

21 A. Yes.

22 Q. I'll try to ask some narrow questions
23 about that and hopefully you can help us out.

24 You're familiar with the contracts that
25 Columbus Southern Power Company and Ohio Power

1 Company has with Lawrenceburg and OVEC, correct?

2 A. Yes, generally familiar with those.

3 Q. From a high level let's start with
4 Lawrenceburg. Columbus Southern Power Company's
5 contract with the Lawrenceburg generating unit output
6 is a cost-based rate for the nonfuel portion,
7 correct?

8 A. I would generally characterize it as a
9 cost-based rate, yes. It's meant to recover all the
10 costs of the Lawrenceburg facility and it's filed at
11 FERC.

12 Q. For the Lawrenceburg unit is?

13 A. The AEG contract, yes.

14 Q. Okay. Is filed at FERC. And that
15 contract provided for a return of and return on
16 investment, right?

17 A. Yes.

18 Q. And with respect to OVEC, Columbus
19 Southern Power Company and Ohio Power Company, they
20 also pay a traditional cost-based rate for the output
21 of those units, right?

22 A. Yeah. I would consider generally a
23 cost-based rate that as OVEC bills out all the costs
24 they incur to the participants or owners of those
25 facilities.

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