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 Offer Pursuant to §4928.143, Revised Code, in the Form of an Electric Security Plan. : Case No. 13-2385-EL-SSO

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

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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 Friday, June 13, 2014.

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VOLUME IX

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Friday Morning Session,

June 13, 2014.

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EXAMINER SEE: Let's go on the record. At this time let's take brief appearances of the parties starting with the company and going around the room.

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

MS. GRADY: Thank you, your Honor. On behalf of the Office of Consumers' Counsel, Maureen R. Grady, Joseph P. Serio, and Edmund "Tad" Berger.

MR. YURICK: Good morning, your Honors. Mark Yurick on behalf of the Kroger Company.

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

MR. PARRAM: Good morning. On behalf of staff, Devin Parram, Werner Margard, Katie Johnson.

MR. K. BOEHM: Good morning. On behalf of OEG, Kurt Boehm.

MS. BOJKO: Good morning. On behalf of Ohio Manufacturers' Association, Kim Bojko and Rebecca Hussey.

MR. CLARK: On behalf of Direct Energy,

Joseph M. Clark.

MR. PETRICOFF: On behalf of the Retail Energy Supply Association, Constellation NewEnergy, and Exelon Generation, LLC, Howard Petricoff, Stephen Howard, and Gretchen Petrucci.

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

EXAMINER SEE: Thank you.

OCC ready to call its next witness?

MS. GRADY: Yes, your Honor. Thank you. Your Honor, OCC calls Matt Kahal to the stand.

EXAMINER SEE: Mr. Kahal, if you'd please raise your right hand.

(Witness sworn.)

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

Ms. Grady.

MS. GRADY: Thank you, your Honor.

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MATTHEW I. KAHAL

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

DIRECT EXAMINATION

By Ms. Grady:

Q. Good morning, Mr. Kahal.

A. Good morning.

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

A. Yes. My name is Matthew Kahal, and I'm a consultant with Exeter Associates, and Exeter's business address is 10480 Little Patuxent Parkway, Columbia, Maryland.

Q. For purposes of this proceeding by whom are you employed and in what capacity?

A. I am self-employed. I am a self-employed consultant retained by Exeter Associates which has been retained by the Office of Consumers' Counsel.

Q. Thank you.

MS. GRADY: Now, your Honor, at this time I would like to have marked for identification purposes as OCC Exhibit No. 13 the direct testimony of Matthew Kahal.

May I approach?

EXAMINER SEE: Yes.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Now, Mr. Kahal, do you have before you what has been marked as OCC -- for identification purposes as OCC Exhibit No. 13?

A. Yes, I do.

Q. Can you identify that for me, please.

A. Yes. This is my direct testimony in this case and also appended to this testimony is my statement of qualifications.

Q. And, Mr. Kahal, was this prepared by you or under your direct supervision and control?

A. Yes, it was.

Q. And do you have any additions, corrections, or deletions to that testimony?

A. I've got some minor corrections. There's minor edit corrections which I can go over right now.

Q. Thank you.

A. If you'll turn to page 14, at line No. 21 you'll see the abbreviation "FCAs," that should be FRCs. That is "FCAs" should be FRCs.

Q. Okay.

A. At page 25, line No. 19, there's the number "117 million," that was a number from OCC Witness Mr. Wilson and I understand he has revised that 117 to 116, so, therefore, my number should also be 116 million.

Q. Thank you.

A. And it's the same correction at page 30, line 18. Again, there's a reference to the "117 million" that should be 116.

A couple more typographical-type

corrections. At page 45 at line 11, in the middle of that line you'll see the expression "firm requirements contracts." The word "firm" should be full. So just change "firm" to full.

At page 48, line 1, the word "might" should be right so that should be a reference to the two-year termination right.

And then also on that same page at line 6 the word "an" should be "a."

That's all the corrections I have. None of these corrections are substantive or change the meaning of my testimony.

Q. Thank you.

Now, Mr. Kahal, if I were to ask you today the questions that are contained in OCC Exhibit No. 13, your direct testimony, would your answers be the same?

A. They would be.

MS. GRADY: Your Honor, at this time I would move for the admission of OCC Exhibit No. 13 and present Mr. Kahal for cross-examination.

EXAMINER SEE: Mr. Smalz?

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

EXAMINER SEE: Mr. Petricoff?

MR. PETRICOFF: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Petricoff:

Q. Good morning, Mr. Kahal.

A. Good morning, Mr. Petricoff.

Q. I'm here on behalf of the Retail Energy Supply Association, and I'm going to ask you a few questions that are all on the topic -- you've got many topics in your testimony but these are mainly on the purchase of receivables and the bad-debt tracker.

A. Sure.

Q. And there is a term I'm going to use as sort of a shorthand. I'm going to refer to the services that are supplied by a competitive retail electric supplier as the "commodity" to distinguish it from the utility's services. So if you have any questions about that, let me know, but that's how I'm going to use that term.

A. That would be fine.

Q. Thank you.

In preparation for your testimony today, particularly the portion that has to do with purchase of receivables, did you review the Commission's opinion and order in the electric retail marketing investigation docket, 12-3151?

A. No.

Q. And I assume that the same would be true for the Staff Report?

A. That's correct.

Q. Nor any of the comments that were filed in that case?

A. That's correct.

Q. I want to refer you, then, to page 33 of your testimony, lines 10 through 18. This is the question and answer to -- well, it's the answer to question 36. Is it fair to say, then, that your recitation of the 12-3151, the retail market investigation case, there is solely for the purpose of indicating that the Office of the Consumers' Counsel had taken a position on POR prior to today's case?

A. Yes. And that's what I had been informed.

Q. And you personally have no opinion as to the Commission's opinion and order in that proceeding.

A. I do not.

Q. In preparation for your testimony on the purchase of receivables, did you have an opportunity to go back and look at the Ohio Power rate case, their last rate case that established base rates?

A. I looked at the settlement agreement.

Q. Other than the settlement agreement did you look at any other documents?

A. Well, the Commission order that approved the settlement agreement.

Q. Okay. Are you aware from that review whether there is a bad debt component that is part of the base rates that Ohio Power charges its customers?

A. Yes, I understand that embedded in base rates is $12.2 million.

Q. And that was an annual amount from the test year?

A. Yes. That was an amount that's embedded in the cost of service that resulted from that rate case.

Q. And it was established to reflect both the unpaid commodity and utility services that Ohio Power experienced in the test year?

A. It did, but not the unregulated commodity. My understanding is it's the regulated commodity but not the unregulated commodity.

Q. Okay. Let's explore that a little bit deeper. If a customer's buying the standard service offer -- and that standard offer would contain both the commodity and the utility service?

A. Yes.

Q. Okay. And if that customer didn't pay the invoice, both the loss on the commodity and the utility service would be reflected as bad debt to the company?

A. If it's not recovered, yes.

Q. And I guess while we are fleshing out this part of the testimony is it essential that utilities have a bad debt component or bad-debt tracker in their rates in order to be made whole?

A. Tracker, no.

Q. Okay.

A. It's --

Q. One or the other.

A. I'm not sure what you intended by that question. Bad debt expense is a normal part of the ratemaking process. I think that you used the word "tracker" and based on my experience the use of trackers for bad debt expense is not a normal practice.

Q. Okay. But it is a normal practice to include the bad debt component that the company, the utility company, is likely to experience in rates.

A. As established in a rate case, yes.

Q. Now, in the last rate case for Ohio Power, for the rates that are in effect today, how is the bad debt component of the base rates allocated out to the individual customers?

A. The allocation method. I didn't look at the customer class allocation of bad debt expense.

Q. Okay. So you're not aware of whether it's on a class-by-class basis or whether it's on a weighted average cost per kilowatt-hour to all customers?

A. No. I'm not familiar with what the -- what allocation procedure was used in the last rate case. I'm not addressing class cost allocation.

Q. Are you familiar with the rate design for residential customers that's in place today for Ohio Power?

A. You mean in general? No. I -- I'm not the rate-design witness.

Q. So you don't know whether or not the bad debt component is in the price per kilowatt-hour or in the customer charge?

A. No. I'm not even sure that question is answerable. There was an adjustment made to base rates in the last rate case. My recollection was that there was a $46 million increase in base rates from the last rate case. That was my recollection from reviewing the settlement. Then there was an offset in the form of a distribution credit so that the -- so that the overall effect of the last rate case was neutral with respect to rates.

Exactly what the details were of rate design at the customer class level, I couldn't tell you that. I didn't look at that. It may have been mentioned in the settlement, but I don't recall. It wasn't the focus of what I was doing.

Q. But isn't it true that basically the bad debt experience by the company under the rate design is socialized so that basically paying customers make up the revenue that the company doesn't receive because some customers don't pay their bills?

A. That's normally what happens with bad debt expense is that it gets spread over all customers --

Q. Right.

A. -- in some manner.

Q. Right. Now I want to return to that "in some manner." To the best of your knowledge, is the bad debt under the current rates spread in a fashion so that those who are more likely not to pay their bills pay a greater proportion of the bad debt than those who have good credit?

A. No, I don't believe that would even be possible to do that. It's not feasible. It's simply included as a postage stamp type arrangement whereas all customers pay for the bad debt expense because one doesn't know in advance which customers are going to experience nonpayment and which are not.

Q. And for Ohio Power all customers are paying on a kilowatt-hour basis?

A. I understand that residential customers pay on a kilowatt-hour basis. I imagine, if Ohio Power is typical of most utilities, then nonresidential customers over a certain size would have demand charges. And, as you mentioned, there's also typically a customer charge or minimum bill or something like that.

Q. But as far as you know for purposes of our case here today, you believe that the bad debt cost component is now picked up by residential customers as part of their kilowatt-hour charge to the utility.

A. I don't know. It could be either in -- I don't know if it was actually specified where it is. My understanding is that there was a rate increase that was -- arose out of the settlement in the last case. It was offset by the -- by a residential distribution credit such that there's -- overall there was a neutral effect on base rates. And I don't know if there's a specific provision in the settlement agreement that says this is how bad debt expense is being allocated for purposes of the settlement.

I believe what the settlement simply said is this is -- there's a rate increase of some dollar amount and this is how it's going to be spread to customer classes. That's normally how settlements in rate cases work. It doesn't go into detail to talk about how each element or line item of the cost of service is allocated.

Q. Do you know what percentage of Ohio Power's revenues are not paid, what their percentage of bad debt is?

A. The bad debt expense percentage? No, I don't know that number.

Q. In the electric utility industry generally do you have a range where that -- for bad debt expenses?

A. Oh, I'm thinking that it's maybe something around 1 percent. That's just a guess off the top of my head.

Q. Okay.

A. I think the number that I mentioned earlier, the 12.2 million, which is also a number that was mentioned in Mr. Gabbard's testimony, I suppose one could derive a percentage by simply taking that 12.2 million and dividing that by the -- by AEP's annual revenue and one could easily come up with a percentage. I imagine those numbers must be in the record in this case.

Q. Okay.

A. It would be a pretty simple thing to do.

Q. But order of magnitude, you'd expect it to be in the 1 percent range.

A. I would think so overall.

Q. Right.

Do you know when the test year was that was used and the bad debt was established, do you know what percentage of the AEP load was shopping?

A. I'm sorry. Do you mean now or back in the time of the last rate case?

Q. Back then, at the time -- 2011.

A. No, I don't know that percentage.

Q. Do you know the percentage that are shopping now?

A. The percentage of load, the impression I have is that it's probably about 60 percent of the load is shopping. That's a very, very rough number. And that's -- what I base that on is the company's case assumed 17 million megawatt-hours a year of SSO load and out of about a total of 41 million megawatt-hours a year of sales. So that, you know, that would be about 40 percent SSO which means about 60 percent shopping.

Q. Okay. Now, for shopping customers, if a shopping customer defaults on the commodity portion of their bill, does that end up as a bad debt for the company, the utility company?

A. My understanding is that's the responsibility of the CRES provider.

Q. So if in 2011 the bad debt component in the rates were set where there was no shopping and today there's 60 percent shopping, wouldn't the -- unless adjustments were made, if there are no other factors that have changed, wouldn't the company be overcollecting for bad debt?

MS. GRADY: Your Honor, I'm going to object. Mr. Petricoff's question assumes a fact not in evidence, that there was no shopping in 2011.

MR. PETRICOFF: Your Honor, I will say

"assume" and for the basis for that assumption we can look at the Market Monitor Reports that are published by this Commission.

EXAMINER SEE: I'll allow the question.

A. I think it's entirely possible that the company could be overcollecting for a lot of things, bad debt just being one of them. That's why, in my testimony, I think there's probably a need for a rate case and as part of that rate case what I've suggested is that the bad debt expense would be something that would be looked at. And I've also indicated in my testimony that I would be in favor of unbundling bad debt expense, and that might mitigate these types of problems that you're talking about.

Q. Could the problem also be mitigated in this case just on the question of overcollecting for bad debt if, instead of having a test year component for bad debt, we merely put in a tracker that looked at what the company actually would have paid out in bad debt?

A. Well, you could do that, sure. But I haven't seen any evidence that the company actually is. I simply said it's always a possibility that there's overcollection of bad debt, for bad debt expense. But I don't know for a fact that there actually is. I don't think anybody's actually presented evidence that that's the case. But you could look at anything.

Q. Now, earlier you told me that the responsibility for nonpayment of the commodity portion of the electric service for a customer who's shopping was with the competitive electric retail supplier; is that correct?

A. That's my understanding, yes.

Q. And that would reflect the competitive retail electric supplier's estimate of what the risk of that customer defaulting would be?

A. Sure.

Q. And in setting the prices would you expect that those with better credit would get a lower price because they offered -- they presented a lower credit risk or risk of nonpayment than customers who are -- have poor credit?

A. If you're talking about large industrial customers, for example, I think that's entirely possible because that's -- that can be done on kind of a one-on-one basis. I mean, my understanding is that it's not normal practice, for example in the residential class, for CRES suppliers to be going out and negotiating one-on-one prices with individual residential customers, you know, based upon the attributes of those residential customers. It's simply not practical to market that way.

A CRES provider in a residential class would simply have an offer that would be out there to -- at a given point in time to any residential customer. The prices are really not determined on a customer-by-customer basis in the residential class.

Q. Okay. And what is your experience that leads you to that conclusion?

A. Just having observed the practices of residential suppliers in a variety of states over the past 10 or 15 years and having lived in a retail access state myself and having had a lot of contact with residential suppliers, both in a professional capacity and in my position just as a consumer.

Q. And do you know what the percentage of shopping customers, residential -- let me retract that.

Do you know what percentage of Ohio Power residential customers are shopping today?

A. Residential?

Q. Residential.

A. Yes. That information was in Mr. Williams' testimony. I believe the percentage that he quoted was 27.5 percent. That might have been the percentage of load. I don't recall whether that was percentage of customers or percentage of load.

Q. But, order of magnitude, about a quarter?

A. Slightly more than that, yes.

Q. And how about the industrials, what percentage of customer are shopping -- of the industrial load is shopping?

A. Well, the majority. I can't give you a number.

Q. Do you think that one of the possibilities for this disparity is the fact that credit checks can't be done on a mass basis for residential customers?

A. I don't think that's the driver, no.

Q. And what's the basis for that view?

A. It's the same basis that I've given you before. I've been involved in issues involving retail competition for the last 10 or 15 years, I've been associated with a firm that has been doing a lot of work in this area representing large nonresidential customers and in their procurement of what you call commodity, and the impression I have is that there's more inertia among small customers with regard to shopping that -- with regard to industrial customers. Large industrial customers are just far more market sensitive than are residential customers.

And, I mean, that's shown up in a very, very gradual nature, the movement of residential customers toward shopping and away from utility supply default service, whereas from the very beginning one saw aggressive behavior on the part of industrial firms.

Q. So you have no studies and no empirical evidence for that view, it's basically what your observations are from being in the industry and watching this.

A. I call that empirical evidence. I've not done a systematic study but, you know, I've certainly observed the behavior of large nonresidential customers. And I've done that over the last 10 to 15 years.

Q. Let's say we disagree on the definition of "empirical." You have no quantitative studies that you have done for these conclusions, these are just the sum of your observations.

A. I have not done an empirical quantitative study of -- I'm not sure of really what you're asking. I guess you're asking about the behavior of industrial customers, I think.

Q. No. Well --

A. I'm not sure what you're asking.

MR. PETRICOFF: All right. Could I have the question repeated?

(Record read.)

Q. That's the question.

A. Studies of what? That's what I'm a little confused about.

Q. Oh, I'm sorry.

A. That was, I think, where you lost me.

Q. Let's clear that up. Let's clear that up now. You have no studies to show that credit and access to credit are -- I'm sorry. Let me rephrase that.

You have no studies to show that the ability to price credit risk individually to customers makes a difference in the percentage of customers that are shopping.

A. Do you mean customers in general or are we talking about --

Q. Customers in general.

A. Customers in general. No, I have not done an empirical study of the effects of credit quality on propensity to shop.

Q. And the same is true about offers made to customers -- are there more and better offers made to customers based on the ability to assess and charge a credit risk?

A. Well, I think, to repeat what I said, for large nonresidential customers that very well may be the case. For small customers, for residential customers, I do not believe it's the case. But if your question is have I done an empirical study of that, the answer is no.

This is based upon both common sense and my observation in this field over the last 10 to 15 years.

Q. Do you know whether the shopping rate for small commercial customers is larger than the large industrial in terms of load in the Ohio Power service territory?

A. Generally speaking, and this is without splitting hairs over what's the definition of a small nonresidential customer, it looks like the small residential customers are closer to the residential customers than they are to the large nonresidential customers. That is the large industrial customers.

Q. And that was the belief you had when you prepared your testimony.

A. Oh, yes. It looks to me like the data from -- in Mr. Roush's testimony seems to support that.

Q. Do you know whether this Commission has authorized other electric utilities to use a purchase of receivables with a bad-debt tracker program?

A. I believe that Mr. Gabbard mentioned Duke-Ohio. That's -- that's the only one that comes to mind.

Q. Okay. How about natural gas utilities regulated by this Commission?

A. I don't know about natural gas.

Q. As part of your preparation for this testimony, did you look to see what the standard service offer prices were for residentials and what the prices in the competitive market were for residentials for the commodity portion or commodity service?

A. I'm sorry. Do you mean -- are you referring to a comparison of the standard offer rates today --

Q. Yes.

A. -- versus -- is that -- you're talking about a comparison with the posted offer from CRES suppliers? Is that the comparison?

Q. That is the comparison.
A. No, I did not look at that.
Q. So it is possible today, then, that residential customers could actually save money if they could purchase power in the -- from competitive suppliers as opposed to the standard service offer.
A. Oh, it's -- I'm certainly not going to sit here and tell you it's not possible.
Q. But you don't know.
A. No. No. You asked me is it possible. And my answer is yes. I know the answer to that question. It's possible. I can't tell you whether -- what the savings are, but you asked me if it was possible and I answered.
Q. But as we sit here today, you don't know what the prices are for standard service versus what the offers are that are being made.
A. I think I answered that question. I said "no, I did not make that comparison."
Q. Do you know whether those prices are posted by the Consumers' Counsel's Office, the offers?
A. I assume you're talking about residential.
Q. That's correct.

A. Yes. These are typically posted either -- in most states either on a commission website or a consumer agency's website. So I would imagine that they are.

Q. If a customer is buying from a competitive retail electric supplier, then they are paying in their commodity rate the risk of nonpayment of the commodity portion; is that correct?

A. I'm sorry. Could you repeat that question? I want to make sure I got the whole thing.

MR. PETRICOFF: Actually, could I have the question read back?

(Record read.)

A. They're paying whatever the CRES supplier decides to charge. That's up to the CRES supplier to decide what offer they want to make because we're talking about prices that are completely unregulated. That's my understanding.

The CRES supplier can decide what to -- how to determine that rate and it's not up to me to determine how that price is arrived at.

Q. Earlier you told me that a bad debt -- a bad debt risk was a component in setting utility rates. It was an essential component, is that a fair summary?

A. No. I said the test year bad debt expense, not the bad debt risk, it's the bad debt expense as established in a rate case would be normally reflected in rates.

Q. Well, let's go up a level in concept. Would you agree with me that for a vendor, any vendor, you must be able to sell your products at a price that was going to recover the fact that some of the products you sell you're not going to be able to collect the money for?

A. I would think that any supplier would, A, have to meet the market, whatever that market is, and, B, at least over time would have to at least cover his or her variable costs.

Q. And with that theoretical understanding and your experience in the industry wouldn't you agree with me that the price that's being offered by the CRES providers in the market for Ohio Power today probably includes coverage of the bad debt risk?

A. Well, let me try to answer it this way, because I think that pricing involves far more than that. The supplier must take into account both market requirements and, in part, market requirements are going to be that the CRES provider believes that he must beat the standard offer price in order to attract customers. That's going to be one element.

Another element is the CRES provider is not going to want to operate at a loss, so the CRES provider is going to want to reflect -- wants to make sure that the price is at least high enough to recover his variable costs of operation, and that would include his estimate of bad debt expense, I would think.

So that's an element. I don't want to suggest that that's -- somehow that's determinative of the price because it's primarily the market that's determinative of the price.

Q. But you would agree with me that there probably is a bad debt risk component in the prices that you see posted today for residential customers in the Ohio Power market --

MS. GRADY: Objection.

Q. -- for retail electric suppliers.

MS. GRADY: I'm sorry. I didn't mean to interrupt. Objection, asked and answered.

EXAMINER SEE: Did you want to respond, Mr. Petricoff?

MR. PETRICOFF: I know it's been asked. I'm not sure it's been answered.

EXAMINER SEE: The objection is

sustained.

Q. Let's continue on with your pricing analysis. At this time do you know how many competitive retail electric suppliers are offering products in the Ohio Power service territory?

A. Yes. That information is stated in my testimony. I don't have the numbers at my fingertips but I can look them up.

Q. And to --

A. It's a very large number.

Q. Okay. That's sufficient.

And to the best of your knowledge do any of those suppliers have market power?

A. I don't know. When you're given data on the number of suppliers, that tells you nothing about market share. In other words, you can have a situation where you have 20 suppliers, and that sounds like a lot, but if one supplier has 90 percent of the market, then that supplier may very well have market power. So I don't have enough information. I have not done a market power analysis.

Q. Okay. So, basically, at this point it's fair to say that you don't have enough information to determine whether or not we have a functioning, open market in Ohio for commodity service.

A. Well, no. I think that there's plenty of evidence on that. There's been the expansion of shopping in all service territories. From what I can tell there's an absence of barriers to entry in the market and there's a large number of suppliers. That's obviously all important information. I'm simply saying I'm not -- it's beyond the scope of my testimony to do a full-fledged market power analysis of that market.

Q. But from the information that you have seen in preparing your testimony do you have any reason to believe that this is not a functioning open market?

A. No, I don't.

Q. And, therefore, you would expect that the prices that are being set in that market would basically be, to use the theoretical term, the intersection of the supply and demand curves?

A. Oh, I'm sure that the -- I'm sure there is a supply curve. I'm sure there is a demand curve. And I'm sure that they do intersect. The question is whether the market is perfect. I'm certainly in no position to tell you that there is a perfect market. There may be a workable competitive market. It may be a developing market. I'm in no position to tell you that it is a -- that it is a perfect market.

If there's a perfect market, I can't understand why there would be even any discussion about having a purchase of receivables program to enhance market development for a market that's already perfect. You can't improve on perfection.

Q. At this point, from what you've seen, do we have a workable market?

A. It looks to me like the elements of a workable market are there. It's -- I would be surprised if it was a perfect market.

Q. Well, I think we can agree, does a perfect market exist anywhere, other than theoretically?

A. I think, no, the perfect market is a theoretical construct. I think that the point is that some markets are more mature than others. I think some markets are closer to the perfectly competitive ideal than others. I couldn't tell you exactly where this stands on that spectrum.

Q. But, as we sit here today, you have no reason to believe that the price that would be offered to a residential customer, given the number of suppliers that are out there and the data that you have seen, would not be one that's set by market forces.

A. Oh, it's set by market forces, I think subject to some important imperfections. If it was a perfect market, I think that you would probably expect to see a great deal more than 27 percent of the residential class shopping. There obviously are market imperfections, there's -- there are market frictions, there are information costs, there are all kinds of elements of market imperfection out there.

Q. I believe I only have one other question for you and that is if you could turn to page 41 of your testimony, line 14, and we're looking at your alternative here to the bad-debt tracker.

A. I'm sorry. Which page?

Q. I'm sorry. I think I've given you the wrong cite.

MR. PETRICOFF: May I have a moment, your Honor?

A. Sure.

Q. Well, let me ask you -- let me just ask this question to you straight out because I'm having some difficulty locating the quote at the moment --

A. Well, that's -- I'll do my best.

Q. I'm sure between the two of us we'll work this out.

In the alternative, you said if we're going to have a purchase of receivables program, rather than having a bad-debt tracker, that the price ought to be set based on the experience that the utility has for bad debt. Is that a fair summary of your proposal?

A. Well, just to make sure we're on the same page, I think that that is a reference to my position that the company, if it proceeds with a purchase of receivables program, in doing so it should be including a discount --

Q. That's correct.

A. -- that appropriately reflects, you know, the expected bad debt experience.

Q. And that is the area I want to question you on. In setting that discount rate, should that be set by the utility's actual experience of what bad debt is?

A. It should be based upon the best information it has about what the CRES bad debt experience is and it would need to be periodically adjusted because no estimate's going to be perfect.

Q. All right. But this is the area I want to focus down on, and it may be one detail level below that. We would be looking at the company's experience on bad debt to set that discount rate, not the supplier's experience under your proposal.

A. It should be based upon the best information possible. Ideally it should be based upon the CRES providers' bad debt experience, I would think, and then you gain some experience with that over time and the discount rate then could be adjusted to be made more accurate.

I think that the idea is to come as close as possible to making the utility whole for purchasing the CRES receivables.

Q. But wouldn't the company be whole if, like they do today, they just charged the average per kilowatt-hour to all customers as opposed to setting a price for each of the competitive retail electric suppliers?

A. Oh, I didn't -- I didn't say it should be done on a supplier-by-supplier basis.

Q. Okay. I'm sorry. Because that is the question I'm asking you.

A. Okay, that's what you're focusing in on.

Q. That's what I'm focusing in on.

A. Okay. And your question then, is what?

Q. Well, basically, when we're looking to see what the discount rate should be that the CRES should pay, should it be based on the overall experience from the utility company since they're buying the purchase of receivables or on the competitive electric retail supplier?

A. Well, it should be the latter, but I think that your -- the question you're asking is in doing that does the utility do it supplier by supplier or does it have a generic discount for -- that it would use for all CRES providers that participate in the program.

I think that's the question you're asking?

Q. That is the question, should we have -- if we have 42 suppliers, should we have 42 discount rates or should we have one based on the experience of the utility itself?

A. You know, that's really a detail that I defer to the company on as to what's the best way to do it. I would think that in order to avoid practical problems and undue complexity one would want to use a generic number, but I don't have a strong position on that one way or the other.

The only point that I'm making is that the company should really refrain from subsidizing CRES providers and that ratepayers should not subsidize CRES providers. That's my only point. The details of exactly how they get to that point, I would defer to the company as to how they would want to set that up.

Q. And your concern about the subsidy is that you don't believe that all of the savings of having a socialized, by the utility, bad-debt tracker is going to -- the cost of that is going to be fully reflected in the prices that the competitive customers -- competitive service customers are going to receive.

A. I don't have that concern necessarily with large nonresidential customers because CRES pricing tends to be so customized for large nonresidential customers. With residential customers, yes, I absolutely have that concern because it is, you know, as I see it, the main competition for CRES suppliers is going to be with the SSO. And none of this affects the SSO price. And so, therefore, I don't have a lot of confidence that any part of the subsidy or all of the subsidy would be flowed through to residential customers.

Q. Let me explore that last -- that last point. You indicated that -- is it your testimony that the standard service offer would not be affected -- the standard service price offer would not be affected based on whether there was a POR or not having a POR?

A. That's correct. Under the company's proposal. Is that what you mean?

Q. No. Let's say the company's proposal is rejected. Under today's conditions.

A. Well, okay, under today's it's -- the SSO is not fully market based. It's basically a regulated price, that's what I understand is today's SSO. So that's quite different than the SSO that will take place after June 1, 2015.

MR. PETRICOFF: I have no further questions. Thank you very much, Mr. Kahal.

EXAMINER SEE: Mr. Clark?

MR. CLARK: No questions, your Honor.

EXAMINER SEE: Mr. McDermott?

MR. McDERMOTT: No questions, your Honor.

EXAMINER SEE: Ms. Bojko?

MS. BOJKO: No questions, your Honor.

EXAMINER SEE: Mr. Boehm?

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

EXAMINER SEE: Mr. Darr?

MR. DARR: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Darr:

Q. Mr. Kahal, if you would turn to your testimony at page 56, please.

A. Yes, I have that.

Q. In your answer to question 62 you indicate that you have concern about the way the generation component of the SSO price would be calculated; is that correct?

A. Yes. Well, the customer class allocation, yes.

Q. And that would then translate into the prices that would be assigned to each of the customer classes, correct?

A. Yes.

Q. With regard to this, are you proposing what amounts to an average cost assignment for the capacity component?

A. No. Not precisely. I'm simply saying that there's no need to even deal with the capacity price assignment because my understanding is under the full requirements contract structure there's no capacity price, there's simply a dollar per megawatt-hour price, and what I'm saying is that the dollar per megawatt-hour price that's established in the auction, that's what should be used for the residential customers. Obviously, with the adjustment for line losses and taxes.

Q. So, essentially, capacity provided to industrial customers still being served by the standard service offer, capacity used by a medium-sized commercial customer, capacity used by a residential customer would be treated identically.

A. Yes. Other than for differences in line losses, that would still be reflected.

Q. Now, are you familiar with the way that PJM assigns capacity responsibility?

A. Yes. It's based upon the coincident peak.

Q. Would you agree with me that that is a five CP approach?

A. Yes.

Q. And that five CP approach reflects the capacity responsibility of customers on the five highest days of the summer months defined by PJM, correct?

A. That's right.

Q. The effect of your proposal, if I understand it correctly, would be to shift the prices such that what you described as the pricing premium assigned to residential customers affected by the five CP method would be reduced, correct?

A. Yes.

Q. By the same token, that would increase the pricing responsibility for capacity for those customers that currently are favored by this pricing program is that fair?

A. Yeah, I think you mean relative to the company's proposal. That's correct.

Q. And effectively what this would do would be to shift the pricing responsibility to those customers that have a lower load factor as compared to those that have a higher load factor if I understand your testimony correctly; is that also fair?

A. Yes.

Q. Now, is it also fair to say --

A. Well, excuse me. Low-load factor based upon the definition that PJM uses as we were just discussing.

Q. Based on the five CP method.

A. Right. PJM's five CP method, yes.

Q. And when you refer to the price premium for load factor reflected in Mr. Roush's capacity adjustment, what you're referring to is his allocation of capacity based on the PJM five coincident peak method, correct?

A. Yes.

Q. Now, the reason why you suggest that this price premium should be removed is two-fold, if I understand it. First, that residential customers provide a relatively high proportion of the load associated with the sale; is that fair?

A. That's one factor. It's not the most important.

Q. And the second factor you identify is that the migration risk associated with the residential customers is relatively low.

A. That's correct.

Q. And you believe that's the more important of the two factors?

A. I think it probably is. Dr. LaCasse might disagree with that, but I think it's the -- migration risk is the big one.

Q. And would you agree with me that the migration risk -- well, let me back up a second.

I believe in the conversation you just had with Mr. Petricoff you indicated that the commercial and industrial load has already substantially migrated; is that fair to say?

A. The majority of it has, yes.
Q. So the remaining portion, would you describe that as less price sensitive than the -- the remaining portion, would you describe that, of the C&I load, would you describe that as less sensitive than the portion that has migrated?
A. I don't know. The majority certainly of the industrial load has migrated. It's a relatively small proportion that has not and I don't know the reasons why that small proportion has not.
Q. And with regard to the residential load, you're indicating that the possibility of migration there is apparently much lower; is that correct?
A. That's correct. That's generally been industry experience, that residential default load tends to be far more stable.
Q. Is it fair to say that -- well, based on the discussion that you had with Mr. Petricoff is it fair to say that you're not aware of the percentage of residential load that has migrated since 2011?
A. I don't know that percentage, no.
Q. And do you have any understanding as to why the remaining C&I load, commercial and industrial load, has remained with the standard service offer?
A. I don't know the reasons why.

Q. So you're not aware or have not investigated as to how much of that remaining load is subject to reasonable arrangements, for example.

A. No. I don't know the reasons why that load is still there and what determines that behavior.

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

EXAMINER SEE: Mr. Yurick?

MR. YURICK: No questions, thank you, your Honor.

EXAMINER SEE: Mr. Conway?

MR. CONWAY: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Conway:

Q. Mr. Kahal, following up on Mr. Darr's last questions regarding the rate design for the SSO that results from the competitive bid process procurement, do you know whether AEP Ohio's residential load does have the potential for abrupt and significant migration from SSO -- from the SSO to competitive suppliers?

A. The potential always exists. There's always risk out there.

Q. And what are the sources of that risk, if you know?

A. The sources of the risk? That would be simply the individual decisions that consumers make.

Q. Are you aware that in Ohio the regulatory construct that exists today includes local governmental sponsored aggregation?

A. Yes. I understand that Ohio does have municipal aggregation.

Q. And how common is that around the country, in your experience? Is it uncommon or is it typical?

A. I have not seen a great deal of that taking place in other parts of the country. I can't tell you which states legally permit it, but it doesn't -- in most states, to my knowledge, it doesn't seem to be a large percentage of the market activity.

Q. Do you know whether there is in other states, generally, the tool of local governmental aggregation such as exists in Ohio?

A. Well, that's what I was talking about. I don't know what the legal authority for that is in other states.

Q. Well, you're from Maryland, right?

A. Yes. Well, that's where my office is, I'm actually from Virginia which is not a retail access state.

Q. So you're from the Tidewater area.

A. No, actually I'm --

Q. No?

A. Sorry, I actually live in the mountains.

Q. Okay. All right.

A. It's not the Tidewater.

Q. Is there municipal aggregation in Maryland, to your knowledge?

A. No. There's been a lot of discussion about the possibility of introducing a municipal aggregation but it hasn't happened yet.

Q. Okay.

A. Not to my knowledge.

Q. Well, how familiar are you with the aggregation aspects of the Ohio regulatory construct?

A. I just know that it exists and that -- I've seen a lot of discussion of it but I don't know the details of municipal aggregation.

Q. And I would take it that you haven't studied how it's been implemented in Ohio, how it's played out in Ohio.

A. No. I haven't gotten into those details.

Q. So you don't know whether municipal

aggregation presents significant migration risks in one EDU's service area as compared to, say, another EDU's service area.

A. I have not made that comparison.

Q. Do you know whether in Ohio Power's, that is AEP Ohio's, service area there remains substantial opportunities for municipal-sponsored aggregation that would cause significant amounts of residential load to migrate?

A. I would think that that would be the case because the statistics that I saw indicate that 27 percent of the residential load is still taking SSO and that tells me something about how much municipal aggregation has taken place or not taken place or the level of interest in municipal aggregation.

Q. So would you conclude from that that the risk of migration from the aggregation tool is greater for residential load in AEP Ohio's service territory than for the load of the other classes, the commercial and industrial classes?

A. No, I would not. I certainly would not draw that conclusion at all. I think that the risk of -- the migration risk associated with the other classes is much higher. There's also sort of a misunderstanding, I think, about migration risk and that is migration risk goes in both directions. There's migration away from SSO to CRES suppliers. That's obviously a risk for -- if you're a wholesale supplier of SSO generation.

There's an equally important and even more important potential risk associated with customers returning to SSO, that's a big exposure for wholesale suppliers as well, and so if you have, for example, small industrial load and for some reason, contracts expire in the residential class, residential load then comes back to SSO, that's a huge exposure for the wholesale suppliers because they now have to supply that load and they've already committed in their contracts to certain contract prices.

MR. CONWAY: Could I have my question reread, your Honor.

(Record read.)

Q. The context of my question is the migration risk that arises from the aggregation possibility, okay? And my question --

A. Yes.

Q. -- is -- my question is focused, at least at this point, on migration away from the SSO, okay?

A. Well, that wasn't the previous question.

Q. Well, that's --

A. If you want to ask a new question, that's fine.

Q. That's the context for my question that I'd like you to answer. And with those clarifications would you conclude that the migration risk that the aggregation tool presents -- creates for the residential class is greater than it is for the commercial and industrial classes at this point?

A. No. I would -- you have only asked one side -- a question about one side of migration risk, that is the migration risk associated with migrating away from SSO so that the wholesale suppliers lose their load, and I believe that risk is far greater on a nonresidential side than it is on the residential side notwithstanding municipal ag. or the existence of municipal aggregation, but that's -- but that would be, by itself, a very incomplete answer because there is still the other side of migration back from CRES suppliers to SSO which is a huge risk.

Q. Well, but you just excluded the aggregation tool as the context for my question in your answer, but if you don't do that, if you focus on the aggregation circumstance and the risks that it creates -- presents to the SSO load from migration, would you conclude, based on the current circumstances where the majority of the residential load has not migrated away from the SSO while the majorities of the C&I loads have, that that aggregation tool does present currently greater risk with regard to the residential load than with regard to the other two classes?

MS. GRADY: Objection, your Honor. I think it's been asked and answered.

MR. CONWAY: Well, I don't think it has been. I think he doesn't want to answer the question in the context that I present it, and I would just ask him to give it one more effort and we'll see where that leads.

EXAMINER SEE: The objection is overruled.

A. Yeah, Mr. Conway, I'm not reluctant to answer any of your questions. I'm happy to answer any of your questions. I'm not reluctant to answer questions at all. It's possible that I may have misunderstood your question and if we can clarify, that's fine.

Maybe I misunderstood the question in that I was interpreting the question to be given the existence in Ohio of municipal aggregation is it true that the residential migration risk is greater than the nonresidential migration risk. That's how I understood --

Q. That's not my question.

A. That's how I understood the question. I may have misunderstood it then. It's not a reluctance to answer your question.

Q. The context is AEP Ohio where we have 75 percent of the residential load, roughly, that has not migrated, we have roughly 75 percent of the C&I load that has migrated, and the question is in light of municipal aggregation potential for that residential load, would you agree that that risk is greater for the residential load than it is for the C&I load at this point for AEP Ohio?

A. I think that what you're asking me is to focus in on that one specific feature.

Q. That's right. That's exactly right.

A. And I was looking at the totality of it, so if I misunderstood your question, I apologize.

And with respect to that one specific feature, then I would agree with you, but the larger point is that notwithstanding the existence of municipal aggregation, which has been around for I understand a while in Ohio, the migration risk is far less on the residential side than on the nonresidential side. That's simply a fact.

Q. So the answer to my question is "yes," with the additional explanation.

A. That's correct.

Q. Okay. Thank you.

And then just to try to wrap up the -- well, let me change directions just a little bit.

There was also a fair amount of discussion that you had with Mr. Petricoff about the company's purchase of receivables program and bad debt expense rider, right?

A. Yes.

Q. Okay. Could you turn to page 39 of your testimony. And I just want to focus on the sentence at the bottom of the page. The sentence starts at line 22 on page 39 and then it continues over to the top of page 40. Do you see that?

A. Yes.

Q. And you say there, at least in part, you say that "subsidies to private suppliers induce greater supply as well as introducing the potential for market distortion." Do you see that?

A. Yes.

Q. And I think at this point you're talking in conceptual terms about a criticism you have about the company's purchase of receivables program at a zero discount, correct?

A. That's correct.

Q. Your view, as I take it, is if this were to be implemented, CRES providers would be the ones getting the subsidy. They're the private suppliers in your statement there; is that right?

A. That's correct.

Q. If the company's purchase of receivables program provides an incentive to CRES providers to market to customers who are otherwise less attractive to the CRES providers because of their credit risk, would you agree that that incentive, that incentive to market to that category of residential customers, would be a distortion of the market?

A. Subsidies are a distortion of the market, yes.

Q. So you would be opposed to providing that type of incentive to CRES providers to market to those lesser credit quality residential customers.

A. I am opposed to a program in which the general body of ratepayers must pick up the bad debt expense of unregulated companies, yes.

Q. And even if the fallout of that objection is that some category of residential customers is less readily served by the suppliers, right?
A. Yes.
Q. Okay. Let me go back to your discussion of the ESP/MRO test, or let me turn to that part of your testimony.
A. Sure.
Q. I don't know whether we're going back to it. I don't know if anyone asked you about it, did they?
A. No.
Q. Okay. At page 15 of your testimony you begin your discussion, your broader discussion, of that ESP/MRO test, right?
A. Yes.
Q. And is it your understanding that the Commission, when applying that test in previous electric security plan cases, has included qualitative benefits from the ESP plans that have been proposed in those cases as well as quantitative benefits from those plans as well as quantitative costs when it devaluates the propriety of the plans in accordance with the ESP/MRO test?
A. Yes. It certainly did in the ESP 2

order.
Q. For this company, right?
A. Yes. That's what I meant, for this company.
Q. Okay. And it wouldn't surprise you to find that the qualitative benefits might be considered in other companies' ESPs too, right?
A. Sure.
Q. And in your discussion of the topic in this part of your testimony, the ESP/MRO test, you're not saying, are you, that the Commission could not find aspects of the company's current ESP proposal to have significant qualitative benefits?
A. Oh, I'm not trying to tell the Commission that they can't do that. I'm just advocating that the focus should be mostly on the quantitative rate aspects of it.
Q. Now, with regard to that quantitative part of your presentation, at page 23 there's a table, right?
A. Yes.
Q. Okay. And in the Q and A on page 23 that continues over to the top of page 24 you are estimating the incremental rate impacts during the ESP period as you see it, which is the June 1, 2015,

through May 2018 period, you look at the rate impacts of several riders that the company has proposed to include in this ESP, right?

A. Yes. And these tables are -- or, this table is really the company's estimates.

Q. You reflect the company's estimates of the rate impacts during the ESP -- the three-year ESP period at this point in your testimony; is that right?

A. That's right. This is just a different presentation of what the company has but it's the company's own estimates.

Q. This is what ends up leading you to your $240 million figure, right?

A. That's right. And just, as a matter of clarity, that's based upon what the company has quantified. It does not include the effect of the PPA rider which would be another 116 million.

Q. Right. This is just the -- that was my next question. Your discussion here focuses on the DIR, the SSWR, and the ESRR, right?

A. That's correct. There are a number of other riders, but they were not quantified by the company.

Q. And the DIR is the distribution

investment rider?

A. Yes.

Q. And the SSWR is the sustained and skilled workforce rider?

A. That's right.

Q. And the ESRR is the enhanced service reliability rider, right?

A. Yes.

Q. Okay. And do you agree that the investments and expenditures that the company would make in connection with those riders, if they're approved, will provide reliability benefits for customers?

A. I agree that's the intent. What the outcome will be and whether these expenditures are cost-effective is something that's I think not known. But I believe that's what the company intends.

Q. And that's a matter for the Commission's judgment.

A. That's a matter -- that's a matter for the Commission's judgment and in addition what's a matter for the Commission's judgment is what's the appropriate mechanism for achieving this, that is, should it be in the form of a rider? And if so, how should that rider be structured? Or should it be addressed in a base rate case? And that's really more the substance of my testimony.

Q. But you would agree -- just to make sure I've put a dot on the I at this point, you would agree that the purpose of the programs that are covered by these riders is to support enhancement of reliability, right?

A. Perhaps maintenance and enhancement of reliability.

Q. That's fine.

A. I mean, the --

Q. I used the word "enhancement" because I wanted to include maintaining as well as improving.

A. Right. I understand that. But as far as I can tell, it also deals with things like hooking up new customers and -- it's not really the substance of my testimony to get into the details of the individual investments that go into the DIR, but from the description in the company's filing it looks to be very, very broad. But certainly enhancement or maintenance of reliability is at least one important aspect of it.

Q. Okay. That's fair enough. Thank you.

So would you agree that reliability has value to customers?

A. No question about it. Really, I think the objective ought to be safe and reliable service at reasonable cost and so both affordability as well as quality of service are twin goals of really what we're here for.

Q. So if the DIR does have the effect of enhancing reliability for customers either by maintaining or improving it, that would have a positive value to customers, right?

A. No. That -- because to me what you're really asking is whether that's the best way of obtaining reliable service, and that hasn't been demonstrated at all. The company has conceded that you can do the same thing through base rate cases as you do the DIR. And the rationale that was given for the DIR as well it avoids the complexity and cost of rate cases. To me that's not much of a bargain.

The complexity and cost of rate cases is minor compared to the potential for the problems such as discussed in Mr. Effron's testimony and the possible concerns over double recovery, which the Commission itself has identified as a concern.

Q. Let me try it again. If the DIR does have the result of enhancing, either maintaining or improving reliability, for customers, your position is that that's not a value to the customers?

A. No, that's not what I said. It is -- reliability of course is a value to the company and in fact I'd go further than that and say it's something that should be regarded as essential. I'm simply saying that it has not been shown that the DIR is the best way of getting there. That's the distinction I'm making.

MR. CONWAY: Your Honor, could I have the first part of that answer reread?

(Record read.)

Q. Stop there. Did you mean to say customer there?

A. Did I say "company"? I meant to say customer. Reliability is of great value to the utility customers.

Q. Okay. And --

A. I apologize.

Q. That's fine.

And, Mr. Kahal, turning to the enhanced service reliability rider, if it does have the effect of enhancing reliability either by maintaining or improving it for customers, that would be a positive value for them also, for the customers, right?

A. Oh, reliability has value. The question is at what cost and how much and whether a rider is a better way of getting there or whether a rate case is a better way of getting there or both. You could have both a rate case and a rider. That would be another way of achieving that end result.

Q. And then let's -- just to finish the list here, the sustained and skilled workforce rider, if that rider ends up providing enhanced reliability for customers, whether by maintaining it or improving it, you would agree that that's a positive value for customers also, with the same qualification that you just raised.

A. Right, with the same qualifications. Just a very general answer is that reliability has considerable value to customers. It's not clear at all that the rider is the proper way of achieving it.

Q. Now, going back to the DIR, the D-I-R, would you agree that the DIR mechanism may incent AEP Ohio to make investments in its distribution network sooner than would be the case without the DIR?

A. I don't dispute that that's possible, but it's really sort of up to the company. It's the company's perception of incentives that matters here and incentives did also work both ways. There can be positive effects of incentives and negative effects of incentives.

Q. Let me turn you to page 25 of your testimony. At the top of the page you have a bullet point, the first bullet point that starts on line 3, and that's where you quantify the revenue requirements of the DIR as a result of this case at $240 million; is that right?

A. No, that's not the revenue requirement. That's the net increase in the revenue requirement as estimated by the company. I believe that, based upon Witness Moore's testimony, that the revenue requirement over the ESP 3 period is in the 600 to 700 million dollar range, so this is simply the increases compared to current levels.

Q. So this is the part of the DIR that's incremental to what has previously been approved and implemented, right?

A. What's more or less in place now. Actually, I think to be precise it's based upon the estimate of what would be in place as of May 2015.

Q. Fair enough.

So that incremental impact over the ESP is $240 million, right?

A. Not all of this is associated with the

DIR, but the vast majority of it is.

Q. It's associated with the three riders we've just been discussing, right?

A. Yes. Yeah, probably more than 90 percent of that is the DIR.

Q. And I believe you indicated in an earlier answer that the -- that incremental revenue that's going to be collected if the company's proposals are approved could have been collected through a different mechanism such as a rate case or series of rate cases; is that right?

A. That's right.

Q. And the company could pursue that option outside of the ESP, right? The option of rate cases.

A. Yes.

Q. And it could pursue that option in the MRO context, correct?

A. Absolutely.

Q. Now, going back to the riders and particularly the D-I-R, or DIR, rider, it would be possible in your judgment, would it not, for the Commission to conclude that there is an additional benefit to customers from bringing the reliability benefits that result from the DIR sooner than would be possible through one or more base rate cases?

Could the Commission make that judgment, in your opinion?

A. You know, far be it for me to tell the Commission what judgment it can and cannot make. Of course the Commission can make any judgment that it feels the evidence supports. I don't think that you were asking me whether I specifically agreed with that, though.

Q. Let me turn your attention to your treatment of the residential distribution rate credit, the $14.688 million per year credit that's currently in effect.

A. Yes.

Q. Now, the company has proposed -- I think you relate this point in your testimony, the company has proposed as part of the ESP to continue the $14.688 million per year residential credit, right?

A. Yes.

Q. Would you --

A. That's part of the company's proposal.

Q. And that was established in the 2011 distribution rate cases; is that right?

A. That's right.

Q. And the company's proposal is to continue the credit through the end of the three years of the proposed ESP, that would be through May of 2018, right?

A. Correct.

Q. And --

A. Excuse me. Unless the company exercises its option to terminate the ESP.

Q. Thank you.

And that credit currently is set to expire by the end of May of 2015, right?

A. Yes.

Q. Would you agree that compared to an ESP that doesn't include the $14.688 million per year credit an ESP that has that credit in it, such as the one that the company has proposed, is worth 14.688 million per year for the residential customers?

A. Yes. As I stated in my testimony, in an all-else-held-equal context, that that is a -- that's a benefit. And, in other words, if I'm offered the company's proposal in this case versus the company's proposal in this case that doesn't include that 14.668 [verbatim] per year -- million dollar per year credit, I'll take the one that's got that credit as opposed to the one that doesn't have that credit. However, I also wouldn't want either.

MR. CONWAY: Thank you, Mr. Kahal.

That's all the questions I have, your Honor.

EXAMINER SEE: Staff?

MR. PARRAM: Staff has no questions, thank you, your Honor.

EXAMINER SEE: Ms. Grady, any redirect?

MS. GRADY: Your Honor, could we have a -- since we've been on the stand for a bit can we have a ten-minute break?

EXAMINER SEE: Sure.

MS. GRADY: Thank you.

EXAMINER SEE: Let's go off the record.

(Recess taken.)

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

Ms. Grady?

MS. GRADY: Thank you, your Honor.

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REDIRECT EXAMINATION

By Ms. Grady:

Q. Mr. Kahal, I wanted to cover a couple things that were covered in cross-examination. First of all, do you recall a series of questions by counsel for the company, Mr. Conway, where you were discussing the percentage of residential load that's left to shop?

A. Yes.

Q. And do you recall in response to one of his questions you said that 27 percent of the residential load is left to shop?

A. Yes, I do. And I believe I may have misspoken. And just to correct the record, it's my understanding that 27 percent -- or, 27 -- about 27.5 percent of the residential load is taking competitive service, not -- with the remainder taking the standard service offer.

Q. So the number really would have been 63 percent of residential load has not shopped yet.

A. That's correct. Staying with the utility-supplied SSO.

Q. Now, you were also asked a question -- a series of questions by Mr. Conway representing the Ohio Power Company about the $14.688 million annual credit. Do you recall those questions?

A. Yes.

Q. And do you recall a series in particular where Mr. Conway asked you whether or not having the residential credit of 14.688 versus not having the residential credit of 14.688 presents a benefit? Do you recall those?

A. I do. And I said that if as a residential customer I was faced with the alternative of taking the company's as-filed proposal as a whole with that $14.668 million annual credit or not having that, I'd rather have the credit than not have it.

Q. And you also said you wouldn't want either, correct?

A. That's correct. I would not want either, either alternative.

Q. And can you tell me why you would not want either alternative?

A. Yes. And that's because while the $14.668 million annual credit is certainly a benefit as compared to not having it in the context of the company's as-filed proposal, it's really not a benefit in the -- as compared to the MRO alternative. And the reason for that is that one has to look at the history of where this residential credit came from.

The residential credit was -- came from the company's last rate case back in I believe 2011 where it was recognized that there was overlap in cost recovery between the DIR and the rate case, and the credit, $14.668 million annual credit, was needed to cure that problem of an overrecovery.

This time we have no rate case and, therefore, we have no means of addressing the potential for double recovery of costs. So I interpret the company's offer of this total of 44 million as a way of addressing that, but the problem is that we have no idea whether the 44 million is the right number. We have no idea whether that would adequately address overrecovery from the combination of base rates and the DIR.

What we do know is that the DIR that the company is proposing in this case is a lot higher in terms of total dollars than the DIR from -- that was previously approved by the Commission in the last case.

And the very fact that the company itself has offered the 44 million leads one to doubt that it, in fact, is adequate to protect against the double recovery problem. The only way I know in which this problem could be properly addressed would be to -- would be to actually coordinate the ESP with an actual rate case and that could result in just achieving cost recovery through rate case or rate cases or having a rate case in combination with a DIR, one of the two, but there's a potential for double recovery of costs that is really not addressed in the company's proposal. And this is why that 44 million should not be looked at as a benefit as compared to the MRO alternative.

Q. Now, you had a discussion, Mr. Kahal, with the counsel for IEU, Mr. Darr.

A. Yes.

Q. And Mr. Darr asked you about your proposal in your testimony about getting rid of or negating the risk or the cost premium associated with the residential customers in the auction.

A. Yes. In terms of translating the auction results into retail rates, there was some questions from both him and Mr. Conway with regard to the capacity component of that and the risk of serving the SSO loads and the migration risk issue.

Q. Do you present in your testimony an alternative to that issue?

A. Yes. In my testimony what I said was that the simplist way to deal with this issue of failing to address the migration risk problem is simply to eliminate this unwarranted cost premium that's being imposed on residential customers.

But I'm not trying to impose that solution because I also suggest in my testimony, and the OCC is supporting this, is that let the market decide what the residential customers should pay. And we let the market decide that simply by procuring a separate residential product in the auctions described by Dr. LaCasse, and then we can let the chips fall where they may.

And all of these questions about who's riskier to serve and who's more expensive to serve, all that can be answered by having a separate residential product. I'm not afraid to see how it comes out.

MS. GRADY: Thank you, Mr. Kahal.

That's all the questions I have, your Honor.

EXAMINER SEE: Recross? Mr. Smalz?

MR. SMALZ: None, your Honor.

EXAMINER SEE: Mr. Petricoff?

MR. PETRICOFF: No questions, your Honor.

EXAMINER SEE: Mr. Clark?

MR. CLARK: No questions, your Honor.

EXAMINER SEE: Mr. Dougherty?

MR. DOUGHERTY: No questions, your Honor.

EXAMINER SEE: Ms. Bojko?

MS. BOJKO: No questions, thank you.

EXAMINER SEE: Mr. Boehm?

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

EXAMINER SEE: Mr. Darr?

MR. DARR: No questions, your Honor.

EXAMINER SEE: Mr. Yurick?

MR. YURICK: No questions, your Honor, thank you.

EXAMINER SEE: Mr. Conway?

MR. CONWAY: Just a couple, your Honor.

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RECROSS-EXAMINATION

By Mr. Conway:

Q. With regard to the $14.688 million credit that the company has proposed, Mr. Kahal, I take it from your redirect testimony that you regard that as not a real benefit, rather it's an illusory benefit, right?

A. What I'm saying is that it's a benefit as compared to having the company's as-filed plan and not having that credit, it's a benefit in that context. I don't think it's been shown that it's a benefit relative to the MRO alternative because the MRO alternative would avoid a double recovery problem that the Commission itself has identified.

Q. And under the MRO alternative the company would not be proposing the $14.688 million credit, it would simply expire at the end of May of 2015, right?

A. Yes. And the customers would then get the benefit of rates being set at cost of service rather than above cost of service.

Q. And in this ESP that we have proposed, "we" being the company, your position -- is it your position that you're indifferent if the company were today to go ahead and say, all right, we'll withdraw the proposal for the $14.688 million credit and eliminate it from the ESP?

A. No. As I said, if the company retains all other aspects of its proposal, it's a better proposal with that credit than without the credit. What I'm simply doing as part of the ESP versus MRO test is I'm comparing it to the MRO alternative. And I'm simply saying that the MRO alternative, I believe, is more attractive to customers.

MR. CONWAY: That's all I have, your Honor. Thank you.

EXAMINER SEE: Staff?

MR. PARRAM: No, thank you, your Honor.

EXAMINER SEE: Counsel for OCC has already moved for the admission of Staff Exhibit -- I'm sorry, OCC Exhibit 13. Are there any objections?

MR. CONWAY: No, your Honor.

EXAMINER SEE: Hearing none, OCC Exhibit 13 is admitted into the record.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER SEE: Thank you, Mr. Kahal.

THE WITNESS: Thank you.

EXAMINER PARROT: Staff, you may call your next witness.

MR. PARRAM: Thank you, your Honor. Staff would like to call Staff Witness Patrick Donlon to the stand.

EXAMINER PARROT: Please raise your right hand.

(Witness sworn.)

EXAMINER PARROT: Please have a seat.

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PATRICK DONLON

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

DIRECT EXAMINATION

By Mr. Parram:

Q. Good morning, Mr. Donlon.

A. Good morning.

Q. Would you please state and spell your name for the record.

A. Patrick Donlon, P-a-c -- P-a-t-r-i-c-k

D-o-n-l-o-n. That's a good start.

Q. Yeah.

By whom are you employed, Mr. Donlon?

A. The Public Utilities Commission of Ohio.

Q. Good.

MR. PARRAM: Your Honors, I'd like to have marked the prefiled direct testimony of Patrick Donlon as Staff Exhibit 17 -- I'm sorry. Your Honors, I'd like to have marked for the record the prefiled direct testimony of Patrick Donlon as Staff Exhibit 14. I apologize.

EXAMINER PARROT: Mr. Donlon's testimony will be marked Staff Exhibit 14.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Mr. Donlon, do you have a copy of Staff Exhibit 14 in front of you?

A. I do.

Q. What is Staff Exhibit 14?

A. It's my direct testimony.

Q. And was Staff Exhibit 14 prepared by you or under your direction?

A. It was.

Q. Mr. Donlon, if you could turn to page 1 of Staff Exhibit 14 and go to question 4, do you have an update as it relates to what -- I'm sorry, question 2, do you have any changes to your response to question 2?

A. Yes. Since I wrote this I have been promoted to Interim Director of Energy and Efficiency.

Q. Do you have any other changes to Staff Exhibit 14, Mr. Donlon?

A. Other than my roles and responsibilities have changed in that role, no.

Q. And if I were to ask you the same questions contained in Staff Exhibit 14 today, would your answers be the same?

A. Yes.

MR. PARRAM: Your Honor, I would like to move for the admission of Staff Exhibit 14 pending cross-examination and tender Mr. Donlon for cross.

EXAMINER PARROT: Thank you.

Any cross-examination, Mr. Smalz?

MR. SMALZ: Yes, I have a few questions for purposes of clarification.

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CROSS-EXAMINATION

By Mr. Smalz:

Q. Turning to page 6 of your testimony at the top beginning on line 1 where you state "The

Company's bad debt rider proposal includes adjusting the rider for the over/underrecovery for the bad debt expense of $12,221,000," does that bad debt expense apply annually or was that a total cap for a number of years or indefinitely?

A. That is -- besides I've just noticed there's an extra zero in that number, but that number is the -- it's my understanding is the annual amount that the company recovers through base rates for bad debt.

Q. Okay. Thank you for that clarification.

Further down on that same page in answer to the question at line 13, "Do other companies have bad debt riders and POR programs?" You state "Yes. The large Ohio regulated gas companies, except Duke, established a bad debt rider in 2003. Prior to implementing a bad debt rider, each of these utilities had already been purchasing competitive suppliers' account receivables at a discount rate."

Do you know for how long or for what period of time the regulated gas companies had been purchasing receivables at a discount rate?

A. I do not.

Q. Okay. And then, similarly, you go on to say on line 17, "In 2011, Duke established an uncollectible generation rider for electric, however, prior to that, Duke purchased the CRES providers' accounts receivable at a discount rate." Do you know for how long Duke had been purchasing receivables from the CRES providers?

A. I don't know the exact time.

Q. Okay. Turning to the next page, page 7, the question on line 7, "Would the discount rate calculation be the same for all CRES providers?" "No, the Company would calculate a separate discount rate for each CRES provider."

With respect to the examples you cited earlier of the regulated gas utility companies and Duke Energy where they had for some period of time been purchasing receivables at a discount rate, did they calculate a separate discount rate for each CRES provider?

A. I do not believe they did.

Q. Okay. Skipping ahead to the last line on page 11, the sentence that reads "When the company comes in for its distribution rate case, Staff would not be opposed to the inclusion of a late fee to offset the uncollectible account at that time." You aren't -- or, the staff is not necessarily endorsing any particulate fee, any particular trigger or definition of on-time payment or anything like that, is it?

A. No. That would be in that case --

Q. Okay.

A. -- at that time.

Q. But even in that case you aren't recommending any specifics, you're just saying that staff would not be opposed conceptually to the inclusion of the late fee.

A. At this time, yes.

MR. SMALZ: I see.

Okay, your Honor. I have no further questions.

Thank you, Mr. Donlon.

THE WITNESS: Thank you.

EXAMINER PARROT: Mr. Dougherty?

MR. DOUGHERTY: No questions, your Honor.

EXAMINER PARROT: Ms. Petrucci?

MS. PETRUCCI: Yes.

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CROSS-EXAMINATION

By Ms. Petrucci:

Q. If you can turn to page 2 in your testimony, at the bottom of the page, you have a reference there to part of the Commission's decision in the electric retail market investigation. Do you see that there?

A. Yes, I do.

Q. In issuing the ruling in that case the Commission did not identify any specific terms or requirements for the POR program proposals that it was encouraging, did it?

A. No, it did not.

Q. Now, a few months before that particular statement was made by the Commission the staff had also recommended that the electric distribution utilities that don't have a POR program should propose POR programs, correct?

A. Yes.

Q. And the recommendation from the staff, do you recall that being in January of this year?

A. Yes, it was.

Q. And the staff's recommendation did not identify specific terms or requirements that must be included as part of any of those POR program proposals; am I correct?

A. No, it did not.

Q. And is it also true that AEP proposed this pending POR program before both the Commission made its statement that you put in your testimony and also before the staff made its recommendation, both of those being in the electric RMI docket?

A. I did not think so, but maybe -- I don't remember when they actually filed the application.

Q. Would you accept, subject to check, that the company filed late in 2013 its application given the case number?

A. I'll take -- that would make sense.

Q. And, therefore, we can both agree that that would be before --

A. Yes.

Q. -- both of the statements we just talked about, correct?

A. Yes.

Q. Mr. Smalz just asked you briefly about the existing POR programs that are active in Ohio currently when he referred you to page 6 of your testimony. Am I right?

A. Yes.

Q. And how many of those POR programs are there at this time?

A. My understanding is there are five.

Q. Would that be Dominion East Ohio, Columbia Gas, Vectren --

A. Duke.

Q. -- Duke electric, and then would you separate out Duke gas?

A. Duke gas. Yeah, I was.

Q. Are any of those programs -- POR programs -- I'm sorry, strike that.

Do any of those POR programs have -- those companies have bad debt riders in effect at the present time?

A. At the present time all of them do, to my knowledge.

Q. And at the present time for those five POR programs, those companies, are they purchasing the receivables at 100 percent, meaning that there is a discount rate of zero?

A. I know Duke electric is. I'm not positive on the gas. I think they do, though.

Q. Isn't it true that when the Commission approved the POR program on the electric side for Duke, that it was -- that it included a zero discount?

A. My understanding is that the bad debt rider with the zero discount was in place on the distribution side, in the distribution case, not in the ESP case.

Q. Let me try again. I think I asked a

different question. Isn't it true that at the time the Commission approved the POR program on the electric side for Duke, that the program had a zero discount?

A. I am not sure.

Q. The Commission approved a bad debt rider for Duke at the time it approved the electric POR program; isn't that correct?

A. That was not my understanding.

Q. Do you recall that the bad debt rider that exists for Duke was approved in Duke's last ESP proceeding?

A. My understanding, the bad debt rider was approved in the distribution case.

Q. So you don't believe that Duke -- that there was a bad debt rider implemented at the time that the electric POR program was implemented for Duke on the electric side?

A. My understanding was that in the ESP a discount rate was approved and then in the distribution case a -- the bad debt rider was approved.

Q. Mr. Donlon, have you reviewed the stipulation or the Commission's decision in Duke's last ESP proceeding?

A. I had a while ago, but I can't remember it right off the top of my head. And there were discussions with other staff members on that.

Q. So by your earlier answer are you relying on what you had heard from other staff members on that point or is it that -- or is it something else?

A. Yes, it was with discussions from other staff members.

Q. Is it your understanding that for Duke the Commission established the generation-related bad debt rider initially at a level of zero?

A. Yes, that is my understanding.

Q. And then isn't it true that sometime thereafter the Commission established a specific rate for the generation-related bad debt rider on the electric side?

A. Yes, that's my understanding.

Q. If you can turn to page 6 in your testimony, lines 4 and 5, do you see there that you state that it's not appropriate to adjust bad debt costs established in the company's last distribution rate case?

A. Yes.

Q. You're not suggesting that the company's actually proposing to adjust its bad debt costs that were established in the last distribution rate case, correct?

A. In a way, yes. By their proposal to add -- to put anything over or under the 12 million in base rates into the bad debt rider, in essence, yes, they are adjusting their bad debt collection. So the general premise of staff is that whatever the POR is in place discounts bad debt rider, that it is just focused on generation and doesn't have anything to do with the distribution and transmission.

Q. So by that statement you're indicating that the mechanism that -- they're proposing a different new mechanism for bad debt costs but they're not actually seeking to adjust the level of bad debt costs that they were permitted to recover in the distribution rate case, correct?

THE WITNESS: Can you read that back, please?

(Record read.)

A. I would say that's a -- depend on how you define adjusting the level of bad debt because the way, in their proposal, they would be collecting more bad debt, potentially, if their bad debt expense is higher than the 12 million. They could also reduce it if it was lower than the 12 million. So I would say yes, they're adjusting what they would recover, however, they're not adjusting the base rate of 12 million.

Q. With the company's proposal to establish a POR program and establish a bad debt rider set at zero, isn't it true that the company will not collect any incremental bad debt for a period of time after the POR program is implemented?

A. If I remember correctly, they plan on starting the POR -- once they start collecting on the POR, then their plan, per my interpretation, was to adjust -- anything over or under the 12 million would roll into the bad debt rider.

Q. But they're not going to collect anything for a period of time after the POR program is implemented; isn't that accurate? Because the proposal is a rider set at zero.

A. They'll increase that rider once they have the cost and the determinants. So it's set at zero currently because the POR won't go into place until they have the proper IT and system enhancements.

Q. But at the start of the ESP period, if the POR program was approved and the request for a bad debt rider was approved, the bad debt rider will be set at zero at that time, correct?

A. It will be set at zero until they start collecting and purchasing the bad debt, then they'll come in and -- or, purchasing the receivables, and then they will file an application to adjust that or a tariff change.

Q. Okay. So at the time that the company wishes to begin collecting for any of that incremental bad debt under the bad debt rider, they have to come to the Commission to get approval before the collection can begin, correct?

A. That would be my assumption.

Q. And isn't it also true that during that time frame between -- if we're assuming that the POR program is approved and the proposed bad debt rider is approved, there's going to be a time frame that AEP will not collect the incremental bad debt, AEP can gather data that's needed to determine the impact of the uncollectible charges; am I right?

MR. PARRAM: Can I have that question reread?

(Record read.)

MR. PARRAM: I'm just going to object. I think it was a compound question. If it could be rephrased. I heard a couple different questions there.

MS. PETRUCCI: Okay. Yes. I'm fine with that.

Q. Let's assume that the POR program is approved and that the bad debt rider is approved, you just agreed with me a moment ago that at the time the POR program begins, that there will not be a collection under the bad debt rider for any incremental bad debt, so let's just -- you agreed with me, correct?

A. I'm not sure I fully agreed, but I will take that for this scenario.

Q. Before the company begins to collect under the bad debt rider there's going to be a period of time before -- well, let me start again.

The company has the ability to gather the data that it needs to determine the impact of the CRES uncollectible riders during the time between the start of the POR program and any approval of a different rate for the bad debt rider, correct?

A. I believe so.

Q. What amount of time is needed, do you believe, for the company to gather the data for determining the impact of the CRES suppliers' uncollectible charges on AEP?

A. I would say that that depends on the utility as well as each CRES provider. I'm sure that the utilities could work with CRES providers, especially some of the more established ones, that would have it tracked and know it to help out, but I think that's a better question for the utility.

Q. Okay. Starting on page 7 in your testimony is the discussion where you've recommended CRES provider-specific discount rates, correct?

A. Yes.

Q. And the proposed calculation or formula that you've stated is based on the CRES provider's uncollectibles in the prior year, correct?

A. Correct.

Q. And then, as a result, this particular calculation or formula is going to be an ongoing, changing discount percentage, correct?

A. Annually.

Q. And you've indicated that the first year will be based on forecasted amounts for each CRES provider. I think that's on page 9.

A. Correct. At least correct, that's what I proposed. I didn't check the page number.

Q. Isn't it true that the forecasts could not result in the CRES providers paying only their shares -- their own share of incremental expenses?

A. Yes.

Q. Will there be adjustments if any of these forecasts are off by a statistically valid amount?

A. In this proposal, no, there wouldn't be. It would just be an annual recalculation the following year.

Q. Now, what if a provider has not entered AEP's service territory, how will that per-CRES-provider discount be calculated if there is no prior year uncollectible to rely upon?

A. Again, I think that would be where you're using some forecasting numbers and you're going to have to look at like CRES providers, so there would be some forecasting to that.

Q. Now, what if a CRES provider is serving a large number of customers in one year and the next year, for whatever reason, the number of customers changes significantly. Under your proposed discount calculation it may not reflect the CRES provider's current situation; isn't that true?

A. The number of customers wouldn't necessarily be reflective, it's more of the uncollectible expense, so it may or may not affect the calculation. But if you had a large amount of uncollectible expense and bad customers and the CRES provider dropped all those, yes, the next year it wouldn't necessarily be caught. But you're really flowing up and you're kind of almost getting -- every year it's cumulative. So it should work to average itself out.

Q. And that's assuming the CRES provider remains in the AEP territory and in the POR program, correct?

A. Correct.

Q. And I apologize if Mr. Smalz already asked this, but the POR programs in Ohio that have had discount rates have not had a per-CRES-provider discount rate, correct?

A. Correct.

Q. And by making this recommendation of a per-CRES-provider discount rate are you stating that the general discount rates that have existed have been unable to allocate the collection of expenses?

A. No. I think what staff is -- actually what staff is doing here is this is staff's proposed and preferred method to present to the Commission; however, staff, as long as it is a generation-only discount rate or even bad debt rider, staff is okay with that and there are other options, and we understand that. But this is staff's preferred calculation and we wanted to make sure the Commission had a definitive option to go with.

MS. PETRUCCI: Can I have the answer reread?

(Record read.)

Q. I'd like to make sure I understand how the per-CRES provider calculation is going to take place. From what I understand in your testimony you've stated that there are three components, correct?

A. Correct.

Q. And you've stated that the first part, the specific percentage of uncollectibles for each CRES provider, will be based on a forecast, correct?

A. Only in year 1 when actuals are not available.

Q. And is that the same for the second part, the uncollectible percentage in year 1, it will also be based on a second and different forecast for each specific CRES provider?

A. I'm not sure what you mean by a second and different forecast, but if actuals aren't available, yes, you have to have a forecasted number.

Q. And what I meant by a separate forecast, that's not going to be the same forecast that's in the first part of the calculation. That's what I was referring to.

A. Well, you'd have to forecast the specific CRES uncollectible as well as the specific CRES billed purchase receivables if you don't have those -- those, but from doing forecasts those should be derived from the same forecast.

Q. And then in the third part, the credit and collection adder, that's also going to be based, at least in part, on a forecast of AEP sales plus the POR sales, correct?

A. Correct.

Q. So all together there are multiple forecasts that have to be done for each participating CRES provider just to get the discounted POR that you're recommending underway; is that correct?

A. I disagree with "multiple forecasts" because by doing a forecast you're often -- those variables and what you want spit out, you can do one forecast that will tell you multiple things, but --

Q. Different components of it --

A. Yes.

Q. -- will be forecasted, is that more accurate?

A. Yes, absolutely.

Q. Okay. And then I believe you agreed with me that then the discounts will have to be recalculated again as the POR program continues, right?

A. Annually.

Q. And that's for every participating CRES provider, correct?

A. Correct.

Q. Now, in addition, you're recommending that if any of the calculated discount rates exceed 5 percent, that the calculated discount rate should be rejected and the flat 5 percent be implemented for that CRES provider, correct?

A. Just making sure, it's the overall -- the overall discount rate per CRES provider is capped at 5 percent, correct.

Q. And you stated on page 11 in your testimony that the discount cap, that's lines 11 through 13, that the discount cap is to incent AEP to be diligent in its collection efforts, correct?

A. Correct.

Q. Isn't it true that a discount rate of zero rather than 5 percent would create an even greater incentive to AEP to be diligent in its

collection efforts?
A. Not with a rider associated that they get full recovery from the consumers.
Q. That was assuming that the rider is in place.
A. Right.
Q. If we just talk about the discount itself, isn't it true that a POR program with a discount rate of zero creates a greater incentive to the company to be diligent in its collection efforts rather than a POR program that has a 5 percent discount rate?
A. Not if they have a bad debt rider where they're getting full recovery from the customers, no.
Q. Right. My question was assuming just a discount rate of either -- just looking at the POR program discount rate. So if it's a discount rate of zero versus 5 percent, wouldn't there be a greater incentive for the company to be diligent in its collection efforts when there is no -- a zero discount rate? Separate and apart from the question about a bad debt rider.
A. Well, if they're not getting any recovery whatsoever and they're buying a hundred percent, then, yes, that...

Q. Okay. Let's turn to the internal partial payment tracking that you describe on pages 12 and 13. This is another set of calculations on top of the per-CRES-provider discount rate that you've proposed, correct?

A. Correct.

Q. And isn't it true that this calculation is going to be needed for every customer whose account is in the POR program and who makes partial payments?

A. Well, it would be part of their bill. Yes, it would have to be, correct, their billing system or at least accounting for that for their customers.

Q. And do you know how many customers -- well, I recognize the company doesn't have a POR program at the moment, but do you know how many customers are making partial payments or impartial payment plans at this time that are related to their CRES charges?

A. With this change, this would be an IT and a billing system change, so it wouldn't necessarily be a per-customer issue. It would be an overall change. So the number of customers aren't really relevant to the software change that they would have to put in place.

Q. But it's still an expectation under your recommendation that the company actually maintain this data and track it, correct?

A. Correct.

Q. So by your earlier answer by saying that it's just IT and billing, you're just explaining that that's how you envision that they would actually carry out the tracking?

A. Correct.

Q. And they still would have the responsibility, however, to do the tracking and maintain the information.

A. Correct.

Q. And the staff is recommending that this internal tracking continue for the duration of the POR program, correct?

A. It would be as long as this -- if this discount rate is approved by the Commission, until this discount rate methodology is not used anymore.

Q. And as far as the scope of this internal tracking, I'm going to go back to an earlier question, do you have an idea as to how many of the customers are on payment arrangement programs with the company that are with suppliers?

A. I do not.

Q. Did you review any of the discovery that took place in this proceeding?

A. Yes, I did.

Q. Do you recall reviewing a discovery request that was submitted by the OCC asking how many CRES provider customers are on payment plans?

A. I don't think I reviewed that one or I don't recall it off the top of my head, or at least the number.

MS. PETRUCCI: Your Honor, may I approach?

EXAMINER PARROT: You may.

Q. Mr. Donlon, I'm going to hand you a copy of the company's response to OCC interrogatory 10-244. I'm not intending to mark it as an exhibit, but if you could take a moment and if you could just give me the grand total that the company identified in that discovery response.

A. Let me read what this actually is about.

MR. PARRAM: Objection, your Honor.

EXAMINER PARROT: Grounds?

MR. PARRAM: The witness has already indicated that he did not review this document, he is not familiar with it, and she's going to ask him substantive questions about the information within it.

MR. SERIO: Your Honor, if I could be heard, I'd also add that unless it's a discovery response that he's listed on, it's not authenticated by the company and, therefore, there's no foundation for it.

MR. SATTERWHITE: If I may, your Honor. I believe the witness said he had reviewed some discovery, he's not sure exactly which ones that they were, and this is on topic with his stuff, and I believe Mrs. Petrucci was refreshing his recollection and then going to ask him a question.

EXAMINER PARROT: Response?

MS. PETRUCCI: And I was -- I was hoping, if he had a chance to review it, he would be able to indicate whether he had seen it before and basically give me an indication of the total current CRES provider customers on payment plans as indicated in the discovery response.

EXAMINER PARROT: All right. Well, before you ask him to identify a number on the document, let's ask some foundation-nature questions, please.

MS. PETRUCCI: Sure.

Q (By Ms. Petrucci) Mr. Donlon, have you had a chance to review that particular discovery response?

A. Prior to today I do not think I read this one.

Q. Okay. As part of the recommendation that you've presented, the incremental operation and maintenance costs for the POR program would be paid indirectly through the discount rate, correct?

A. Correct.

Q. And AEP's proposal is to have the incremental operation and maintenance costs paid directly by the CRES providers, correct?

A. Correct.

Q. The staff is not taking issue with AEP's cost estimates for the O&M costs at this time, correct?

A. No, they are not.

Q. And is that also the same case for AEP's estimates for investment under the POR program?

A. Correct.

Q. Let's turn back quickly to the staff's earlier statements, actually, if I remember we discussed previously about the Staff Report in the electric RMI case that came out in January of this year. In that report the staff discussed the Duke electric POR program; isn't that correct?

A. It was mentioned, yes.

Q. And do you recall the staff stating that the impact of Duke's POR on the number of active CRES providers in the service territory cannot be minimalized?

A. I will -- I don't remember the exact wording but something to that effect, yes.

Q. And isn't it true that in the Duke territory there was not a discount rate on the electric side?

A. I think we established that, or that I was -- I think we --

Q. You think you answered that before and I've asked it again?

A. That's where I was going.

Q. That's okay, you can tell me that.

So isn't it true that the CRES providers did not need an incentive -- I'm sorry. Let's strike that.

MS. PETRUCCI: I have no further questions. Thank you, Mr. Donlon.

THE WITNESS: Thank you.

EXAMINER PARROT: Mr. Clark?

MR. CLARK: No questions, your Honor.
EXAMINER PARROT: Mr. Boehm?
MR. K. BOEHM: No questions, your Honor.
EXAMINER PARROT: Mr. Darr?
MR. DARR: No questions.
EXAMINER PARROT: Mr. Yurick?
MR. YURICK: No questions.
EXAMINER PARROT: Mr. Serio?
MR. SERIO: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Serio:
Q. Good morning, Mr. Donlon. It's still morning.
A. Good morning.
Q. You did work in the 3151 docket on behalf of staff, correct?
A. I did.
Q. Is there anywhere in the Staff Report a conclusion that the lack of a POR was a barrier to entry for CRES providers?
A. I do not think it specifically stated that it was a barrier to entry.
Q. And are you aware of anything in the PUCO order in the 3151 docket where the Commission

concluded that the lack of a POR was a barrier to entry?

A. My understanding is that the Commission told the utilities that in their next ESP or distribution case that they come in for they make an application for a POR system.

Q. But are you aware of any language in the Commission order that the lack of a POR was a barrier to entry?

A. I do not believe they stated that.

Q. Okay. Are you aware of any evidence in the record of this proceeding where any CRES provider that's not currently participating in the AEP Electric Choice market has indicated that if there's a POR, they will participate?

A. Not to my knowledge.

Q. And if I understand your testimony correct, at page 6 you're saying that there should be a discount rate but it should be calculated on a per-CRES basis, correct?

A. Correct.

Q. If the Commission declined to do it on a per-CRES basis, would it then be your position that it should be calculated based on the experience of all CRES providers taken in total?

A. That is another way to do it, yes.

Q. Now, you indicated that it was your understanding that if -- under the current proposal the company had a zero discount rate, if they wanted to change it, they could just do it with a tariff filing; is that what you said?

A. That would be my assumption.

Q. And in making the tariff filing is it your understanding that when the tariff filing is made, that the same process that we have in a rate case is gone through where there's testimony and witnesses and a hearing?

A. I do not believe so.

Q. And then the information that you think is necessary to do the CRES-by-CRES calculation, that's information that, to your understanding, either the CRES provider or the company already maintained, correct?

A. To a certain extent.

Q. So it's simply a matter of taking the data that they already have and just running that calculation, correct?

A. To a certain extent.

MR. SERIO: Thank you, your Honor. That's all I have.

Thank you, Mr. Donlon.
EXAMINER PARROT: Mr. Satterwhite?
MR. SATTERWHITE: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Satterwhite:

Q. Good afternoon, Mr. Donlon.
A. Good morning.
Q. How are you holding up?
A. Pretty good. I expected more from Joe.
Q. I'll see if I can make up for that with you.
Now, you were actually the lead staff member on the 12-3151 market investigation; is that correct?
A. Colead.
Q. You and Mr. Lipthratt?
A. Yes.
Q. And you actually hosted the workshops for the PUCO, correct?
A. Yes.
Q. Set up the speakers and panels.
A. Correct.
Q. And helped decide how things were going to sort of evolve into subcommittees and those

decisions that had to be made, correct?

A. We worked with other staff too and the participants to make sure that the subcommittees were all what everyone felt was relevant.

Q. But if everything's a cone as far as how staff worked, it sort of went up to you and Mr. Lipthratt to decide how things were moving forward, correct?

A. Correct.

Q. What would you say is the underlying policy goal of offering a POR program?

A. Ultimately it is to help encourage more CRES providers into the market which should then, based on basic economic theory, more suppliers should create more competition which should ultimately lower prices and benefit the consumers.

Q. So if you have a purchase of receivables program that encourages less CRES providers to move in the market, it's a less -- let me rephrase that.

So if you have a POR program that does not encourage CRES providers to move in the market, it's not meeting that goal that you've stated in what a purchase of receivables program is, correct?

A. Agreed.

Q. And I believe you mentioned to Mr. Serio that you recalled some things from the Staff Report from the market study, I'm going to ask you some questions and if you'd like to see a copy of it to refresh your recollection, please let me know. Do you want me to put one in front of you?

A. If you want.

Thank you.

Q. And I believe in your discussions with Mr. Serio you said you couldn't remember if staff took the position that a POR program would eliminate a barrier to the market, correct?

A. I said I didn't think that was something we specifically stated.

Q. Would you like to refresh your recollection on the bottom of page 16 to the top of 17 to see if that's correct or not.

A. We did specifically state that.

Q. And then you went into more what you just talked about a second ago with the goals of a POR program to increase the number of active suppliers, correct?

A. Correct.

Q. And in the Staff Report in that case what's the easiest way to refer to that, 12-3151 or the market study? What's your preference?

A. I always referred to it as the COI but however you would like to respond to it.

Q. We'll do 12-3151, that way, because the Commission does a lot of COIs.

A. Exactly.

Q. Is it your understanding also as a result of 12-3151 case that staff recommended a POR program that just has a different preference for the method of how to implement that POR than what the company's proposed in this case?

A. Can you restate that, please? Or repeat that.

Q. Let me just restate it because I think my long pauses made it into an incomprehensible question.

So staff agrees there's a need for a POR program but just has a different preference for implementing that program, correct?

A. Correct.

Q. In fact, in this Staff Report the staff recommends using the discount rate method just as you've done in your testimony today, correct? The next paragraph if that helps.

A. What we actually write in here is staff recommends that all applications include general program rules, the discount rate, timing of the purchase, applicable proposed riders, current collection rates and procedures and assurances that uncollectible costs are not collected through the riders or base rates.

I think what we were actually saying there is when that comes in, the merits of the POR is discussed in that case. So I don't think we were stating a discount rate or a rider or anything like that, we were trying to list out the variables that could be discussed in a case.

Q. So you don't believe that by saying "Staff recommends companies make filings that include the discount rate" that staff was suggesting there be a discount rate when the Staff Report came out?

A. No. This was just saying each one should be done on its merit and we were listing out the variables that could -- are often included in a POR program.

Q. And you agree that as a result -- there's nothing that's been ordered by the Commission that requires a utility to offer a purchase of receivables, correct?

A. It was encouraged.

Q. But nothing that required a company to offer a purchase of receivables program, correct?

A. Correct.

Q. So if a company does offer a purchase of receivables program, it's -- let me rephrase that.

So any offering of a purchase of receivables program is done at the discretion of the company, correct?

A. That's my understanding.

Q. And you would agree that a purchase of receivables program that's offered at the discretion of the company shouldn't include any costs incurred to the utility for offering the program, correct?

A. I think the company has the right to charge that back through the CRES providers as proposed.

Q. And you're familiar with the testimony of Mr. Gabbard in this case, correct?

A. Correct.

Q. And the concept that the company is offering purchase of receivables as a benefit for customers and CRES providers but it should be neutral as far as the impact on the company, correct?

A. Correct.

Q. And do you agree with that?

A. When it comes to implementation costs, yes. And that is the intention of a discount rate is to correct that as staff has proposed.

Q. I'm talking globally, though. Are you saying that there could be costs that the company has to incur with any impact of the POR program, that it shouldn't be able to recover from offering the program at its discretion?

A. Not should. There may be some incremental, some small ones that just fall through.

Q. And that's really my question. There's a difference between there's some small things that could fall through and the company offering something that it doesn't have to offer under the assumption that it's going to be held harmless to that, correct?

A. Correct.

Q. Would you agree that if a company's going to offer a benefit to others at its discretion, it should be held harmless to any costs from that?

A. Correct.

Q. Now, were you in the room when company -- excuse me, Staff Witness Bossart testified yesterday?

A. Yes.

Q. And there was some discussion about what a large industrial and commercial customer was. Do you remember that?

A. Yes.

Q. And there was some question of GS-2 customers, and you talk about this on page 4 and 5 of your testimony if that helps you give a base to operate from, there were some questions about whether a GS-2 customer that may have the same load by definition as a GS-3 customer was considered a small or a large customer. Did you have an opinion on that?

A. Yes. Staff's opinion is it would be for residential and up to GS-1. And, additionally, the lighting and streetlights and things like that that were asked about to Barb, those would not be included in staff's opinion in a POR program.

Q. Thank you.

Now, I believe you stated earlier that staff does not agree that the company should be allowed -- let me rephrase that.

Go to question 14 of your testimony. The question states that you ask yourself: Staff does not [verbatim] agree that the Company should be allowed a bad debt rider to collect 100 percent of the purchased receivables? Do you see that?

A. Correct.

Q. You don't intend that to mean that -- or, you don't understand that that the company's expecting to collect a hundred percent of their receivables to buys through the bad debt rider, correct?

A. That's a poorly-worded question.

Q. Okay. In fact, the bad debt rider is more just a safety mechanism to address the amount of uncollectibles that's uncollected from customers for the purchase -- for the receivables that are purchased, correct?

A. Correct.

Q. Now, I believe I heard another option today on the stand about doing a bad debt rider that just recovered the generation portion or the receivables that come out of the POR program, correct?

A. Correct.

Q. So if the Commission were to adopt this new option that you gave us today, there would be no reason to do any kind of incremental accounting to the bad debt from a distribution rate case because it's only dealing with that generation charge from a CRES provider, correct?

THE WITNESS: Can you reread that, please?

(Record read.)

A. Just to clarify, you're talking about the over or under of the 12 million that's in base rates, correct?

Q. Correct.

A. Then yes.

Q. Because you said you would rather take out the transmission and distribution and have it focused just on the receivable, correct?

A. The CRES and the generation side, yes.

Q. So you're really proposing a new mechanism that's a tracker for the bad debt associated with purchase of receivables that come from a CRES provider and that would stand by itself in the filing and collection, correct?

A. I'm not sure I'm proposing a new option. What I was saying was there are many options available to the Commission that they can choose from. Staff's main point is that the over- or underrecovery of anything over base rates of the 12 million should not be included and that it should just be generation. And that our original proposal in my testimony is staff's preferred method but there are many other options out there.

Q. Right. That's the beautiful thing of a record, you have a new option out there, you put it out there in your testimony today to sort of decouple distribution, transmission, and just take the CRES provider account receivable generation and apply that to its own sort of mini bad debt rider, correct?

A. Well, that was the intention of my testimony.

Q. Okay.

A. The written testimony was to pull out the T and D side of that with a separate -- a new option for the Commission.

Q. And would that be a bypassable or nonbypassable rider, then?

A. It's on the generation side for CRES providers, it would -- my assumption would be it would be nonbypassable.

Q. And, again, I think you answered this before, I just want to make sure because once we had a meeting of the minds of what the testimony said, you would no longer need to take into account the bad debt from a distribution rate case because now we're just dealing with the generation from the CRES providers and the accounts receivable, correct?

A. Yes, the 12 million would be irrelevant.

Q. Okay. Just because I'm on this page from when you were talking earlier with counsel from RESA, she asked you what amount of time would be needed to determine the amount of uncollectible expenses and gain experience with that. Do you remember those questions?

A. Yes.

Q. And you stated that's a better question for the utility to determine because it has control of the data and it would understand that better, correct?

A. Correct.

Q. Now, you also had a discussion earlier about the Duke purchase of receivables program with both Mr. Smalz and Miss Petrucci, correct?

A. Correct.

Q. And you state on page 7 of your testimony starting around line 2 that it's important to start a POR with a discount rate to, and I'm putting a number in here, one, remain consistent with precedent set by other utilities, and, two, to ensure the accurate data is collected properly to determine the risk and potential impact, correct?

A. Correct.

Q. I'd like to break those down into one and two that I just talked about. Let's talk about the second half, the accurate data and determine the risk, all right?

A. Uh-huh. Or, yes.

Q. And the data collected under the program proposed by the company will be auditable and understandable, correct?

A. That would be our intention.

Q. And you're comfortable that Duke now understands the data that it's collected since it started its POR program, correct?

A. That would be better for Barb Bossart and she really -- her department really tracks that information.

Q. But your recommendation is that AEP Ohio not institute a bad debt rider and a zero discount rate because Duke didn't start that way even though they're that way now, correct?

A. Correct.

Q. And the purpose of that is so that AEP Ohio can gain a better understanding of the information; is that your testimony?

A. Correct.

Q. But you don't know if Duke has a better understanding of that information that they have since they started their program; is that what you're saying?

A. I'm saying that Barb Bossart is the one who actually tracks that, watches that, her department, so that's more of what her testimony was on yesterday.

Q. But she didn't make a recommendation saying that a company needs to have an understanding of its data, correct? You did that.

A. Correct.

Q. And you've done nothing to investigate whether Duke has a better understanding of its data; is that your testimony?

A. No. My testimony is working with Barb Bossart and her group that we've come up with that.

Q. Right. I understand we're in this loop. My question is you made this recommendation that this is what's needed but you've done no research to see if this policy recommendation that you've proposed, what the impact of that is with someone that's already under the system, correct?

MR. PARRAM: Objection. Asked and answered. The witness has already indicated that he is not the individual that worked on it, that he did work with Staff Witness Barb Bossart in making his recommendation. I think this is the third time we've been over this.

MR. SATTERWHITE: Your Honor, I asked him a direct question of what has he looked at to make the recommendation in his testimony that Miss Bossart did not make, and I appreciate that he wants to defer to her but I'm asking based on a policy call that he's suggested in his testimony, what has he looked into personally with an existing program to see how that's carried out.

EXAMINER PARROT: Overruled.

A. Let's see if this gets us out of the loop. In conjunction with Miss Bossart we do feel that Duke understands things and is in a better place.

Q. Is the understanding you had because Duke has had some time to deal with the data and, therefore, better understood it?

A. Correct.

Q. And I believe you stated this earlier but I don't want to put words in your mouth. So let me just make sure, when we're talking about CRES suppliers and the benefit of having CRES suppliers in the market, you would agree that an increase in shopping options and customer migration to CRES suppliers has lower generation prices for customers that have shopped, correct?

THE WITNESS: Can you restate that. Or, not restate it, but reread it, please.

(Record read.)

A. In theory, yes.

Q. And I think you've been asked this a couple times today and now that you have the Staff Report in front of you, potentially on page 16 it might help refresh your recollection, but are you aware of the level of active CRES providers in the AEP Ohio territory in early-2011?

A. Early-2011. I can -- it's low. Sorry, the graph is hard to tell, but -- oh, actually, I wrote it up there.

Q. And the graph shows some dotted lines and the only line that's at 5 is Duke and everything else is below 5, correct?

A. Correct.

Q. And the only charges eligible to be a purchase of receivable that the company will buy will be the generation-related charges from CRES providers, correct?

A. The commodity charges as proposed by the company, correct.

Q. Now, when we started, we were looking at a quote you gave on page 7 where I broke it up into two halves, why it's important to have a discount rate, and we just talked about the data. The other point you make is to remain consistent with precedent set by other utilities, correct?

A. Correct.

Q. And do you remember the name of the first stakeholder workshop meeting on June 25th, 2013, that you organized?

A. The name of it? No.

Q. It might help refresh your recollection on page 6 of the Staff Report. Maybe I'll just do it this way: Do you remember the name being "How do we create consistency in operation support across the state"?

A. That is the name of it, yes.

Q. And, in fact, in the Staff Report staff expresses the belief that in order to enhance the market efforts must be taken to standardize practices and market roles of the various EDUs in Ohio, correct?

A. Correct.

Q. And staff had a concern in the Staff Report that there's a processing of transactions inconsistent across the Ohio territories for CRES providers, correct?

A. Correct.

Q. Staff also stated it believes there's inconsistency -- that inconsistencies can create barriers for CRESs willing to do business throughout the state which causes harm to consumers as a result of fewer competitors and, therefore, less competition, correct?

A. Correct.

Q. And, in fact, overall I think in the Staff Report when sort of discussing all, the whole scope of the market study, one of the main themes that held constant across was standardization for the industry, correct?

A. When it's appropriate.

Q. In fact, staff said they believe streamlining electric practices will increase competition and provide cost efficiencies leading to savings for customers, correct?

A. When it's appropriate.

Q. Are you saying that there's a need to create a number of inconsistencies across the market now?

A. That's a very broad statement, but yes, there are reasons to have some inconsistencies.

Q. But overall staff took the position that their view on inconsistencies is they were created for valid reasons at the time, but as the retail electric service market has developed and continues to evolve, that inconsistencies must be reduced, correct?

A. It looks like you're reading directly off that.

Q. I'm asking questions of previous positions taken by staff in an investigation that you headed up for staff and that was staff's conclusion, correct?

A. Yes. When appropriate we should streamline as much as possible.

Q. How is that different than what I just read you from the Staff Report that said there was a time where we needed inconsistencies but that time is quickly dwindling.

A. Well, I think you're taking a very broad statement of the staff, which staff still agrees that we want to try and reduce inconsistencies as much as possible, and then associating it with the POR, in this case staff is not -- does not feel that this is actually creating an inconsistency. It is adjusting for AEP Ohio and when AEP Ohio comes in for a distribution case, then it is appropriate to move towards standardizing as the gas and Duke-Ohio -- or, Duke does with their POR.

Q. All the other PORs that have a zero discount rate and have a bad debt rider to recover anything that's not recovered by that company, that's what you're talking about?

Let me rephrase it.

So you said it's important to have consistency and staff's recommendation is to protect AEP Ohio as it develops its POR program, but isn't it true that everybody else that has a bad debt rider -- or that has a purchase of receivables program has a zero discount rate and a bad debt rider?

A. My understanding is that came as a part of their -- those companies' distribution cases.

Q. And the orders of the Commission will help determine whether you are correct or incorrect on what was established, correct?

A. Correct.

Q. But to a CRES provider coming into the market, does it matter to them if a bad debt rider is created in a rate case versus an ESP plan?

A. Again, the crux of the matter for staff in this issue is the company's proposal to collect anything over or credit back the rider over the 12.2 million in the distribution case. So that's where staff is creating a difference.

Q. I agree. Staff has some differences, and that's what I'm trying to explore right now, and I'm exploring the differences of your testimony and staff discussing the need for consistency. And, in fact, in the Staff Report didn't the staff urge the Commission to consider consistency impacts when implementing policies that deal with the market study?

A. Correct. And that's what I'm saying is that due to this proposal by the company to collect basically excess uncollectible expense that they're incurring over the 12 million in base rates, something does need to be different than the other utilities, and when the companies come in for a distribution case and that can be worked in, staff would not oppose -- I can't say we wouldn't oppose, but at this point staff would not oppose a distribution or a bad debt rider with that.

Q. And you keep focusing on how it's going to impact AEP Ohio. The point of the market, the 12-3151 docket, was to sort of see how the legacy issues of how ratemaking are done to see if those are barriers to having a consistent market across Ohio, correct?

A. Correct.

Q. And but what you're proposing is to say we need to fall back to those issues that deal with traditional ratemaking so that we're not consistent across the state of Ohio with our purchase of receivables programs, correct?

A. No, that is not what I'm saying.

Q. Is it the -- I apologize. Go ahead.

A. What I'm saying is the company should not potentially benefit from a POR program.

Q. Again, you're focused on the company, and I understand, we talked earlier about generation/distribution services, I'm trying to address your issue here now of a POR program that needs to be consistent and your preamble of what we talked about here in your testimony. But in fact the proposal you've made is not consistent with the POR program that's offered elsewhere in the state of Ohio, correct?

A. Because those are more advanced in the market at this time.

Q. And they're more advanced because the company has an understanding of its data; is that your testimony?

A. Yes.

Q. So once AEP Ohio understands its data it will be mature enough to offer a bad debt rider and a zero discount rate, is that your testimony?

A. We can say that, yes.

Q. And also in the Staff Report, or I believe in your testimony you stated that Duke at first purchased their receivables and did not have a zero discount rate prior to its 2011 cases, correct?

A. I think what I said was actually at a discount rate. I didn't state what the discount rate was.

Q. Correct. But on pages 6 to 7 of your testimony you point out that Duke established uncollectible generation rider, however, prior to that Duke purchased the CRES receivables at a discount rate, correct?

A. Correct.

Q. So 2011 is sort of the point of demarcation when I believe you testified earlier a couple times to Miss Petrucci that it was a zero discount rate starting in 2011, correct?

A. That is my understanding.

Q. And if it helps refresh your

recollection, look at page 16 of the Staff Report, 2011 is also the time when Duke experienced significant increases in the CRES providers in its territory, correct?

A. Which one's? Duke?

It does continue to rise from 2011.

Q. Well, it goes beyond that. It's not just that -- it's not a coincidence, you make the conclusion on 16 that it cannot be minimalized, the impact of Duke's POR on the increase in CRES providers at that time, correct?

A. Correct.

Q. Just crossing stuff off, give me a second.

Let's talk about the discount formula that you propose in your testimony. Were the details of that formula developed in conjunction with CRES providers?

A. No, it was not. It was developed by looking at other states and using some of the practices that we saw in other states and tweaking those.

Q. So it's not something that staff had proposed and left the working group to think about during the 12-3151 POR subcommittee; is that correct?

A. Correct. No specific details were discussed during the 12-3151.

Q. Are you aware of what the different CRES suppliers think of this proposal?

A. No, I do not.

Q. Is that something better to ask those CRES providers?

A. Yes, it would be.

Q. All right. I will do that, then.

But your proposal is that this is different -- the discount rate will be different for each CRES provider, correct?

A. Yes.

Q. Do you know if your proposal creates more costs to run the program than the proposal offered by the company?

A. I would assume that it does have a slight increase.

Q. And your proposal ties the experience of that CRES provider and the customers that they market to to the discount rate they'll have for the following year, correct?

A. Correct.

Q. Isn't it true that that could have a chilling effect on CRES providers marketing to at-risk populations that have a higher credit risk?

A. It could.

Q. Now, the discount cap of 5 percent that you discuss, does that mean that AEP Ohio will inherit more risk of recovery?

A. Potentially.

Q. So it's not your testimony that that would be retained by the CRES provider if it got to the 5 percent that the CRES provider would be responsible for that amount of uncollectible, correct?

A. No. That is an incentive to ensure that the utility continues to keep up on their bad debt and uncollectible policies.

Q. And what evidence can you point to in this record that there is a need to ensure collection costs need to be minimized and the company needs to keep up with its collection efforts?

A. I think, as Miss Bossart testified, we didn't have enough evidence so that was the concern.

Q. So this recommendation is solely based on the testimony of Miss Bossart that you're deferring to right now, correct?

A. I wouldn't say "solely" but it has some precedent there.

Q. Okay. Then what other evidence in the record are you relying on if not the testimony of Miss Bossart to make this recommendation?

A. We just feel that it is a good policy to set as well, kind of this ceiling.

Q. I appreciate the use of the royal "we" but I need you to tell me in making this recommendation what did you rely upon or who is "we"? What are we talking about here?

A. Staff.

Q. So in making this recommendation are you saying you talked about this with staff? I'm trying to understand how you explained to me what the basis was of you making this recommendation. We've talked about Mrs. Bossart's testimony, and you said that wasn't solely it. What else can you point to that you relied upon?

A. I've got to think of the right way to pose this. But it was through discussions and determinations that we felt that this was a good item to include into the discount rate, so specific records and items I'm not sure I could point to any one thing.

Q. And would it be fair to say that those discussions were in concert with Mrs. Bossart and she would be the one to really have figured all of those in the testimony that she provided and that's what you're relying on?

A. I think I can say "yes."

Q. The partial payment tracking that you discussed with counsel for RESA, that's only needed because of staff's formula for the discount rate, correct?

A. Correct.

Q. And on the late fee you provide some testimony, and I believe the sum and substance of your testimony is because you're opposing the bad debt rider, you're not really taking a position on the late fee, correct?

A. It goes back to the crux of the D and T charges in that.

Q. And you state that you're opposed to a late fee because it will increase the revenues to shareholders, correct?

A. If you only have the -- as staff's main objection to the company's proposal is that over the 12 -- over or under the 12 million, and if you do it either -- whatever step the Commission takes, if it's only on the generation piece, if you're charging a late fee on all three parts of the bill, then the T and D side would end up just going towards the shareholders or into whatever it is over what was determined in the distribution case.

Q. I'm not sure I understand that so let me ask again. Your belief is that the proposal by the company is to do a late-payment charge to get revenues for shareholders; is that correct?

A. No, not at all. What -- the way the company proposes it -- in my understanding of the way the company proposed their bad debt rider would be that anything over the 12 million of base rates would be -- and under as well -- would then go into the bad debt rider with all of the uncollectibles or the late fees going against any of that overage into that rider.

However, if you do a generation-only bad debt rider and you charge a late fee on generation -- it was a 1 percent on the total bill if I remember correctly, that 1 percent or 1-1/2 percent actually would be charged on the D side, the T side, and the G side. So either the company's putting all the late fee into just the generation side to offset that uncollectibles or that 1-1/2 percent that is associated with T and D, that would go somewhere else. Does that make sense?

Q. Not to me. But let me ask another question. It's your understanding, though, that the company is going to offset the bad debt rider with all of the amounts that come in from the late payment fees, correct?

A. If the company would install -- institute a late-payment fee and no matter if that -- that automatically goes against the discount rate, the bad debt rider, whatever that is, and it's only on the generation side, staff would not be opposed to that.

Q. I'm asking your understanding of the company's proposal. You keep throwing in your version of it so what I'm asking you is your understanding of what the company has proposed.

Do you understand -- what's your understanding of what happens to the late fees that are collected under the company's proposal?

A. As I -- as I explained in my explanation of why I don't think it's right in my proposal, the company is collecting -- is going to put anything over the 12.2 or anything under the 12.2 into the bad debt rider and then that will be offset by late fees.

Q. Okay. So the collection of late fees is meant to offset the bad debt rider; that's your understanding, correct?

A. Correct.

Q. Now, on page 13 you also talk about a cap dealing with the $1.5 million of implementation costs. Are you familiar with that?

A. Yes.

Q. And you say staff will audit and report to the PUCO -- or, upon notice of exceeding the $1.5 million by 10 percent staff will audit and report to the PUCO within three months with a recommendation of what to do. Correct?

A. Actually, upon a CRES provider's request.

Q. Where are you reading that from?

A. Let me make sure I've got the right page here. So it starts on 15 and goes down to 18, "If the Company sees that the costs will exceed 10 percent of the Company's 1.5 million estimate, the Company should be required to notify the participating CRES providers and the staff," and I'm sorry, the next sentence there, "upon notice of exceeding the 1.5 million by 10 percent the CRES providers can request that the Commission audit the Company's implementation costs for prudency."

So it's right there on 18 and 19.

Q. Right. So that's at the time of the cost exceeding $1.5 million by 10 percent the trigger is a

CRES provider can request the staff to do an audit and staff will take three months to do an audit and make a recommendation based on that, correct?

A. Correct.

Q. So what guarantee does AEP Ohio have that anything will happen to address the issue after the three-month investigation?

A. Can you elaborate with what you mean by --

Q. I'll build the blocks, maybe this will be a better way to go here. So the company spends $1.5 million and they're approaching the 10 percent cap and they still have implementation costs to effectuate purchase of receivables in their territory. So a CRES, correct? That's --

A. Uh-huh.

Q. Are you with me?

A. Yep.

Q. So under that scenario you're saying a CRES provider can request an audit by staff or, I assume, staff can just say it wants to do its own audit as staff usually takes the right, correct?

A. Often.

Q. And if that happens and there's sort of a three-month audit of the costs to determine whether it's reasonable to go above that 1.5 plus 10 percent, correct?

A. Correct.

Q. So what happens after that?

A. Then the Commission would have to order -- would have to rule on the Staff Report and the audit.

Q. So three months to a Staff Report, then there's some type of due process for parties to comment on, correct?

A. That would be the normal.

Q. Then potentially a hearing that will be up to the Commission?

A. Yes.

Q. And then briefing? Then we wait for a Commission order and, as we know, our ALJs are very busy and get orders out as quickly as they can but they stack up on them, correct?

A. At times.

Q. So the three-month process to a Staff Report could easily be a year before anything happens, correct?

A. There is that potential.

Q. In the meantime, is AEP Ohio supposed to expend dollars to support the purchase of receivables program or is it supposed to wait, potentially a year, to see if they could continue to invest because the Commission will bless it?

A. I guess that would depend on the company's business strategy and thought of their prudency and their expenses.

Q. Right. But we established earlier that a utility should be held harmless for offering a POR for the benefit of customers and CRES providers, correct?

A. Correct.

Q. And if you were running a business and you were trying to be held harmless and there was an investigation with a bunch of parties saying things might be imprudent, would you continue to spend dollars or would you wait until you got approval to spend those dollars?

A. Well, I think this can also be an ongoing conversation as the costs are being incurred and seen, that hopefully we can -- the company would be able to work with the CRES providers, make everyone aware and avoid this if they can.

Q. But you don't say that, do you, on page 14? Should there be a cap on the cost to implement, there should not be a hard cap on the cost, however, and you create this process for how to go beyond that cap that's in here, correct?

A. Correct.

Q. So you don't give an ability to have an informal process, it takes a Staff Report and potentially a year for the Commission to decide if a utility is prudent in continuing to spend money to implement the purchase of receivables program, correct?

A. Actually, I disagree with that. Since the CRES providers or staff are the ones that can ask for an audit, if the utility is working with the CRES providers and everyone is onboard with why it needs to exceed, no one asks for an audit, there isn't a need for that.

Q. And any CRES provider can request an audit, correct?

A. That is what it says.

Q. Bob's Heating and CRES Providing that happens to establish themselves on any day can say I'm first day in the audit and I'd like an audit of what's happened over the past two years, correct?

A. The way this is written, yes.

Q. So, therefore, the company is at risk and has to assume if it's exceeding the 1.5 plus

10 percent that this process will take place to be prudent, correct?

A. There is that potential.

Q. And you expect prudent management from a utility in how it runs its programs and spends money, correct?

A. Correct.

MR. SATTERWHITE: Could I have one second, your Honor?

EXAMINER PARROT: You may.

Q. Just one more question. The staff doesn't have any opposition to any of the existing late fees that utilities currently have in place in Ohio, correct?

A. No, and we don't necessarily have an opposition to the late fee AEP is proposing.

MR. SATTERWHITE: Thank you.

That's all I have, your Honor.

EXAMINER PARROT: Mr. McDermott, did you have anything for this witness?

MR. McDERMOTT: No questions, your Honor.

EXAMINER PARROT: Ms. Bojko?

MS. BOJKO: No, thank you.

EXAMINER PARROT: Any redirect from staff?

MR. PARRAM: No, your Honor, thank you.

EXAMINER PARROT: Thank you, Mr. Donlon.

I believe staff has already moved for the admission of Staff Exhibit 14. Are there any objections?

(No response.)

EXAMINER PARROT: Hearing none, it is admitted.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER PARROT: Let's go off the record.

(Discussion off the record.)

EXAMINER PARROT: Let's go back on the record. At this point let's take a lunch recess. We will reconvene at 1:15. Thank you.

(Thereupon, at 12:38 p.m., a lunch recess was taken.)

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Friday Afternoon Session,
June 13, 2014.

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

Mr. Margard, your next witness.

MR. MARGARD: Thank you, your Honor. Staff would call Miss Tammy Turkenton to the stand, please.

EXAMINER SEE: Ms. Turkenton, if you'd raise your right hand.

(Witness sworn.)

EXAMINER SEE: Have a seat.

MR. MARGARD: Your Honor, I request that the prefiled testimony of Tammy Turkenton filed in this case on May 20th, 2014, be marked for purposes of identification as Staff Exhibit 15.

EXAMINER SEE: The exhibit is so marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

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TAMMY S. TURKENTON

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

DIRECT EXAMINATION

By Mr. Margard:

Q. Good afternoon, Miss Turkenton.

A. Good afternoon.

Q. Do you have before you what's been marked as Staff Exhibit No. 15?

A. Yes.

Q. Are you the Tammy Turkenton identified in this document?

A. I am.

Q. Would you identify this document for us, please.

A. This is my prefiled testimony in this case.

Q. This was prepared by you or at your direction?

A. It was.

Q. Do you have any changes, corrections, modifications, additions of any sort to this document today?

A. I do not.

Q. And if I were to ask you the questions posed in this document today, would your responses be the same?

A. They would.

Q. And are they true and reasonable to the best of your belief?

A. They are.

MR. MARGARD: Your Honor, I respectfully move for the admission of Staff Exhibit No. 15 subject to cross-examination and I tender Miss Turkenton for that purpose.

EXAMINER SEE: Okay. Mr. McDermott?

MR. McDERMOTT: No questions, your Honor, thank you.

EXAMINER SEE: Ms. Bojko?

MS. BOJKO: Yes, I do, your Honor, thank you.

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CROSS-EXAMINATION

By Ms. Bojko:

Q. Good afternoon, Miss Turkenton.

A. Good afternoon.

Q. If you could turn to -- I'm referencing the question I guess on the bottom of 2 and then the answer that goes over to page 3 of your testimony. On the top of that testimony you reference that when you consider all provisions of the application, the ESP is more favorable in the aggregate than an MRO. Do you see that?

A. I do.

Q. In that response to the question all provisions, you're talking about inclusive of the modifications proposed by staff; is that right?

A. Yes, that's correct.

Q. So as modified by staff, you believe that the ESP would be more favorable but not as proposed by the company in its filing.

A. That's correct.

Q. And as you explain on page 5 of your testimony, you did not include in that evaluation the potential costs associated with the PPA rider, the skilled workforce rider, the NERC ride per the bad debt rider; is that correct?

A. That's correct.

Q. And you didn't include those or the potential costs associated with those riders because staff in this proceeding is opposing the implementation of those riders; is that correct?

A. That's correct.

Q. So it's because staff is suggesting or is taking the position in this case that those riders

should not be included in the ESP and that's the reason that you didn't consider them in your evaluation; is that correct?
A. Yes. There would be no reason, there would be no costs associated if staff was not recommending them to put them on the ESP side of the test.
Q. And, also, if you look at the next -- actually, on line 12, the Q and A that begins there, you talk about --
A. What page are you referencing?
Q. I'm sorry. I was still on page 3. I'm sorry. Page 3, line 12.
A. I'm there.
Q. Okay. You talk about -- in the response starting on 13, you talk about the testimony of William A. Allen. Do you see that?
A. I do.
Q. And you talk about the proposed ESP would freeze base distribution rates through May 31st of 2018, correct?
A. That's correct.
Q. That's your understanding of the application?
A. That's my understanding, yes.

Q. So your analysis presented in your testimony is based upon the belief that there would be a base distribution rate freeze; is that correct?

A. That's my assumption, yes.

Q. Were you in the room when Mr. Allen testified that the statement in his written testimony that the proposed ESP will maintain base distribution rates constant over the ESP period did not mean that the company was committing to a base distribution rate freeze?

A. I must not have been. No, I was in and out during Mr. Allen's testimony.

Q. So with that, if it is your understanding that Mr. Allen -- or, the company is not committing to a base distribution rate freeze during the term of the ESP, that that would affect your analysis provided on the bottom of page 3?

A. I don't think it would change my analysis, no.

Q. And your understanding that there would be a base distribution rate freeze from his testimony was based on the statement that I read about the constant, that distribution rates would remain constant over the ESP period; is that accurate?

A. That's accurate.

MS. BOJKO: That's all I have, your Honor. Thank you.

EXAMINER SEE: Thank you.

Mr. Boehm?

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

EXAMINER SEE: Mr. Darr?

MR. DARR: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Darr:

Q. One quick follow-up on the question that Ms. Bojko just asked you. You indicated in your response to one of her questions that if there were not a rate freeze, it would not affect your recommendation as to whether or not the ESP is more favorable in the aggregate?

A. It would not.

Q. And is the reason for that that the company could seek distribution rate increases either through a rate case or through a mechanism like the distribution riders?

A. Yes.

Q. So on balance it could be -- you end up with the same result; is that correct?

A. That is correct.

Q. So, for purposes of the test, you treat the distribution rate and distribution rate changes as effectively zero.

A. That is correct.

Q. Now, in regard to your recommendation, am I correct that the quantitative analysis produces, in your version of the test, a $44 million quantitative benefit of the proposed ESP?

A. That's correct.

Q. And to get to that result essentially you do not have a value for any of the distribution riders as we've just discussed, correct?

A. Correct.

Q. And you have not assigned a value to the purchased power agreement rider on the assumption that the staff recommendation would not include such a rider; is that also correct?

A. That's correct.

Q. Did the staff, as you understand it, perform an analysis of what the costs over the term of the ESP of a PPAR would be?

A. I did not perform such an analysis.

Q. Did anyone else on staff perform such an analysis, if you know?

A. I do not know.

Q. You've assigned some -- well, I want to clear up something in your testimony before I go to this next line of questions.

As I read pages 3, 4, and 5 of your testimony, are you indicating that these are the qualitative benefits that you identified in the ESP that support a finding that the ESP is more favorable in the aggregate than an MRO?

A. Could you give me a specific page reference?

Q. Well, let's take -- sure. Let's take page 3 beginning at line 12. The question is "Please describe the benefits you considered in your conclusion." And the first one you list are the distribution riders and the fact that customers may avoid the cost of a distribution case.

A. Yes, that's one qualitative benefit.

Q. You have not assigned a value in terms of a cost of a distribution case in making your analysis; is that correct?

A. I have not.

Q. In your recommendation you also indicate beginning at line 16 on page 4 that the purchase of receivables would provide certain benefits for residential customers, correct?

A. That's correct.
Q. And you've indicated that it could produce an increase in providers; is that correct?
A. It could, yes.
Q. Have you estimated or has anyone on staff estimated the expected increase in providers that you would expect from the adoption of a POR?
A. I have not made such an analysis.
Q. And has anyone else on staff that you know of?
A. Not that I'm aware of.
Q. You also indicate that there would be the possibility of increased payment options. Do you see that?
A. I do.
Q. Is it fair to say that a CRES provider could provide the same kind of payment options that you're considering as a benefit of the POR?
A. They could.
Q. You also indicate that there would be potentially a reduction in customer confusion. Do you see that?
A. I do.
Q. And what is the basis for your understanding that this -- that the POR would have

the potential of reducing customer confusion?

A. Generally, what that statement means is that they -- on the bill there's two providers with purchase of receivables, there would just be one provider.

Q. Is it fair to say that if a customer is having trouble paying his bill, he might be in default on some other bills at the same time?

A. It's possible.

Q. Practically speaking would it be likely?

A. Likely, yes.

Q. Do you think there might be other collectors out there pounding on his door?

A. It's probable.

Q. Now, the POR that you're considering, would this be the POR as described by the recommendations provided by Mr. Donlon and Miss Bossart?

A. That's correct.

Q. It is not the recommendation -- it is not the POR as described by the company or any of the other CRES providers, correct?

A. No. In fact, some of these benefits I described are from the Staff Report in the RMI investigation that Mr. Donlon and Miss Bossart spoke about.

Q. Specifically the benefits that you're identifying would be, not necessarily unique, but are consistent with the POR as proposed by the staff; is that correct?

A. They're consistent with staff comments made in the Staff Report in the RMI.

Q. One last question. The term or period that you used to assess the ESP versus MRO test was a three-year period; is that correct?

A. That's correct.

Q. Mr. Strom has proposed an alternative definition of the competitive bidding process. You're aware of that?

A. Yes.

Q. Have you factored in whether it is a benefit or a detriment to the ESP?

A. I have not made such an analysis.

Q. So that's not part of your calculation today as to whether or not an ESP as proposed by staff including Mr. Strom's recommendation is superior to an MRO; is that correct?

A. It's not part of my analysis in terms of the test.

MR. DARR: Nothing further. Thank you

very much.

EXAMINER SEE: Mr. Yurick?

MR. YURICK: No questions, your Honor, thank you.

EXAMINER SEE: Ms. Grady?

MS. GRADY: Thank you, your Honor.

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CROSS-EXAMINATION

By Ms. Grady:

Q. Good afternoon, Ms. Turkenton.

A. Good afternoon.

Q. Now, you responded to questions by counsel for OMA, Ms. Bojko, and you indicated that when you spoke of the ESP being more favorable in the aggregate than the MRO, that that conclusion was reached including the modifications by staff; is that correct?

A. That's correct.

Q. Did you -- did you -- so you have not done an analysis of the AEP-proposed ESP and whether that absent the staff modifications passes the ESP versus MRO analysis.

A. I have not. That was not staff's proposal.

Q. Okay. Now, you also indicate that when you responded to Ms. Bojko, that your analysis was based upon all of the staff recommendations being adopted, and in that case your analysis is that the ESP is more favorable in the aggregate than the MRO, correct?

A. That is correct.

Q. And have you done an analysis that would tell us whether, if certain staff recommendations are not adopted, what the effect or impact would be on the ESP versus MRO analysis?

A. I have not made that analysis.

Q. It's pretty much all or nothing is your testimony, that if you consider all of the staff's modifications, then the ESP passes the ESP versus MRO analysis.

A. Yes, taking into consideration all staff's recommendations regarding all riders.

Q. Thank you.

Now, if we go to page 3 of your testimony, and specifically I want to direct your attention to lines 7 through 10, and you state that "Beginning June 1, 2015, SSO generation rates will be 100 percent market based rates. As a result, there should be no difference between market based generation rates under a MRO or ESP filing." Do you see that?

A. I do.

Q. Is this another way of saying that the MRO and the ESP provide the same SSO pricing in the company's ESP?

A. From a generation perspective, yes.

Q. And so that there is no quantifiable difference in commodity prices between an MRO and an ESP?

A. Yes, no quantifiable difference between generation and rates.

Q. Let's go to your testimony on page 4, lines 5 to 14. You indicate there that you -- the question posed is: "What else have you considered in making your recommendation?" And when you use the term "recommendation" there, are you speaking there of your conclusion that the ESP is more favorable in the aggregate than an MRO?

A. I am.

Q. Now, you talk in that response beginning on line 6 about the company's ESP 2. Do you see that?

A. I do.

Q. And do you know whether or not that is Case No. 11-346-EL-SSO that you are talking about?

A. Sounds familiar.
Q. Okay. And you say there that under the ESP 2 100 percent of the SSO generation rates will be market-based rates beginning June 1st, 2015?
A. That's correct.
Q. Is it your understanding that in the ESP 2 case the company proposed a two-and-a-half year transition to market-based rates?
A. I think I remember that, yes.
Q. And that the market-based rates would be at 100 percent beginning January 1st, 2015?
A. Yes, that's correct.
Q. Is it also your understanding, Miss Turkenton, that the PUCO considered the two-and-a-half year transition to market-based rates as a significant nonquantifiable benefit of the ESP?
A. I believe in the Commission's opinion and order they stated that they believed it was a nonquantifiable benefit.
Q. Is it also your understanding that in AEP Ohio's ESP 2 case the PUCO found that the nonquantifiable benefits of the ESP significantly outweighed any of the costs?
A. Without looking back at the order I don't know if the wording was "significantly," but, yes,

they did determine that the qualitative benefits outweighed the quantitative.

Q. And do you know what the quantitative benefits the PUCO found with respect to the AEP ESP were in that case?

A. I don't recollect.

Q. Would you agree with me that the nonquantifiable benefit of transitioning to market-based rates was a benefit that came from the PUCO's decision in the ESP 2 case?

A. It was a benefit, yes.

Q. And would you also agree that that benefit that came from the ESP 2 case is not a direct benefit of the ESP 3 filing?

A. I would disagree with that.

Q. And can you explain to me how the transition to market-based rates is a direct benefit to the ESP 3 filing?

A. I still believe that the ability under an ESP to get to market quicker is a benefit versus going under an MRO. And just because the Commission ordered January 1st, 2015, that they went to a hundred percent market doesn't negate, in my mind, that ESP 3, there's benefits, because they've already went to market.

Q. Do you have familiarity with -- let me strike that.

Now, you state on lines 10 through 14 that the -- and that's at page 4, that the ESP application is an extension -- the ESP 3 application is an extension of the ESP 2 application. Do you see that?

A. Yes.

Q. So are you saying there that the market-based rates benefit should be counted again as a nonquantifiable benefit in the ESP 3 for customers?

A. I don't know that I would use the word "again." I just believe that it's still a qualitative benefit, that we have moved to market quicker than we would have under a blending scenario in an MRO.

Q. So in your opinion an extension of the ESP 2 application into ESP 3 should be counted in the MRO versus ESP comparison.

A. I believe it's a qualitative benefit that continues to exist, yes.

Q. Now, in this paragraph you also speak of the ability to further refine the company's tariffs so that they can be more reflective of a current competitive environment and, thus, provide more benefits than may be available under an MRO application. Do you see that reference?

A. I do.

Q. Are you speaking there of a nonquantifiable qualitative benefit of ESP 3?

A. Yeah, more of a qualitative benefit.

Q. And it's nonquantifiable?

A. Yeah, nonquantifiable.

Q. And when you're referring there to the further refining the company's tariffs, are you referring below to your answer that begins on line 17, are those the refinements to the company's tariffs that you discuss on lines 12 through 14 on page 4?

A. What I meant by that statement was under an ESP there's a little bit more flexibility in terms of rate design and in terms of modification of riders that could be more conducive to a competitive market. Some riders can -- moving towards a competitive market are more kilowatt-hour based versus demand based, and I just think under an ESP that's a more flexible framework for doing that than under an MRO. That's what I mean.

And it allows customers to make better choices because they're comparing Apples to Apples.

It's more in terms of rate design.

Q. Now, on page 3 you're also discussing a benefit that the company would continue to use the DIR and the ESRR to enable it to continue to make needed investments in the distribution system. Do you see that?

A. Are you referencing question 8?

Q. Yes.

A. Yes.

Q. It's actually page 3.

A. Yes, I see that. Thanks.

Q. Would you agree with me that an alternative method of recovering investment in distribution is for the company to file a base rate case?

A. It's an alternative method, yes.

Q. And do you have any basis to believe that a base rate case to recover distribution investment will not permit the company to collect its distribution investment?

THE WITNESS: Could you repeat that.

(Record read.)

A. Yes, I believe the staff is very capable in ensuring the company collects its proper distribution investment.

Q. Through a base rate case?

A. Through a base rate case, yes.

Q. And do you believe that if AEP Ohio were required to file a base rate case to collect its distribution investments, that it would prevent AEP Ohio from undertaking needed distribution spending?

THE WITNESS: I'm sorry, would you repeat the question?

(Record read.)

A. Do you mean in terms of the DIR?

Q. Yes.

A. Yes, I believe it's a -- either a base distribution case or the DIR.

Q. Now, you indicate, and Mr. Darr actually crossed you on this, that using riders and maintaining current base rates would allow parties to avoid the significant time and cost in pursuing an increase in rates through a typical distribution case, correct?

A. That's correct.

Q. And you consider that a benefit in the DIR and the rate freeze that you consider in your ESP versus MRO analysis?

A. I do.

Q. And you have not assigned any other benefit to the DIR under the MRO versus ESP test?

A. No. No other quantitative benefit, no.

Q. Have you assigned any qualitative benefit to the DIR under the MRO versus ESP test other than the avoidance of time and costs of pursuing an increase?

A. No other.

Q. Is it your understanding, Miss Turkenton, that AEP is seeking authority for nearly $700 million of revenue during June 2015 through May 2018 from the DIR extension?

A. I'm not familiar with the dollar amount, but I do know they're seeking recovery of investment through the DIR.

Q. And would you consider -- do you know generally whether the investment is significant?

A. Define "significant," please.

Q. Several hundred thousand dollars -- or, several hundreds of millions of dollars.

A. It's all relative. I can't define "significant" in terms of the entire case. It's probably not significant.

Q. Would you agree with me, Miss Turkenton, that a rate case provides an opportunity to comprehensively investigate the utility's cost of service and its earnings to ensure that existing rates are reasonable?

A. In the context of an ESP?

Q. No, I'm saying just a rate case. Would you agree a rate case --

A. Yes.

Q. -- provides that opportunity?

A. Yes, thank you.

Q. Yes.

Now, you indicate in your testimony that you have identified a quantifiable benefit of the -- in the ESP versus MRO comparison of $44 million and, approximately $44 million, and that's found on page 5 of your testimony.

A. Yes, I see that.

Q. Is the $44 million the only quantifiable benefit that you have identified in your analysis?

A. It is.

Q. Now, you indicate and you were cross-examined by Ms. Bojko about the riders -- the additional new riders in the ESP 3 application, you indicate that from your perspective the potential or -- let me strike that.

In your testimony on page 5 you speak to the company's proposed additional new riders in the ESP 3 application. Do you see that reference?

A. I do.

Q. And you indicate there that you did not consider the costs of those riders in your recommendations, correct?

A. Yes. There would be no reason to include them since staff was not recommending approval.

Q. And have you looked at the specific costs of those riders? I know you discussed with Mr. Darr the PPA rider and were not aware of a cost identified with that, but have you looked at any of the specific costs of the other riders listed?

A. No. Those were specific riders that were assigned to other staff. I simply ascertained whether they were going to approve or deny those riders. If they were going to approve those riders, I would have looked at them in more detail, but since they did not affect my test, I did not look at them.

Q. Now, with respect to each of the riders listed on lines 16 through 19, are those riders that would only be counted on the ESP side of the MRO versus ESP calculation? If you know.

A. I'd have to go through each one. Let me look here. It's an interesting question. I believe most of them would be included in the ESP side of the test only -- there are some provisions within Section 142 that may, "may" is a strong word, may provide the ability to recover some of these other riders.

Q. Can you tell me what ones -- what ones you believe may be able to be recovered through an MRO?

A. The ones I have listed here are the purchased power agreement, the sustained and skilled workforce rider, the NERC compliance rider and the cybersecurity rider, and the bad debt rider. I believe the sustained and skilled workforce rider, the NERC compliance rider and the cybersecurity rider, and bad debt rider would only be on the ESP side of the test.

I also believe that the purchased power agreement rider, at least how I know it's loosely structured, would probably only be on the ESP side of the test, but I do know in a MRO scenario there are -- in 142 there is the ability to collect purchased power cost, and that's about the extent of -- I don't know that, since we have never had an MRO, I don't know that -- how purchased power costs would be interpreted by the Commission.

Q. So you're raising the issue of whether or not a financial hedge, as you understand it to be under the purchased power adjustment rider, would be a purchased power cost?

A. Correct.

Q. Now, you indicated that it would be your opinion that four, if not all five of those riders, would be only on the ESP side of the test. Is that because you understand those riders would not be -- are not permissible under an MRO?

A. Yeah, I believe -- with my understanding of Section 143 those are single-issue ratemaking items that would be in the context of an ESP, not an MRO.

Q. Let's talk about the purchased power agreement rider for a moment. Would you consider that a nonquantifiable cost or a nonquantifiable benefit under the ESP?

A. I didn't consider it at all because we did not approve it, in my analysis.

Q. If the Commission were to determine that a purchased power agreement rider should be ordered, would you characterize it -- how would you characterize the benefit or cost of that for purposes of the MRO versus ESP comparison?

A. I don't have an opinion.

Q. And if I asked you that question with respect to the remaining riders, that is how would you -- how would you characterize those riders? Would you characterize them as a nonquantifiable? A quantifiable? A qualitative? Do you have an opinion as to how those should be characterized if the Commission were to determine that it would approve those riders and wanted to assess those riders for purposes of the MRO versus ESP test?

A. Well, for purposes of my test, as I stated before, I did not include any quantifiable or qualitative benefits associated with these riders. If the Commission determined that one of these riders was prudent for recovery, the Commission can determine on its own whether it wanted to count it as a quantifiable benefit and/or cost or whether the Commission wanted to believe it was a qualitative benefit. I have no opinion.

Q. But as far as you're concerned, you have not looked at the cost of those riders so you would not be able to opine on whether those riders would be costs or benefits under the MRO versus ESP comparison.

A. No, I have not looked into these specific costs of each one of these riders.

Q. If the PUCO disregards the staff's position on the purchased power agreement rider and permits the OVEC transactions to be approved, you would agree with me that the PUCO would have to evaluate the costs and benefits of that rider under the MRO versus ESP test, correct?

A. Yes, as stated in my last answer, I believe throughout this hearing, some people believe there's costs and some people -- associated with the PPA, that there's benefits, so the Commission would need to make that determination as to how it relates those costs and/or benefits to the MRO versus the ESP test.

MS. GRADY: That's all the questions I have, thank you, Miss Turkenton.

EXAMINER SEE: Mr. Nourse?

MR. NOURSE: Thank you, your Honor.

Can I clarify that the counsel that weren't present are not going to be asking questions after I'm done except for staff if they weren't present earlier?

EXAMINER SEE: You don't get a turn if you're not here when it's time -- when it's your turn.

MR. NOURSE: I agree. Okay. Thank you.

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CROSS-EXAMINATION

By Mr. Nourse:

Q. Good afternoon, Miss Turkenton.

A. Good afternoon.

Q. You'll be happy to know a lot of my questions were already asked so, but I want to follow up on a couple things that were asked to finish out the line.

So I'm not sure if I heard the whole discussion before, but I believe with Ms. Grady you were talking about the benefits of an ESP generally over an MRO, and I think you mentioned rate design flexibility as one thing. Do you recall that?

A. Yes. I believe as we move to a competitive market there's more flexibility in rate design and riders in terms of kilowatt-hour days to more accurately reflect the competitive environment, we're able to -- it's better suited under an ESP where we have single-issue ratemaking than under an MRO.

Q. Okay. Well, you mentioned single-issue ratemaking. So you would agree that there's other features in the ESP statute that also provide the Commission some flexibility or alternative regulation options that would not be present with an MRO; is that correct?

A. Are you speaking in terms of qualitative benefits or quantitative?

Q. I'd say qualitative.

A. Yeah, I do believe there's other qualitative benefits in the statute and the Commission's free to consider any qualitative benefit that they believe is applicable under an ESP.

Q. Yeah, I just wanted to clarify your point that you made earlier, because I'm not sure I got it all --

A. Okay.

Q. -- that you weren't saying that the ESP generally is more favorable than an MRO from the Commission's standpoint only because it gives the Commission some rate design flexibility, were you?

A. Not only. I was answering Ms. Grady's questions about a qualitative benefit, and that is one of the qualitative benefits that's in my testimony.

Q. And is it also fair to say overall that because an MRO is a permanent option, that you -- once you go down that path you can't go back to an ESP and all the things that that enables, that that's also a general qualitative benefit of ESPs over MROs?

A. It is my understanding, per the statute, although I'm not an attorney, that once you go to an MRO, you can't go back. And I believe that, yes, the Commission could consider if they wanted to that that's a qualitative benefit under the ESP.

Q. And you wouldn't disagree with that.

A. I wouldn't disagree with that.

Q. Now, Ms. Grady also discussed the riders that you have in question and answer 11, page 5, and she or you stole a little bit of my thunder because I wanted to talk to you about the PPA under an MRO scenario.

A. I stole your thunder.

Q. You did, okay, good.

So -- and let me first say, I mean, you're testifying to the MRO/ESP test which requires you to understand what could be in an ESP and what can be in an MRO and compare the two; is that fair?

A. That's fair.

Q. Okay. That's part of your expertise that you're submitting your testimony based upon, correct?

A. Correct.

Q. Okay. And so I want to talk to you a little bit further about the MRO statute and the PPA scenario that you mentioned in cross-examination, and if it will help, I've got a copy of the statute here.

MR. NOURSE: I don't need to mark this, your Honor. It's actually the ESP and MRO statutes.

MR. MARGARD: Your Honor, obviously with the standard stipulations and provisos that Miss Turkenton is not an attorney although she works with these statutes on a regular basis in the course of her duties.

Q. So, Miss Turkenton, can you turn to -- the MRO statute is 4928.142, correct?

A. Correct.

Q. Which starts on page 1 of this document.

A. Correct.

Q. And if you need to read any part of it or look it over before you answer any of my questions, feel free to do so, but is it your understanding that under an MRO that there's a transition period of six to ten years whereby the EDU would go from having a nonmarket rate to a fully competitive market rate?

A. Yeah, that's my understanding. Yes.

Q. And so let's talk about the first three years to match up with the ESP term that we're discussing here today. And is it your understanding in year 1, year 2, and year 3 that the nonmarket portion of the blend, of the rate blend or the MRO option, would be 90, 80, and 70 percent respectively, or no less than those numbers?

A. I believe the statute says, yeah, no less than. Yes.

Q. Okay. And then, correspondingly, the market portion of the blend would be no more than 10 percent, 20 percent, or 30 percent in the first three years, correct?

A. Correct.

Q. Okay. And in the nonmarket portion of the blend -- well, let me ask one more question.

So is it your understanding that the OVEC PPA -- the OVEC aspect of the PPA rider that the company is presenting is approximately 5 percent of the company's load?

A. I think I've heard that number from Dr. Choueiki.

Q. So is it your understanding then, and I'll just direct your attention to page 3 of the document I gave you, in the middle of the page there's subsection (d) which gets into the transition period we just talked about, it also then goes into the constituent components of the nonmarket portion of the rate blend, correct?

A. Correct.
Q. And so near the bottom of the page there's four items listed, one of them is -- number (2) is prudently incurred purchased power costs, correct?
A. That is what it reads in that section, yes.
Q. Okay. And so it's feasible that the Commission in an MRO could certainly include the OVEC purchased power agreement in item (d)(2) there.
A. I certainly couldn't make that determination. Like I -- as my counsel said, I am not an attorney, but as I read this, I think there's some distinction whether you own generation or you don't own generation as to whether you would get purchased power costs.
Q. Okay.
A. But, again, that would be up for Commission determination.
Q. Well, again, I'm asking you because you're testifying about the MRO test and you agreed earlier that in order to effectively do the test you have to understand what can be done in an MRO, you have to understand what can be done in an ESP, correct?

A. Correct.
Q. And so with respect to your reference about owning generation, does the first passage in Section (d) indicate that an EDU that as of July 1st, 2008, directly owns, in whole or part, operating electric generation facilities, et cetera?
A. Yes, that's where I was referencing.
Q. Okay. And would you agree that AEP Ohio qualified under that language?
A. Currently, yes.
Q. And would you agree that OVEC specifically has been recovered in rates since 2008?
A. I don't know that to be true.
Q. Since 2009?
A. I don't know that to be true.
Q. Okay. All right. So then if you read on down below the four items there, and I'll paraphrase, you can correct me if you look at it differently, but there's also a contemplation that benefits and revenues associated with these items, the so-called netting tool, would apply; is that your understanding?
A. I am not following where you are, Mr. Nourse.
Q. Okay.

A. Sorry.
Q. Yeah, after No. 4 that talks about environmental laws --
A. Yes, I'm there.
Q. -- and regulations.
A. I'm there.
Q. Then it goes on to say making any adjustment to the most recent SSO based on the costs in (d), the Commission shall include the benefits that may become available to the EDU, et cetera, et cetera, not limited to receipt of Commission credits or tax benefits or other benefits. Do you see that?
A. I do.
Q. Okay. So would the description of the PPA rider as the company's proposed it here to be -- to being a net of costs and revenues fit that description, in your opinion?
A. I can't make that determination.
Q. You have no opinion?
A. I have no opinion based on this language.
Q. So do you have an opinion -- I thought I heard an opinion earlier that OVEC and the PPA rider could be something the Commission would approve under an MRO.

A. I -- as I referenced to Ms. Grady, yes, it could be something -- the purchased power costs that are incurred that are prudently incurred under 142 are something that the Commission could consider under an MRO.

Q. Okay. And then the other riders that you discussed with Ms. Grady from your -- actually they're in the question to -- question 11 there on page 5, and I'll talk about the other four as a group --

A. Okay.

Q. -- if you don't mind. Let's see, is it three or four? I guess it's three. Right?

A. Actually four.

Q. Okay. Well, the NERC compliance and cybersecurity is actually one rider, but -- the way we have described it, but, okay, the rest of the riders I believe you said were only available on the ESP side because they were single-issue ratemaking?

A. Yes. And I, as a layperson, my reading of the MRO statute, I don't see where those riders would fit for Commission consideration into one of these four categories.

Q. Okay. But you do agree that all the costs underlying those riders could be recovered by

an EDU in a general rate case, correct?
A. In a base distribution rate case?
Q. Yes.
A. I believe the company could ask for recovery and then the Commission could determine whether they were -- had the ability to recover those costs. I don't believe they are ultimately recoverable under a base distribution case.
Q. I don't understand the distinction you're making. Are the costs that would be included in these riders costs that a wires company could recover in a base distribution case?
A. They could seek recovery, yes.
Q. So they could recover them in a base distribution case?
A. They could make an application with the Commission to seek recovery, yes.
Q. And is there any reason that you would think you would qualify why they wouldn't get recovery subject to the normal rate case process?
THE WITNESS: Could you repeat that question?
(Record read.)
A. No. I'm just -- I'm just indicating that the sustained and skilled workforce rider, the

compliance rider, and the bad debt rider, with maybe the exception of bad debt, these are newer type items that have not historically been recovered in a base distribution case so, as I state, the company could make an application and seek recovery of those costs in a base distribution case if they so choose.

Q. Are you saying that bad debt is not a cost that's recovered in base distribution cases?

A. That's what I said, with the exception of that one. I believe that bad debt is included in base distribution cases.

Q. Okay. Are you saying that labor costs are not recovered in base distribution cases?

A. Labor, but I don't know if -- how "labor" is defined under the sustained and skilled workforce rider would be applicable for recovery but, yes, labor in general is recoverable.

Q. Yeah. And do you believe that cybersecurity and NERC compliance costs as it relates to the wires company functions would be recoverable in a base distribution case?

A. As I've said, the company could seek recovery through an application and if the Commission deems they're prudently incurred costs, the company can recover those through base distribution rates.

Q. Thank you.

Now, and the same holds true for the investments that are involved with the DIR, correct?

A. Agreed.

Q. Let me ask you, you have a section, a Q and A at the end of your testimony about winter tail block rates. Do you see that?

A. I do.

Q. Now, is it your recommendation that any adjustment that might come out of your 30 days process to -- any adjustment to the tail block rate design would be revenue neutral to the company?

A. In terms of the capacity rider?

Q. In terms of the winter tail block rates that you're talking about.

A. In terms of the generation capacity required any rate design issues regarding a complete phase-in of the tail block, yes, I would recommend to the Commission that they be revenue neutral to the company.

Q. Okay. Can you tell me why is it that you want to follow up on this? What's the underlying concern?

A. The underlying concern is it's only in the CSP territory, over 800 kilowatt-hours has historically been a lower charge, in simplistic terms, and with the capacity -- with us phasing in the capacity rates to 188, these customers are experiencing or could experience during the winter months higher bills.

That being said, with the new 2015 and '16 capacity rates the RPM rates in the summer, they're going to conversely see a decrease so, therefore, staff does not believe -- it will only be a slight increase to these customers at this point, but my recommendation stems from the fact that I don't know what the Commission will or will not approve in terms of other riders in this case so I want to be able to look at the rate impacts and the bill impacts of those customers for all of the items that are enumerated in this case or the Commission approves in this case absent just looking at generation capacity rider.

Generation capacity rider in itself will not be a large increase, but other items that the Commission may order may impact those winter customers in the CSP territory.

Q. Okay. So is it fair to say that your recommendation for follow-up and monitoring here is based on a concern related to potential rate impacts?

A. It's solely rate impacts for those customers using over 800 kilowatts in the winter.

MR. NOURSE: Thank you, that's all I have.

EXAMINER SEE: Mr. Margard?

MR. MARGARD: No redirect, your Honor.

EXAMINER SEE: Staff has already moved for the admission of Staff Exhibit 15. Are there any objections?

(No response.)

EXAMINER SEE: Hearing none, Staff Exhibit 15 is admitted into the record.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER PARROT: Staff, you may call your next witness.

MR. PARRAM: Yes, your Honor, we would like to call Staff Witness Ray Strom to the stand.

EXAMINER PARROT: Please raise your right hand.

(Witness sworn.)

EXAMINER PARROT: Take a seat.

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RAYMOND W. STROM

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

DIRECT EXAMINATION

By Mr. Parram:

Q. Would you please state your name for the record, please.

A. Raymond W. Strom.

Q. By whom are you employed?

A. The Public Utilities Commission of Ohio.

MR. PARRAM: Your Honors, I'd like to have marked for purposes of identification the prefiled testimony of Raymond Strom marked as Staff Exhibit 16.

EXAMINER PARROT: So marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Mr. Strom, do you have Staff Exhibit 16 in front of you?

A. Yes, I do.

Q. What is Staff Exhibit 16?

A. This is my prefiled testimony.

Q. And did you prepare Staff Exhibit 16?

A. Yes, I did.

Q. Do you have any corrections or modifications to Staff Exhibit 16?

A. I have one -- a little feedback here -- one minor correction that was pointed out by some kind person in the press that I made a mistake on RWS-1 exhibit in that in the last -- the bottom row where I talk about -- I have auction 10 listed, the date should be March 2019 instead of "2018."

Q. Do you have any other corrections or modifications to your testimony?

A. No, I don't.

Q. And if I were to ask you the same questions that are contained in Staff Exhibit 16 today, would your answers be the same?

A. Yes.

MR. PARRAM: Your Honor, I move for the admission of Staff Exhibit 16 and tender Mr. Strom for cross-examination.

EXAMINER PARROT: Thank you.

Any cross, Mr. McDermott?

MR. McDERMOTT: No, thank you, your Honor.

EXAMINER PARROT: Ms. Bojko?

MS. BOJKO: Briefly, your Honor. Thank you.

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CROSS-EXAMINATION

By Ms. Bojko:

Q. Good afternoon, Mr. Strom.

A. Good afternoon.

Q. I'm sorry, your correction was auction 10 should be March 2019?

A. Yes.

Q. Okay. Thank you.

Referring to -- a clarification question on your testimony at the bottom of 2 going into 3. Is it your recommendation that the company not be able to have that early termination right of 2017; is that correct?

A. I'm sorry, I missed your reference location.

Q. Well, you talk generally on the bottom of page 2 about the ESP term and going into the top of page 3.

A. Okay.

Q. It's your recommendation that the company not be able to have the unilateral termination right of May 31st, 2017, correct?

A. That's correct.

Q. Okay. And instead of that is it your recommendation that the ESP be five years?

A. My preference would be a longer term ESP. I'm proposing five years. And a five-year ESP would not include an early termination right also.

Q. Okay. So you're stating that it should not be three years -- or, two years and it should be extended to five but you're not speaking to whether it should be three years? Is that fair? Or are you?

A. I don't know -- not sure what you're asking. I'm sorry.

Q. Well, are you saying that your proposal is that the ESP should be a five-year period? Do you have a position on whether it should be a three-year period or not?

A. Well, I point out some concerns with a three-year period and it's concerns that have been around for some time and they're still in this kind of context that a period -- shorter ESP period like three years results in more hard stops, if you want to put it that way, to the bidding process than if you had longer-term ESPs of like five years, so that's why I would prefer a longer-term ESP rather than a three-year that's being proposed.

Q. Okay. Well, that's actually really my question is whether your comments go to whether it's a two-year program with an early termination right or whether it's a three-year program, and what I just understood your response to me is it doesn't matter whether it's two or three, your concerns are with both of those and you're recommending a five-year.

A. Yes.

MS. BOJKO: Thank you, that's all I have.

EXAMINER PARROT: Mr. Boehm?

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

EXAMINER PARROT: Mr. Darr?

MR. DARR: Very briefly, your Honor.

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CROSS-EXAMINATION

By Mr. Darr:

Q. Mr. Strom, turning to page 3 of your testimony, line 13, the rationale that you offer for this five-year proposal is to reduce the uncertainty and frequency of potential rate volatility occurrences. Could you describe for us what you mean by "potential rate volatility occurrences"?

A. What I mean is when an ESP comes to an end, all of the procurements that were made for that ESP come to an end at the same time and then for the next ESP it's necessary to essentially start over with a new bidding process.

So if you had rate movement in the market pricing in that time frame, you would lose the blending possibility that comes with longer-term ESPs, that you can make multiple procurements and blend them over time with each other so that you would not see that changed price, let's assume it's a higher price, you would not see that get blended in with other prices and it would hit all at once.

Q. In terms of the ESP term that's been proposed here, can we agree that the price changes proposed in your Exhibit RWS-1 and the price changes proposed in the company's auction schedule, CL-10, would occur annually at the beginning of the planning year for each of the three years?

A. I'm not quite sure I'm following you but I can try to guess at what you're meaning and you can maybe --

Q. Well, let's not guess.

A. Okay.

Q. Let's turn to RWS-1. Under your auction proposal there would be two auctions that would set the price for the planning year 2015-2016, correct?

A. That's correct.

Q. And there would be three auctions that would set the price for planning year 2016-2017, correct?

A. I think it would be four.
Q. You're correct. I apologize. Yes, four auctions.
A. Okay.
Q. And then for the next planning year there would be four auctions as well, correct?
A. I believe there you would be at six.
Q. So you'd include the auctions for 5 and 6?
A. If I'm following you correctly. Did you say the year 2017 to '18?
Q. Yes.
A. Yes. We have the remainder of the 36-month products from auctions 1 and 2 and then you would have the products from auctions 3 and 4 still in the mix, then 5 and 6.
Q. In terms of the changes that the customer would see, they would see a change in price at the beginning of planning year 2015, the beginning of planning year 2016, and the beginning of planning year 2017, correct?
A. Yes.
Q. Now, do you have in front of you a copy of CL-10, the exhibit that was attached to Dr. LaCasse's testimony that included the CBP

schedule?

A. No, I don't.

MR. DARR: May I approach?

EXAMINER PARROT: You may.

MR. DARR: Handing the witness Exhibit CL-10 to Dr. LaCasse's testimony.

Q. Mr. Strom, are you familiar with that exhibit?

A. Yes, I am.

Q. And am I correct that for purposes of what the customer would see, they would see a price of the SSO established on 6/1/15, correct?

A. That's correct.

Q. And then they would see a new price on 6/1/16, correct?

A. That's correct.

Q. And they would see a new price on 6/1/17, correct?

A. That's somewhat correct. That's where my -- part of my concern comes in. The new price that they see on 6/1/17 would be a price that would be more immediately reflective of what the market is at that time. And if the market had moved considerably, it would be a hundred percent hit of that new price, whereas in a longer term blending process the price would be blended in and you wouldn't have the potential rate fluctuations to as great a magnitude.

Q. But, again, going back to my question, customers would see a new price for the SSO beginning on 6/1/17, correct?

A. Correct.

Q. And the difference between what you're proposing and what's being proposed by Dr. LaCasse is whether or not there's a blending effect associated with that last year that you are proposing should be there and she has left out because of the way that she structured her set of auctions.

A. That's correct.

Q. Now, is it fair to say that in terms of volatility, as we sit here today, it's difficult to predict where those spikes will be relative to each of the auctions either in Dr. LaCasse's example or in your example contained in RWS-1? You're concerned about --

A. Is that a question? I'm not sure.

Q. Yes. Am I correct that it's -- as we sit here today, it's impossible to predict where the price spikes or price floors will be in the various auction prices between now and the conclusion of the

ESP?

A. I'm not aware of any way to predict that accurately.

Q. And by the nature of the market process there is inherent in that some level of volatility, correct?

A. Certainly.

Q. Your notion is that if we increase the number of auctions and spread those auctions over a longer period of time, we effectively reduce that volatility that the customer would see.

A. Yes. Reducing the volatility would be that the price changes, although they would still happen over time, would happen more slowly.

Q. Now, this concern about volatility, would this affect -- would this be relevant as well to you if it arose under the various riders that are contained in the ESP proposal provided by AEP Ohio?

A. I really didn't do any review of the various riders other than some minor review of the riders that are associated with the implementation of the CBP so I really don't have any opinion on those other riders.

Q. It's fair to say that you understand that there are other riders that will change annually, semiannually, and potentially quarterly in the ESP proposal.

A. I would assume so.

MR. DARR: Thank you, Mr. Strom.

EXAMINER PARROT: Mr. Yurick?

MR. YURICK: No questions, your Honor, thank you.

EXAMINER PARROT: Mr. Berger?

MR. BERGER: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Berger:

Q. Good afternoon, Mr. Strom.

A. Good afternoon.

Q. Mr. Strom, in recommending that the ESP be extended to a period of five years you say that this would produce only three potential rate volatility occurrences over a 15-year period under your option schedule; is that right?

A. Yes. Rate volatility as in the means I was talking about it where you come to a hard stop and you start over at that market price whatever it happens to be at that time.

Q. Okay. So when you're talking about the -- when you're talking about the three occurrences of volatility that would be between each ESP period, each five-year period is what you're talking about there; is that right?

A. That's correct.

Q. So you wouldn't experience -- there wouldn't be any experience of rate volatility you're saying from one auction period to the next, only between ESP periods; why is that? Maybe I'm not understanding.

A. By "volatility" I'm meaning that the rate would change in a greater magnitude or potentially could change in a greater magnitude than otherwise you would normally see if it was blended. When you have market changes and you have procurements that were made over time and you blend those procurements together, you're not going to see a sudden hit of that changed market because of the blending nature. If you stop the blending and you have a market change, then you can see immediately a significant change in your rate structure because of that.

Q. Okay. So you're saying between ESP periods there won't be any blending of the rates between the periods so, therefore, you'll see more volatility, relatively speaking, to the time frame within each ESP period; is that right?

A. That's correct.

Q. Now, are you proposing the continuation of any other aspects of the ESPs beyond the three-year period proposed by AEP in this case such as extension of any distribution riders or any distribution credits, things of that nature that have been proposed here?

A. No, I have not given consideration to that.

Q. So your recommendation for this 15-year period would only apply to the auction schedule; is that correct?

A. Yes, that's generally correct. I'm not necessarily making a recommendation for a 15-year period, though. I gave an example of what would happen over a 15-year period if you had several of these five-year ESPs together as compared to a bunch of two-year ESPs or three-year ESPs. I'm not necessarily saying that we should put together a 15-year ESP schedule at this time.

Q. But with respect to the current ESP -- or, the proposed ESP period, you're not proposing extension of any of the riders beyond the three years proposed by the company?

A. I haven't taken into account those riders at all.

Q. Okay. And other than the auction proposal you're not talking about anything else for more than -- for more than the three years that's been proposed here, any other recommendations that have been made. You haven't -- you're not giving any opinion about that.

A. That's correct.

MR. BERGER: Thank you. That's all I have, your Honor.

EXAMINER PARROT: Mr. Conway?

MR. CONWAY: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Conway:

Q. Good afternoon, Mr. Strom.

A. Good afternoon.

Q. Going back to the discussion about the uncertainty and rate volatility, Mr. Strom, that several of the lawyers that preceded me have discussed with you, my understanding of your testimony is that you have a concern about the -- about volatility and uncertainty as it pertains to the end of the two-year -- the first two years of the company's proposal for the ESP and then at the end of the third year also; is that right?

A. That's correct.

Q. Do you agree -- so I take it, then, you agree that reducing uncertainty and potential rate volatility is an appropriate goal for the Commission to pursue.

A. I think it is a goal, it's not necessarily the only goal by all means, but it is a goal to pursue.

Q. So it's one appropriate goal for the Commission.

A. Yes.

Q. Okay. Excuse me, I'm looking to see how much of my series of questions have already been addressed.

At page 3 where you refer at lines 11 and 12 to the recommendation that the mix of auction products be revised so that there would not be a 100 percent termination at June 1, 2017, at that point the hundred percent termination is referring to the terms of the auction products, not the ESP; is that right?

A. Yeah, that's my primary concern is that the auction products come to a 100 percent termination at that time.

Q. You're not talking about your other parallel recommendation that the ESP not be able to end after two years, I know that's part of one of your recommendations, but at this point you're just talking about the auction products, not the ESP term, right?

A. Yes. My recommendation is based upon the impact associated with the auction process. I was trying to remember one of the responses from the company about the view of this auction actually being a two -- of this ESP actually being a two-year ESP and I was trying to remember if that is related to what your question was, but I think you hit it.

Q. Let me ask a couple of follow-up questions on the three-year versus five-year ESP. I understand that you think that there would be some advantages from a blending standpoint and rate uncertainty and volatility standpoint if you had a five-year term for the ESP, but my questions at this point are concerning the breadth of your recommendation about the five-year ESP.

Is your recommendation that a five-year ESP would be advantageous with regard to the auction process but does not address whether or not the five-year ESP term would be advantageous for purposes of other aspects of the proposed ESP?

A. I think you're correct. I did not address the other aspects. I did not deal with the other aspects.

Q. So, for example, as Mr. Berger alluded to or, actually addressed, your proposal for a five-year ESP term and the way it would be implemented in connection with the auction process does not also include any recommendation or analysis about how it would be implemented in connection with the other provisions of the ESP; is that right?

A. That's correct.

Q. So you didn't think -- you did not analyze whether, if there was a five-year ESP term, there would be a need to address what happens to the distribution investment rider and its underlying program after the third year -- during the fourth and fifth years of the five-year ESP.

A. That's correct.

Q. And would you expect that if that was to be addressed, there would have to be some attention paid to whether or not that program would continue and not end after three years?

A. That's certainly something that the Commission would have to decide.

Q. And you did not address in your analysis, then, either whether or not the revenue caps for the DIR, as an example, would need to be increased in a fashion similar to the increases being proposed for the first three years in order to continue in the same vein for the fourth and fifth years.

A. That's correct.

Q. Okay. Would it be fair to say that your recommendation regarding the five-year ESP term is a competitive bid process specific recommendation and is not a recommendation that the rest of the ESP be continued or be provided with a five-year term?

A. I think that's a fair characterization of it. There may be other ways to handle the concern besides extending the entire ESP to five years. This is a way to deal with the concern.

Q. It's a way to deal with your concern about the rate uncertainty and the rate volatility, correct?

A. That's correct.

Q. Okay. A minor point, I believe, Mr. Strom. If you go to page 3, lines -- I guess it's lines 4 through 8, at which point you're talking about the two-year -- the right to terminate the ESP or to have the ESP end after two years that the company has included in its ESP proposals, your...

I believe you have a recommendation at some point, I'm having difficulty actually finding it at this point, but you have a recommendation that if the Commission approved the company's proposal to retain the unilateral option and terminate the ESP after two years that it should only do so with the concomitant requirements that any subsequent ESP would contain the same competitive bidding process for procurement of its SSO supply and that the auction blending process would continue unabated. That's one of your recommendations, is it not?

A. That's correct. It's on page 4, lines 3 through 8.

Q. And by the same competitive bidding process that you say should be included in the subsequent ESP, do you mean the same competitive bidding process that will be approved in this proceeding?

A. About the same type of competitive bidding process. If it's the same, then it wouldn't change any and that's not the point I'm trying to make. What I'm trying to say is if the Commission were inclined to grant the company's request to allow this early termination, that to do so also with the requirement that the blending process in the CBP be continued.

Q. And in that regard what do you mean when you say that the auction blending process would continue unabated? Do you mean that if there's a laddering schedule of auction products that's in train, that you would continue those -- continue that laddering after the one ESP is over and into the next ESP?

A. What I mean is rather than come to a hard stop at the end of May 2017, that the structure of the CBP blending process be restructured so that you have blending that continues from 2016 through 2017 to 2018 so that you don't have the hard stop in the middle of 2017.

Q. And if the Commission did that, that would address at least your concern about the hard stop and the rate uncertainty and volatility at -- that would occur at June 1, 2017, right?

A. That's correct.

Q. Getting back to the five-year ESP term for purposes of the competitive bid process and the blending of auction results, have you made this recommendation in connection with any other Ohio EDU's competitive bid process and ESP?

A. No, I have not.

Q. Do you know whether there have been any ESPs in Ohio that have had terms greater than three years?

A. I'm not aware of any, although there was FirstEnergy dual ESPs that sort of mimicked that occurrence. FirstEnergy had sort of an overlapping set of ESPs where they blended their previous ESPs' competitive bid results into the following ESP.

Q. Is what you just said that -- let me see if I can restate it and you can tell me whether I'm mischaracterizing what you just explained.

Is it the case that FirstEnergy might have had a series of ESPs or at least two ESPs which avoided the hard stop issue at the end of the first ESP?

A. Yes.

Q. Okay. But they were separate ESPs that were sequential; is that right?

A. Yes, they were.

Q. Let me go back to the consequences of an ESP that's greater than three years. Are you aware of whether ESPs that have terms longer than three years are subject to a different or additional type of significantly excessive earnings test than ESPs of three years or less?

A. I am aware that there is a test. Exactly -- you say it's additional or more difficult or something like that? I'm not sure about that. I haven't really evaluated that situation. But I am aware that there is a test that needs to be run.

Q. Let me back up. Are you aware that any ESP, regardless of its term, is subject to a significantly excessive earnings test on an annual basis?

A. That's what I believe, yes.

Q. And are you aware that that significantly excessive earnings test is retrospective in nature? That is, it looks backward to the prior year and makes a determination of whether or not in the prior year the EDU had earnings that were significantly excessive?

A. I don't really have any role in those tests so I don't know.

Q. Are you aware that if an ESP has a term of four years or five years, that the statute -- statutory framework provides for/requires another significantly excessive earnings test every fourth year?

A. Yes, I am aware that that's in the

statute, but exactly what that test would entail I don't know.

Q. Are you aware that it applies only in the case of ESPs that are more than three years long?

A. I believe so, but I -- I'm not that familiar with it that I can affirmatively answer that for sure.

Q. Bear with me, I'll be done with this in a moment. Are you aware whether or not that test, unlike the annual test that we previously discussed that's retrospective, that the other test is prospective in nature?

A. I'm not aware.

Q. Okay. Let me turn to page 4 and 5 of your testimony. You have as I think your last or next-to-last recommendation a recommendation that addresses your concern about the criteria for the Commission to accept or reject the -- excuse me, the criteria the company has proposed be used by the Commission as a basis for rejecting the auction. Is that the topic that you address at the bottom of page 4 and the top of page 5?

A. Yes.

Q. And the concern that you have is that the list of criteria which Dr. LaCasse has described in

her testimony are too limited; is that right?
A. That's correct.
Q. And you note at the top of page 5 the various types of information that the Commission will be receiving during the auction process from the staff as well as from the auction manager and the Commission's consultant, correct? You mention that.
A. I'm not sure I understood that question.
Q. You mention that the Commission will be receiving these various types of information during the auction process, you describe that at the top of page 5, right?
A. Yeah, I list several items that the Commission would be receiving -- or, several areas the Commission would be receiving from, yes.
Q. And your concern -- one of your concerns, at least, is that limiting the Commission's decision to the three criteria that Dr. LaCasse has presented in her testimony would render this other information meaningless and would severely limit the Commission's role in oversight of the auction process. That's your concern -- or, at least one of your concerns.
A. That's correct.
Q. And then you say at the end of that paragraph on page 5 that the Commission should be

able to use -- rely upon this other information in making its decision about whether or not to accept the auction results, and then you conclude by saying that the decision ultimately about accepting or rejecting the auction result should rest with the Commission based on the criteria that it determines are appropriate to use. Do you see that?

A. I do.

Q. I take it then that you think the Commission should have the discretion to decide after the auction is over what the criteria it will use will be to determine whether to accept the results of the auction.

A. Could I have that question reread, please?

Q. Let me try it again.

A. Okay.

Q. From your testimony at this point, what I take away from it is that you think the Commission should have the discretion to decide after the auction is over what criteria it will use to determine whether to accept the results of the auction. Is my take-away, my understanding, correct?

A. I think your understanding is at least partly correct. I think the Commission ultimately does have to have that kind of discretion because unknown events, unknown things, can happen that could significantly impact the auction results. And I don't think that it's possible to know all those things in advance, whether they might be covered in the auction manager's report or they might be covered in the consultant's report or they might be things that we're seeing while the auction was taking place, it's hard to say what other things could occur that could significantly impact it.

So by and large I don't think that that kind of discretion would be used unless something really significant happened and primarily it would be more reliance on the reports that are received from the auction manager and consultant and the staff on the ongoing auction but I'm not wanting to rule out the possibility that some unusual significant event could occur that the Commission might want to consider that is outside those parameters.

Q. Would you expect that prospective bidders to the company's auction would want to know beforehand, before they complete their bidding, preparation of their bids, what the criteria are going to be that the Commission will use to decide whether to accept or reject their bids?

A. I can see significant value in that, but I can also see potential value in the possibility that the Commission learns of, say, I'll just take some wild crazy example, that they learn of some collusion that took place in the auction that wasn't observed by the manager or the consultant. I would think that the auction participants would be hopeful that the Commission would take action associated with that.

I'm not saying -- I'm not meaning to suggest that anything of the nature has happened or is expected to, but I'm just saying that there are unusual events that could necessitate Commission action that may not be included in the various things I laid out.

Q. And the example that you provided, the collusion example, that's certainly one that could be included in the auction rules and the bidders would then know that that's a possibility as a criterion that could lead to the rejection of auction results.

A. That could. If you make a list of items, I think it's very likely that you're going to leave something out. You're not going to think of everything. So I'm just saying ultimately the Commission is going to have to be the one to make that decision.

Q. And would you agree that prospective bidders to the auction might be concerned that if it's simply left to the Commission's discretion, that the Commission might develop some criteria after the fact that if they had known about it in advance, they might have decided not to bid at all or they might have decided to adjust their bids?

A. I'm trying to make sure that I followed the point of your question, that there could be something that the Commission uses as a criterion that if bidders had known that was going to be used, they might have bid differently.

Q. That's right.

A. Is that your question?

Q. In essence, what you'd like to, it seems to me, is a wild card for the Commission to play as it in its judgment believes is appropriate, but the difficulty is that the bidders, the prospective bidders might regard that wild card as something that might be used in a fashion that had they known in advance would have affected the bids or whether they bid at all.

A. I think that that's a possibility but I also think that the state of Ohio has a reputation over a series of auctions that have taken place and the Commission has built up a reputation that they have not attempted to abuse whatever authority they see they have and I think that the auction participants, I think over time, have developed an understanding that the Commission isn't just going to wantonly reject the auction results for no purpose.

Q. You've just explained that bidders can take some comfort from the fact that the Commission has not abused its discretion in the past, right?

A. I said over the intervening years that we have conducted these auctions.

Q. And I take it from that comment that what you're saying is that you're not asking criteria be included within the Commission's discretion in this case beyond what's already been included in the discretion that the Commission has reserved for itself in the prior auctions, is that the case, or are you making a recommendation that goes further in this case from where the Commission's discretion has been allowed or reserved in these other cases prior?

A. I think that answering that question might require some legal knowledge that I may not have as far as what the Commission's discretion actually is or is not in any of these particular

ESPs.

What I've observed in the one that's being proposed here is that the discretion is -- there's an attempt to highly limit any discretion that the Commission might have, and I'm suggesting that it shouldn't be limited to the extent that it's being limited here.

Q. If that were not the intention, if the intention in the proposal was simply to have the Commission reserve to itself the discretion and the range of criteria that it's reserved to itself and relied upon in the other auctions, would that give you comfort about the company's proposal? Would it satisfy you?

A. If that was to be given to the extent that I've requested in my testimony, then certainly.

Q. And if it were the company's intention simply to have its auction process treated on par with the other auction processes that the Commission has managed and is managing, would that be acceptable to you?

A. I would probably have to go back through and see what restrictions have been placed on which auction processes.

Q. Are you saying -- I'm sorry.

A. I'm not expecting -- I'm sorry. I'm not expecting AEP to be held to a highly unusual set of standards as compared to the others. But I thought that AEP was requesting an unusual set of standards as compared to the others, and I'm saying that unusual set of standards should not be accepted.

Q. Okay. So do I take it from that answer that your recommendation is that AEP should follow the same rules and the Commission should have the same discretion with regard to its auction as the other EDUs follow and the Commission has reserved to itself for their auctions?

A. I can say in general yes, but with the qualification that I don't recall, as I sit here right now, exactly what restrictions have or have not been placed in each of the -- every other auction that has taken place. But by and large it's my understanding that the Commission does maintain some level of discretion as to what they consider in their decision to accept.

MR. CONWAY: Thank you very much, Mr. Strom.

EXAMINER PARROT: Any redirect?

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

EXAMINER PARROT: Thank you, Mr. Strom.

THE WITNESS: Thank you.

EXAMINER PARROT: The staff has moved for the admission of Staff Exhibit 16. Are there any objections?

(No response.)

EXAMINER PARROT: Hearing none, it is admitted.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER SEE: Staff can call its next witness.

MS. BOJKO: Your Honor, can we take a five-minute break first, quickly?

EXAMINER SEE: Yeah, we can take a five-minute break.

(Recess taken.)

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

Staff, if you'd like to call your next witness.

MR. MARGARD: Thank you, your Honor. Staff would call Doris McCarter to the stand, please.

EXAMINER SEE: Ms. McCarter, if you'd raise your right hand.

(Witness sworn.)

EXAMINER SEE: Thank you. Have a seat.

Go ahead, Mr. Margard.

MR. MARGARD: Thank you, your Honor. I respectfully request that the prefiled testimony of Doris McCarter filed in this case on May 20th, 2014, be marked for purposes of identification as Staff Exhibit 17.

EXAMINER SEE: The exhibit is so marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

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DORIS MCCARTER

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

DIRECT EXAMINATION

By Mr. Margard:

Q. Good afternoon, Ms. McCarter.

A. Hello.

Q. Are you the Doris McCarter who is responsible for Staff Exhibit 17?

A. Yes.

Q. This is your prefiled direct testimony in this case; is that correct?

A. Yes, it is.

Q. This was prepared by you or at your direction?

A. Yep.

Q. Now, Ms. McCarter, you have had a change in your duties and responsibilities since this was filed; is that correct?

A. Yes.

Q. And can you please describe that change for us.

A. Yes, I still am acting in the roles of the Division Chief of the Capital Recovery and Financial Analysis Division, but I also now am the Interim Director of the Utilities Department.

Q. Aside from that change do you have any other changes, modifications, corrections, amendments of any sort to your testimony?

A. No, I do not.

Q. If I were to ask you the questions contained in Staff Exhibit 17, would your answers today be the same?

A. Yes.

Q. And to the best of your knowledge are they true and reasonable?

A. Yes.

MR. MARGARD: Your Honor, I respectfully move the admission of Staff Exhibit No. 17 subject to cross-examination and I tender Ms. McCarter for that purpose.

EXAMINER SEE: Ms. Bojko?

MS. BOJKO: Thank you, your Honor.

CROSS-EXAMINATION

By Ms. Bojko:

Q. Good afternoon, Ms. McCarter.

A. Hello.

Q. Can you hear me okay?

A. Yes.

Q. Your position and your testimony is that you do not oppose the distribution investment rider if modifications are made to that as proposed -- if modifications are made to the AEP proposal; is that correct?

A. Correct.

Q. As filed, as AEP has filed it, you would not recommend approval of the DIR rider; is that correct?

A. Correct.

Q. And referring to the caps that AEP has proposed to the DIR rider, you start that discussion it appears on page 8 of your testimony.

A. I'm there.

Q. It's your understanding that AEP's application -- let me try that again, strike that.

It's your understanding that AEP will

only be allowed to recover the actual capital costs of plants placed in service; is that correct?

A. The incremental plant in service, yes.

Q. Thank you. That, the recovery, is for the -- only for incremental investments related to infrastructure improvement; is that more accurate?

A. That's a fair way to term it.

Q. And on page 8 of your testimony it's your position that you do not oppose the establishment of the caps because AEP will only be able to recover the actual incremental costs incurred; is that correct?

A. Correct.

Q. And "incremental" meaning incremental over that of which they already receive recovery in the base distribution rates?

A. Correct.

Q. And also through your testimony you recommend that certain projected costs such as those related to general plant should not be included in the DIR; is that correct?

A. Correct.

Q. And, thus, with that recommendation that you make it's your understanding or your belief that AEP would actually likely not meet the caps that are proposed in its application; is that correct?

A. I believe the caps that they propose include the general plant. As to whether they -- you reach the caps, if the Commission did not reduce the caps by the general plant amount, they potentially could still reach the cap, because I did not make an adjustment for the general plant removal.

Q. But it's not your testimony here today that AEP should be guaranteed recovery of the amount at the level of the caps; is it?

A. No.

Q. And on page 9 of your testimony, line 9, it's your understanding that -- well, first, it's your understanding that AEP's proposal is that the rider is only approved for the duration of the ESP; is that correct?

A. Correct.

Q. Okay. So on page 9, line 9, you use the term "sunset." Do you see that?

A. Line 9? Oh, probably the first sentence.

Yes, I do.

Q. Okay. Your reference to "sunset" date is that after the ESP, after this term of this ESP, AEP should have a rate case and no further commitments in future ESPs should be allowed, correct?

A. Correct.

Q. But as for the DIR as proposed in this proceeding, it's your understanding that if the Commission approves the DIR in this proceeding, it would only be in effect for the duration of the ESP which could be two or three years.

A. Yes, as per related to this ESP, correct. The Commission could approve a subsequent ESP and, you know, things could go on if AEP proposed a continuation, but for this ESP, yes, it would sunset.

Q. Okay. But the reason why you're suggesting that it even be sunset after the term of this ESP is because you believe that at that time a rate case should consider and that there shouldn't be a future continuation of the DIR; is that correct?

A. I am not taking the -- staff is not taking the opinion that a distribution rate case would have to occur. What I am saying is that the DIR rate should sunset. At that point it's up to AEP whether they would wish to apply for a distribution case.

Q. Okay. But it is staff's position that they don't believe that AEP should receive a continuation of a DIR in the future.

A. It's staff's position that it would end, it's being only approved for this term of the ESP.

MS. BOJKO: Thank you. No further questions, your Honor.

Thank you, Ms. McCarter

EXAMINER SEE: Mr. Darr?

MR. DARR: Yes, thank you.

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CROSS-EXAMINATION

By Mr. Darr:

Q. With regard to the extension of the DIR, staff did not make a recommendation with regard to any changes in the method of calculating the rate; is that correct?

A. That is correct with the one exception that I noticed -- noted by Mr. Effron of the accelerated -- or, the amortization of the accelerated depreciation. Other than that there would be no change.

Q. So it would remain -- or, basically, the company's -- company's -- yeah, the company's proposal to use a percentage rate for collections of these distribution-related riders is supported by the staff; is that correct?

A. Yes.

MR. DARR: Nothing further.

EXAMINER SEE: Mr. Yurick?

MR. YURICK: Briefly, if I might, your Honor.

EXAMINER SEE: Sure.

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CROSS-EXAMINATION

By Mr. Yurick:

Q. Ms. McCarter, good afternoon. And I apologize if the answer to this question is obvious, but you said earlier that the staff does recommend adoption of the DIR with modifications as proposed in your testimony, correct?

A. Correct.

Q. And you are aware -- or, is it your understanding, that the company has not necessarily promised not to file for a distribution rate increase during the term during which this DIR rider would continue? That was poorly phrased. I can try to rephrase if you need me to.

A. I understand the question which is basically is there a condition that AEP would not be filing a distribution-based rate case during the pendency of this ESP since they would have the DIR. Not explicitly stated but that would be a recommendation of mine.

Q. So if the company were to file for a base distribution rate increase, am I correct in saying that staff would consider at least for the items, the distribution items listed here, that amounts collected under the DIR as a setoff or at least consider the effect on a distribution increase or decrease based on the fact that these are distribution items?

A. At that time if AEP were to file for a base rate case, my vision would be that the staff would look at distribution plant in the typical manner that it would in a rate case. So whether there was an accounting inside of their filing recognizing all of the mechanics here or it was more of a clean, straight rate base filing, I hadn't made that kind of recommendation or, quite frankly, considered it that deeply.

Q. But would I be correct in saying that staff would make -- based on my experience with staff, staff would make a very rigorous effort to make certain that there were no double recovery of distribution costs?

A. Absolutely.

MR. YURICK: I don't have anything further at this point, your Honors, thank you very much. I appreciate it.

EXAMINER SEE: Thank you.

Mr. Serio?

MR. SERIO: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Serio:

Q. Good afternoon, Ms. McCarter.

A. Hello.

Q. It's your understanding when the Commission approved the DIR program the Commission indicated that the company would have to show that there were service reliability improvements related to the DIR spending, correct?

A. There was language in the order to that effect, yes.

Q. Do you have OCC Exhibit 2 and AEP Exhibit 6 up there with you?

A. I do not.

MR. SERIO: Could I approach, your Honor?

EXAMINER SEE: Yes.

Q. I'm going to hand you three different documents, one is OCC Exhibit No. 2, one is AEP Exhibit No. 6, and the third is the notice of Ohio Power Company's Commission requested distribution investment rider work plan in Case 12-3129-EL-UNC.

A. Thank you.

Q. Now, if you look at AEP Exhibit No. 6, that lists five different components from the DIR work plan, correct?

A. That is what shows up on this data request, yes.

Q. But that shows the company's calculation of the service reliability units as a result of those five particular components of the work plan, correct?

A. Can I take a moment to look at this?

Q. Sure. Sure.

A. I have not seen it before. Okay.

Okay. I'm sorry.

Q. Okay. That looks to you like it's a company calculation of service reliability improvements as a result of the DIR, correct?

A. That is what it appears to be.

Q. And then if you look at OCC Exhibit No. 2, that lists 27 different components on it, correct?

A. Do you want me to count it or should I --

Q. No, I mean A through Z and then a second -- AA.

A. Okay, yeah.

Q. Then if you look at the work plan in the

12-2139 case, that has an attachment to it that shows the DIR work plan components, correct?

A. It appears that way, yes.

Q. And I think if you look at the far left-hand column, it lists the different components and those components correspond with the 27 components that are on OCC Exhibit No. 2, correct?

A. It appears to.

Q. Then if you look at the second page or the back page of OCC Exhibit No. 2, that shows the company's response as far as the service reliability improvement for each of the 27 components, correct?

A. One moment.

It appears so, yes.

Q. Now, you've testified that the staff supports a continuation of the DIR, correct?

A. Correct.

Q. And that's separate and apart from the expansion of the DIR, correct?

A. You mean the general plant?

Q. Yes.

A. Yes.

Q. Okay. So if we just focus on the continuation, am I correct that it's the staff's view that inasmuch as the Commission required service reliability improvements to be quantified with the original DIR, that the staff would assume that the Commission has that same requirement with the continuation of the DIR going forward?

A. I hesitate because that's the area actually that Mr. Baker addresses. In conferring with him, they saw benefit to the continuation of the DIR.

Q. "They" being --

A. I'm sorry. The service monitoring and enforcement division staff.

Q. Okay. And, if you know, did the continuation, as you're testifying -- recommending it, is that contingent on the company continuing to show service reliability improvements as the Commission required in the initial approval of the DIR?

A. I do not recall the exact substance of Mr. Baker's testimony and all of its facets, but I do believe that there is the expectation that the work plan for the continual reliability stabilization and improvement is a condition that he is proposing.

Q. Now, I asked Mr. Baker these questions so I'll ask them of you, and if you know, you can answer. Do you know if there's a similar quantification of service reliability improvements related to the other 22 components that are not listed on AEP Exhibit 6 anywhere in the record of this proceeding?

A. I do not know.

MR. SERIO: That's all I have, your Honor.

Thank you, Ms. McCarter.

EXAMINER SEE: Mr. Conway?

MR. CONWAY: Thank you, your Honor.

- - -

CROSS-EXAMINATION

By Mr. Conway:

Q. Good afternoon, Ms. McCarter.

A. Good afternoon.

Q. A few questions about general plant costs in the distribution investment rider. Were you in the hearing room when Mr. Dias testified in this case?

A. Off and on.

Q. Did you hear his testimony regarding the expansion of the DIR to include certain general plant incremental investments related to the 800 megahertz radio system and related to improvements to replacements of service centers?

A. Though I can't quote him, I remember in general his responses.

Q. In your testimony -- let me focus on the radio system to begin with. In your testimony at page 3 you state at lines 4 through 6 that AEP will not begin installing its replacement radio system until 2017 and the system won't be used and useful until sometime after that. Do you see that?

A. Yes.

Q. Did you hear Mr. Dias's testimony which explained that if the DIR is approved with the expansion to include general plant investments, that the replacements of the radio -- the replacement of the radio system would start in 2015?

A. I do recall him saying that.

Q. And did you hear his explanation of the -- are you aware of his view that the need to replace the radio system is -- that there's some urgency to do that because of its current condition and its approaching end of useful life?

A. I heard him say that.

Q. Okay. Do you have any basis to disagree with his assessment of the condition of the system and the need to get started on repairing or replacing it?

A. I don't have any knowledge that would contradict the statement that it needs replaced and that would be why AEP without the DIR felt that it could get the system to last till, you know, 2017 or 2018, but maybe not beyond that.

Q. Now, if the system is replaced starting in 2015 and it goes into service after replacement sometime after that, would you agree that in that scenario it would actually be in service during the time of the -- this next ESP?

A. If the company chose to accelerate the replacement of the mobile radio system by two or three years and put it -- and installed it, it would be plant in service if the company had general plant included in the DIR.

Q. Okay. Now, let me just inquire about your understanding of the manner in which the radio system is used and what importance it might have to the company's work crews doing their work on the distribution system.

And so do you understand or is it your understanding that the radio system is an important tool for the company's work crews to use when identifying and locating and working on the distribution infrastructure and doing things that are designed to replace or repair that infrastructure?

A. In addition to several things I do believe it is a support system for dispatching and remote metering, reading, and things like that, so it's not an infrastructure replacement type of item, but parts of it are definitely used in support of some of those activities.

Q. So when the work crews go out to implement the DIR, the program through which cost recovery is occurring through the DIR, they rely upon the radio system to do their work; is that right?

A. I think when the work crew goes out to do any kind of work, they're relying on the radio system.

Q. Fair enough.

So it is an important tool for the company's employees to use when working on repairing, maintaining, replacing, all aspects of the distribution system.

A. I think it's an important tool, communication tool, for the company's employees when they are working on any aspect, distribution, transmission, whatever.

Q. Would you agree that in that regard it is directly related to the maintenance and improvement of reliability for the distribution system?

A. To the maintenance of it as well as implementation? Yes, I think that's part of the issue that I have with it, though, as well.

Q. I'm sorry? What was the last aspect?

A. I think that's part of the issue I have with it is that it's also -- you know, it's a general communications system that the company is using, so it's used for a multitude of things and that's one of the things that it's used for.

Q. And I think I understood you to say that you did hear about Mr. Dias's -- you did hear Mr. Dias's description of the company's proposal to include general plant, incremental investment in the DIR for investments in the service centers; did I hear that right? You did hear his testimony on that point?

A. I did hear his testimony but I -- the rest of the quote I kind of lost a little bit. I'm sorry.

Q. You heard Mr. Dias's testimony which explained that the company's proposal to include in the DIR general plant investments included investments in the service centers.

A. Okay, service centers now? Yes.

Q. Service centers, yes.
A. Yes, general plant includes all of that.
Q. And do you know what the service centers' purpose is, what their function is?
A. Housing equipment, trucks.
Q. It's a place where the work crews assemble to do their work, right?
A. That's one of its functions.
Q. And it's where equipment and supplies is stored for them?
A. That's one of their functions.
Q. And equipment, facilities that they then take out into the field and deploy; is that right?
A. That's one of the -- one of the functions, yes.
Q. Okay. And would you agree that improvements to the operation of the service centers that would result from investing in them, as Mr. Dias has explained is the company's intention, would have an impact on the efficiency of the work crews that are out working on the company's distribution system?
A. I think anything could have an impact on that. I think it's -- for me it's a question of what fundamentally is the DIR meant for, and it's an infrastructure replacement program, it's not to be in

support of the work crews. But I think anything or most things that the company does is in support of the work crews because that's what you do, you're supplying electricity to customers.

Q. Well, would you agree with me that improvements to the functionality of the service centers would have a direct impact on an improvement of the company's work crews' efficiency?

A. To such an extent that the general plant should be included in the DIR? It doesn't raise to that level for me. Anything could be an improvement or help in an improvement or maintenance of reliability. I mean, it's a question of degree.

Q. Let me follow up on that just for a moment. Is part of your concern about the company's proposal that it's open-ended, that you're not sure exactly what all general plant investments might be made that would be then proposed for recovery through the DIR?

A. Yes. General plant has sort of a multitude of common use things and even though I know that the company's proposing to use only the distribution ledger side of it, and that's why I said in my testimony that once the system is in place, the company should come back in when we can review, you know, what the investment was spent on and go from there.

Q. Is the answer to my prior question that -- and I'm not trying to push you in one direction or another, I just want to make sure I understand, is it that you are concerned, that you have a concern about this proposal because it's too broad, potentially too broad or too ill-defined as far as what its limits are and what might be included in the general plant included in the DIR?

A. I think that is a large part of it is that it's very broad. Also, for the radio system though, as I said, it supports a lot of functions and so I think one would want to take a fairly close look at those costs and if it's just -- if it's just for infrastructure replacement purposes or, you know, reliability, maintenance related to sort of capital cost implementation, that's one thing and we just need the opportunity to review that.

Q. If there were some way to move forward with adequate limitations or restrictions on, either by the type of project or the type of expenditure in this general plant category that could be included in the DIR, would that provide any comfort or reassurance to you that it would not become, then, open-ended or an unlimited type of a program that might then be more acceptable?

A. It's a generic question and the company really hasn't -- hasn't really -- hasn't proposed any specific parameters around it. So as a generic question, you know, things might be done to resolve not the whole general plant category maybe necessarily because that still is a little broad, but there's nothing in the company proposal that would -- would help go down that path at this time.

Q. But if there were, that might take you some distance towards being reassured about it.

A. I would take a serious look at it.

Q. Okay. Ms. McCarter, the company does submit work plans regarding what its intentions are for the various investments that it includes in the DIR, right?

A. To the SMED staff, yes.

Q. To the SMED staff. And there's some -- there's some discussion and review by the SMED staff in what is being proposed, correct?

A. In a separate docket, but yes, there is. They work with the company to approve a work plan and then in the annual compliance audit the SMED staff also files their assessment of how the implementation of the work plan is going.

Q. And might that process and that forum provide a means to clarify and appropriately restrict the types and amounts of investment as general plant category that currently cause you concern?

A. I don't know that anything could resolve my concern with general plant overall. I guess my comment is now focusing on the mobile system that AEP seems to be focusing on and whether something, you know, a specific review could be set up for that system.

Q. So you might be able to find a way to support including general plant investments in the DIR if it were, say, limited to the radio system project or some aspect of that project?

A. Something that has been fully reviewed by staff for the same reason that the general plant in SmartGrid Phase 1 I'm okay with because I know that the staff has fully audited the costs and the purposes for which the investment was made.

Q. Let me turn to the gross-up factor. This is a result of -- this part of your testimony results from a proposal that OCC Witness Effron has made, correct?

A. No, not the --

Q. Oh, I'm sorry. I'm ahead of myself.
A. Okay.
Q. That will be the next topic.
A. Right. We'll get there, sure.
Q. We'll get there, okay.
Okay. This deals with the PUCO and OCC assessments, right?
A. Correct.
Q. Now, the PUCO and OCC assessments are based on the amount of revenue that the company collects, right?
A. Actually, I spoke with the fiscal director here at the Commission, that's not actually correct. The way -- we can go into it but it's basically you have a percentage of our budget that you're required to cover and in the distribution rate case you get -- well, actually they mail out to you every year your percentage of it. And my understanding is is that even if you overcollect, it gets credited back to you for the next year so it doesn't -- it's not a straight function of the revenues that you bring in. In other words, an increase in revenue doesn't equate to an increased PUCO assessment.
Q. But the fraction that you're responsible

in any given year, that's based upon what?

A. Well, that part is based on your revenues, but it's our budget, so our budget is only a set dollar amount that you will be assessed.

Q. So as the fraction of our revenues changes in relation to the other assessees, the actual dollars that the company has to pay go up or down, right?

A. But then there's a crediting mechanism that follows the year after is my understanding, from speaking with our fiscal director here in the agency.

Q. Okay. But I'm not sure we met on that Q and A. You said that the company's responsible for a fraction of the budgets which is based on the amount of revenue -- that fraction is actually based on the amount of revenues that the company collects, right?

A. Yes.

Q. And the fraction -- my question was the fraction that the company is responsible to cover, that changes from year to year based on how the company's revenues change from year to year in comparison to the other people that are being taxed, right?

A. Yes.

Q. Okay. So it is possible for the revenues for which the company is responsible to go up or down from year to year depending on its -- the relative amount of revenues that it's collecting, right?

A. I think what I was trying to refer to is that if come the next year there was an overcollection, AEP would get a credit for the amount that they had overpaid. So in one year maybe more was collected, but you get a credit for that the next year. I'm not saying the money is given back to you, I think it would just be credited against the following year's amounts that you owed. There's kind of a settling, if you will.

Q. I'm not sure how much gold there is to mine in this issue but let me try for another couple questions.

If the revenue collected through the DIR increases, which is expected to happen, right?

A. Uh-huh.

Q. Then the amount of the assessments, at least for that year, are going to go up, right? Because the revenue goes up.

A. For that year.

Q. Right. And the same is true of the other riders in the ESP, right?

A. For that year. And then you will be

credited the following year for the overpayment.

Q. Now, wait a minute.

A. Well.

Q. Suppose at the end of the year the company's revenues in relation to -- shift to the total pool of revenues has gone up as a result of the DIR revenues going up. Are you with me?

A. Uh-huh.

Q. The actual tax that year will, in fact, be higher and there won't be any reconciliation simply based -- on that basis, right?

A. The amount you collect in the PUCO assessment, not a tax, will go up and then you'll get the credit next year for the assessment that you would -- the percentage you would be assigned for the amount of the assessment.

Q. Okay. Well, let me try one other, let me use an example. Suppose the budget is a hundred dollars, okay --

A. Our budget, the PUCO budget?

Q. The PUCO budget is a hundred dollars.

A. Okay.

Q. Suppose there's only two utilities in Ohio that pay the assessment and AEP's revenues are a thousand dollars that year and the other utility's revenues are a thousand dollars that year. Then each of them would pay --

A. Half the budget.

Q. Half the budget. Fifty bucks, right? Okay.

So suppose, then, AEP has an ESP, as a result its revenues go up to $1,500 from a thousand, okay, and the other utility's revenues stay the same, they're at a thousand dollars. Then the next year, that year when that happens as a result of the AEP's revenues going up by $500, would result in AEP being responsible for $60, right, out of the hundred dollar budget?

A. We'll go with that.

Q. Okay. And the other utility pays $40, right?

A. Uh-huh.

Q. Okay. So AEP's not going to get a refund in the third year of $10 because it paid $60 in year 2, is it?

A. No, it would not.

Q. Okay. That's my point.

A. Okay.

Q. Okay. So to the extent that AEP Ohio's ESP generates some variation on that theme of, you know, relative revenue collection by AEP Ohio compared to all the other assessees, would you agree, then, in that instance that the amount of assessment that AEP Ohio pays for that year when the DIR is in effect as a result of this ESP will go up?

A. But -- it will go up but I don't know that it's dollar for dollar because our budget is not going up. So you're going to pay a higher percentage, but the over -- the underlying dollar amount, it's not a dollar for dollar.

Q. Can we split the difference, then? We'll take half of what we've asked for?

No. That was -- I'll withdraw that. I'm kidding you.

A. I know.

Q. But my point is that if it does go up, though, when the tax -- excuse me, the assessment does go up, then if we don't take that into account at all, because of these increasing DIR revenues, then we do have a shortfall, don't we? Some shortfall?

A. Not enough to build it into every single dollar you take in on a one-for-one basis.

Q. Okay. Let's go to the property tax adjustment issue, and that's at page 4. This is the

Effron originated adjustment, right?

A. Yep.

Q. And you're in agreement with Mr. Effron's recommendation in this regard, right?

A. Yes.

Q. Okay. And the recommendation is that the property tax component of the carrying cost rate should be reduced, right?

A. Correct.

Q. And then, as a result, that reduces the overall carrying cost rate for the DIR, right?

A. Correct.

Q. And without -- hopefully not getting into all the complex and mind-bending details of the underlying adjustment, Mr. Effron's recommendation arises from the amortization of an excess depreciation reserve, right?

A. Correct.

Q. And the company's doing that right now, they're amortizing some excess of the depreciation reserve, right?

A. Correct.

Q. The criticism is that the amortization of that excess depreciation reserve leaves one with a -- leaves AEP Ohio with a depreciation reserve that is too small for purposes of this tax calculation; is that right?

A. Yes.

Q. And a resulting net plant in service amount that's too big --

A. Correct.

Q. -- for purposes of the calculation. Okay.

And as a result of that, then, if you apply the tax rate to a base that in the view of the critic is too big, then you generate too much tax revenue, right?

A. Correct.

Q. Okay. Is the tax rate being used -- is the tax rate, the property tax rate, that's being -- well, first of all, you don't have a criticism of the tax rate that's being used in this exercise, do you?

A. No.

Q. Is the property tax rate being used in the DIR and the other riders the property tax rate that was developed for use in the last rate case for AEP Ohio?

A. Yes.

Q. Do you know whether property tax rates have increased since that rate case which I think was decided at the end of 2011?

A. No, I do not.

Q. Okay. If property tax rates have increased, would you agree that to be fair and comprehensive you should increase the property tax rate being used if you're going to reduce the net plant in service that's used as the base for the tax?

A. I'm thinking. That wasn't the company's proposal, so --

Q. We --

A. -- I haven't done a netting of that, so.

Q. Okay.

A. I guess I'm going to go to what I thought the intent of your question was.

Q. I was just going to interrupt you, which I just did, and just tell you that it wasn't our proposal, part of our proposal to make the adjustment for the excess depreciation reserve amortization either.

A. I've lost the question now.

Q. Well, would it be appropriate if we're going to make a change to how we're doing this based on this depreciation reserve amortization, this excess depreciation reserve amortization, would you agree that to be fair and evenhanded it might be appropriate to update other elements of the property tax calculation such as potentially increases in that tax rate from the value that was established in the rate case two years ago?

A. I think if you wanted to be very accurate in the filing, you could do a property tax calculation and that's why I was saying earlier, you and I were interrupting each other, that I haven't done that netting to say whether they offset dollar for dollar. So that would be something to look at to say what are you paying on property tax on net plant, plant in service.

Q. But it might, even if it wasn't dollar for dollar, if the property tax rates have gone up to some degree, even if it didn't completely offset the other adjustment, it might mitigate it to some degree, correct?

A. It could mitigate the concern of it all, yes.

Q. Okay. Now I've got some -- a series of questions that are more clarification oriented --

A. Okay.

Q. -- as opposed to being positional, and they start at page 5. At lines 4 through 12 on page 5 you mention a concern regarding the DIR customer charge calculations for 2015, 2016, and 2017.

A. I see that.

Q. Okay. And you don't have Andrea Moore's testimony with you, do you?

A. No, I do not.

Q. Okay.

MR. CONWAY: May I approach, your Honor?

EXAMINER SEE: Yes.

Q. What I'm handing you is page 2 of Exhibit AEM-2 attached to Ms. Moore's testimony.

A. I actually have her workpapers with me, I just don't have her whole testimony.

Q. Okay. So you're telling me you don't need to see this --

A. No.

Q. -- these papers that I brought up, then.

A. I do not.

Q. Okay. Now, I'm going to question you based on my version of that information which is the attachment -- or, excuse me, is the Exhibit AEM-2, page 2, to Ms. Moore's testimony.

A. Okay.

Q. Let me know if at any point you're not following where I am on that document.

A. Okay.

Q. First of all, there's a column, that's -- it's for me the second column which is entitled or headed "Revenue Requirement Cap." Do you see that?
A. Yes, I do.
Q. And, now, Ms. Moore corrected these values when she was on the stand, some of them or maybe all of them are reduced by about a million dollars.
A. All of them.
Q. All of them, okay. Let's put that aside for purposes of this discussion right now, okay?
A. Okay.
Q. The staff concurs with the revenue requirement cap figures listed in that column; is that right?
A. Yes.
Q. Okay. And then as corrected by Ms. Moore on the stand, right?
A. Yes.
Q. Again, putting aside for a moment the corrections, does staff also concur with the manner in which the $156 million cap for 2015 is calculated? If it's shown how it's calculated on your document.
A. How the 156 million itself is derived?
Q. Yes. It's a combination of five months

of 2015 which is in ESP 2 and then seven months of 2015 which is in ESP 3, right?

A. Yes.

Q. And in my version of the document Ms. Moore's page 2 of Exhibit AEM-2, she explains under the footnote annual cap for 2015 how she came with the $156 million.

A. Yes.

Q. Do you have that on yours also?

A. Yep.

Q. And are you in agreement with how she calculated that $156 million, putting aside the correction?

A. Yes.

Q. Okay. Now, my understanding is that you do have a concern about the percentages that are in the "June to May Weighted Rate" headed column.

A. Yes.

Q. And those are for the years 2015, 2016, 2017, that's where you have concerns, right?

A. Yes.

Q. And if the company's intention were to use -- or, if the company did use the percentage values that are in the column just to the left, it looks like it's "Estimated Rate Percent Base D" headed column -- do you see that?

A. Yep.

Q. If the company were to use those percentage values for 2015, 2016, and 2017, would you be in agreement with the company doing that?

A. I would. Those are the way that the DIR is calculated today.

Q. The next item to talk to you about is the item at the bottom of page 5, I think it's question No. 8. And at that point you recommend that if the Commission approves the DIR proposal by AEP Ohio, the company should include certain information in its subsequent DIR filings; is that right?

A. Yes.

Q. And, bear with me, please, your recommendation is that AEP Ohio should file information regarding plant in service that is being recorded and recovered in the enhanced -- the enhanced vegetation rider, the gridSMART Phase 2 rider, and the alternative energy rider or, excuse me, and the solar rider; is that correct?

A. Correct.

Q. And when you say the -- when you refer there to the enhanced vegetation rider, you're referring to what is also called the enhanced service

reliability rider?
A. The separate rider for that.
Q. I'm just trying --
A. For all that, yeah.
Q. I'm sorry, I'm just trying to make sure the references are consistent, that I'm referring to what you're referring to.
A. Yeah.
Q. Where you say "enhanced vegetation rider" on line 18, that's the same as the ESSR, right?
A. Yeah. I apologize, there's so many riders and so many companies that the names are hard to keep straight after a while.
Q. I think I just misstated the acronym even which is "ESRR."
A. Right.
Q. Okay. And then the solar rider on line 19, that either is or is some aspect of the alternative energy rider; is that right?
A. Uh-huh.
Q. Now, currently the company does provide the types of information that you describe at the bottom of page 5 at lines 17 through 21 in its quarterly ESP 2 DIR filings with the Commission for the riders that are included in ESP 2, right?

A. Yeah. Yes, they do.
Q. Okay.
A. I'm trying to remember if solar's in there.
Q. No; that's new.
A. Okay.
Q. That is new. But my question was about they're providing this type of information for the riders that are in ESP 2 which would be the enhanced service reliability rider, which is the enhanced vegetation rider, and also the gridSMART Phase 1 rider.
A. Well, what will be a little bit different about the gridSMART Phase 1, of course, is that it's coming into the DIR so this would be the gridSMART Phase 2 should you get it, and so we just want to see it by plant level just because with capital accounts so spread out at this point, me and some of my staff just want to see them together in worksheets.
Q. If we provide the same information we're currently providing in connection with the ESP 2 riders for the ESP 3 riders, is that going to be sufficient or is it -- or are you saying there's an additional level of detail you want?
A. Well, I think if you go on to page 6,

we're looking for some subaccount information as well.

Q. Okay.

A. And that's really our effort to discretely ensure that all of the plant accounts, that there is no double recovery, that the depreciation schedules are going as either have been approved in gridSMART Phase 1 or what may come out in gridSMART Phase 2 and what's the schedules that are in the agreement in the base distribution rate case.

Q. Thank you.

Now, on page 6 at lines 4 through 7, if you could turn to that section, at that point you say that the staff also recommends that the Commission continue to require AEP to use the jurisdictional allocations and accrual rates for each account and subaccount that was approved in AEP's prior AIR case subject to staff's exceptions for gridSMART depreciation rates that you discuss later.

A. Correct. And that's back to the issue I just spoke of.

Q. Okay. So you want the company to use the accrual rates approved in the prior distribution rate case --

A. Right.

Q. -- right? And by that you mean the depreciation accrual rates, of course, right?
A. Right.
Q. And what you're recommending for ESP 3, the DIR for ESP 3, is that the company continue to apply the same depreciation accrual rates that it has been using for the ESP 2 DIR except for the -- some aspect of the gridSMART depreciation rates, right?
A. Yeah. It's my understanding in the DIR currently that the company is abiding by those rates.
Q. And you want them to keep doing that.
A. Yes.
Q. And is it the case that you're not requesting here at lines 4 through 7 on page 6 that the company make any changes compared to what it's currently doing in connection with the DIR that was approved in ESP 2? And if you are, can you tell me what they are?
A. You mean in terms of just -- it's my understanding the current DIR, that the company is using the jurisdictional allocations in the accrual rates, so to that extent no, I'm not suggesting a change. I'm just -- we're just trying to be clear of some of the information that we want to make sure is contained within the filings.

Q. There is one small point I wanted to go over with you regarding the reference to the jurisdictional allocations on line 5. At the time of the last ESP and the contemporaneous rate case, the company still owned generation, right?

A. Yeah.

Q. And so the allocations process for the company included allocations to the generation function as well as transmission and distribution, right?

A. Yes.

Q. But now there's no generation left at the company.

A. I understand.

Q. Okay. So the jurisdictional allocations or the functional allocations should be -- should reflect the company's current structure, right?

A. I would say that as a general matter, correct. But that would be another reason to see what the schedule looks like to make sure that that is occurring properly.

Q. Maybe we've already covered this, but at lines 9 through 18 on page 6 you also have a recommendation for information to include in the ESP 3 DIR filings, correct?

A. Uh-huh.

Q. And is your recommendation simply that AEP Ohio should continue to include in its DIR filings for ESP 3 the same type of information that it's been providing in its ESP 2 DIR filings?

A. The only reason I pause on that is I don't think it necessarily gets down to the subaccount level. I get a general budget for the gridSMART Phase 1 that sort of shows me that that revenue's been backed out so that's where I pause a little bit.

Q. And you had mentioned the subaccount level just previously with regard to another --

A. Yeah, you give a master metering account and then you have subaccounts that come under that that sort of delineate the type of meters that are involved and I'm not completely conversant yet with what's going on with the gridSMART Phase 2, so to that extent that might be something else to keep track of. But I don't know where that case is.

Q. Okay. And then if you go to page 8, lines 2 through 4 --

A. Yes.

Q. -- at that point you observe that based on review of the average service life of AMI meters, staff is recommending that the service life associated with the gridSMART AMI meters should be adjusted to 15 years. Do you see that?

A. Yes.

Q. And currently -- or, previously they were -- the useful lives were shorter than 15 years?

A. Yes.

Q. And are you recommending that the service lives of all AMI meters, both gridSMART Phase 1 and gridSMART Phase 2, be adjusted to 15 years?

A. I am not involved in the gridSMART Phase 2 case so I'm not going to opine on that, I guess what comes out of that case. My general understanding is from speaking with people that are involved in this case, and I think it was even included in one of your filings in that case, if not the application, that -- of the gridSMART Phase 2 case.

Q. Could you turn to page 9?

A. I'm there.

Q. In your question and answer No. 11 you recommend that the DIR recovery mechanism and associated rates should sunset with the end of the ESP. Do you see that?

A. Yeah.

Q. And that if AEP wants to recover any of the incremental plant in service investment incurred since the inception of the ESP, it would be necessary to file a rate case to do so unless a subsequent ESP has been approved by the Commission that provides for the future recovery; is that about what you say there?

A. Yes.

Q. Okay. When you refer to ESP on line 9, where you say that the DIR should sunset with the end of the ESP, are you thinking May 31st, 2018?

A. Yes, I am.

Q. And at that time if nothing happens, the DIR just ends, right? The rates go to zero; is that what happens? Under your proposal.

A. Well, if you go down to line 14, what I say is no additional costs should be included after May 31, 2018, and a reconciliation filing should be made within 90 days. I think that was something that the Commission also ordered in the current ESP is that you get a reconciliation period filing and then that's it, basically.

Q. But after that reconciliation filing and recovery of that amount, then it just ends, right? Under the recommendation that nothing else --

A. Correct.
Q. -- happens to --
A. Correct.
Q. Okay. So would it be possible under your scenario that you describe here and under your recommendation, would it be possible for the company to make another ESP filing in advance of -- far enough in advance of May 31st, 2018, that included a DIR, another DIR proposal which could then continue the DIR beyond May 31st, 2018?
A. Yes.
Q. Okay. Just a couple of technical points about what happens as a result of the sunsetting of the ESP at the end of the ESP 3 term May 31st, 2018, if nothing else has been approved at that time. Is it your understanding that if the company were to file -- well, if the company doesn't have an approved replacement ESP, an ESP 4, in effect by May 31st, 2018, is it your understanding that under the regulatory structure that we have here for an ESP type SSO that the terms of the existing ESP that's in place just keep on evergreening forward until there's a replacement?
A. I know that there is some debate that goes on around that topic, that is why I specifically

put in my testimony that it would sunset, so it would be a very specific provision in the approval of this ESP that they would sunset.

Q. So under your proposal, then, if something happened at the end of the ESP 3 period and there wasn't another ESP approved in a timely enough fashion, that it would just sunset and the DIR would go away at that point.

A. That is my testimony.

Q. Would you think that that would be a fair result, putting aside whether it would be awful to do that, it would be a fair result if the company had taken reasonable measures to implement a replacement ESP and through no fault of its own it didn't happen by May 31st, 2018?

A. I'm not going to use the word "fair" or "unfair," I think at that point that AEP, I'm certain, would make a motion to the Commission explaining extenuating circumstances and the Commission would take that under consideration.

Q. Okay. Now, one other aspect of this, this sunsetting recommendation and what happens to the DIR at the end of May 31st, 2018. Did you hear Mr. Strom's testimony about a five-year ESP and his recommendation that that would have some advantages in his view in connection with his responsibilities concerning the competitive bid process and the auctions that are going to result?

A. To encapsulate his testimony, I heard him say that he -- that when he made the recommendation of the five-year, that he was focusing solely on his issue.

Q. Okay. And your perspective with regard to the issues you have some responsibility for don't necessarily align with the five-year ESP term perspective; is that fair?

A. My assessment of the DIR was based on a three-year program.

Q. And you're not making a recommendation in your testimony for a five-year ESP term, are you?

A. My analysis focuses solely on three years.

Q. Would you agree that if the Commission were to adopt Mr. Strom's five-year ESP term recommendation, that there would be a need to provide some adjustments to the DIR proposal that you're making so that it didn't sunset after May 31st, 2018, if the company were still in this five-year ESP term at that point?

A. There are probably a few factors in the

DIR that would have to be reconsidered, the sunset date of May 31st, 2018, is one of them. I think the revenue requirement caps would probably be another area to take another look at.

Q. And it might be appropriate if there was going to be a five-year term for the ESP that those caps should be escalated to accommodate additional investments during year 4 and year 5 of an expanded five-year term ESP?

A. Well, I don't know what you mean by the term "escalated," but what I would say is one would have to think about revenue requirement caps for the two remaining years and even whether the currently proposed ones should be adjusted, and there probably would need to be some consultation again with SMED in terms of a work plan and how aggressive they think that needed to continue to be for five years, it would be, I don't want to say a different analysis, but it would involve several factors that would have to be looked at again.

Q. That would be a very different ESP than the one that we've been discussing here for the last two weeks, wouldn't it?

A. A five-year ESP?

Q. Yes.

A. I don't want to opine on the whole ESP. What I'm saying is that there are several facets of the DIR that would have to be sort of relooked at again.

Q. You got a hand-off -- at least in my mind you got a hand-off from Mr. Lipthratt in his testimony. Were you here for his testimony?

A. No. That's how it usually happens.

Q. There's a lesson to be learned there.

Two issues to go over with you that result from Mr. Lipthratt's cross-examination, Ms. McCarter. The first is the staff recommendation for a long-term debt rate on deferrals that result from the storm damage recovery rider.

A. Okay.

Q. If you'll accept, subject to check, that in the transcript he indicated that his position that a long-term debt rate is appropriate for SDR deferrals and that that recommendation was funneled through you, he said you were in agreement with his position. Is that accurate or not?

A. I didn't have input into the rate that was going to be used in the storm --

Q. Maybe I -- maybe I got it wrong, I don't mean to ascribe to him saying something about your involvement that either he didn't say or that's incorrect.

Are you aware that Mr. Lipthratt -- if I haven't already asked you this question, are you aware that Mr. Lipthratt did make a recommendation to use a long-term debt rate?

A. I am aware of that.

Q. And is that -- let me move on at least for the moment from that topic.

There was also a lengthy discussion with Mr. Lipthratt about recovery of expenses incurred in connection with the company's mutual assistance program where it provides mutual assistance to other utilities to help them recover from major storms. Are you familiar with that topical area?

A. Very generally.

Q. My understanding of the staff's position is that the staff contends that the company should not recover through the SDR rider expenses incurred by the company when it provides assistance to other utilities. Is that your understanding?

A. That is the extent of my understanding.

Q. Well, let me just see if I can bring you along a little bit further, or see whether you are actually more knowledgeable than you give yourself credit for.

And the basis for the staff position is that, as advanced certainly by Mr. Lipthratt at least, is that the company is already recovering through an expense allowance included in its base distribution rates those expenses; is that your understanding also?

A. I don't know that it's that detailed. My memory of his testimony is that it would be a credit against the storm rider. That's --

Q. And the reason it should be a credit -- is it your understanding that the reason it should be a credit is that he doesn't want -- staff doesn't want double recovery of the expenses which are already being recovered once in the base rates?

A. I don't know that that's the basis for his opinion. I apologize, I didn't reread his testimony and I don't remember the words that are actually on the pages of his testimony.

Q. Would you agree with me that if, in fact, mutual assistance expenses incurred when the company provides mutual assistance to other utilities are not included in the cost of service that was reviewed in the last distribution rate case and is not, therefore, included in the rates that resulted from that rate case, that it would be inappropriate to exclude from the SDR those expenses on the basis that they're being double recovered?

A. If there is an issue solely with double recovery or if there is a concern solely of double recovery, that can be an issue, but I don't -- I don't know the mechanics of what he proposed enough to have an opinion or what went on in the rate case.

Q. Do you know as a general matter, Ms. McCarter, putting aside what your familiarity with the company's last distribution rate case and its particulars, do you know whether the costs and revenues associated with mutual assistance provided to other utilities are below the line, that is, excluded from test year expense and revenue calculations?

A. I don't know.

MR. CONWAY: Your Honor, may I approach the witness?

EXAMINER SEE: Yes.

Q. Ms. McCarter, I'm handing you a staff data request and response by the company which I'd like to have marked as the next AEP Ohio exhibit.

EXAMINER SEE: You would like it marked as AEP Exhibit 21?

MR. CONWAY: Thank you, your Honor.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Ms. McCarter, could you take a moment and review this data request and response.

A. Okay.

Q. Now, Ms. McCarter, Mr. Lipthratt works under your supervision, correct?

A. Now he does.

Q. You've had a chance to review the request and the response, which are pretty short.

A. Yes.

Q. And do you see that the response indicates that the expenses and revenues associated with mutual assistance provided to other utilities are included in Account 186?

MR. MARGARD: Your Honor, I'll object at this point, we haven't established that the witness has seen this before.

MR. CONWAY: Your Honor, I'm -- your Honor, I'm using the document at this point to see if I can refresh the witness's recollection about the subject matter. It doesn't depend on whether or not she's ever seen the document before.

MR. MARGARD: It -- I don't have an objection to that, your Honor, but counsel's testifying by reading it into the record. If he would like to ask if she has some familiarity now that she's reviewed it, that's perfectly acceptable.

EXAMINER SEE: Okay.

Q. Ms. McCarter --

MR. CONWAY: I'll rephrase the question, your Honor.

EXAMINER SEE: Thank you.

Q. Ms. McCarter, is it your understanding after having reviewed the data request and response that expenses and revenues associated with mutual assistance provided to other utilities are included in Account 186?

A. That's what this response says.

Q. And do you have any reason to doubt that that's accurate?

A. I have no independent knowledge either way.

Q. Do you know whether Account 186 is below the line?

A. No, I do not.

MR. CONWAY: Thank you, Ms. McCarter.

Your Honors, I have no further questions.

EXAMINER SEE: Any redirect, staff?

MR. MARGARD: I do not, thank you, your

Honor.

EXAMINER SEE: Thank you, Ms. McCarter.

MR. MARGARD: Your Honor, I renew my motion for admission of Staff Exhibit 17.

EXAMINER SEE: Is there any objection to the admission of Staff Exhibit 17?

MR. CONWAY: No objection.

EXAMINER SEE: Staff Exhibit 17 is admitted into the record.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER SEE: Mr. Conway.

MR. CONWAY: No, thank you, your Honor, we won't be moving admission of the data request and response.

EXAMINER SEE: Thank you. We're scheduled to start currently at 9 a.m. on Monday. The witnesses scheduled for that day are Baron, Wallach, and James Wilson. If there's nothing further, the hearing is adjourned.

(Thereupon, the hearing was adjourned at 4:37 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 Friday, June 13, 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.

(75824-MDJ)

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