

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

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In the Matter of the :
 Application of Ohio Power :
 Company for Authority to :
 Establish a Standard Service :Case No. 13-2385-EL-SSO
 Offer Pursuant to §4928.143, :
 Revised Code, in the Form of :
 an Electric Security Plan. :

In the Matter of the :
 Application of Ohio Power :Case No. 13-2386-EL-AAM
 Company for Approval of :
 Certain Accounting Authority.:

- - -

PROCEEDINGS

before Ms. Greta M. See and Ms. Sarah J. Parrot,
 Hearing Examiners, at the Public Utilities Commission
 of Ohio, 180 East Broad Street, Room 11-A, Columbus,
 Ohio, called at 9:00 a.m. on Monday, June 9, 2014.

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VOLUME V

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1 Monday Morning Session,
2 June 9, 2014.

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4 EXAMINER PARROT: Let's go back on the
5 record. Good morning, everyone. Let's begin with
6 brief appearances, names only, starting with company
7 and working our way around the table.

8 MR. NOURSE: Thank you, your Honor. On
9 behalf of Ohio Power Company, Steven T. Nourse,
10 Matthew J. Satterwhite, and Daniel R. Conway.

11 MS. GRADY: Thank you, your Honor. On
12 behalf of the Office of Consumers' Counsel, Maureen
13 R. Grady, Joseph P. Serio.

14 MR. DARR: On behalf of IEU-Ohio, Frank
15 Darr and Matt Pritchard.

16 MR. PARRAM: On behalf of staff, Devin
17 Parram, Werner Margard, and Katie Johnson.

18 MR. KURTZ: For the Ohio Energy Group,
19 Mike Kurtz.

20 MS. SHADRICK: On behalf of Wal-Mart
21 Stores East LP and Sam's East, Inc., Tai Shadrick and
22 Derrick Williamson.

23 MS. BOJKO: Your Honor, on behalf of OMA,
24 Kim Bojko, Rebecca Hussey, and Mallory Mohler.

25 MR. CASTO: On behalf of FES, Scott

1 Casto, Jacob McDermott, and Mark Hayden.

2 MR. HOWARD: On behalf of RESA,
3 Constellation NewEnergy, and Exelon Generation, M.
4 Howard Petricoff, Gretchen L. Petrucci, and Steven M.
5 Howard.

6 MR. CLARK: On behalf of Direct Energy
7 Services, LLC and Direct Energy Business, LLC, Joseph
8 M. Clark.

9 MR. SMALZ: On behalf of the Appalachian
10 Peace and Justice Network, Michael Smalz.

11 MR. DOUGHERTY: Your Honors, on behalf of
12 Ohio Environmental Council and Environmental Defense
13 Fund, Trent Dougherty and John Finnigan.

14 MR. O'BRIEN: On behalf of the Ohio
15 Hospital Association, Richard Sites, Thomas O'Brien,
16 and Dylan Borchers.

17 EXAMINER PARROT: Thank you, Mr. O'Brien.
18 All right. The company may call its next
19 witness.

20 MR. CONWAY: Thank you, your Honor. At
21 this time the company calls Dr. William Avera.

22 (Witness sworn.)

23 EXAMINER PARROT: Please have a seat.

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DR. WILLIAM E. AVERA

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

DIRECT EXAMINATION

By Mr. Conway:

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

A. William E. Avera.

Q. And, Dr. Avera, by whom are you employed?

A. I am president of FINCAP, Incorporated.

Q. And did you prepare or have prepared at your direction prefiled direct testimony for this proceeding?

A. Yes, sir.

MR. CONWAY: At this time, your Honor, I would request that Dr. Avera's prefiled direct testimony be marked as AEP Ohio Exhibit No. 19.

EXAMINER PARROT: So marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Dr. Avera, do you have any modifications or corrections to make to your prefiled direct testimony, AEP Ohio Exhibit No. 19, at this time?

A. Yes, I do. There was an update that we did of our exhibits that, unfortunately, we did not carry through all of the numbers on our written

1 testimony. The numbers do not change our end result,
2 they effectively come in approximately the same
3 place, some of them moved up, some of them moved
4 down, but my recommendation of 1065 remains in place.

5 I will go through those so you can make
6 the changes.

7 Q. Thank you, Dr. Avera.

8 A. The first change is on page 7, line 15.
9 At the end of that line the number "11.2" appears.
10 It should be 11.3.

11 Next is page 9. On line 7, the first
12 number on that line is "10 percent," and should be
13 9.7. Then on line 8 the last number on that line is
14 "9.7," it should be 9.6. Then on line 9, the first
15 number on that line is "10.7," it should be replaced
16 with 10.5. And then at line 11 the number "11.3"
17 should be 11.6. And the number "11."8 should be
18 12.8.

19 On then on page 36 there is a table on
20 top of the page beginning at line 1, under the Value
21 Line midpoint where "11.2" appears, it should be
22 11.0. Then on the next line under IBES where a "9.4"
23 appears, it should be 9.3. And next on that line
24 where "9.8" appears it should be 9.9. The next line
25 which is labeled Zacks, the "9.1" should be 9.2, the

1 "10" should be 10.1, then the next line, the br + sv,
2 the "8.4" should be 8.6 and the "8.3" should be 8.7.

3 Finally, at page 38, line 14, the number
4 in the middle of the line of "2.4" for the dividend
5 yield should be 2.5, and then on line 15 the number
6 at the end of line 15 which is "12.5" should be 12.6.

7 As evidenced by making those changes,
8 some numbers went up, some numbers went down. On
9 balance they did not affect the recommendation and I
10 would point out that my exhibits are correct and that
11 Dr. Woolridge in his analysis of my testimony used
12 the correct numbers that were exhibited in the
13 exhibits. So I regret having to make those changes,
14 but I don't think they effect, either, the ability of
15 others to evaluate my testimony or my conclusions.

16 Q. Dr. Avera, do you have any other
17 modifications or corrections to make to your prefiled
18 direct testimony?

19 A. No, sir.

20 Q. So if I were to ask you today the
21 questions in your testimony, Dr. Avera, would your
22 answers be the same as they appear in that document?

23 A. They would be.

24 MR. CONWAY: With that, your Honor --

25 Q. Excuse me. And would those answers be

1 true and accurate to the best of your knowledge and
2 belief, Dr. Avera?

3 A. Yes, sir.

4 MR. CONWAY: With that, your Honor, I
5 would move for the admission of AEP Ohio Exhibit 19,
6 and Dr. Avera is available for cross-examination.

7 EXAMINER PARROT: Thank you, Mr. Conway.

8 MR. DARR: Your Honor, if I may.

9 EXAMINER PARROT: Yes. Mr. Darr.

10 MR. DARR: Thank you, your Honor. In
11 regard to the testimony IEU moves to strike three
12 portions of it on the same grounds that we presented
13 to the hearing examiners with regard to the Hawkins
14 testimony.

15 The portions that we seek to strike are
16 at page 4, lines 19 through 24, page 50, lines 7
17 through 17, and page 51, line 4 to line 25.

18 MR. CONWAY: Excuse me, your Honor.

19 Mr. Darr, could you go over the cites
20 again for me and perhaps pause as I turn to the pages
21 you're referring to as we identify each one?

22 MR. DARR: Sure. Page 4, lines 19
23 through 24 beginning with the sentence that starts
24 "To be consistent."

25 MR. CONWAY: Thank you.

1 MR. DARR: Page 50, line 7 through 17.

2 MR. CONWAY: Thank you.

3 MR. DARR: And page 51, line 4 through
4 line 25.

5 MR. CONWAY: Thank you.

6 MS. GRADY: Your Honor, OCC joins in that
7 motion.

8 MR. CONWAY: Thank you, your Honors. Let
9 me just briefly respond. Dr. Avera at each point
10 explains the premise, the point of departure that he
11 uses for his analysis, and the perspective he brings
12 to that analysis for determining what the target is
13 for estimating the cost of equity for AEP Ohio.

14 As a result, the references to the
15 Bluefield and Hope test, which are the cases cited at
16 each of the sections of the testimony that are the
17 object of the motion to strike, are simply explaining
18 the, frankly the intellectual grounding for the rest
19 of his testimony. He's not offering them for
20 purposes of legal opinions or advising the Commission
21 that he has an opinion that unless his -- unless
22 his -- for example, unless his recommendation was
23 adopted it will amount to a regulatory taking which
24 will be the tie-in to the Dayton Power and Light case
25 that Mr. Darr apparently is relying upon again today

1 as the example that he would have you look to in
2 order to support his motion to strike.

3 So I think it's, again, typical for rate
4 of return witnesses to explain the basis for their
5 analyses; he's done that. The Commission is
6 certainly benefited by knowing how it is that
7 Dr. Avera prepared his testimony and the foundation
8 for it, so I think the motion to strike should not be
9 granted.

10 Thank you.

11 EXAMINER PARROT: For the same reasons
12 articulated with respect to Ms. Hawkins' testimony
13 the motion to strike these portions of Dr. Avera's
14 testimony is likewise denied.

15 OCC, any cross-examination?

16 MS. GRADY: Thank you, your Honor.

17 - - -

18 CROSS-EXAMINATION

19 By Ms. Grady:

20 Q. Good morning, Dr. Avera.

21 A. Good morning, Ms. Grady.

22 Q. Can you turn to your testimony on page 4,
23 specifically lines 4 through 8. And there,
24 Dr. Avera, you discuss the information that you
25 considered and relied upon to prepare your testimony,

1 correct?

2 A. Yes.

3 Q. Now, in preparing your testimony did you
4 consider the regulatory scheme in effect for Ohio,
5 for AEP Ohio?

6 A. Yes.

7 Q. And what do you understand that
8 regulatory scheme to be, sir?

9 A. What I understand is that there is a
10 process of separation of the generation from the
11 distribution and transmission. There is a move
12 toward customer choice and competition. There have
13 been three phases of this proceeding, ESP 1 and 2 and
14 now we're in 3, which affect -- which will take
15 effect in June of 2015 and be in effect at least, I
16 understand, through 2018.

17 I understand that there have been
18 significant disallowances or accruals of amounts that
19 are overhanging AEP Ohio that will be determined at
20 some future date how they will be recovered. And I
21 understand that there was uncertainty about how the
22 next phases will take place relative to those
23 matters.

24 Q. Now let's take for a moment -- let's
25 break that answer down, and I thank you very much,

1 that was very thorough. You indicated that you
2 understand that with respect to AEP Ohio there is a
3 process of separation I think you referred to?

4 A. Yes.

5 Q. Are you speaking of corporate separation?
6 Is that your understanding?

7 A. Well, I think it's both corporate and
8 regulatory. I think there has been a proceeding at
9 FERC as to the separation and treatment of the
10 generation facilities as interstate assets.

11 Q. As far as the generation assets, is it
12 your understanding that AEP no longer -- AEP Ohio no
13 longer holds those generation assets?

14 A. Well, I'm not sure of the details of how
15 the accounting is flowing through. My understanding
16 is the end point would be that that would not be part
17 of, at least for regulatory purposes, AEP Ohio's
18 jurisdictional treatment.

19 Q. Do you know whether or not AEP Ohio owns
20 any generation facilities as we sit here today?

21 A. As a formal matter I do not. I know the
22 end point is that will not be part of AEP Ohio.

23 Q. You indicated that you're aware that AEP
24 has undergone an electric security plan proceeding,
25 in fact, three, this is the third electric security

1 plan proceeding; is that correct?

2 A. Yes.

3 Q. And the preceding electric security plan,
4 ESP 2, do you know the term of that plan?

5 A. Well, I believe it will continue until
6 it's superseded by this one.

7 Q. And do you know the term of the present
8 ESP plan, the plan that's been filed that you are
9 opining on, do you know when that term begins and
10 ends?

11 A. Well, it begins in June of 2015. I think
12 it has a nominal end of 2018, but I think the end is
13 somewhat a function of subsequent regulatory actions.
14 So my understanding is that there is not a hard date
15 that ends it even though there is a notional date of
16 2018.

17 Q. Now, you indicated that you understood
18 that there were significant accruals overhanging in
19 Ohio --

20 A. Yes.

21 Q. -- do you recall that? And specifically
22 can you tell me what accruals you are identifying?

23 A. Well, from reading the rating agency
24 reports and reading Value Line and other commentary,
25 some of it relates to the transition of the

1 generation assets from being in rate base to being a
2 competitive asset. So that's one part of it.

3 I understand there are also fuel accruals
4 and other expense accruals that are overhanging the
5 company.

6 Q. And what generation accruals are you
7 aware of that are overhanging at this point as we sit
8 here today?

9 A. Well, I haven't looked at it from an
10 accounting standpoint. I've looked at it from how it
11 affects rating agencies and equity analysts, and what
12 they talk about is the transition of generation away
13 from the rate base resulted in a regulatory asset
14 that has yet to be recovered.

15 Q. So is it your understanding that the
16 generation assets are still in AEP Ohio's rate base?

17 A. No. My understanding, though, is there
18 is a regulatory asset that may be recovered through
19 time subsequently.

20 Q. And can you identify that regulatory
21 asset for me?

22 A. Well, not as an accounting matter,
23 Ms. Hawkins I think would be the witness to talk
24 about that, but in reading, for example, the Moody's
25 report, they talk about a significant recovery that

1 is outstanding. And if that recovery is not
2 effectuated in a reasonable manner, that would cause
3 the ratings to go down.

4 Q. Do you know what significant recovery
5 they're speaking of there, what assets they're
6 talking about?

7 A. My understanding is there are several
8 types of assets. I don't know the exact number of
9 each, but some are related to the spin-off of
10 generation and some are related to other regulatory
11 accruals that have taken place.

12 Q. Do you know, Dr. Avera, whether under
13 Ohio regulations utilities can be given
14 plant-specific return on equity premiums?

15 A. I am not familiar with such a provision
16 so I can't say.

17 Q. You're not familiar --

18 A. I'm not familiar with it.

19 Q. You're not familiar with it in Ohio or
20 not familiar with the concept in general?

21 A. I'm familiar with the concept in general.
22 Some states have specific premiums for any number of
23 actions, for power plant performance, for meeting
24 conservation goals, for meeting customer service
25 goals. Pennsylvania has such a plan, Texas has such

1 a plan for some of its jurisdictional utilities,
2 Virginia has such a plan, Connecticut has such a
3 plan, and I think there are about ten other states
4 that have plans. Each of the plans has its own
5 unique flavor.

6 Q. So, as far as you understand it, Ohio
7 does not have -- under Ohio regulation there are no
8 ROE premiums for things like you've just listed; is
9 that correct?

10 A. I'm not aware of that. And let me say
11 the way those are implemented among the several
12 states varies from state to state.

13 Q. Sure.

14 Now, are you aware of regulations in Ohio
15 related to significantly excessive earnings of a
16 utility, of a distribution utility?

17 A. Yes, I'm aware there is such a test in
18 place.

19 Q. And do you understand the term "SEET
20 threshold"?

21 A. I generally understand it, I didn't --
22 for the scope of my work in this case I didn't have
23 to focus on that particular thing because our purpose
24 was to come up with a cost of equity to be applied to
25 the parts of the regulatory regime that are being set

1 in ESP 3.

2 Q. Is it your understanding that the -- let
3 me strike that.

4 Can you tell me what your understanding
5 of the significantly excessive earnings test is in
6 Ohio.

7 A. My general understanding is that in an
8 after-the-fact test it will be determined if the
9 company, the utility, earned significantly in excess
10 of what might be reasonable in a competitive
11 environment. Now, it's a little bit ambiguous, I
12 think. I've looked at some of, you know, about how
13 this will actually be implemented, but there is a
14 limit to what the earnings after the fact are allowed
15 to be subject to the SEET test. And I believe that
16 there is a benchmark and then those earnings above
17 that benchmark are treated separately from those
18 below.

19 Q. And do you know, Dr. Avera, what happens
20 if the Commission finds there are significantly
21 excessive earnings for a utility?

22 A. My understanding is that some of those
23 earnings are flowed back and a reduction of revenue
24 requirement going forward.

25 Q. When you say "some of those earnings,"

1 can you tell me what you mean there, why -- can you
2 explain why you used the term "some"?

3 A. I'm trying to think. My assignment in
4 this case was not to deal with the SEET test. My --
5 I saw references to it in the bond ratings, I've seen
6 it in the literature, so I have a general
7 understanding, not a specific understanding.

8 And I think in some -- I may be getting
9 confused with other states. In some other states
10 that have similar tests there is a sharing, so not a
11 hundred percent is a future reduction in revenue
12 requirement. And as I sit here today, I can't recall
13 if that's the case in Ohio.

14 Q. Do you know what the current SEET
15 benchmark is for AEP Ohio?

16 MR. CONWAY: Your Honor, at this point
17 I'd raise an objection. We've waited patiently while
18 the subject matter has been explored. Dr. Avera has
19 explained that the SEET is not a topic that he
20 addressed in his testimony, it wasn't within the
21 scope of his engagement. I would also point out that
22 Mr. Allen did address the SEET, and he was available
23 for cross-examination on that point.

24 So at this juncture I would object to the
25 line of questions as being outside the scope of the

1 witness's testimony and there not having been any
2 indication about how it ties up to elements that are
3 in his testimony, we object.

4 EXAMINER PARROT: Response.

5 MS. GRADY: Yes, your Honor. In Ohio the
6 rule of cross is wide-open. This is a rate-of-return
7 witness. The significantly excessive earnings test
8 is in -- is part of the process here. The company
9 has made a recommendation, and I believe what is
10 significantly excessive relates to Dr. Avera's
11 recommendation because his recommendation is not very
12 far from the current significantly excessive earnings
13 threshold. So I do believe it's appropriate.

14 MR. CONWAY: That doesn't tie it in, your
15 Honor, at all. He has a recommendation on cost of
16 equity. He doesn't have a recommendation on what the
17 SEET threshold ought to be, and that's a topic that
18 Mr. Allen addressed. And to the extent she thinks
19 that this or that ROE is appropriate for the SEET
20 test, she could have talked to Mr. Allen about it. I
21 don't know that she asked any questions or very few
22 questions of him, but that was the right witness to
23 inquire about the topic. It's not Dr. Avera.

24 And she didn't explain how her line of
25 cross ties in or will tie in to what he talks about

1 in his testimony so I continue to object.

2 EXAMINER PARROT: I'm going to overrule
3 this particular -- the objection with respect to this
4 particular question and see where the line of
5 questioning goes from there.

6 Dr. Avera, you may answer the question
7 that's pending, and if you need us to reread it, I
8 will do that for you.

9 THE WITNESS: Please reread it, your
10 Honor.

11 Q (By Ms. Grady) I'll restate it, I
12 remember the question. Dr. Avera, do you remember
13 the current SEET threshold for AEP Ohio as we sit
14 here today as of June 9th, 2014?

15 A. I don't recall what it is, but remember
16 we have apples and oranges here. As I understand the
17 SEET, it's a backward-looking assessment, looking at
18 the earnings that have occurred and what would have
19 been excess given the capital markets then
20 prevailing.

21 In this case we're forward-looking.
22 We're looking at rates and a cost of equity that will
23 not even start to be applied until June of 2015 and
24 then will be applied at least three years into the
25 future. So the focus of those returns is entirely

1 different, past versus future.

2 Q. Dr. Avera, is it your understanding that
3 there is a 12 percent significantly excessive
4 earnings threshold for -- currently in effect today
5 and in effect till June 1st, 2015?

6 MR. CONWAY: Objection. Now we're
7 talking about what the SEET test might be for ESP 2.
8 It's not even connected to ESP 3, your Honor, so I
9 object. He's already indicated he doesn't know what
10 the current test is.

11 He has indicated that his testimony deals
12 with projections of what best treatment might be the
13 cost of equity going forward, and he's also testified
14 that he's talking about the period starting June of
15 2015, so this is clearly irrelevant not only to
16 beyond the scope of his testimony, it's not only
17 beyond the scope of his testimony, but it's also
18 irrelevant to the case before us so I object.

19 EXAMINER PARROT: Overruled.

20 A. I'm not aware of what the SEET number is
21 at present.

22 Q. Dr. Avera, do you have an understanding
23 of whether the PUCO has jurisdiction over the revenue
24 requirement and return for delivery operations only
25 of AEP Ohio?

1 A. I understand that this case is about the
2 delivery. Getting into the details of the authority
3 of the Commission I believe would be beyond the scope
4 of my knowledge or expertise.

5 Q. Let me phrase it this way: Do you
6 understand, under the regulatory scheme in Ohio,
7 whether or not the PUCO has jurisdiction over revenue
8 requirements and return for the distribution
9 operations only of the company and not the
10 generation?

11 A. I do not have an understanding from a
12 legal standpoint. I understand this case is about
13 the delivery, I understand that some delivery is
14 subject to FERC jurisdiction, but I cannot speak to
15 this Commission's authority over generation.

16 Q. When you used the term "delivery," are
17 you using that synonymously with "distribution"?

18 A. Well, I believe distribution and
19 transmission are linked together. The documents that
20 I've seen, like from the rating agencies, talk about
21 distribution and transmission. There is a
22 demarcation at some point of transmission between
23 that which is interstate and that which is intrastate
24 with the FERC having jurisdiction over interstate.

25 Q. So would you be meaning, when you use the

1 term "delivery," you would mean distribution and
2 transmission?

3 A. As it is jurisdictional to the state
4 Commission. Again, the dividing line between
5 distribution and transmission I understand is
6 sometimes not clear and in most cases there is some
7 of what people would call transmission within the
8 delivery and not subject to FERC jurisdiction. But
9 that's a can of worms I don't think we need to get
10 into.

11 Q. I agree.

12 Dr. Avera, would you believe it would be
13 fair to characterize AEP Ohio as a wires-only entity?

14 A. From a regulatory standpoint as relates
15 to this case it is wires only.

16 Q. Dr. Avera, in your -- we've been talking
17 for a moment -- or, we've been talking for a little
18 bit about the sources, the variety of information
19 that you reviewed and your knowledge of the Ohio
20 jurisdiction. Can you tell me specifically with
21 respect to AEP Ohio if you're aware of what
22 percentage of revenues AEP Ohio collects in a
23 regulatory mechanism known as a rider?

24 A. I understand that there are significant
25 riders in Ohio but, as Dr. Woolridge says, there are

1 significant riders everywhere. And the question
2 about a rider is not the percentage of revenue, it's
3 how it's administered. From an investor point of
4 view a rider has some benefits in terms of stability
5 of recovery, but it doesn't eliminate the fundamental
6 risk of regulatory disallowances and how the rider
7 will be administered within the regulatory scheme.

8 Q. Now --

9 A. So you just can't look at the number of
10 riders or the amount of revenue subject to riders and
11 make an inference about their effect on risk.

12 MS. GRADY: May I have my question and
13 the answer reread, please?

14 (Record read.)

15 MS. GRADY: Your Honor, I move to strike
16 Dr. Avera's response after the first sentence where
17 he answered my question when he started in on what
18 Dr. Woolridge recognizes and went off to explain a --
19 went off and -- for a while on that. I don't believe
20 that was responsive. He responded in the first
21 sentence.

22 I didn't want to interrupt him and be
23 impolite, I wanted to give him a chance so now I
24 would move to strike.

25 MR. CONWAY: Your Honor, if I may respond

1 briefly.

2 EXAMINER PARROT: You may.

3 MR. CONWAY: If you go back and reread
4 the introduction to her question, she indicated that
5 the question was regarding -- that came up about
6 riders was regarding his knowledge about the riders,
7 his knowledge of the Ohio jurisdiction, and I believe
8 the information that he relied upon in coming to his
9 conclusions. And then she asked him about the rider.

10 And what he did is he explained to her
11 with what he understood about the riders and what his
12 view of them were as part of his analysis. So I
13 think it was responsive, particularly in light of how
14 she set up the question.

15 EXAMINER PARROT: I'm going to deny the
16 motion to strike, but I'm not sure that there is an
17 answer to the question that was posed to you,
18 Dr. Avera, so I'm going to ask that you answer the
19 question posed and, again, if you need us to reread
20 it, we can do that.

21 THE WITNESS: I did not myself calculate
22 the percentage of revenues. I did review investor
23 opinions of AEP Ohio which talked about the
24 challenges of implementing the riders and the
25 questions about how they would implement it as a

1 feature of their risk.

2 MS. GRADY: Thank you, Dr. Avera.

3 Q (By Ms. Grady) Now, Dr. Avera, you use a
4 constant growth DCF model in this proceeding,
5 correct?

6 A. Yes.

7 Q. Let's talk for a moment, then, about your
8 DCF analysis. To compute the equity cost rate using
9 the DCF model you take a dividend yield and add an
10 expected growth rate; is that correct?

11 A. Yes.

12 Q. Let's turn for a moment to WEA-4, page 1,
13 and that's your schedule at the end of your
14 testimony. Do you have that reference?

15 A. Yes. Page 1 of the --

16 Q. WEA-4.

17 A. Yes. I'm there.

18 Q. Now, on page -- on this page of your
19 exhibit you show the stock prices, the dividends, and
20 the computed dividend yield; is that correct?

21 A. Yes.

22 Q. And the dividends listed there are
23 projected dividends from the coming year from Value
24 Line; is that correct?

25 A. That is correct.

1 Q. And you show also on this page that the
2 average dividend yield is 4 percent for the group of
3 companies that you have listed on this schedule; is
4 that correct?

5 A. Yes.

6 Q. Now, if we go to page 2 of WEA-4, you
7 show expected growth rates, correct?

8 A. Yes.

9 Q. And you use the projected earnings per
10 share growth rates as published by Value Line, IBES,
11 and Zacks; is that correct?

12 A. Yes.

13 Q. And you also use the br + sv growth rate
14 for column -- shown in Column E, correct?

15 A. Yes.

16 Q. Dr. Avera, the IBES it -- is it Reuters
17 or --

18 A. Reuters.

19 Q. Reuters. IBES and Reuters are both
20 published by Thompson Reuters; is that correct?

21 A. They are.

22 Q. And are the EPS growth rate forecasts
23 published on Yahoo! also published from IBES?

24 A. Yes.

25 Q. Now, unlike the dividend yield shown on

1 WEA-4, page 1 of 3, for the WEA-2, you do not compute
2 an average growth rate, correct?

3 A. That is correct, because I analyze them
4 company by company.

5 MR. CONWAY: Can I have that question and
6 answer read back, please?

7 (Record read.)

8 MS. GRADY: When I referenced "WEA-2," I
9 meant Exhibit WEA-4, page 2 of 3.

10 MR. CONWAY: Thank you.

11 A. That was my understanding.

12 Q. Thank you.

13 Would you accept, Dr. Avera, that -- let
14 me strike that.

15 I have a few questions about the growth
16 rates that are shown on WEA-4, page 2 of 3, and if I
17 wanted to, could I compute an average growth rate off
18 of WEA-4, page 2 of 3?

19 A. You could. You would have some
20 difficulty with Reuters. Now, I did not reference
21 Reuters in my testimony and they -- because they have
22 missing values and more recently they have a greater
23 number of missing values. So that creates a problem
24 for averaging those companies for which there is no
25 Reuters estimate.

1 So you could only do it for the Value
2 Line, IBES, Zacks, and br + sv which are the ones I
3 reference in my testimony.

4 Q. With respect to Reuters you're saying,
5 for instance, on WEA-4, page 2 of 3, there are two
6 items listed as NA, not available?

7 A. That is correct.

8 Q. And that would make it difficult or
9 impossible to compute an average for Reuters?

10 A. Well, you could compute an average kind
11 of throwing out those companies, but then you would
12 have the problem that those companies would not be
13 represented in the average.

14 Q. Now, if I -- would you accept, subject to
15 check, if I computed an average for the V Line that
16 the average would be -- the average EPS growth rate
17 for Value Line would be 4.2 percent?

18 A. If you have done that calculation for
19 present purposes, I will accept it. Again, I did not
20 do that calculation on purpose because I think you
21 need to look at the growth rates to make sure that
22 you don't have a spurious input. So that's why I did
23 it the way I did and would be happy to talk about it.
24 So I didn't do the average, if you did it and it's
25 4.2, I will accept that for present purposes.

1 Q. And for present purposes will you accept,
2 subject to check, that for IBES, I-B-E-S, that the
3 average growth rate is 4.2 percent as well?

4 A. For present purposes I will.

5 Q. And for present purposes would you accept
6 that the average EPS growth rate for Zacks is
7 4.3 percent?

8 A. For the same purpose, I will accept it.

9 Q. And, finally, for the br + sv would you
10 accept, subject to check, that the average br + sv
11 growth rate is 4 percent?

12 A. I will accept it for present purposes.

13 Q. Thank you.

14 Now, if we move to page 3 of Exhibit
15 WEA-4, you provide the results of your DCF equity
16 cost rates, correct?

17 A. Yes.

18 Q. Would you agree with me that you have
19 ignored the DCF results that are boxed and colored in
20 yellow?

21 A. I have excluded those. I haven't ignored
22 them, I calculated them, but I excluded them because
23 they are economically illogical. As explained in my
24 testimony, that is an approach that has been used by
25 the Federal Energy Regulatory Commission and has been

1 accepted by other states and it's one that I think is
2 very reasonable, that you should only use good data
3 in doing a valid statistical analysis.

4 Q. And you say in your testimony that
5 they're illogical values because they're implausibly
6 low, and I'm referring to page 32 of your testimony,
7 line 19.

8 A. Yes. That's one sentence. There are
9 several pages of discussion of my test and why it
10 makes sense and what the basis of it is, but that
11 sentence is consistent with the rest of my
12 discussion.

13 Q. And you believe that they're implausibly
14 low because they're not sufficiently higher than the
15 yield available on less-risky utility bonds?

16 A. That's correct. It would be irrational
17 to expect an investor to buy an equity and earn not
18 significantly more than a bond when the equity has
19 more risk.

20 Q. And you would agree, as you mentioned,
21 that these are below a standard that is used by FERC?

22 A. Yes.

23 Q. And would you agree with me all of the
24 omitted DCF equity cost rates that are shown on page
25 3 of Exhibit WEA-4 are on the low end? They are

1 implausibly low as opposed to implausibly high?

2 A. That is correct. There is a high test
3 that I apply and FERC applies, but it happened in
4 this analysis that none of the estimates crossed that
5 threshold.

6 Q. And to support eliminating the -- or
7 excluding, as you use, excluding these values on page
8 34 of your testimony you impute an implied BBB
9 utility bond yield for 2014 through 2017 of
10 6.76 percent; is that correct?

11 A. That is -- that is correct.

12 Q. Can you tell me, Dr. Avera, what the
13 current BBB utility bond rate is, if you know.

14 A. Well, I don't know as of today, but it
15 has been recently around 4.8 percent.

16 Q. And when you say "recently," can you
17 define what you mean by "recently"?

18 A. June 4th.

19 Q. Thank you. June 4th, 2014?

20 A. Yes.

21 Q. Thank you.

22 A. But we're --

23 Q. That's fine, there's no question pending,
24 Dr. Avera.

25 Now, on page 33 of your testimony on

1 lines 8 through 10 you state that FERC evaluates DCF
2 results against observable yields on long-term public
3 utility debt and has recognized that it is
4 appropriate to eliminate estimates that do not
5 sufficiently exceed this threshold. Do you see that?

6 A. Yes.

7 Q. So you would agree that, as you state,
8 that FERC uses current observable yields on long-term
9 utility bonds and not projected yields on long-term
10 utility bonds.

11 A. That is correct, because FERC is
12 adjudicating cases that usually are based on past
13 time --

14 Q. Thank you.

15 A. -- but at least will be put into effect
16 currently as opposed to this case which is
17 prospective.

18 Q. Thank you, Dr. Avera.

19 Now let's move to your CAPM analysis, the
20 C-A-P-M analysis.

21 A. Yes.

22 Q. In your -- I'll call it "CAPM." In your
23 CAPM approach shown on WEA-6 you develop your CAPM
24 equity cost rate; is that correct?

25 A. Yes.

1 Q. Can we turn to that exhibit for a moment?

2 MR. CONWAY: So you're now on Exhibit

3 WEA-6?

4 MS. GRADY: WEA-6, yes.

5 A. I am there.

6 Q. Thank you. You're there before me. Now,
7 on this exhibit, Dr. Avera, you use an expected
8 equity risk premium for your CAPM approach, correct?

9 A. Yes. For the entire S&P market.

10 Q. Would you agree that your expected equity
11 risk premium, market risk premium, is 8.80 percent?

12 A. Yes.

13 Q. And this is based on your CAPM analysis
14 which includes an expected stock market return of
15 12.6 percent cost of equity?

16 A. Yes. That is based on a DCF of the S&P,
17 individual S&P companies as explained in my
18 testimony.

19 Q. And the 12.6 percent expected market
20 return is determined by applying the DCF to the
21 companies in the S&P 500.

22 A. That is correct. The ones that pay
23 dividends are the only ones you can apply it to.

24 Q. And you used the dividend yield for the
25 S&P 500 of 2.5 percent --

1 A. Yes.

2 Q. -- along with an expected growth rate of
3 10.1 percent?

4 A. That is correct. That was derived from
5 the individual company estimates of those 400 or so
6 companies that pay dividends.

7 Q. And using the growth rate of 10.1 percent
8 for the earnings presumes that the earnings per share
9 for these companies in the S&P 500 will grow at
10 10.1 percent, correct?

11 A. That's what investors believe based on
12 analysts' estimates. So I'm not saying they're going
13 to agree to that. That is what investors believe.
14 And the purpose of the exercise is to figure out what
15 investors require.

16 So we have to start from what investors
17 apparently believe to determine what investors
18 require. This is an exercise to get into the minds
19 of investors, not to predict the future.

20 Q. Can you cite to me, Dr. Avera, any
21 economic forecast that suggests the U.S. economy is
22 expected to grow at a nominal rate as high as
23 10 percent into the future?

24 A. This is not an economic forecast. This
25 is what investors apparently expect --

1 Q. I understand.

2 A. -- based on published analysts.

3 Q. I understand.

4 A. It is not GPD.

5 Q. Dr. Avera, can you answer my question.

6 MR. CONWAY: Your Honor, would you please
7 instruct Ms. Grady to allow the witness to finish his
8 answer and then if she has another question or
9 another comment to make, to wait until he's done
10 before making it rather than cutting him off.

11 EXAMINER PARROT: I am going to allow the
12 witness to answer, to complete his thought. I'm not
13 sure if you were there yet, but I didn't hear an
14 answer to the question that was put to you.

15 MS. GRADY: That's my point, your Honor.

16 A. Based on the foregoing I have not looked
17 at GDP estimates because one question would be over
18 what horizon and generally GDP estimates are over
19 different horizons.

20 Q. So, Dr. Avera, specifically you cannot
21 cite any economic forecast to me as we sit here today
22 that suggests the U.S. economy is expected to grow at
23 a nominal rate as high as 10 percent into the future.

24 A. I have not inquired of GDP forecasts. I
25 listen to them on CNBC, I see the press conferences

1 by the Federal Reserve governors, but I have not made
2 an inquiry because it was not relevant to what I have
3 done.

4 Q. I'm sorry. And neither have you, you
5 cannot cite, the answer is yes, you cannot cite any
6 economic forecast as we sit here today.

7 A. I cannot cite.

8 Q. Thank you.

9 A. I can say that investors have realized --

10 Q. Dr. Avera --

11 A. Last year they realized significant
12 growth.

13 Q. Thank you, Dr. Avera.

14 MR. CONWAY: Your Honor, again, I'd just
15 like to --

16 EXAMINER PARROT: Again, let's allow the
17 witness to finish his thoughts, Ms. Grady.

18 MS. GRADY: Your Honor.

19 THE WITNESS: You're looking here --

20 Q. Dr. Avera --

21 MR. CONWAY: He's finishing.

22 MS. GRADY: There's no pending question.

23 MR. CONWAY: I made an objection and he
24 was not yet finished.

25 EXAMINER PARROT: Yeah, let's both of

1 you -- thank you.

2 Were you finished with your thought? If
3 not, please finish.

4 THE WITNESS: Investors are looking at
5 the growth they will get in the price of these
6 stocks, and last year they recognized growth more
7 than 30 percent, thus far this year they've
8 recognized significant growth. So what investors
9 care about is the capital gains on their stock, not
10 the GDP.

11 MS. GRADY: Your Honor, I move to strike.

12 MR. CONWAY: Your Honor, he was
13 explaining his answer. She kept badgering about
14 whether he had knowledge of forecasts of GDP growth
15 and he explained that he didn't and why it was not
16 relevant to his analysis. She didn't like the answer
17 about why it wasn't relevant to his analysis, but
18 he's entitled to explain his answer.

19 EXAMINER PARROT: The motion to strike is
20 denied. Let's move along, please.

21 Q (By Ms. Grady) Let's go to, Dr. Avera,
22 your risk premium that's found on WEA-7. Do you have
23 that?

24 A. I do, Ms. Grady.

25 Q. Now, you use both a current average

1 long-term utility bond yield of 4.85 percent and a
2 projected average long-term utility bond yield of
3 6.33 percent, correct?

4 A. Yes.

5 Q. Now, going to page 1 of Exhibit WEA-7,
6 this analysis produces an ROE of 10.41 percent,
7 correct?

8 A. Correct.

9 Q. And on page 2 of your WEA-7 you use a
10 projected long-term, when you use a projected
11 long-term utility bond rate, you get an ROE of
12 11.27 percent, correct?

13 A. That is correct.

14 Q. And so your risk premium analysis
15 suggests that the appropriate authorized ROE for
16 electric utilities is between 10.41 and
17 11.27 percent?

18 A. That would be correct on a
19 forward-looking basis.

20 Q. Thank you.

21 A. Again, this case is a forward-looking
22 case --

23 Q. Thank you.

24 A. -- so you have to give weight to the
25 projections.

1 Q. Thank you.

2 On page 3 of 4 of Exhibit WEA-7 you
3 provide authorized interest rates and authorized ROE
4 used in your risk premium analysis; is that correct?

5 A. I think you may have misspoke. These are
6 the average utility bond yields. These are set in
7 the market. This is what investors can get and what
8 commissions can see in the market. So that's the
9 market input. Then the allowed ROE is the Commission
10 input.

11 Q. I'm sorry, you are correct, I did
12 misspeak. Column A would show the allowed ROEs,
13 correct?

14 A. Yes.

15 Q. Now, the allowed ROEs are averages
16 provided by Regulatory Research Associates; is that
17 correct?

18 A. Yes.

19 Q. And the last year that you use in this
20 analysis is 2012, correct?

21 A. Correct.

22 Q. Can I presume that you review the RRA
23 reports on an ongoing basis, Dr. Avera?

24 A. Yes, I do.

25 Q. So are you familiar with the 2013 RRA

1 analysis?

2 A. I'm familiar with it. I don't have it
3 memorized, but I've looked at it, and I've also
4 looked at the first quarter of 2014.

5 Q. Now, for the 2013 RRA analysis is it your
6 understanding that the allowed rate of return -- or,
7 I'm sorry, the allowed return on equity for 2013 is
8 10.02 percent?

9 A. Yes.

10 Q. And is it also your understanding,
11 Dr. Avera, that if the RRA 10.2 percent allowed ROE
12 is recalculated to exclude ROE premiums for -- let me
13 strike that.

14 Within the 10.02 percent ROE for 2013
15 under the RRA report, is it your understanding that
16 it would include data from Virginia decisions which
17 authorized or approved ROE premiums of up to 200
18 basis points for certain generation projects?

19 A. Yes, it includes Virginia as it includes
20 those states where there are penalties for various
21 reasons.

22 Q. And if we excluded the Virginia surcharge
23 generation cases from the data reported by the RRA
24 for 2013, the ROE drops to 9.8 percent for that 2013,
25 correct?

1 A. That's the arithmetic. I don't believe
2 that -- I think that as RRA publishes it consistent
3 with the years I've displayed, the average is the
4 average. That's what commissions ordered and I don't
5 see that, for the purposes of this analysis, Virginia
6 ought to be eliminated.

7 Q. Does the RRA publish individual rate case
8 ROEs?

9 A. Yes. Where -- let me -- where there are
10 ROEs. In some cases there's what's called a
11 black-box settlement where there is no stated ROE.
12 So in those cases they report there was a settlement
13 and no ROE. Sometimes there's just an ROR but not
14 how you got to it with a cost of equity and the
15 capital structure.

16 Q. Is it your opinion, Dr. Avera, that the
17 average ROE as reported by RRA is appropriate for
18 your analysis and that you can ignore the individual
19 rate case ROEs that make up that average?

20 A. Yes, because each rate case has its own
21 story. But the question is commissions are trying to
22 be responsive to capital markets and, therefore, we
23 look at their results in aggregate taking out the
24 individual issues of each individual case and that
25 gives us an indication of where they believe the cost

1 of equity is and we compare that to the
2 contemporaneous bond yield. And I think, and this
3 has been published in the peer-reviewed literature
4 and it's accepted by a number of commissions, I think
5 it is a basis for a utility risk premium --

6 Q. Thank you.

7 A. -- without a basis.

8 Q. Thank you.

9 Would you agree with me that in recent
10 years that the RRA does report two averages for the
11 authorized ROEs for major rate case decisions for the
12 electric utilities, one which includes all of the
13 results and one that excludes the Virginia Commission
14 results?

15 A. No. Their average is the average. They
16 footnote, they say -- and Virginia's not the only
17 one. Several years back there were penalty cases in
18 New Jersey. So they will say, if we have excluded
19 New Jersey, here's the number in the text --

20 Q. But --

21 A. -- so they give you the numbers, but
22 their reported result for the year is -- includes all
23 the rate cases. We have one in Texas where the
24 Supreme Court went back and changed the numbers
25 subsequently, they noted it but they didn't change

1 their average.

2 MS. GRADY: Your Honor, may I approach?

3 EXAMINER PARROT: You may.

4 MS. GRADY: At this point I would like to
5 have marked for identification purposes as OCC
6 Exhibit No. 10.

7 (EXHIBIT MARKED FOR IDENTIFICATION.)

8 Q. Dr. Avera, can you look at that document
9 for a moment.

10 A. Yes.

11 Q. Is that the 2013 RRA report we've been
12 discussing?

13 A. Yes.

14 Q. Okay. And can you review the first
15 paragraph of that report.

16 A. Yes.

17 Q. Does that report not state, and I'm going
18 to read it into the record, "The average return on
19 equity authorized electric utilities was 10.02 in
20 2013, compared to 10.17 in 2012." Do you see that?

21 A. Yes.

22 Q. You report for 2012 a 10.15. Can you
23 tell me what the discrepancy is there?

24 A. I don't know. I'll have to go back and
25 check the numbers.

1 Q. Now, it also goes on to state that
2 there -- and I'm not going to read this second
3 sentence, but it goes on to state "We note that the
4 data includes several surcharge/rider generation
5 cases in Virginia that incorporate plant-specific ROE
6 premiums." Did I read that correctly?

7 A. Yes.

8 Q. And then it states that "Virginia
9 statutes authorize the State Corporation Commission
10 to approve ROE premiums of up to 200 basis points for
11 certain generation projects."

12 A. Yes.

13 Q. Is that correct?

14 A. Yes.

15 Q. And then it does go further to state
16 "Excluding these Virginia surcharge/rider generation
17 cases from the data, the average authorized electric
18 ROE was 9.8 percent in 2013 compared to 10.01 percent
19 in 2012."

20 A. Yes.

21 Q. Thank you.

22 Now, you mentioned before that you had
23 looked at the quarterly update, the January through
24 March quarterly update for 2014?

25 A. Yes.

1 Q. And would you agree with me that that
2 very same -- or, that same language about calculating
3 the ROE excluding the Virginia results is contained
4 in that quarterly report as well?

5 A. That's right, it reports that ROEs went
6 up to 10.23, but if you include Virginia, you have a
7 lower number.

8 Q. And the lower number, if you exclude
9 Virginia, was 9.57 percent for the authorized
10 electric ROE for the first three months of 2014?

11 A. That is correct. That is my memory of
12 what they reported. Again, they set out Virginia
13 just as in previous years they've set out other
14 commissions to inform the readers that there are
15 cases that may be extreme and they could consider
16 them or not in their analysis.

17 Q. Now, do you also have an understanding --
18 well, let's -- strike that.

19 Let's go to the January -- OCC Exhibit
20 No. 10, the January 15th, 2014, Regulatory Research
21 Associates Regulatory Focus Report and let's go to
22 page 5 of that report. Do you have that?

23 MR. CONWAY: Did you say you're on
24 Exhibit 10 again?

25 MS. GRADY: Yes, Exhibit 10.

1 MR. CONWAY: And I'm sorry --

2 THE WITNESS: Page 5.

3 MR. CONWAY: -- what page?

4 MS. GRADY: Page 5. Thank you,
5 Dr. Avera.

6 MR. CONWAY: Is it the page with the
7 Electric Utility Decisions in the heading.

8 MS. GRADY: Yes, I think the "5" is in
9 the corner.

10 Q. (By Ms. Grady) Do you have that?

11 A. Yes, I do.

12 Q. If you look at this chart, these are all
13 the utilities that make up the average, right? That
14 the ROE is averaged for all of these utilities?

15 A. Yes.

16 Q. And if we went to the final column, we
17 see that there are -- next to each of the lines or to
18 most of the lines there are letters in parentheses.
19 Do you see those?

20 A. Yes.

21 Q. Okay. And those, is it your
22 understanding those are notes to, footnotes, to the
23 averages?

24 A. I'm kind of looking.

25 Q. Footnotes --

1 A. Like the E or -- which --

2 Q. Let's go to, for instance, the -- let's
3 go to, for instance, the Potomac Electric Power from
4 Maryland, the line that's dated 7/12/13, and we go to
5 the very end of the line and we see in parentheses at
6 the end following the 27.9 a "(D)." Do you see that?

7 MR. CONWAY: What part of the page are
8 you on right now? I'm trying to follow along.

9 MS. GRADY: The very last column.

10 MR. CONWAY: How many rows would you say
11 from the bottom would you say it is?

12 MS. GRADY: PEPCO is Potomac Electric
13 Power, it's right following the "2013 2nd Quarter:
14 Averages/Total Observations."

15 MR. CONWAY: So it's the line that has
16 the 27.9 in the last column?

17 MS. GRADY: Correct.

18 MR. CONWAY: Okay, I got it.

19 Q (By Ms. Grady) Do you have that?

20 A. Yes, I do.

21 Q. And this is just an example. Do you see
22 the letter "(D)" following that?

23 A. Yes.

24 Q. Is it your understanding that that refers
25 to electric delivery only -- an electric delivery

1 only utility?

2 A. Yes.

3 Q. So that would be what we talked about
4 earlier, distribution and transmission operations and
5 not generation?

6 A. Yes.

7 Q. So any time that "(D)" appears we can
8 assume that under this report that the utility is
9 involved in a -- is a wires-only business?

10 A. Yes. To the extent that they can
11 identify it. In different states the demarcation has
12 been different and it's not uniformly defined, I
13 should say. Having been involved in Maryland, for
14 example, the definition is a little bit different
15 than it is here, but generally that's what they're
16 trying to inform the reader --

17 Q. Right.

18 A. -- that it doesn't involve generation
19 as --

20 Q. Thank you.

21 A. -- generally understood.

22 Q. Thank you.

23 MS. GRADY: If I may have a moment, your
24 Honor.

25 EXAMINER PARROT: You may.

1 Q. Now let's go to page 19 and 20 of your
2 testimony.

3 A. Yes.

4 Q. There, Dr. Avera, you talk about a risk
5 return trade-off principle. Do you see that?

6 A. Yes, I do.

7 Q. Would you agree that a utility with a
8 higher risk generally demands a higher return on
9 equity?

10 A. As perceived by investors, investors
11 would require a higher return on the equity of a
12 utility that's perceived by them as having more risk.

13 Q. And would you agree that a utility with a
14 lower -- that with respect to a utility with a lower
15 risk, that investors would typically -- typically
16 demand a lower return on equity?

17 A. Yes, they would require less, that's what
18 the risk-return trade-off is, that's why, for
19 example, we excluded those companies whose ROE was
20 not significantly above bond yields, because of this
21 risk test.

22 MS. GRADY: If I may have a moment, your
23 Honor, I think I may be done.

24 EXAMINER PARROT: You may.

25 MS. GRADY: That's all the questions I

1 have. Thank you, Dr. Avera.

2 THE WITNESS: Thank you, Ms. Grady.

3 EXAMINER PARROT: Mr. Darr?

4 MR. DARR: Thank you, your Honor.

5 - - -

6 CROSS-EXAMINATION

7 By Mr. Darr:

8 Q. Dr. Avera, could you turn to page 14 of
9 your testimony, please.

10 A. I'm there, Mr. Darr.

11 Q. On line 9 of your testimony you identify
12 Standard & Poor ratings of BBB+, BBB, and BBB-. Do
13 you see that?

14 A. Yes, sir.

15 Q. And in terms of these ratings what are
16 these ratings designed to tell an investor or a third
17 party as to the credit status of the company?

18 A. They are designed to say what their
19 credit status is. Their constituency is primarily
20 bondholders not equity holders, so there is some
21 difference between equity's view of the world and a
22 bondholder. But this is how bondholders know what
23 the credit risk, the likelihood of default, the
24 likelihood of all payments being made on time and in
25 full. And not only would creditors look at these,

1 people who are doing business with the companies look
2 to credit ratings to know how secure their
3 transactions are.

4 Q. And when you talk about third parties,
5 what you're talking about are vendors such as, for
6 example, those that are selling coal to a utility?

7 A. Yes, they would -- and we've done
8 assignments for industrial companies who were
9 thinking of building a major facility in a utility's
10 service area and one of the things we look at is bond
11 ratings.

12 Q. And, relatively speaking, when we look
13 at, for example, the Standard & Poor rating that
14 you've listed here on lines 9 and 10, is it fair to
15 say that the BBB+ rating is superior to the BBB-
16 rating?

17 A. Yes. They are notches within a general
18 category. BBB is the bottom of the investor grade.
19 So if you go below BBB, then you can't be held by
20 lots of investors, public funds and the like. But
21 within BBB there are these gradations that the rating
22 agencies identify.

23 Q. And I am correct that a BBB+ rating would
24 be superior to, for example, a BBB rating.

25 A. It would be a higher -- viewed as

1 slightly more creditworthy than a BBB.

2 Q. And a BBB, relatively speaking, would be
3 superior to a BBB-, correct?

4 A. In terms of the credit metric it would be
5 slightly less risky than a B-. Ohio is BBB flat so
6 it's between the plus and the minus.

7 Q. And you have not listed here the Moody's
8 ratings. Moody's goes through a similar process of
9 identifying credit status and then assigning that
10 credit status a value ranging from AAA to BBB as
11 well, correct?

12 A. Well, theirs is slightly different. They
13 have Baa. So they have the first letter is the same
14 but then instead of three big Bs they have two little
15 As and then instead of pluses and minuses they have
16 1, 2, and 3.

17 Q. Going along the same line, a higher
18 number indicates a lower credit status, correct?

19 A. That is correct. Baa 3 is less
20 creditworthy in Moody's judgment than Baa 2 or Baa 1.

21 Q. Recently, as we learned last week, the
22 parent of Ohio Power, AEP, had a change in credit
23 status from Baa 2 to Baa 1 I believe was the
24 testimony. Does that indicate that the credit rating
25 agencies perceive an overall improvement in the

1 credit status of AEP, the parent corporation?

2 A. It does as to Moody's. Moody's upgraded
3 the parent. It did not upgrade AEP Ohio. AEP Ohio
4 has been Baa 1 by Moody's since 2009, and in a recent
5 report that was discussed when Ms. Hawkins was here,
6 Moody's in April said they were not going to change
7 their rating for this company.

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

9 EXAMINER PARROT: Mr. Kurtz?

10 MR. KURTZ: Thank you, your Honor.

11 - - -

12 CROSS-EXAMINATION

13 By Mr. Kurtz:

14 Q. Good morning, Dr. Avera.

15 A. Good morning, Mr. Kurtz.

16 Q. You realize this is not a full-blown
17 distribution rate case, correct?

18 A. Yes.

19 Q. Okay. How much rate base, so to speak,
20 is the return on equity that you're proposing going
21 to be applied to if the company's application is
22 approved? Do you know?

23 A. I don't know the exact number, but it is
24 a limited-purpose ROE.

25 Q. Do you know if the distribution

1 investment rider is the only rate base that your
2 recommended return would apply to?

3 A. I believe it applies to that. Beyond
4 that, I'm not clear. I understand that this ROE will
5 be used and whatever riders, and I understand one of
6 the issues in this case is what the riders will be
7 and how they will be structured, but I understand the
8 ROE will be, where there is an ROE needed in those
9 riders during the period 2015 to '18, that this will
10 be the ROE that's used.

11 Q. Okay. The only reason I'm asking is I'm
12 trying to get an estimate of the revenue requirement
13 effect of your recommended return on equity of 10.65
14 versus the recommendation of Dr. Woolridge for the
15 OCC of 9.0.

16 A. Well, I think -- well, I believe his
17 suggestion is 8.8.

18 Q. I think he revised it to 9.

19 A. Good. But I think the Commission ought
20 to consider more than the immediate impact of this
21 ROE. This ROE will be a signal to investors, and
22 especially to Moody's who declined to change the
23 rating because they were watchful of how this case
24 was going to turn out. I think if the result of this
25 case were a sticker shock on the ROE, it would hurt

1 this company's ability to gather capital, its
2 relationships subsequently with its vendors and all
3 sorts of other fallout.

4 So I think the Commission does not get a
5 free pass on this ROE. I think it's very important
6 to investors as a signal to where this Commission is
7 going given all of the overhang of recoveries that
8 Ohio -- AEP Ohio has.

9 MS. GRADY: Your Honor, your Honor, may I
10 have the question and answer reread? And then I
11 believe I'll have a motion to strike.

12 MR. CONWAY: Your Honor, I'd object.
13 This is Mr. Kurtz's cross, not Ms. Grady's.

14 (Record read.)

15 MS. GRADY: Move to strike, it's
16 nonresponsive.

17 MR. CONWAY: And, your Honor, I would
18 respond by saying that Mr. Kurtz's question was one
19 that was directed towards the materiality of the ROE
20 recommendations in this case and the distance -- the
21 materiality of the distance between the two
22 recommendations and so I think that the response
23 was -- that Dr. Avera provided was hitting the nail
24 on the head of the question.

25 EXAMINER PARROT: Motion to strike is

1 denied.

2 Q (By Mr. Kurtz) And, Dr. Avera, I'm not
3 suggesting the Commission should lowball AEP because
4 there isn't much money involved, but I do want to try
5 to put it in perspective and understand how much
6 money is involved.

7 On Dias Exhibit 7 or table 7, the
8 approximate distribution investment capital
9 expenditure, if AEP spends to the cap, is
10 approximately \$230 million per year, to your
11 understanding?

12 A. I will accept that for present purposes.

13 Q. Okay. Let's just walk through the
14 numbers to try to get a revenue requirement.
15 230 million and the equity capitalization of AEP Ohio
16 is about 48 percent?

17 A. Yes.

18 Q. Okay. Do you have a calculator?

19 A. Yes. I always have problems calculating
20 on the stand.

21 Q. Well, okay.

22 A. But I'll try.

23 Q. Okay. \$230 million of distribution
24 investment rider capital expenditures per year if
25 they reach the cap, 48 percent equity capitalization

1 is about \$110 million of equity?

2 A. Yes.

3 Q. Okay. And the difference between you and
4 Dr. Woolridge is 1.65 percent, 165 basis points?

5 A. Yes.

6 Q. So what is -- before tax gross-up what is
7 the revenue requirement differential between your
8 recommendation and his on an annual basis?

9 A. Whoops. I messed that up.

10 Q. 110 million times .0165.

11 A. 1.78.

12 Q. Million dollars per year?

13 A. Yes.

14 Q. Then we have to gross up for taxes.

15 A. Right.

16 Q. And what is the gross-up factor to get
17 the revenue requirement?

18 A. We're talking just over 200 -- or,
19 \$2 million. I don't know what the gross-up factor
20 here is.

21 Q. So between your recommendation and the
22 OCC's approximately, I think it's probably a little
23 more than 2 million.

24 A. Something over 2 million, that's what I
25 was saying.

1 Q. Just over 2 million but less than
2 3 million?

3 A. Yes.

4 Q. And are you saying that this case will
5 send a message to Wall Street? Is that what your
6 testimony was earlier?

7 A. Yes, because the ROE, like these -- every
8 time there's an ROE determination it's picked up by
9 ROE -- by RRA and it's picked up by Wall Street and
10 what they're trying to do is to -- there's a lot of
11 money in the -- on the sidelines or in effect that
12 will be determined by the regulatory policy in Ohio.

13 And they're looking for an early
14 indication of where that regulatory policy is going,
15 very much like we've gone through this exercise with
16 the Federal Reserve and when the chairman of the
17 Federal Reserve comes out and says something, the
18 markets move because -- not because that statement
19 affects anything, but it's taken as a bellwether of
20 what's going to happen in the future.

21 So I think this case as part of the
22 relationship between this Commission and this company
23 will be looked at as a bellwether of where regulation
24 is going in Ohio as to this company. And I think a
25 return on equity, because everybody understands

1 return on equity, that's why RRA has it on the front
2 page of their report, the return on equity just like
3 the interest rates set by the fed is a flash point, a
4 news item, and it will have an effect on the
5 perceptions of what may happen going forward.

6 Q. And if the Commission were to choose a
7 return on equity between, it wasn't yours or
8 Dr. Woolridge's, the revenue effect would be adjusted
9 accordingly?

10 A. Yes. But, remember, we're looking at a
11 rate that will go into effect in the future.
12 There's -- even Dr. Woolridge accepts that rates will
13 eventually go up, so I think the ROE in this case
14 would be measured not against today's ROEs, but
15 against those that will go into effect in the future.

16 Q. Do you know what the distribution
17 revenues of AEP Ohio is to put this between 2 and
18 3 million dollar differential in perspective?

19 A. I couldn't say.

20 Q. Certainly over --

21 A. Much larger than that.

22 Q. Certainly over a billion dollars?

23 A. Yes.

24 MR. KURTZ: Okay. Thank you, Dr. Avera.

25 EXAMINER PARROT: Mr. O'Brien?

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

2 EXAMINER PARROT: Ms. Shadrick?

3 MS. SHADRICK: Wal-Mart has no questions.

4 EXAMINER PARROT: Ms. Bojko or

5 Ms. Mohler?

6 MS. MOHLER: I just have a few questions.

7 - - -

8 CROSS-EXAMINATION

9 By Ms. Mohler:

10 Q. Hi, Dr. Avera.

11 A. Good morning.

12 Q. Did you consider the expanded DIR rider
13 in your evaluation of ROE?

14 A. I'm aware that that's one of the issues
15 in the case. My ROE looked to the market not to the
16 specifics of the riders.

17 Q. All right. So you talked about effects
18 on the market. Did you consider customer impacts
19 associated with the ROE?

20 A. Well, I think customer impact is
21 important to investors. Remember, ROE is an exercise
22 to look at the world through the eyes of investors
23 and figure out as best you can what they require.
24 And, obviously, one of the things that investors care
25 about is good relations and the effect of -- on

1 customers but that's filtered through how they think
2 it will affect the Commission's treatment and other
3 matters.

4 So it's an indirect effect. It's not a
5 direct effect for the purposes of ROE analysis.

6 Q. All right. So you didn't directly look
7 at customer impacts, you looked at just through the
8 investors.

9 A. That's right, I looked as it is reflected
10 in the Moody's and the Standard & Poor's, Value Line,
11 and the analysts' expectations for companies.

12 Q. And in recommending the ROE did AEP ask
13 you to consider the fact that the DIR as expanded
14 removes a tremendous amount of regulatory lag?

15 A. Well, I understand, because investors --
16 that it has the effect of removing some of the
17 regulatory lag, but it doesn't eliminate the major
18 risk which is disallowance risk. So it, as I said
19 earlier, stabilizes the revenues somewhat because the
20 revenues come in as -- increase as the investment to
21 serve customers is made, but there's no assurance
22 that those dollars will be kept because the
23 expenditures, as I understand it, are still subject
24 to regulatory review.

25 Q. So did AEP ask you to consider the

1 regulatory lag?

2 A. AEP didn't ask me to. What I did is I
3 looked at what investors are saying and one of the
4 things that I saw, and I think it was in this Moody's
5 report, that they recognize that there were these
6 riders being proposed, but they also recognize that
7 there remains the question of how they will be
8 implemented.

9 One of the investors I think I saw devil
10 in the details because that is, you know, what
11 affects ultimately the investors' position and
12 returns.

13 Q. Okay. Thank you.

14 So just to be clear, there's no
15 adjustment made to the proposed ROE for the
16 regulatory lag, the reduction of regulatory lag.

17 A. No. Whatever effect it has is reflected
18 in the numbers. Another thing that I mentioned
19 earlier that Dr. Woolridge also mentions is
20 adjustment mechanisms such as this are prevalent now
21 throughout the industry. So when we get investor
22 indications from other companies, we are taking into
23 account the effect of whatever riders they have. So
24 it is part of the numbers because they are ubiquitous
25 now in the industry.

1 Q. And you did not make any specific
2 reduction in risk associated with regulatory lag.

3 A. No. No. No specific -- other than what
4 is already reflected in the bond ratings, the beta,
5 the Value Line safety ranks, the Value Line strength,
6 and the other indicia that investors look to.

7 MS. MOHLER: Just one second, your Honor.
8 Thank you.

9 Q. So I understand that you're saying that
10 regulatory lag is considered in the market for other
11 companies, and you made no specific reduction,
12 specific to AEP's reduced regulatory lag risk with
13 respect to the DIR rider.

14 A. Only as, I mean, it is reflected in the
15 numbers for Ohio, the risk assessments for Ohio, in
16 terms of the Moody's report that was discussed with
17 Ms. Hawkins and I discussed earlier from April talks
18 about this case and the proposals in this case. So
19 that's already built into their decision not to
20 change the bond rating for Ohio Power.

21 Q. Okay. So in your analysis you didn't do
22 anything specific for AEP's reduced risk for
23 regulatory lag.

24 A. I didn't specifically include it, but the
25 sources that I use incorporated what they thought was

1 relevant about this case. This case is not a secret,
2 Value Line talks about it, Moody's talks about it,
3 S&P talks about it, it is a public -- major public
4 event in the life of the company and the analysts who
5 follow AEP and AEP Ohio have cranked in and assessed
6 what they think the outcome of this case will be --

7 Q. Dr. Avera --

8 A. -- and numbers and risk measures reflect
9 that.

10 MS. MOHLER: Thank you, I have no further
11 questions.

12 EXAMINER PARROT: Mr. Casto?

13 MR. CASTO: Nothing.

14 EXAMINER PARROT: Ms. Petrucci?

15 MS. PETRUCCI: Nothing.

16 EXAMINER PARROT: Mr. Clark?

17 MR. CLARK: No questions, your Honor.

18 EXAMINER PARROT: Mr. Smalz?

19 MR. SMALZ: Just a few questions.

20 - - -

21 CROSS-EXAMINATION

22 By Mr. Smalz:

23 Q. Dr. Avera, turning to page 13 of your
24 testimony and the sentence beginning on line 7 which
25 reads -- can you hear me now?

1 A. Yes.

2 Q. Okay. Again, turning to page 13, the
3 sentence beginning on line 7 which reads "As a
4 result, current capital costs are not representative
5 of what is likely to prevail over the near-term
6 future."

7 First of all, what do you mean by
8 "near-term future"?

9 A. Well, we are in a transition from an
10 extremely low interest rate environment to what
11 analysts and investors and the Federal Reserve expect
12 to be a higher interest rate and, therefore, higher
13 capital cost investment -- or, environment.

14 We don't know. You know, we thought that
15 would start in December and then it went down and
16 then it came back up. We don't know if it's going to
17 start tomorrow or in September, but when we look all
18 the way forward to 2015 or 2018, I think investors
19 believe almost certainly we will be in a time of
20 higher interest rates, and since the cost of equity
21 has to compete with interest rates, that will move
22 the cost of equity up.

23 So if we have a forward-looking case, as
24 this one is, we have to anticipate that it will
25 probably -- the rates will be in effect during the

1 time of higher interest rates. We don't know that,
2 nobody can forecast the future, but that is where
3 investors and governments and bankers and other
4 people think we're going and Cramer and all the
5 people on CNBC.

6 Q. Well, you filed your testimony in
7 December; is that correct?

8 A. That's correct.

9 Q. And has this prediction of higher
10 interest rates been borne out so far?

11 A. Well, after the Fed announced its
12 tapering, everybody was surprised that interest rates
13 went down because of the clarity. And they went down
14 until about February and then they started to go up
15 and this month they went down a little bit and now
16 they've started to go up.

17 So it hasn't been a straight line. They
18 are certainly well above, now, with the federal --
19 the ten-year at 1.61 -- 3 points, 2.61, and the
20 30-year at 3.44, we're well above the lows and well
21 above what they were in the fall of 2013.

22 Q. Well above the lows then?

23 A. Well, the low's in 2012.

24 Q. I see.

25 A. And we're above -- I think the recent

1 low, I'm trying to remember if it was February or
2 March, but, you know, we hit -- then we came up and
3 then we hit 2.4 in the beginning of May and now we're
4 at 2.61.

5 Q. Turning to the next page, page 14 of your
6 testimony.

7 A. Yes.

8 Q. Line 16 where you refer to the exclusion
9 of one utility that recently cut its common dividend
10 payments, is it typical to exclude from a proxy group
11 a company merely because it's cut its dividend
12 payments?

13 A. Yes. And especially if you're using the
14 DCF model because the assumption of the DCF model is
15 a continuous growth in dividends. So it's hard to
16 apply that to a company that has recently cut or
17 eliminated its dividend.

18 So I think everybody, including
19 Dr. Woolridge, at FERC, almost every jurisdiction,
20 the staff here, excludes companies that have cut
21 their dividend.

22 Q. For purposes of the DCF analysis.

23 A. Yes.

24 Q. Okay. In creating your proxy group did
25 you just look at electric utilities that were

1 wires-only companies?

2 A. No. I looked at electric utilities as
3 identified by Value Line and followed by the rating
4 agencies as electric utilities. So this is the same
5 approach that Dr. Woolridge took. You know, very
6 often you have, as you have here, a holding company
7 that has all sorts of -- it has generation, it has
8 wires-only, it has different individual utilities.
9 There are not many utilities out there that if you
10 went only to wires companies, where you could get a
11 robust sample.

12 Q. Uh-huh.

13 A. Plus you have the advantage of -- I
14 determined my proxy group based on bond ratings in
15 part, and we know that the bond rating of AEP Ohio is
16 BBB by Standard & Poor's which is the same standard
17 that I used to decide these public companies.

18 Q. So, Dr. Avera, do you know how many other
19 companies in your proxy group, your electric utility
20 proxy group, were wires-only companies?

21 A. Without going through each one, most
22 companies, we talked about Potomac earlier, Potomac
23 Retail Electric is wires only but not the holding
24 company. United Illuminating that serves Connecticut
25 is a wires company as to the Connecticut Commission

1 but it has generation in its portfolio.

2 So as I sit here right now, I can't think
3 of a company that is a purely a wires company at the
4 public market level. There are lots of subsidiaries
5 that are pure wires companies but not that have stock
6 where you can apply the DCF and CAPM where you need
7 market information.

8 Q. Let me see if I have any further
9 questions, Dr. Avera.

10 On page 37 you discuss the CAPM and the
11 ECAPM methodologies for evaluating a fair rate of
12 return on equity. And apparently you used the ECAPM;
13 is that correct?

14 A. Yes. I present in my other checks a
15 classic CAPM, but for the reasons I explained in my
16 testimony I believe that the ECAPM is the primary
17 that should be used and is used around the country
18 like in the Potomac case we talked about earlier, the
19 Maryland Commission, for example, applies it.

20 Q. Do you know if it has been used in Public
21 Utilities Commission of Ohio cases?

22 A. I do not know. It's in the literature.
23 It's widely used. But I can't say whether it's been
24 used here. If the Commission wants to look at a
25 classic CAPM, it's in my testimony.

1 Q. On page 43 beginning on line 19 you talk
2 about the addition of flotation costs to the ROE.
3 Again, do you know if the Public Utilities Commission
4 of Ohio has allowed the inclusion of flotation costs
5 in other electric utility cases or any utility cases?

6 A. I don't recall. I've done a number of
7 cases up here. I consistently remember a flotation
8 cost because I think it is correct, it is accepted
9 widely around the country including at the FERC where
10 it applies, but I can't say as to Ohio.

11 MR. SMALZ: Thank you, Dr. Avera. I have
12 no further questions.

13 THE WITNESS: Thank you, sir.

14 EXAMINER PARROT: Mr. Dougherty?

15 MR. DOUGHERTY: No questions, your Honor.

16 EXAMINER PARROT: Staff?

17 MR. PARRAM: No questions, your Honor.

18 EXAMINER PARROT: Any redirect,

19 Mr. Conway?

20 MR. CONWAY: Your Honor, may we take a
21 short break and reconvene with the answer to your
22 question?

23 EXAMINER PARROT: Let's take a
24 five-minute break. We're off the record.

25 (Recess taken.)

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

3 Any redirect, Mr. Conway?

4 MR. CONWAY: No, your Honor.

5 EXAMINER PARROT: Very good. Thank you.
6 You're excused.

7 THE WITNESS: Thank you.

8 EXAMINER PARROT: Thank you very much.

9 MR. CONWAY: Thank you, your Honor.

10 EXAMINER PARROT: Yes, Mr. Conway, I
11 believe you've already moved for the admission of
12 AEP Ohio Exhibit 19. Are there any objections?

13 (No response.)

14 EXAMINER PARROT: Hearing none it is
15 admitted.

16 (EXHIBIT ADMITTED INTO EVIDENCE.)

17 EXAMINER PARROT: Ms. Grady?

18 MS. GRADY: Your Honor, I will not move
19 for the admission of the exhibit.

20 EXAMINER PARROT: All right. Thank you.
21 Are there any other witnesses from the
22 company?

23 MR. NOURSE: No, your Honor, not at this
24 time. We do intend to request permission to file
25 rebuttal testimony at the conclusion of the direct

1 cases by the staff and the intervenors but we'd like
2 to continue to assess that and finalize the details
3 of that later.

4 I would like to mark Exhibit -- I believe
5 we reserved Company Exhibit 1 for the application.

6 EXAMINER PARROT: You did.

7 (EXHIBIT MARKED FOR IDENTIFICATION.)

8 MR. NOURSE: And I will give that to
9 the -- a copy of that to the reporter right now. If
10 anyone else needs it, let me know.

11 And with that, the company would rest on
12 its direct case.

13 I'm sorry, did I move admission of
14 Exhibit 1? Please enter that in the record, your
15 Honor.

16 EXAMINER PARROT: Are there any
17 objections to the admission of Company Exhibit 1?

18 (No response.)

19 EXAMINER PARROT: It is admitted.

20 (EXHIBIT ADMITTED INTO EVIDENCE.)

21 EXAMINER PARROT: Anything else,

22 Mr. Nourse?

23 MR. NOURSE: No, thank you.

24 EXAMINER PARROT: Thank you very much.

25 EXAMINER SEE: There are a couple of

1 staff witnesses scheduled for today? Mr. Parram.

2 MR. PARRAM: Yes, thank you, your Honor.
3 Before we call our first staff witness to the stand,
4 it's my understanding that the parties have waived
5 cross for a number of staff witnesses, particularly
6 Staff Witness Krystina Schaefer, Staff Witness Ross
7 Willis, and Staff Witness Matthew Snider. I have
8 received confirmation from a number of parties that
9 they have no cross-examination for them so with that
10 understanding I would like to move for the admission
11 of their -- tender the stipulation of the parties
12 that they have no cross-examination.

13 EXAMINER SEE: Let's mark each one and
14 move them into the record.

15 MR. PARRAM: I'd like to have marked as
16 Staff Exhibit 6 the prefiled testimony of Krystina M.
17 Schaefer into the record. And I'd like to have
18 marked as Staff Exhibit 7 the prefiled testimony of
19 Matthew D. Snider. And I'd also like to have marked
20 as Staff Exhibit 9 -- oh, I apologize, Staff Exhibit
21 8 the prefiled direct testimony of William Ross
22 Willis.

23 EXAMINER SEE: So it's just those three
24 witnesses?

25 MR. PARRAM: Just those three witnesses,

1 yes, your Honor.

2 EXAMINER SEE: Okay.

3 (EXHIBITS MARKED FOR IDENTIFICATION.)

4 EXAMINER SEE: As the parties have
5 represented that they have no cross-examination for
6 these witnesses --

7 MR. NOURSE: That's correct, your Honor.

8 EXAMINER SEE: -- Staff Exhibits 6, 7,
9 and 8 shall be admitted into the record.

10 (EXHIBITS ADMITTED INTO EVIDENCE.)

11 EXAMINER SEE: Mr. Parram?

12 MR. PARRAM: Ms. Johnson will be handling
13 our first witness for today.

14 EXAMINER SEE: Okay, Ms. Johnson.

15 MS. JOHNSON: At this time we'd like to
16 call Witness Timothy W. Benedict to the stand.

17 EXAMINER SEE: Before we get to
18 Mr. Benedict, does staff intend to call Mr. Baker
19 today as well?

20 MS. JOHNSON: Yes, that's correct.

21 EXAMINER SEE: Okay. Mr. Benedict, if
22 you could raise your right hand.

23 (Witness sworn.)

24 EXAMINER SEE: Thank you. Have a seat,
25 cut your microphone on.

1 MR. CONWAY: Your Honors.

2 EXAMINER SEE: Yes, Mr. Conway.

3 MR. CONWAY: If I might cover the point
4 of the order of cross-examination, since we have the
5 burden of proof in this case, we would request the
6 opportunity to go last among the intervenors and the
7 staff, including Mr. Benedict.

8 EXAMINER SEE: Okay. Ms. Johnson.

9 - - -

10 TIMOTHY W. BENEDICT

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

13 DIRECT EXAMINATION

14 By Ms. Johnson:

15 Q. Good morning, Mr. Benedict.

16 A. Good morning.

17 Q. Could you please state your name and your
18 business address for the record.

19 A. My name is Timothy W. Benedict. My
20 business address is 180 East Broad Street, Columbus,
21 Ohio 43215.

22 Q. And by whom are you employed and in what
23 position?

24 A. I'm employed by the Public Utilities
25 Commission of Ohio as a Utilities Specialist.

1 Q. And you filed direct testimony in this
2 case?

3 A. I did.

4 Q. And you have that direct testimony in
5 front of you?

6 A. Yes, I do.

7 MS. JOHNSON: Your Honor, I would like to
8 mark as Staff Exhibit No. 9 the testimony of Timothy
9 W. Benedict.

10 (EXHIBIT MARKED FOR IDENTIFICATION.)

11 Q. IS this the testimony that you prepared
12 in this case?

13 A. Yes, it is.

14 Q. And this was written by you or under your
15 direction?

16 A. Yes, it was.

17 Q. And if I were to ask you the questions
18 contained in your testimony today, would those
19 answers be the same?

20 A. They would.

21 Q. And are there any additions, deletions,
22 or modifications to your testimony?

23 A. No.

24 MS. JOHNSON: Your Honor, at this time
25 I'd like to tender Witness Benedict for

1 cross-examination.

2 EXAMINER SEE: Mr. Smalz?

3 MR. SMALZ: Your Honor, I have no
4 questions of this witness.

5 EXAMINER SEE: Mr. Clark?

6 MR. CLARK: No questions, your Honor.

7 EXAMINER SEE: Ms. Petrucci?

8 MS. PETRUCCI: Yes, I have a few
9 questions.

10 - - -

11 CROSS-EXAMINATION

12 By Ms. Petrucci:

13 Q. Mr. Benedict, can you describe the
14 process at the FERC to establish a new load zone?

15 A. It's my understanding that the new load
16 zone would be defined by PJM and what we're asking is
17 that AEP petition PJM to create the new load zone.
18 It's my understanding that it would be a definitional
19 change that would be done by PJM.

20 Q. Do you know the process that would occur
21 in order for the new load zone to be established?
22 You said there would be a petition. What else do you
23 envision would take place for that process?

24 A. My only understanding would be that PJM
25 would then have to choose which nodes would

1 constitute the new Ohio -- AEP Ohio load zone and
2 then there would likely be a process by which those
3 nodes would be weighted to create a load weighted
4 aggregation. There also may be some sort of an
5 infrastructure IT process by which PJM would report
6 the price at that node as they do for all other nodes
7 that are defined.

8 Q. Okay. Let's step back. When you
9 indicated that they would have to petition -- where
10 is the petition filed? Is it with PJM or is it with
11 another entity?

12 A. It's my understanding that it would be
13 with PJM.

14 Q. Do you know how long the process for
15 petitioning and the conclusion at PJM would take
16 place?

17 A. I do not.

18 Q. Is there any need to -- for PJM to have
19 an approval from FERC for such a change; do you know?

20 A. I do not know.

21 Q. Okay. If you could look at page 3 of
22 your testimony, lines 15 through 17.

23 A. I'm there.

24 Q. Is it -- you've indicated that potential
25 bidders will have notification of the load zone

1 change and, therefore, you're not anticipating any
2 adverse consequences, correct?

3 A. That would be my expectation, yes.

4 Q. Is it also fair to say that any auctions
5 that are held before this change occurred at PJM --
6 well, let me start again.

7 Is it fair to say that if there was an
8 auction held before any changes were taking place at
9 PJM, that the bidders in that early auction, earlier
10 auction, would use the old load zone?

11 A. Yes, that's correct.

12 Q. And you are not anticipating that there
13 would be any retroactive application of the new load
14 zone if it were to take place to any previous bid
15 winner such that they would have to supply the load
16 to the new load zone; is that correct?

17 A. So if I understand your question
18 correctly, you're asking if we would engage in a
19 resettlement process for auctions that have already
20 been conducted? If I understand that correctly, then
21 the answer would be no, we would not engage in such a
22 resettlement process for previously commissioned
23 auctions.

24 Q. So let me just make sure we're both on
25 the same page. If a bid winner places the bid

1 assuming the current load zone and then a petition
2 took place at PJM and thereafter changed the load
3 zone, the earlier bid winner would still use the old
4 load zone, the current load zone, for the delivery
5 period in which they were the winner; am I correct?

6 A. That's correct.

7 MS. PETRUCCI: All right. Thank you, I
8 have no further questions.

9 EXAMINER SEE: Mr. Casto?

10 MR. CASTO: No questions, your Honor.

11 MS. MOHLER: We have no questions.

12 Ms. Mohler.

13 EXAMINER SEE: Thank you.

14 Ms. Shadrick?

15 MS. SHADRICK: No questions.

16 EXAMINER SEE: Mr. Kurtz?

17 MR. KURTZ: No questions, your Honor.

18 EXAMINER SEE: Mr. Darr?

19 MR. DARR: No questions, thank you.

20 EXAMINER SEE: Ms. Grady?

21 MS. GRADY: No questions, your Honor.

22 EXAMINER SEE: Mr. Conway?

23 MR. CONWAY: Thank you, your Honor. Just
24 a few.

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CROSS-EXAMINATION

By Mr. Conway:

Q. Mr. Benedict, you note in your testimony, I believe it's at page 2, at lines 7 through 9, that in its application the company recognizes that, quote, at a time in the future it may be appropriate, end quote, to define a new pricing point to settle AEP Ohio load. Do you see that?

A. I do.

Q. And then, of course, the staff believes that the creation of a new pricing point or load zone would be an improvement to the auction procurement process, right?

A. Correct.

Q. And so, as a result, as I believe perhaps Ms. Petrucci observed, the staff is encouraging AEP to petition PJM to establish a new pricing point; is that right?

A. Correct.

Q. And you indicate that you would like AEP Ohio to do this as soon as is practicable; is that right?

A. That is correct.

1 Q. And I'd like to focus on that for just a
2 moment. It sounds to me like in your testimony that
3 you're asking AEP Ohio to do this rather than having
4 the Commission order them to do it. Is there some --
5 is there some room for additional process, in your
6 mind, on AEP Ohio's part before this step is actually
7 taken to petition for a change in the delivery point?
8 Is there room for AEP Ohio to do some further
9 analysis about the pros and potentially the cons of
10 doing it before moving forward in year 1?

11 A. My understanding is that given the fact
12 that the company brought up the idea in their
13 application, the number of constraints on whether
14 this should be done or not would likely be minimal.
15 I have performed a cost-benefit analysis on my own to
16 determine whether it's a good idea, whether staff's
17 hypothesis that it would be cheaper to settle at an
18 AEP Ohio settlement point versus AEP load zone,
19 whether that hypothesis was accurate, and our
20 modeling deemed that it was.

21 And also just given the fact that the AEP
22 load zone as it's currently constructed is comprised
23 of nodes that are located across all of the AEP East
24 operating companies, five operating companies across
25 seven states, I think that there's sufficient

1 evidence to demonstrate that a change would be an
2 improvement.

3 That being said, there may be something
4 that we're overlooking, a significant cost perhaps,
5 where it would change the cost-benefit analysis of
6 making the change, so to the extent there were a cost
7 or other constraint that I'm overlooking, I would ask
8 the company to address that prior to petitioning PJM.

9 Q. Okay. So there's -- in your view of how
10 this would happen there's still room for AEP Ohio to
11 conduct the evaluation and come to a conclusion and
12 make sure that there's no potholes along the road to
13 petitioning for a change in the delivery point or the
14 load zone.

15 A. Yeah, I'd agree with that. It's
16 generally my perception at this point that there may
17 be a pothole here or there but no sinkholes so there
18 may be some costs that I'm perhaps overlooking, but
19 it's likely an improvement that should take place as
20 soon as practicable.

21 Q. Did you take into account the impact of
22 changing the load zone -- in your analysis at this
23 point, did you take into account changing the load --
24 what impact changing the load zone might have on FERC
25 transmission rights?

1 A. I didn't perform any analysis in terms of
2 FTRs. And that gets back to my recommendation that
3 the change be made as soon as is practicable. I
4 believe FTRs are allocated annually so that may be a
5 constraint into how quickly this modification can be
6 made.

7 Q. But that might be an example of something
8 that we ought to take into account, take a look at,
9 before pulling the trigger on the petition to change
10 the load zone; is that fair?

11 A. Perhaps.

12 Q. Just one other point as far as the scope
13 of the potential review that might be conducted
14 before going forward with the petition, Mr. Benedict,
15 your analysis of the economics was done on a basis of
16 a review of, for 2014, what would be the results
17 using the current AEP load zone for the east
18 companies as opposed to what would result from using
19 an AEP Ohio load zone, correct?

20 A. That's correct.

21 Q. Would it be reasonable, in your view, to
22 extend the check perhaps for an additional period or
23 more than one period to provide some additional
24 confirmatory information regarding the financial
25 benefits of making the change?

1 A. I wouldn't consider that to be necessary.

2 Q. Would you be opposed to it if AEP Ohio
3 looked at the analysis for a longer period of time
4 than simply one year in order to come up with a
5 measure of what the financial consequences might be
6 of going in the new direction as compared to
7 continuing with the current load zone?

8 A. I would be opposed to the extent that it
9 would cause AEP to incur significant costs that it
10 would then seek to pass on to ratepayers.

11 Q. If it wouldn't do that and it wouldn't
12 otherwise interfere with the timeliness of the
13 process, would that be something that you would be
14 accepting of?

15 A. Yes.

16 MR. CONWAY: Okay. Thank you,
17 Mr. Benedict.

18 I have no further questions, your Honor.

19 EXAMINER SEE: Ms. Johnson, any redirect?

20 MS. JOHNSON: May we take a few minutes
21 to consider questions for redirect?

22 EXAMINER SEE: Yes.

23 MS. JOHNSON: Thank you.

24 EXAMINER SEE: Five minutes. We're off
25 the record.

1 (Recess taken.)

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

4 Ms. Johnson, redirect?

5 MS. JOHNSON: Thank you, your Honor.

6 - - -

7 REDIRECT EXAMINATION

8 By Ms. Johnson:

9 Q. Mr. Benedict, you mentioned that it would
10 be appropriate for AEP to review the costs of
11 changing to an AEP Ohio load zone. Would you expect
12 that staff would be involved in the process for AEP
13 to analyze such costs?

14 A. Yes. We would prefer that staff be
15 involved in that process.

16 MS. JOHNSON: No further questions, your
17 Honor.

18 EXAMINER SEE: Recross, Mr. Smalz?

19 MR. SMALZ: No questions, your Honor.

20 EXAMINER SEE: Mr. Clark?

21 MR. CLARK: No questions, your Honor.

22 EXAMINER SEE: Ms. Petrucci?

23 MS. PETRUCCI: None.

24 EXAMINER SEE: Mr. Casto?

25 MR. CASTO: No questions.

1 EXAMINER SEE: Ms. Bojko?

2 MS. BOJKO: No questions, your Honor.

3 EXAMINER SEE: Ms. Shadrick?

4 MS. SHADRICK: No questions.

5 EXAMINER SEE: Mr. Kurtz?

6 MR. KURTZ: No questions, your Honor.

7 EXAMINER SEE: Mr. Darr?

8 MR. DARR: No, thank you.

9 EXAMINER SEE: Ms. Grady? Or was it
10 Mr. Serio? I'm sorry, Mr. Serio.

11 MR. SERIO: No questions, your Honor.

12 EXAMINER SEE: Mr. Conway?

13 MR. CONWAY: Thank you, your Honor, no
14 questions.

15 EXAMINER SEE: Thank you, Mr. Benedict.
16 The Bench has no questions for you.

17 Ms. Johnson.

18 MS. JOHNSON: At this time we'd like to
19 move for the admission of Staff Exhibit No. 9.

20 EXAMINER SEE: Are there any objections
21 to the admission of Staff Exhibit 9?

22 (No response.)

23 EXAMINER SEE: Hearing none, Staff
24 Exhibit 9 is admitted into the record.

25 (EXHIBIT ADMITTED INTO EVIDENCE.)

1 EXAMINER SEE: Would staff like to call
2 its next witness?

3 MS. JOHNSON: Yes, your Honor. At this
4 time we would like to call Staff Witness Peter K.
5 Baker to the stand.

6 EXAMINER SEE: Mr. Baker, if you'd raise
7 your right hand.

8 (Witness sworn.)

9 EXAMINER SEE: Thank you. Have a seat,
10 cut your mic on.

11 Ms. Johnson.

12 - - -

13 PETER K. BAKER

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

16 DIRECT EXAMINATION

17 By Ms. Johnson:

18 Q. Good morning, Mr. Baker.

19 A. Good morning.

20 Q. Could you please state your name and your
21 business address for the record.

22 A. My name is Peter K. Baker. My business
23 address is 180 East Broad, Columbus, Ohio 43215.

24 EXAMINER SEE: Mr. Baker, pull the mic a
25 little closer to you, please. Just a little. Thank

1 you.

2 Q. And by whom are you employed and in what
3 position?

4 A. I am employed by the Public Utilities
5 Commission of Ohio. I am a Section Chief in the
6 Reliability & Service Analysis Division of the
7 Service Monitoring & Enforcement Department.

8 Q. And you filed direct testimony in this
9 case?

10 A. Yes, I did.

11 Q. And a copy of that direct testimony is in
12 front of you?

13 A. Yes, it is.

14 MS. JOHNSON: Your Honor, at this time I
15 would like to mark as Staff Exhibit 10 the direct
16 testimony of Peter K. Baker.

17 (EXHIBIT MARKED FOR IDENTIFICATION.)

18 Q. And was this testimony written by you or
19 under your direction?

20 A. Yes, it was.

21 Q. And if I were to ask you the same
22 questions that were contained in this testimony
23 today, would your answers be the same?

24 A. Yes, they would.

25 Q. And do you have any deletions,

1 modifications, or additions to your testimony?

2 A. No, I do not.

3 MS. JOHNSON: Your Honors, at this time
4 I'd like to tender the witness for cross-examination.

5 EXAMINER SEE: Mr. Smalz?

6 MR. SMALZ: No questions, your Honor.

7 EXAMINER SEE: Mr. Clark?

8 MR. CLARK: No questions, your Honor.

9 EXAMINER SEE: Ms. Petrucci?

10 MS. PETRUCCI: No questions.

11 EXAMINER SEE: Mr. Casto?

12 MR. CASTO: No questions, your Honor.

13 EXAMINER SEE: Ms. Bojko?

14 MS. BOJKO: No questions, your Honor.

15 EXAMINER SEE: Ms. Shadrick?

16 MS. SHADRICK: No questions.

17 EXAMINER SEE: Mr. Kurtz?

18 MR. KURTZ: No questions, your Honor.

19 EXAMINER SEE: Mr. Darr?

20 MR. DARR: No questions, thank you.

21 EXAMINER SEE: Mr. Serio?

22 MR. SERIO: Thank you, your Honor.

23 - - -

24 CROSS-EXAMINATION

25

1 By Mr. Serio:

2 Q. Good morning, Mr. Baker.

3 A. Good morning.

4 Q. Your testimony as I understand it is to
5 talk about service reliability expectations, correct?

6 A. That's part of it, yes.

7 Q. And would you agree with me that there's
8 some connection or correlation between the company's
9 DIR program and service reliability and customer
10 expectations?

11 A. My testimony is that reliability
12 expectations of the company are in alignment with the
13 reliability expectations of its customers.

14 Q. I understand. My question to you was:
15 Am I correct that the company's DIR program is
16 connected to service reliability and, in turn, it's
17 connected to customer expectations with service
18 reliability?

19 A. Yes, that is my understanding.

20 Q. And is it your understanding --

21 A. Excuse me. Just clearing my throat.

22 Q. Okay.

23 And is it your understanding that when
24 the Commission approved the company's DIR program in
25 the last ESP proceeding, that the Commission

1 indicated that the company was supposed to quantify
2 the service reliability improvements as a result of
3 the DIR program?

4 A. Yes.

5 Q. And is it also your understanding that
6 the Commission indicated that the company needed to
7 make sure there was no double recovery in any of the
8 DIR programs?

9 A. Yes.

10 Q. Now, the DIR spending is directly related
11 to the service reliability standards, the CAIDI and
12 the SAIFI that you mention in your testimony,
13 correct?

14 A. I'm not sure it's directly related. I
15 mean, I don't think there is a one-to-one
16 correspondence between reactivity in the company's
17 DIR programs and a corresponding increase in
18 reliability or improvement in reliability.

19 Q. Just so we're clear, can you define what
20 the CAIDI and the SAIFI stand for so that the court
21 reporters have it?

22 A. Could you repeat that?

23 Q. Can you define what CAIDI and SAIFI stand
24 for?

25 A. CAIDI is the average interruption

1 duration experienced by customers who have an
2 interruption, and SAIFI is the average frequency of
3 interruptions across the entire customers for the
4 company.

5 Q. Are you familiar with the company's 2013
6 DIR work plan that was filed in the 12-3129-EL-UNC
7 proceeding?

8 A. Yes, I am.

9 Q. And is it your understanding that
10 attached to the company's work plan was the 27
11 separate components that the company would address as
12 part of the DIR program?

13 A. Yes, but I did not testify on that in
14 this case.

15 MR. SERIO: Your Honor, could counsel
16 make OCC Exhibit No. 2 and AEP Exhibit No. 6
17 available to the witness.

18 MR. PARRAM: What exhibits are those
19 again?

20 MR. SERIO: OCC Exhibit No. 2 and AEP
21 Exhibit No. 6.

22 MR. PARRAM: If you have them available,
23 could you give them to the witness because these are
24 my only two copies and I'd like to be able to refer
25 to them.

1 MR. SERIO: I only have mine.

2 I guess, your Honor, I can ask the
3 question, if counsel doesn't mind me standing there,
4 and I can look at it also.

5 EXAMINER SEE: Hold on just a minute,
6 Mr. Serio.

7 Q. Do you have OCC Exhibit No. 2 and AEP
8 Exhibit No. 6, Mr. Baker?

9 A. Yes, I do.

10 Q. Let's look at OCC Exhibit No. 2 first.
11 There's --

12 MS. JOHNSON: Objection, your Honor. I
13 don't believe there's been any foundation for why
14 this witness has knowledge to this exhibit.

15 MR. SERIO: Your Honor, the witness
16 indicated he's familiar with the 12-3129 DIR work
17 plan. He acknowledged that the work plan has 27
18 components. I was going to tie these 27 components
19 to the DIR work plan.

20 MS. JOHNSON: May I, your Honor?

21 EXAMINER SEE: Go ahead.

22 MS. JOHNSON: Does the witness have a
23 copy of the DIR work plan specifically?

24 MR. SERIO: May I approach, your Honor?

25 EXAMINER SEE: Yes.

1 Q. I'm handing you a copy of the company's
2 notice, it's notice of Ohio Power Company's
3 Commission Requested Distribution Investment Rider
4 Work Plan, Case No. 12-3129-EL-UNC, filed on December
5 3rd, 2012, and I'd specifically like you to look at
6 the AEP Ohio 2013 DIR work plan components that is
7 attached to that application.

8 Now, if you could look at the work plan
9 components in the 2013 application, and are those the
10 same 27 components that are listed in OCC Exhibit No.
11 2, A through AA?

12 A. They appear to be so.

13 Q. And then could you look at AEP Exhibit
14 No. 6. And would you agree with me that the 5 items
15 that are listed in that response are 5 of the 27
16 items that are listed on OCC Exhibit 2 and also
17 listed in the AEP 2013 work plan, the components?

18 A. Yes.

19 Q. Now, if I look at AEP Exhibit No. 6, in
20 your opinion, does that constitute quantification of
21 service reliability improvements?

22 A. Yes.

23 Q. Are you aware if there's a similar
24 quantification of service reliability improvements
25 for the other 22 items listed on OCC Exhibit 2 or on

1 the 2013 work plan anywhere in the 12-3129 docket?

2 MR. PARRAM: Can I have that question
3 reread?

4 MS. JOHNSON: Can I have that question
5 reread, your Honor?

6 EXAMINER SEE: Yes.

7 (Record read.)

8 A. No, there doesn't appear to be such a --

9 Q. And are you aware if there's any similar
10 quantification for the other 22 components anywhere
11 in the current docket that we're in today?

12 A. No.

13 Q. Were you in the room when Company Witness
14 Dias testified regarding service reliability and the
15 DIR work plan?

16 A. Yes, I was.

17 Q. And do you recall his discussion of
18 meetings with the PUCO staff where the company
19 discussed service reliability quantification from the
20 DIR work plan with the staff?

21 A. Yes.

22 Q. Were you involved in those discussions?

23 A. Yes.

24 Q. And to the extent that the quantification
25 of service reliability improvements were discussed in

1 those meetings, did the staff ever indicate to the
2 company that the company did not need to do any
3 quantification of service reliability improvements?

4 A. No.

5 Q. Are you aware of any PUCO order where the
6 Commission indicated that the company did not have to
7 quantify service reliability improvements related to
8 the other 22 work plan components listed on OCC
9 Exhibit No. 2?

10 A. I am aware of a subsequent Commission
11 order in the 12-3129 case where they said -- the
12 Commission directed that AEP would file its actual
13 reliability improvements as opposed to estimated
14 reliability improvements, and to do that at a later
15 date.

16 MR. SERIO: Could I approach, your Honor?

17 EXAMINER SEE: Yes.

18 MR. SERIO: Thank you.

19 Q. I'm going to hand you the finding and
20 order in PUCO Case No. 12-3129-EL-UNC that is dated
21 May 29th, 2013, and on page 13 the Commission
22 indicates its direction to the company. I've
23 highlighted a section there. If you could take a
24 look at that. And to the extent that you were just
25 referencing the Commission's order, is that the

1 particular order that you were referencing?

2 A. That is the same order, but that is a
3 different section of the order.

4 Q. And in that section of the order did the
5 Commission indicate that the company still had to
6 provide expected quantification of service
7 reliability improvements?

8 A. Yes, it does.

9 Q. Thank you.

10 Now, you also indicate that the company
11 expectation -- the company's service reliability is
12 consistent with customer expectations in part based
13 on customer survey results, correct?

14 A. Yes.

15 Q. And the customer survey results are the
16 results that are attached to the testimony of
17 Mr. Dias, correct?

18 A. Yes.

19 Q. And would you agree with me that to the
20 extent that the company indicated that 89.5 percent
21 of customers' expectations were consistent with the
22 company's plans was in part, in large part, based on
23 the fact that 71.5 percent of customers' expectations
24 are that service reliability would stay the same?
25 Correct?

1 MS. JOHNSON: I'm sorry, could we please
2 get a reference for that?

3 MR. SERIO: It's Exhibit SJD-1 attached
4 to Mr. Dias's testimony. It's the service
5 reliability -- it's the results from the service
6 reliability survey done from customers.

7 MS. JOHNSON: Could the witness get a
8 copy of that?

9 MR. SERIO: Do you have a copy of
10 Mr. Dias's testimony for him?

11 Your Honor, could I approach? I'll give
12 him my copy.

13 EXAMINER SEE: Yes.

14 Q. I'm handing you what's previously been
15 marked for purposes of identification as AEP Ohio
16 Exhibit No. 4, the direct testimony of Selwyn Dias,
17 and I'm pointing to Exhibit SJD-01 page 1 of 2, I
18 apologize it's got my highlight on it, but would you
19 agree that the majority of the customer survey
20 results for residential customers indicates that
21 71.5 percent of customers have expectations that
22 service reliability would stay about the same?

23 A. Yes.

24 Q. If I were to take the smaller percentage
25 of customers that expect service reliability to

1 improve, I could add them to that 71 percent and get
2 a large majority, correct?

3 A. Yes.

4 Q. And, similarly, I could take the small
5 percentage of customers that expect service
6 reliability to not get better or to decrease over
7 time and add it to that 71 percent, I would get a
8 majority, correct?

9 A. I haven't done the math, but it sounds
10 logical.

11 Q. Now, were you also present when Mr. Dias
12 testified about the ESRR rider and the DIR rider?

13 A. Yes.

14 Q. And is it your understanding that the
15 ESRR rider involves widening of the right-of-way and
16 removal of trees in the right-of-way?

17 A. Yes, to some extent.

18 Q. And is it your understanding also that
19 the DIR, the forestry component of it, involves
20 widening of the right-of-way and clearing in the
21 right-of-way or removing of trees?

22 A. Yes.

23 Q. Can you explain to me the difference in
24 widening the right-of-way in the ESRR and widening
25 the DIR forestry component as staff understands it.

1 A. There are two riders that are involved
2 with the vegetation management program, the ESR and
3 the DIR, and it's all the same costs but there is an
4 incremental component that is recovered through the
5 ESR rider and the base component is recovered through
6 the DIR rider.

7 Q. The DIR rider is \$3.9 million a year,
8 correct? I think if you look at Mr. Dias's testimony
9 on page 16, Table 1.

10 A. Okay.

11 Q. And then the ESRR rider is \$25 million a
12 year in O&M and a million dollars in capital as
13 indicated on page 20, Table 2, of Mr. Dias's
14 testimony?

15 MS. JOHNSON: I'm sorry. What page
16 again?

17 MR. SERIO: Page 20, Table 2.

18 A. Could you repeat the question?

19 Q. Sure. It shows there it's 25 million in
20 O&M costs and 1 million in capital costs.

21 A. That's correct.

22 Q. Now, can you point to anything in any of
23 the testimony or in the application in this case that
24 explains the difference between the right-of-way
25 clearing and tree removal built into the ESRR

1 25 million O&M and 1 million capital and the
2 3.9 million in the DIR forestry right-of-way clearing
3 and tree removal?

4 A. In those documents I'm not aware of an
5 explanation.

6 Q. Now, am I correct that your position on
7 the \$7 million increase for the ESRR is that the
8 staff objects because the company estimate is not as
9 accurate as the past costs? Is that your position?

10 A. That's part of it, yes.

11 Q. On page 10 of your testimony, at the
12 bottom of the page you talk about staff assessing
13 those expenditures in the future. Would that require
14 a separate or an additional company filing of any
15 type?

16 A. Could you point me to the precise line?

17 Q. It's your question and answer No. 21 at
18 the bottom of the page.

19 A. Could you repeat the question?

20 Q. Sure. It says there that the staff would
21 assess those expenditures. Would that be part of any
22 kind of company filing, or would that be the company
23 just providing information to the staff informally?

24 A. It would be part of our investigation,
25 and staff would issue data requests and evaluate the

1 responses.

2 Q. Would that be in a separate docket of any
3 type or would that be something the staff just opens
4 itself?

5 A. It would be part of an annual ESR rider
6 filing.

7 Q. And that filing would be open to the
8 other party -- to any other interested party,
9 correct?

10 A. Yes, it would.

11 Q. Now, it's your understanding that in this
12 proceeding the company's asking for two things with
13 regard to the DIR rider, first, they're requesting
14 continuation and, second, they're requesting
15 expansion, correct?

16 A. Yes, that is my understanding, but I am
17 not the witness on those topics.

18 Q. As part of your analysis to determine if
19 the company and customer expectations are aligned, do
20 you consider affordability or unaffordability of
21 rates?

22 A. Not in the context of that review.

23 Q. If you could turn to page 7 of your
24 testimony, line 10, you talk about the \$7 million.

25 A. Yes.

1 Q. Now, is it your understanding that the
2 other \$18 million that the Commission authorized in
3 ESP 2 case for the continuation of the four-year
4 cycle-based vegetation management program was
5 included in base rates from the company's most recent
6 base rate case, I think the 11-351 case?

7 A. I believe that was the Commission's order
8 in the last ESP case.

9 Q. Now, on page 9 of your testimony, line 8,
10 given that the company is now caught up -- strike
11 that.

12 Is it your testimony or understanding
13 that the company is now caught up on the tree
14 trimming associated with the transition to the
15 four-year cycle-based program?

16 A. It's my understanding that that was the
17 company's plan, to be caught up, during the year
18 2014.

19 Q. Do you have any reason to believe that
20 the company will not be caught up by 2014?

21 A. No.

22 Q. To the extent that they do catch up,
23 would you anticipate that there could be other
24 efficiencies that could be looked at that could help
25 reduce costs on a going-forward basis for the

1 four-year cycle?

2 A. I don't rule out the possibility.

3 Q. Okay. Just a couple other questions.

4 You said you're familiar with the CAIDI
5 and the SAIFI standards, correct?

6 A. Yes.

7 Q. And those are listed in the Commission's
8 Rule 4901:1-10-10, right?

9 A. Yes.

10 Q. Now, does the rule that sets forth how to
11 calculate the company's reliability standards include
12 a 10 percent adder on the company performance?

13 A. No, it does not.

14 Q. Are you aware of any PUCO order where the
15 Commission has specifically indicated that a
16 10 percent adder should be added to the company's
17 actual historical performance?

18 MR. SATTERWHITE: Objection, your Honor,
19 I don't know, I think this might be an issue in other
20 cases but I don't think it's an issue in this case at
21 all, what goes into setting the standards, so it's
22 well beyond this witness and well beyond this case.
23 I object.

24 MR. SERIO: Your Honor, it's not beyond
25 the witness because he deals with this on a regular

1 basis. And to the extent that the CAIDI and the
2 SAIFI standards go into aligning the company and
3 customer expectations with regard to customer service
4 reliability I think it is an appropriate question.

5 MR. SATTERWHITE: Your Honor, this is a
6 collateral attack on how reliability standards are
7 set which are done in other cases and it's not part
8 of this case at all, it's inappropriate. This
9 witness does a lot of things and not everything this
10 witness does every day in his job is part of the
11 record in this case.

12 MR. SERIO: Your Honor.

13 EXAMINER SEE: Just a minute, Mr. Serio.

14 MR. SERIO: Okay.

15 EXAMINER SEE: The objection is
16 overruled.

17 Mr. Baker, you can answer the question.
18 Do you need to -- go ahead.

19 A. Although there is no formal Commission
20 directive on whether to include a 10 percent adder,
21 it is -- something to that effect is implied by the
22 rule's intent to apply standards that are minimum
23 levels of service and not average levels of service.
24 And a minimum level would be somewhere below the
25 average historical service as measured by SAIFI and

1 CAIDI.

2 Q. If you know, would the company -- you
3 indicate in your testimony that the company -- at the
4 bottom of page 5 you talk about the company meeting
5 its reliability standards in 2013 and 2014. If you
6 know, would the company have met its reliability
7 standards without the 10 percent adder?

8 MR. SATTERWHITE: I'll object again, your
9 Honor. I don't think this is relevant. It's beyond
10 this witness's testimony in this case and
11 hypotheticals about things not in existence do not
12 help this record move forward.

13 MR. SERIO: Your Honor, the witness
14 directly addresses the 2013 and '14 standard and what
15 I'm asking is if they wouldn't have used a 10 percent
16 adder that doesn't appear in the rule, would they
17 have met the standard.

18 MR. SATTERWHITE: And now I think we see
19 the attack on the application of the establishment
20 that the Commission's done to standards in the past
21 versus what's at issue in this case which is the
22 actual performance based on the standards that were
23 established. You could add lots of things into
24 what-ifs, but that's not part of this case and not a
25 proper basis for what happened in the past.

1 MR. SERIO: Your Honor, it's not a
2 collateral attack because what I'm attacking is the
3 expansion and extension of the DIR program which is
4 directly on point in this case. And to the extent
5 that CAIDI and SAIFI are used in any kind of
6 justification for extension and expansion of the DIR
7 then I'm entitled to bring that into play here.

8 MR. SATTERWHITE: We're not trying to
9 decide the world according to OCC if they got to set
10 the standards unilaterally, we're trying to see the
11 standards put in place and the performance against
12 those, that's what's appropriate, and that's not
13 what's being asked about.

14 EXAMINER SEE: I'm going to allow the
15 question.

16 Answer the question, Mr. Baker.

17 A. I have not done that calculation so I
18 don't know whether the standards would have been met
19 without the 10 percent adder or not.

20 MR. SERIO: Thank you, Mr. Baker.

21 That's all I have, your Honor.

22 EXAMINER SEE: Mr. Satterwhite?

23 MR. SATTERWHITE: Thank you, your Honor.

24 - - -

25 CROSS-EXAMINATION

1 By Mr. Satterwhite:

2 Q. Mr. Baker, good afternoon.

3 A. Good afternoon.

4 Q. Good to see you again.

5 You talked a little bit about the purpose
6 of the DIR and the interaction of the Commission and
7 staff and the company in the past, correct?

8 A. Yes.

9 Q. And you talked about how one of the
10 purposes of the DIR is to improve service
11 reliability, correct?

12 A. Yes.

13 Q. Is there also a component of the DIR to
14 maintain a level of service reliability?

15 A. Yes, there is.

16 Q. And is that focused on preventing outages
17 by replacing aging infrastructure?

18 A. Yes.

19 EXAMINER SEE: I'm sorry,
20 Mr. Satterwhite.

21 Mr. Baker, if you could move the mic so
22 it's easier for people on this side of the room,
23 including the Bench, to hear you.

24 Q. And the quantifications that you
25 discussed with Mr. Serio that the company has done,

1 those are done also in consultation with the
2 Commission staff as it develops DIR plans, correct?

3 A. Yes, we are involved under the direct
4 computation of the improvement modification. But we
5 have discussed these topics.

6 Q. And that's a topic that comes up in
7 these -- strike that.

8 Out of the ESP 2 order the company was
9 instructed to work with staff to develop their DIR
10 plans before filing them, correct?

11 A. Yes.

12 Q. And the topic of quantification of the
13 reliability improvements and standards are a part of
14 that discussion that's held with staff, correct?

15 A. To some extent, yes.

16 Q. I'd like to talk a little bit about your
17 testimony that starts on page 7 which is the ESR,
18 ESRR, I think we all call it something a little bit
19 different, but the vegetation management program. Do
20 you know what I'm referring to?

21 A. Yes.

22 Q. And just as a preliminary matter, we can
23 agree that the underlying premise of this rider is to
24 have the company trimming circuit end to circuit end
25 over a four-year trim cycle, correct?

1 A. Not quite. The purpose of the ESR rider
2 is to transition the company so it would be able to
3 begin a four-year cycle.

4 Q. Right.

5 A. Start with a clean slate.

6 Q. Right. So the underlying premise was to
7 move the company from a reactive to a proactive
8 trimming effort that would take place circuit end to
9 circuit end over a four-year cycle, correct?

10 A. Under the four-year cycle the company
11 would be required to trim all circuits end to end at
12 least once every four years.

13 Q. And this rider was put in place to get
14 the company to a place where it could achieve that,
15 correct?

16 A. That's right.

17 Q. Now, staff has not done any
18 quantifications of the amount of decreased trimming
19 cost that staff expects to see because of the impact
20 of the past trimming under the rider, correct?

21 A. We have not performed those calculations.

22 Q. And I believe you, in discussions
23 earlier, you were talking about the filings each year
24 that deal with the audit of the ESR program, correct?

25 A. Would you ask that again?

1 Q. Yeah. Earlier you were discussing with
2 Mr. Serio, I believe, the filings at the end of the
3 year that deal with the quantification of the cost
4 from the ESR filing or rider, correct?

5 A. Yes.

6 Q. And you agree that's the appropriate time
7 to judge the actual dollars spent on the ESRR during
8 that year is in that filing; is that correct?

9 A. Yes.

10 Q. So \$25 million -- the \$25 million figure
11 the company has proposed may be the correct amount
12 and the ESRR will be reviewed at the end of the year
13 to determine that, correct?

14 A. It's not the correct amount going into
15 this.

16 Q. Well, you've testified -- I apologize.
17 Go ahead.

18 A. It's -- this amount, this estimated cost
19 for the four-year cycle program going forward, is the
20 subject matter to be determined in this case.

21 Q. Yeah, but your testimony also states --
22 well, let me strike that.

23 You've testified that staff's done no
24 independent quantification to determine what the
25 proper amount is, correct?

1 A. That's correct.

2 Q. And you stated in your testimony that if
3 the 25 million is the proper amount, that that will
4 flesh itself out in these filings in the future and
5 the staff would be supportive of recovery if those
6 costs are shown to be prudent, correct?

7 A. Well, first, staff would do a comparison
8 of the actual costs being filed in the rider case, we
9 would compare those costs with the estimate that was
10 approved in this ESP case. And if -- what I'm saying
11 in my testimony is that if in this case the
12 \$18 million estimate was approved, then we would not
13 automatically rule that out in a future rider case,
14 that we would compare the actuals to the estimate --
15 or, to that approved amount, the authorized amount.
16 And to the extent that the actuals were in excess of
17 that authorized amount, we would not automatically
18 rule that out, that we would investigate to find out
19 why it was over the estimate and we would, if they
20 were -- if we were satisfied with those expenditures,
21 then we would recommend that the Commission approve
22 them.

23 Q. And when you say "authorized amount," are
24 you referring to what's being requested in this case
25 or what's in base rates?

1 A. I'm looking forward to the order in this
2 case where I assume that the Commission will approve
3 an authorized amount to be spent in future rider
4 cases over the next three years and that's what I'm
5 talking about.

6 Q. Okay. Let's look at page 10 of your
7 testimony. You start an answer around line 18 and
8 19, on line 19 you say "Staff would assess those
9 expenditures to determine whether they were prudently
10 incurred and whether they involved vegetation
11 management activities that Staff considers
12 beneficial, then Staff would recommend that the
13 Commission approve such additional expenditures." Do
14 you see that?

15 A. Yes.

16 Q. The analysis in the beginning of that
17 sentence, that staff would like to see whether it's
18 prudently incurred, is that the same analysis staff
19 does when the ESRR filing is done each year to
20 determine if those costs are prudent?

21 A. It would be a little more intensely than
22 our usual investigation.

23 Q. So are you saying that at the end of each
24 year staff doesn't really look to see if the costs
25 are prudent?

1 MS. JOHNSON: Objection, your Honor, it's
2 mischaracterizing the witness's statement.

3 MR. SATTERWHITE: I asked for the
4 difference between the two and he said it would be a
5 little more so I'm asking the witness to explain it,
6 that's all.

7 EXAMINER SEE: With that clarification,
8 Mr. Baker, you can answer the question.

9 A. We would ask a few extra questions about
10 what -- why the additional spending occurred and what
11 activities were performed in order to cause those
12 additional expenditures.

13 Q. So if you were able to ask those extra
14 couple of questions, that would alleviate concern
15 about whether the costs were going to be prudent or
16 imprudent, that extra level of scrutiny by staff; is
17 that your testimony?

18 A. Yes. And that was the kind of analysis
19 that occurred in the past ESR rider cases, that there
20 have been instances where actual expenditures
21 exceeded the authorized amount and we did that extra
22 investigation and we ended up recommending that the
23 Commission approve those additional expenditures.

24 Q. I've been involved. I know you look hard
25 at those. I appreciate that.

1 But back to the underlying premise, the
2 purpose of the rider is, the underlying premise of
3 how we all started was so that the company could be
4 doing a proactive approach to trimming and complete
5 an end-to-end circuit on a four-year cycle, correct?

6 A. Yes.

7 MR. SATTERWHITE: Thank you, Mr. Baker.

8 That's all I have, your Honor.

9 EXAMINER SEE: Miss Johnson, redirect?

10 MS. JOHNSON: Can we have ten minutes to
11 discuss redirect?

12 EXAMINER SEE: Sure. Let's go off the
13 record.

14 (Recess taken.)

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

16 Miss Johnson.

17 - - -

18 REDIRECT EXAMINATION

19 By Ms. Johnson:

20 Q. Mr. Baker, Mr. Satterwhite previously
21 asked you about the quantification of the costs for
22 the maintenance of the tree trimming cycle.

23 A. Yes.

24 Q. Did the company in the ESP 2 proceeding
25 quantify the cap for the maintenance of the tree

1 trimming cycle program?

2 A. Their application proposed \$18 million of
3 additional O&M at that time to fund the cost of the
4 four-year cycle maintenance program going forward
5 beginning in 2014.

6 Q. And is the cost that the company is
7 proposing or has quantified in this case different
8 than the \$18 million?

9 A. Yes, it's \$7 million more.

10 Q. And so what is the proposed cost?

11 A. It's now up to \$25 million.

12 Q. And what is your understanding of how the
13 company quantified those costs, the \$25 million that
14 is?

15 A. They based their new estimate on their
16 experience over the past five years in the
17 transitional program where they were catching up so
18 that they could implement the four-year cycle. The
19 catch-up program was much more expensive than the
20 previous program and significantly more expensive
21 than the estimated costs going forward. So I believe
22 that it's inappropriate to use the costs in the
23 catch-up program as a basis for determining the costs
24 of the four-year cycle program.

25 Q. Why are the costs for the transitional

1 program higher than the costs for the maintenance
2 program?

3 A. The transitional program is trying to
4 clear all of the cycle -- all of the circuits end to
5 end and many of those circuits had not yet -- had not
6 been trimmed end to end in many years and so they're
7 trying to catch up for that long history of growth,
8 vegetation growth on those circuits, and that makes
9 it more expensive.

10 Q. And so what is that \$25 million based on?

11 A. The \$25 million represents 30 percent
12 reduction from the costs of the transitional catch-up
13 program.

14 Q. And what is your position regarding how
15 the company quantified that \$25 million?

16 A. First off, staff believes that they used
17 an inappropriate basis for making that calculation,
18 that basis being the costs of the catch-up program
19 and, secondly, we believe that the previous estimate
20 of the \$18 million as proposed by AEP in the last ESP
21 and was approved by the Commission in the last ESP is
22 a more accurate -- has a more accurate methodology in
23 that it includes more -- it takes more variables into
24 consideration and whereas the new methodology for the
25 new estimate is -- seemed to be based on a mere

1 30 percent reduction off of the past costs of the
2 catch-up program.

3 Q. Just to clarify, what is staff's position
4 regarding the 30 percent reduction from the catch-up
5 program costs?

6 A. Well, initially we issued a data request
7 asking the company to explain how it arrived at the
8 30 percent reduction, and the response had to do with
9 a number of -- a few factors that did not -- that
10 list of factors was not nearly as long as the factors
11 that were considered in the company's previous
12 estimate.

13 In addition, when listening to Mr. Dias's
14 testimony, we were surprised to hear that the
15 30 percent was based on an experience in another
16 state, namely Oklahoma.

17 Is that better?

18 Q. Yeah.

19 A. And we do not believe that the tree
20 trimming experience in Oklahoma is a suitable
21 comparison to Ohio.

22 MS. JOHNSON: No further questions, your
23 Honor.

24 EXAMINER SEE: Any recross for this
25 witness?

1 MR. CLARK: No, thank you, your Honor.

2 EXAMINER SEE: Mr. Casto?

3 MR. CASTO: No questions, your Honor.

4 EXAMINER SEE: Ms. Bojko?

5 MS. BOJKO: No, thank you, your Honor.

6 EXAMINER SEE: Ms. Shadrick?

7 MS. SHADRICK: No, thank you.

8 EXAMINER SEE: Mr. Kurtz?

9 MR. KURTZ: No, your Honor.

10 EXAMINER SEE: Mr. Darr?

11 MR. DARR: No, your Honor.

12 EXAMINER SEE: Mr. Serio?

13 MR. SERIO: No, thank you, your Honor.

14 EXAMINER SEE: Mr. Satterwhite?

15 MR. SATTERWHITE: Thank you, your Honor,
16 just a few.

17 - - -

18 RE-CROSS-EXAMINATION

19 By Mr. Satterwhite:

20 Q. Mr. Baker, you mentioned about the move
21 from the catch-up over the past five years to the
22 current system, that the presence of the lack of
23 trees due to the end-to-end clearing circuit with
24 talking with your counsel. Do you remember that?

25 A. Yes.

1 Q. You're not trying to insinuate that there
2 was no trimming on those circuits prior to this plan.
3 You're just talking about the end-to-end clearing on
4 those circuits, correct?

5 A. That's correct.

6 Q. And the quantification that was done in
7 the ESP 2, you said there were a number of factors
8 included in that, that was also based on a systemwide
9 view of the AEP system versus AEP Ohio system
10 directly, correct?

11 A. Yes.

12 Q. As opposed to the current view of costs,
13 that's based on the dollars associated with what it
14 cost to trim each circuit solely based on the
15 experience over the past few years in AEP Ohio,
16 correct?

17 A. Yes.

18 Q. And when you talked about the 30 percent,
19 you said it was a shorter list of criteria, I
20 believe, in talking to your counsel about the
21 justification; is that correct?

22 A. Yes.

23 Q. And is it your understanding that that
24 30 percent is taken from a different utility that
25 went through a similar program where they moved to a

1 four-year trim cycle and the experience that they
2 experienced after moving to ongoing normal operations
3 after moving to a cycle?

4 A. Yes, after hearing Mr. Dias's testimony
5 that is my current understanding.

6 Q. And that's the basis of the 30 percent of
7 real world experience of a similar situation where a
8 company moved from a catch-up to an actual experience
9 of a normal cycle, correct?

10 A. I'm sorry. What was the question?

11 Q. I'm trying to -- that 30 percent number
12 was based on a real-world experience from another
13 company that had moved from a catch-up to an actual
14 ongoing trim cycle and the 30 percent was the
15 experience of what they experienced was the decrease
16 in costs once they moved to the normal cycle,
17 correct?

18 A. Yes, that's correct. But there are a lot
19 of factors involved in determining how much reduction
20 would occur and those factors may be different and
21 probably are different in Ohio compared to Oklahoma.

22 Q. Okay. So you believe that it's important
23 to use Ohio, AEP Ohio-specific costs, correct?

24 A. The ideal way is to wait until the end of
25 2015 and see how much the first year of the four-year

1 maintenance cycle would actually cost, and that's the
2 ideal. But we don't have that ideal and so we're
3 faced with a choice between two estimates, the
4 estimate in the last case, the \$18 million estimate,
5 or the \$25 million estimate in this case. In
6 comparing the two methodologies we believe that the
7 earlier methodology, as we understand it, is more
8 accurate than the one proposed in this case.

9 Q. But whatever prudent costs it takes to do
10 a four-year trim cycle should be recovered, correct?

11 A. I believe so.

12 MR. SATTERWHITE: Thank you. That's all
13 I have, your Honor.

14 EXAMINER SEE: Ms. Johnson?

15 MS. JOHNSON: No further questions, but
16 at this time we'd like to move for the admission of
17 Staff Exhibit 10.

18 EXAMINER SEE: Are there any objections
19 to the admission of Staff Exhibit 10?

20 (No response.)

21 EXAMINER SEE: Hearing none, Staff
22 Exhibit 10 is admitted into the record.

23 (EXHIBIT ADMITTED INTO EVIDENCE.)

24 EXAMINER SEE: Thank you, Mr. Baker.

25 Let's go off the record.

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(Discussion off the record.)

EXAMINER SEE: Let's go back on the record. The schedule has been revised in light of the progress made by the parties in getting the witnesses on and off this week. Schedule for tomorrow will be Chriss, D'Alessandris, Pearce, James Williams, and Murray, not necessarily in that order. The schedule for Wednesday, June 11th is Campbell, Ringenbach, T. Hamilton, Lipthrott, and Bowser, not necessarily in that order.

The schedule previously issued for June 12th will stay as it is at this time.

And we'll reevaluate the schedule for June 13th recognizing that Kahal, OCC's Witness Kahal, is a date-certain witness.

With that, we're adjourned until tomorrow at 9 o'clock.

(Thereupon, the hearing was adjourned at 1:04 p.m.)

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CERTIFICATE

I do hereby certify that the foregoing is a true and correct transcript of the proceedings taken by me in this matter on Monday, June 9, 2014, 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.
(75820-MDJ)

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Case No(s). 13-2385-EL-SSO, 13-2386-EL-AAM

Summary: Transcript in the matter of Ohio Power Company hearing - Volume V held on 06/09/14 electronically filed by Mrs. Jennifer Duffer on behalf of Armstrong & Okey, Inc. and Jones, Maria DiPaolo Mrs.