

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

- - -

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

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

- - -

PROCEEDINGS

before Ms. Greta M. See and Ms. Sarah J. Parrot,
Hearing Examiners, at the Public Utilities Commission
of Ohio, 180 East Broad Street, Room 11-A, Columbus,
Ohio, called at 9:00 a.m. on Tuesday, June 17, 2014.

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VOLUME XI

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ARMSTRONG & OKEY, INC.
222 East Town Street, 2nd Floor
Columbus, Ohio 43215
(614) 224-9481 - (800) 223-9481
FAX - (614) 224-5724

- - -

1 APPEARANCES:

2 American Electric Power
3 By Mr. Steven T. Nourse
4 Mr. Matthew J. Satterwhite
5 1 Riverside Plaza, 29th floor
6 Columbus, Ohio 43215-2373

7 Porter, Wright, Morris & Arthur, LLP
8 By Mr. Daniel R. Conway
9 41 South High Street
10 Columbus, Ohio 43215-6194

11 On behalf of the Applicants.

12 Vorys, Sater, Seymour and Pease, LLP
13 By Mr. M. Howard Petricoff
14 Mr. Stephen M. Howard
15 Ms. Gretchen L. Petrucci
16 52 East Gay Street
17 Columbus, Ohio 43216

18 On behalf of Constellation NewEnergy,
19 Inc., Exelon Generating Company, LLC, and
20 Retail Energy Supply Association.

21 FirstEnergy Service Corporation
22 By Mr. Mark A. Hayden
23 Mr. Jacob A. McDermott
24 Mr. Scott J. Casto
25 76 South Main Street
Akron, Ohio 44308

On behalf of FirstEnergy Solutions Corp.

Carpenter, Lipps & Leland, LLP
By Ms. Kimberly W. Bojko
Ms. Rebecca L. Hussey
Ms. Mallory Mohler
280 North High Street, Suite 1300
Columbus, Ohio 43215

On behalf of Ohio Manufacturers
Association.

1 APPEARANCES: (Continued)

2 Bruce J. Weston, Ohio Consumers' Counsel
3 By Ms. Maureen R. Grady
4 Mr. Joseph P. Serio
5 Mr. Edmund "Tad" Berger
6 Assistant Consumers' Counsel
7 10 West Broad Street, Suite 1800
8 Columbus, Ohio 43215-3485

9 On behalf of the Residential Ratepayers
10 of Ohio Power Company.

11 Ohio Partners for Affordable Energy
12 By Ms. Colleen L. Mooney
13 231 West Lima Street
14 Findlay, Ohio 45839

15 On behalf of Ohio Partners for Affordable
16 Energy.

17 Duke Energy Ohio, Inc.
18 By Ms. Elizabeth H. Watts
19 155 East Broad Street, 21st Floor
20 Columbus, Ohio 43215

21 Duke Energy Ohio, Inc.
22 By Mr. Rocco D'Ascenzo
23 139 East Fourth Street, 1303-Main
24 Cincinnati, Ohio 45202

25 On behalf of Duke Energy Ohio.

Bricker & Eckler, LLP
By Mr. Thomas J. O'Brien
Mr. Dylan F. Borchers
100 South Third Street
Columbus, Ohio 43215-4291

Ohio Hospital Association
By Mr. Richard L. Sites
155 East Broad Street, 15th floor
Columbus, Ohio 43215-3620

On behalf of Ohio Hospital Association.

1 APPEARANCES: (Continued)

2 Boehm, Kurtz & Lowry
3 By Mr. David F. Boehm
4 Mr. Michael L. Kurtz
5 Mr. Kurt Boehm
6 36 East Seventh Street, Suite 1510
7 Cincinnati, Ohio 45202

8 On behalf of the Ohio Energy Group.

9 Thompson Hine, LLP
10 By Mr. Philip B. Sineneng
11 41 South High Street, Suite 1700
12 Columbus, Ohio 43215-6101

13 On behalf of Duke Energy Retail and Duke
14 Energy Commercial Asset Management, Inc.

15 McNeese, Wallace & Nurick, LLC
16 By Mr. Samuel C. Randazzo
17 Mr. Frank P. Darr
18 Mr. Matthew R. Pritchard
19 Fifth Third Center, Suite 1700
20 21 East State Street
21 Columbus, Ohio 43215-4288

22 On behalf of the Industrial Energy
23 Users - Ohio.

24 Whitt Sturtevant LLP
25 By Mr. Mark A. Whitt
Mr. Andrew J. Campbell
Mr. Gregory L. Williams
88 East Broad Street, Suite 1590
Columbus, Ohio 43215

On behalf of the Interstate Gas Supply,
Inc.

The Dayton Power and Light Company
By Ms. Judi L. Sobecki
1065 Woodman Drive
Dayton, Ohio 45432

On behalf of The Dayton Power and Light
Company.

1 APPEARANCES: (Continued)

2 Environmental Defense Fund
3 By Mr. John Finnigan
4 128 Winding Brook Lane
Terrace Park, Ohio 45174

5 On behalf of Ohio Environmental Defense
Fund.

6 Ohio Environmental Council
7 By Mr. Trent Dougherty
1207 Grandview Avenue, Suite 201
Columbus, Ohio 43215-3449

8 On behalf of Ohio Environmental Council.

9
10 Taft Stettinius & Hollister, LLP
By Mr. Mark S. Yurick
Mr. Zachary D. Kravitz
11 65 East State Street, Suite 1000
Columbus, Ohio 43215

12 On behalf of Kroger Company.

13
14 Direct Energy
By Mr. Joseph M. Clark
21 East State Street, 19th floor
15 Columbus, Ohio 43215

16 On behalf of Direct Energy Services, LLC
and Direct Energy Business, LLC.

17
18 Environmental Law & Policy Center
By Mr. Nicholas McDaniel
1207 Grandview Avenue, Suite 201
19 Columbus, Ohio 43212

20 On behalf of Environmental Law & Policy
Center.

21
22 Bricker & Eckler, LLP
By Mr. J. Thomas Siwo
100 South Third Street
23 Columbus, Ohio 43215-4291

24 On behalf of Paulding Wind Farm II LLC.

1 APPEARANCES: (Continued)

2 Spilman Thomas & Battle, PLLC
3 By Mr. Derrick Price Williamson
4 1100 Bent Creek Boulevard, Suite 101
5 1233 Main Street, Suite 4000
6 Mechanicsburg, Pennsylvania 17050

7 On behalf of Wal-Mart Stores East, LP
8 and Sam's East, Inc.

9 Spilman Thomas & Battle, PLLC
10 By Ms. Tai C. Shadrick
11 300 Kanawha Boulevard East
12 Charleston, West Virginia 25301

13 On behalf of Wal-Mart Stores East, LP
14 and Sam's East, Inc.

15 Ohio Poverty Law Center
16 By Mr. Michael R. Smalz
17 555 Buttles Avenue
18 Columbus, Ohio 43215-1137

19 On behalf of Appalachian Peace and
20 Justice Network.

21 Thompson Hine, LLP
22 By Ms. Stephanie M. Chmiel
23 41 South High Street, Suite 1700
24 Columbus, Ohio 43215-6101

25 On behalf of Border Energy Electric
Services, Inc.

Mike DeWine, Ohio Attorney General
By Mr. William Wright, Section Chief
Mr. Devin Parram
Ms. Katherine Johnson
Mr. Werner L. Margard III
Assistant Attorneys General
Public Utilities
180 East Broad Street, 6th floor
Columbus, Ohio 43215

On behalf of the Staff of the Public
Utilities Commission.

- - -

1 APPEARANCES: (Continued)

2 EnerNOC, Inc.

By Mr. Gregory J. Poulos

3 471 East Broad Street, Suite 1520

New Albany, Ohio 43215

4 On behalf of the EnerNOC, Inc.

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1 Tuesday Morning Session,

2 June 17, 2014.

3 - - -

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

5 At this time let's take brief appearances of the
6 parties starting with the company and going around
7 the room.

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

11 MR. BERGER: Good morning, your Honor.
12 Tad Berger, Joseph Serio, and Maureen Grady for the
13 Office of the Ohio Consumers' Counsel.

14 MR. YURICK: Good morning, your Honors.
15 Mark Yurick for the Kroger Company.

16 MR. DARR: On behalf of Industrial Energy
17 Users of Ohio, Frank Darr and Matthew Pritchard.

18 MR. PARRAM: Good morning, your Honors.
19 On behalf of staff Devin Parram, Werner Margard, and
20 Katie Johnson.

21 MR. K. BOEHM: Good morning, your Honors.
22 On behalf of the Ohio Energy Group, Kurt Boehm and
23 Mike Kurtz.

24 MS. BOJKO: Good morning, your Honors.
25 On behalf of the Ohio Manufacturers' Association, Kim

1 Bojko, Rebecca Hussey, and Mallory Mohler.

2 MR. McDERMOTT: Good morning, your Honor.
3 On behalf of FirstEnergy Solutions Corp., Jacob
4 McDermott, Scott Casto, and Mark Hayden.

5 MR. PETRICOFF: Good morning, your Honor.
6 On behalf of the Retail Energy Supply Association,
7 Constellation NewEnergy, and Exelon Generation
8 Company, LLP, Howard Petricoff, Steve Howard, and
9 Gretchen Petrucci.

10 MR. SMALZ: Your Honor, on behalf of the
11 Appalachian Peace and Justice Network, Michael Smalz.

12 EXAMINER SEE: Okay. Mr. Kurtz.

13 MR. KURTZ: Yes, our first -- Alan
14 Taylor.

15 MR. BERGER: Your Honor, did you want me
16 to submit the revised errata from Mr. Wilson before
17 we get started with Mr. Taylor?

18 EXAMINER SEE: Yes, Mr. Berger.

19 MR. BERGER: Thank you, your Honor.

20 Your Honor, at this time, following the
21 revisions that were made by the company to the
22 confidential designations on June 6th, 2014, the
23 public version of Mr. Wilson's errata that was
24 offered into evidence as OCC Exhibit 16A yesterday,
25 there are two lines where the designations have

1 changed from confidential to public and, therefore,
2 I'm going to -- I'm asking to offer as OCC Exhibit 17
3 the revised errata of Mr. Wilson, the public version.
4 I'm providing a copy to the court reporter at this
5 time and would offer it into evidence

6 EXAMINER SEE: And I hope you have copies
7 for the Bench as well.

8 (EXHIBIT MARKED FOR IDENTIFICATION.)

9 MR. BERGER: Thank you, your Honor.

10 EXAMINER SEE: OCC Exhibit 17A is
11 admitted into the record.

12 (EXHIBIT ADMITTED INTO EVIDENCE.)

13 EXAMINER SEE: Thank you.

14 Mr. Taylor, if you'd raise your right
15 hand.

16 (Witness sworn.)

17 EXAMINER SEE: Thank you. Have a seat.

18 Mr. Kurtz.

19 MR. KURTZ: Thank you, your Honor.

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1 ALAN S. TAYLOR

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

4 DIRECT EXAMINATION

5 By Mr. Kurtz:

6 Q. Would you state your name and business
7 address for the record, please.

8 A. My name is Alan Taylor. I'm the
9 President of Sedway Consulting, address is 821
10 15th Street, Boulder, Colorado 80302.

11 Q. Do you have in front of you a document
12 entitled direct testimony and exhibits of Alan S.
13 Taylor?

14 A. I do.

15 Q. Was this prepared by you or under your
16 direct supervision?

17 A. Yes, it was.

18 Q. Do you have any corrections or additions
19 you'd like to make?

20 A. I have a minor correction, on page 6,
21 line 2, it's a minor editorial change on the sentence
22 that starts "Finally." It needs the word "is" after
23 "it" to read, "Finally, it is important to recognize
24 that."

25 Q. Okay. With that change if I were to ask

1 you the same questions as those contained in your
2 testimony, would your answers be the same?

3 A. Yes, they would.

4 MR. KURTZ: Your Honor, I submit the
5 witness for cross-examination and, oh, I'd like to
6 have his testimony marked as OEG 3 and move for its
7 admission subject to cross-examination.

8 (EXHIBIT MARKED FOR IDENTIFICATION.)

9 EXAMINER SEE: Mr. Smalz, any
10 cross-examination for this witness?

11 MR. SMALZ: Yes, your Honor, I have a few
12 questions.

13 - - -

14 CROSS-EXAMINATION

15 By Mr. Smalz:

16 Q. Mr. Taylor, I represent the Appalachian
17 Peace and Justice Network.

18 Turning to page 12 of your testimony
19 where the question is stated "Do you think that the
20 PPA rider proposed by Mr. Allen would be good for
21 AEP Ohio's customers?" And then you go on to state
22 "In concept, yes, but I think the ESP III is too
23 short of a period."

24 So you're supporting the idea and concept
25 but not necessarily supporting the specific proposal

1 of AEP Ohio?

2 A. That is correct.

3 Q. I see.

4 On that same page beginning with the
5 answer on line 20 you refer to the upgrade of the
6 OVEC's generation with pollution-control equipment
7 and you mention the Mercury and Air Toxics Standards.
8 Would the U.S. EPA's new Carbon Pollution Standards
9 also impact the net costs or benefits to AEP Ohio's
10 customers of the OVEC -- OVEC proposal?

11 A. It's uncertain, but I believe that on net
12 the new proposed CO2 greenhouse gas regulations by
13 the U.S. EPA are going to cause probably market
14 prices to rise as much as any sort of additional
15 costs might be experienced by the OVEC assets.

16 Q. So it could be a wash?

17 A. It could be.

18 Q. Turning to page 14, the sentence
19 beginning on line 21 where you state "Specifically,
20 the OVEC net benefits are expected to be negative in
21 2015 and 2016 but positive in 2017." Do you know
22 what the projected net costs or benefits over the
23 three-year term are?

24 A. My testimony was based on the latest
25 analysis that was available when I prepared it, which

1 indicated that there probably would be negative net
2 benefits over this ESP 3 period of approximately
3 \$21 million negative net benefits. It's my
4 understanding that in the proceeding to date there's
5 been new information and a later forecast that has
6 come forth that actually indicates that over the ESP
7 3 period there are likely to be positive net benefits
8 by approximately \$8 million.

9 Q. Have you reviewed that more recent
10 information?

11 A. I have.

12 Q. Okay. Turning to page 16, line 3 -- or,
13 line 4 I guess, you're proposing that the PPA rider
14 be extended beyond the term of the proposed ESP. Are
15 you propose -- are you requesting that the Commission
16 approve a more extensive I guess it's a
17 nine-and-a-half year PPA as part of this proceeding?

18 A. Yes, I am.

19 Q. Even though this proceeding only goes up
20 till 2017.

21 A. That's correct.

22 Q. Do you know of any precedent where the
23 PUCO has done -- has included a requirement that goes
24 well beyond the term of the ESP?

25 A. I don't. I come to this proceeding as an

1 expert witness from information from other parts of
2 the country. I think that the Ohio statutes,
3 although this is to be determined by other legal
4 experts, that the Ohio statutes do provide the
5 Commission the authority to provide this kind of
6 assurance or financial limitation on shopping that
7 would help stabilize rates.

8 What I'm proposing here is not a physical
9 limitation on any of the shopping parameters of the
10 existing statutes, it would simply be a financial
11 constraint that would help stabilize rates.

12 Q. And do any forecasts of the possible net
13 benefits or costs of the PPA rider, do those
14 forecasts become more uncertain as you extend the
15 time period? In this case up to nine-and-a-half
16 years.

17 A. I think that they -- the probability that
18 the net benefits will be greater than forecasted,
19 certainly greater than the forecast that was included
20 in my testimony, goes up. I think that there is more
21 upside to these net benefits over time, although I do
22 agree that as one goes out in time, things become
23 more uncertain and that's why I really picked the
24 nine-and-a-half year period to be that sweet spot
25 between achieving the positive net benefits that I

1 think are likely to be associated with the OVEC
2 assets and yet not have such a long-term transaction
3 that there are future uncertainties that can't really
4 be imagined at this point.

5 Q. But you do admit there's more uncertainty
6 over nine-and-a-half years than over three years.

7 A. Yes.

8 MR. SMALZ: Thank you, Mr. Taylor.

9 I have no further questions, your Honor

10 EXAMINER SEE: Thank you.

11 Mr. Petricoff? Oh, I'm sorry.

12 MS. BOJKO: Your Honor, is it possible if
13 I go out of order?

14 EXAMINER SEE: Is that okay with you,
15 Mr. Petricoff?

16 MR. PETRICOFF: That's fine.

17 MS. BOJKO: Thank you for accommodating
18 me.

19 - - -

20 CROSS-EXAMINATION

21 By Ms. Bojko:

22 Q. Good morning, Mr. Taylor.

23 A. Good morning.

24 Q. As we just met this morning, my name is
25 Kim Bojko, and I represent the Ohio Manufacturers'

1 Association here today.

2 You just stated in response to a question
3 that your original estimate resulted in a net cost of
4 \$21 million; is that accurate?

5 A. Over the first ESP period, yes.

6 Q. Thank you.

7 And you haven't updated that analysis
8 that you performed for your testimony, have you?

9 A. I have not in no official sense.

10 Q. And are you familiar with other witnesses
11 in this proceeding that have estimates that range
12 from 82 million to 117 million as a net cost or
13 charge to customers?

14 A. I have skimmed some of the testimony in
15 the case. I can't testify to those numbers, but I'm
16 familiar with other people providing estimates.

17 Q. And estimates that result in significant
18 net costs to customers; is that accurate?

19 A. I believe so.

20 Q. And is it your understanding that OVEC is
21 approximately 5 percent of AEP's total load?

22 A. That is my understanding.

23 Q. And the OVEC cost is not a fixed cost; is
24 that correct?

25 A. It is largely fixed. It's a very

1 capital-intensive technology, coal-fired generation,
2 so a lot of the demand charges are of a fixed nature
3 in that they don't change with the level of
4 generation that comes from the OVEC assets and that's
5 part of the stabilizing effect of the OVEC assets on
6 the rider.

7 Q. But it's your understanding that the OVEC
8 costs may increase; is that correct?

9 A. Yes.

10 Q. And isn't it true that the OVEC contract
11 includes escalation clauses?

12 A. That's my understanding.

13 Q. And those escalation clauses could be for
14 such items as capital expenditures; is that correct?

15 A. That is my understanding.

16 Q. And it could also be escalated for coal
17 price increases; is that correct?

18 A. Yes. There are definitely escalation
19 clauses. I think that understanding the market
20 dynamics that are at play, the fact that we're likely
21 to see -- current estimates are as much as
22 28,000 megawatts of coal-fired generation get retired
23 over the next nine years, much of it in PJM, I
24 believe is going to provide downward pressure on coal
25 prices as a lot of coal mines and coal suppliers are

1 going to have a dwindling market into which to sell
2 their products.

3 So while there are these elements of the
4 OVEC operations and contracts, I think that on
5 balance a lot of these numbers probably will be
6 rather stable for OVEC.

7 Q. But there are escalation clauses
8 contained in the OVEC contract, to your knowledge.

9 A. Subject to check, that's my
10 understanding.

11 Q. Okay. And it's also your understanding
12 that there's an escalation clause for future
13 environmental regulations; is that correct?

14 A. That is my understanding.

15 Q. And how about for future purchased power
16 agreements, are they fixed-price contracts, do you
17 know?

18 A. When you say "future purchased power
19 agreements" --

20 Q. I'm sorry. Let me take a step back.
21 It's your understanding that AEP's proposal includes
22 the option to request recovery from customers, or
23 benefits provided to customers, for other similar
24 OVEC-type purchased power agreements; is that your
25 understanding of AEP's proposal?

1 A. I have not been participating in the
2 proceeding up to this point. I have heard -- caught
3 wind of the fact that there may be some additional
4 elements, but my testimony really just focuses on the
5 OVEC assets here.

6 Q. Okay. So you are not recommending to the
7 Commission that AEP be allowed or authorized to
8 request recovery of those future PPAs then; is that
9 correct?

10 A. I'm not taking a position against that,
11 I'm just saying that the Commission will need to
12 study the details of whatever additional transactions
13 that AEP may want to put forward.

14 Q. And any recommendations that you contain
15 in your testimony to that regard are purely regarding
16 the OVEC entitlement.

17 A. The OVEC entitlement is what I have
18 focused my testimony on, yes. So I think as far as
19 the cost-effectiveness of other types of
20 transactions, those could be included in the same PPA
21 rider but would be subject to the Commission's
22 decision about their cost-effectiveness.

23 Q. And so when you talk generally in your
24 testimony, I think you start on page 11, line 15, you
25 title part of the section "Proposed PPA Rider,"

1 again -- and when you reference "PPA rider"
2 throughout this testimony, you're only discussing
3 OVEC entitlement; is that correct?

4 A. That is correct. That's been the focus
5 of my testimony.

6 Q. Thank you for that clarification.

7 Okay. So, to go back now to the OVEC
8 piece, you stated that the costs are not a fixed
9 price. So we have no certainty of what that OVEC
10 cost may or may not be in the future; is that
11 correct?

12 A. Yes, in the sentence that there is no
13 certainty that there are any costs in AEP's future
14 that are certain. I would say that the OVEC costs
15 are probably more certain than the energy markets
16 that can be extremely volatile. So my point has been
17 that I think the OVEC costs are far more predictable
18 and more stable and, therefore, having a blend of
19 5 percent of this stable cost element in the customer
20 rate structure is going to be very beneficial rather
21 than having customers be 100 percent exposed to
22 volatile markets.

23 Q. So instead of 100 percent exposed to the
24 markets you are proposing that they be 95 percent
25 exposed to the markets; is that correct?

1 A. Essentially, yes. Correct.

2 Q. And, again, it's not a fixed-price
3 contract and there are escalation clauses. Do you
4 agree with that?

5 A. I do, but, again, I think that the fixed
6 costs are going to be much more contained than what
7 we see in the marketplace from capacity and energy
8 pricing.

9 Q. But, as you state on page 14 of your
10 testimony, you just do not know what that market will
11 or will not look like or what the OVEC all-in costs
12 may or may not be in the future; is that correct?

13 A. That's correct. There's always
14 uncertainty.

15 Q. As filed AEP is proposing the PPA rider
16 for a three-year term. Is that your understanding?

17 A. That is my understanding.

18 Q. And AEP is also retaining a right to
19 terminate after year number two. Is that your
20 understanding?

21 A. I was not aware of that. My focus has
22 been really on a reconstituted PPA stability rider
23 that goes out well beyond this three-year period.

24 Q. Okay. So you have a concern with the
25 three-year term, as you just stated, so would you

1 similarly have a concern with the two-year ESP term
2 and a two-year PPA rider for the same reasons you
3 state in your testimony with regard to a three-year
4 term?

5 A. Yes, I would.

6 Q. And you testify that you don't believe
7 that a three-year term is an appropriate term for a
8 PPA-type mechanism; is that correct?

9 A. It's not that I don't believe it's an
10 appropriate mechanism. Given the facts of this case
11 and the OVEC assets and the market dynamics that I
12 believe are likely to occur over the near term and
13 out over the nine years, I think it makes a lot more
14 sense for AEP Ohio's customers to have a long-term
15 deal, particularly one where both parties, AEP Ohio
16 as a company and their customers, are getting on this
17 train, if you will, for the next nine-and-a-half
18 years, and the decision needs to be made at the
19 beginning about whether they get on or not.

20 Q. Okay. And you believe a longer term
21 would be more appropriate than a three-year term; is
22 that fair to say?

23 A. In the case of the OVEC assets, yes.

24 Q. And, in part, this recommendation is
25 because currently the OVEC costs are greater than

1 market so that would be a net charge to customers; is
2 that accurate?

3 A. To say currently the OVEC costs are
4 greater than market, the focus of everything starts
5 on the beginning of the ESP 3 time frame of June of
6 2015. We actually don't know what market prices will
7 be like next summer. It could be that right off the
8 bat, if market prices go high enough, that the OVEC
9 costs are actually less than market prices.

10 Q. Well, on page 4 of your testimony you say
11 while the current costs of the OVEC power supplies
12 are greater than market benefits of such supplies, so
13 you're not -- are you disagreeing with my statement
14 that you don't believe that the costs are greater?

15 A. I should say that the forecasted costs
16 and the forecasted energy prices of the market and
17 capacity prices.

18 Q. Are greater today.

19 A. The forecast I was relying on was from
20 September of 2013 and I'm simply saying that as we
21 move out into the reality of 2015 and beyond, current
22 expectations are that initially the OVEC costs will
23 be higher than market, but we won't really know till
24 we get there.

25 Q. Okay. And on page 5 you talk about that

1 you see that this is more of a long-term solution and
2 that there's a longer-term benefit beyond the three
3 years; is that correct?

4 A. That is correct.

5 Q. And on page 5 you also say that, you use
6 the term "likely reverse," and you're referencing
7 that the benefits of the OVEC may turn the corner and
8 that the market prices may be higher than the OVEC
9 costs sometime in the future as you just stated. Is
10 that accurate?

11 A. That's accurate. And, as I say, the
12 company has come forth with additional analysis, an
13 updated analysis, that shows that that reversal may
14 occur earlier than what I had based my testimony on.

15 Q. And you're referring to the testimony --
16 were you in the room when Mr. Allen brought to light
17 that new piece of analysis?

18 A. I was not, but I was provided the
19 confidential exhibit that I believe he presented as
20 part of that.

21 Q. And were you provided the transcript of
22 Mr. Allen's testimony to that analysis?

23 A. I was not. I did not read the
24 transcript.

25 Q. So your knowledge of this new analysis is

1 based on your counsel providing you with the one
2 confidential exhibit.

3 A. That's correct.

4 Q. One of the reasons that you think a
5 longer term -- or, rationale -- or, I guess I should
6 say, excuse me, strike that, a proposal that you're
7 making to provide a longer-term benefit is you are
8 proposing the levelization of the expected costs to
9 customers; is that accurate?

10 A. That is.

11 Q. And the levelization approach that you
12 discuss in your testimony, that would require AEP to
13 advance or credit customers now for that financial
14 hedge; is that accurate?

15 A. Yes. My testimony is based on, as I say,
16 the analysis from September of 2013, I think that
17 that analysis is fine to use as a baseline. It may
18 be that if net benefits end up being positive from
19 the start, then there will be no financing of
20 savings, or limited financing I should say, and that
21 the rider would start as a negative addition to
22 people's bills and go even further negative.

23 Q. Okay. Well, let's stick with your
24 prefiled direct testimony where you believe that
25 there was going to be a \$21 million net cost to

1 customers and then it's in that vein that you are
2 proposing a levelization approach; is that correct?

3 A. That's correct.

4 Q. Okay. So under your levelization
5 approach, as I understand it, AEP would have to
6 somehow forward funds to customers to create this
7 financial hedge, to levelize that hedge; is that
8 correct?

9 A. To levelize the hedge, yes.

10 Q. Okay. So under your proposal AEP would
11 initially have to go out of pocket, so to speak, and
12 provide a credit to the rider; is that your proposal?

13 A. That is correct.

14 Q. Okay. So you're suggesting -- just so
15 I'm clear, you're suggesting that the regulated
16 distribution company do this; is that accurate?

17 A. Correct. It would create a regulatory
18 balancing account that they would be able to earn a
19 rate of return on in the interest of providing a
20 stable PPA rider to their customers.

21 Q. Okay. And that's what my next question
22 is. You're suggesting that the distribution company
23 create a regulatory liability and credit that to
24 customers.

25 A. That's correct.

1 Q. And, additionally, in the spirit of
2 levelizing or minimizing the harm to customers for
3 the \$21 million that you initially proposed or
4 analyzed, you also are proposing a three-year
5 amortization period of the costs; is that correct?

6 A. Of any differences between the forecasted
7 net benefits and the actual net benefits on a
8 year-to-year true-up basis, yes.

9 Q. And under your proposal, sir, who pays
10 for the rider? Is it all customers or is it
11 bypassable?

12 A. It would basically be all customers
13 that -- with, in my testimony, the recognition that
14 certain large industrial customers that may already
15 have departments that deal with a lot of their own
16 hedging operations, be it currency or interest rate
17 risks or other things, they may have opportunities to
18 do their own hedging process. So I basically
19 established that this would be a rider that would be
20 applied to all benefiting customers, but that large
21 customers would have the ability to basically
22 self-insure.

23 Q. So your proposal offers an opt-out to
24 large industrial customers from paying the PPA rider?

25 A. I have crafted my testimony along those

1 lines as far as having those large customers have an
2 ability to self-insure. I think that, because
3 they're sophisticated companies, they will look at
4 the proposition that's in front of them and decide to
5 get on this train for the nine-and-a-half years so I
6 think, in effect, you will have all customers
7 actually enjoying the benefits of the PPA rider. So
8 to the extent that the Commission feels like any sort
9 of self-insurance element is something that they're
10 not interested in, I certainly would defer to the
11 Commission and they can decide to make this fully
12 nonbypassable.

13 Q. Okay. I'm sorry. That wasn't my
14 question. My question was in your proposal you are
15 allowing or providing an opportunity for large
16 customers that choose to self-insure, to use your
17 words, to opt out or to not pay the PPA rider; is
18 that correct?

19 A. To not enjoy the benefits of it. I
20 believe it's going to be a negative rider, so to say
21 not pay, they would be in a position to not enjoy the
22 benefits of this rider for the nine-and-a-half years.
23 They would have to make that decision at the
24 beginning. There's no coming back when market prices
25 blow out and say, okay, we want to get in on this

1 rider.

2 Q. Okay. Fair enough.

3 So they are going to forego the costs
4 associated with any PPA rider and forego the
5 potential benefits of any PPA rider; is that your
6 testimony?

7 A. That is my testimony.

8 Q. Okay. And is large -- is this provision
9 embedded in your testimony somewhere?

10 A. Yes, it is.

11 Q. Could you point me to that?

12 A. I believe it starts on page 19, line 17.

13 Q. And how are you defining -- oh, I see,
14 okay.

15 So how are you defining large industrial
16 customers in this respect?

17 A. On line 23 I state that I proposed that
18 any customer with more than 10 megawatts of load per
19 single site should be given the chance to
20 self-insure.

21 Q. And does this limit it to a certain
22 number of customers?

23 A. I presume that that is a limited number
24 of customers.

25 Q. Well, when you talk about -- are you

1 limiting the amount of that particular customer's
2 load that they can participate in this opt-out or
3 decision to self-insure?

4 A. My thinking, and again this is subject to
5 the Commission's ultimate judgment and what they
6 think makes sense here, I did not mean to make this
7 any more complicated, I was not thinking that there
8 would be a self-insurance percentage where such
9 customers would be partway in and partway out.

10 My original thinking, and again this is
11 subject to the Commission's ultimate wisdom and
12 decision on something like this, but that such
13 customers would either fully participate in the hedge
14 or fully not participate. And to the extent that
15 they did not participate, then the percentage that
16 AEP Ohio would basically have of this hedge would
17 increase by those number of megawatt-hours of
18 customer load so that the main customer base is
19 unaffected by these decisions on the part of these
20 larger customers.

21 Q. Do you know how many customers on AEP's
22 system would meet the qualification of large customer
23 under your proposal?

24 A. I do not.

25 Q. In order to determine any impact on AEP

1 or other customers and the stabilizing effect of your
2 proposal, don't you think you should know that?

3 A. No. Because, as I say, this
4 self-insurance element is something that adjusts the
5 AEP Ohio participation percentage, which I have
6 established as a floor of 10 percent, and any extent
7 that these large industrial customers decide not to
8 participate in the hedge, then that 10 percent would
9 move up.

10 So, basically, the actual financial
11 implications for the overwhelming majority of the
12 AEP Ohio customer base is unaffected by this
13 arithmetic.

14 Q. But given that you don't know how many
15 customers could take advantage of this, you have not
16 done any kind of analyses regarding -- regarding this
17 or its impact on the 10 percent floor or anything
18 else; is that fair?

19 A. That's fair except to the extent that the
20 mathematical analysis I've done is to ensure that
21 there would be no impact on the remaining customers.
22 I don't know exactly how many customers would fall
23 into this category and, as I stated before, I think
24 that even of these customers that are in this
25 self-insurance group, probably all of them, in

1 looking at a final detailed PPA rider, would decide
2 to opt into the rider and be a part of it.

3 Q. And assuming that the forecasts are what
4 you originally predicted for the term of the
5 three-year period, the \$21 million or comparable to
6 the 82 to 117 million dollars proposed or analyzed by
7 other witnesses in this proceeding, those large
8 customers would not be required to pay those costs
9 and other customers would then have to pay that
10 differential; isn't that true?

11 A. No. First, I don't stand behind the
12 numbers of other witnesses at all. I think that the
13 \$49 million of net benefits that I see over the next
14 nine-and-a-half years, eight-and-a-half years and
15 then amortized over a nine-and-a-half year rider, I
16 think are probably underestimated.

17 Indeed, if the latest information on ESP
18 3 is on the mark, then the \$49 million of net
19 benefits probably grows closer to \$70 million of
20 total benefits. Those benefits will either, in this
21 large industrial slice, either be ascribed to
22 AEP Ohio as a company because their floor percentage
23 of 10 percent would increase, or they will be enjoyed
24 by the industrial customers themselves as they decide
25 to be a part of the OVEC hedge.

1 Q. Okay. So your proposal for an opt-out
2 for large industrial customers is only a proposal if
3 it's based on your nine-and-a-half year term. It's
4 not something that you're proposing for the
5 three-year term of the ESP as AEP has proposed it?

6 A. That is correct.

7 Q. And, speaking of the self-insured
8 concept, let's turn to page 6 of your testimony, you
9 talk about this PPA OVEC entitlement being a hedge
10 and you analogize it to an insurance premium; is that
11 correct?

12 A. Yes.

13 Q. And your -- again, OVEC's only 5 percent
14 of AEP's total load; is that right?

15 A. That is my understanding.

16 Q. So for an insurance claim, I think you
17 analogized it to a homeowners insurance, can you
18 insure 5 percent of your house or do you insure the
19 whole house?

20 A. You tend to insure the whole house.

21 Q. And under your proposal if market prices
22 increase, the stabilizing effect is only with regard
23 to the 5 percent of the load that we're discussing
24 here; is that correct?

25 A. Yes, although I think that when I refer

1 to stabilizing effect, I'm talking about the bottom
2 line total that a customer has to pay each month and
3 that could be more than a 5 percent influence on what
4 their final bill was.

5 Q. Right. But the OVEC hedge is for only
6 5 percent of AEP's total load.

7 A. 5 percent of the megawatt-hours and,
8 again, this is a financial hedge, I want to make it
9 clear that this is not a physical issue associated
10 with the amount of shopping. There's no physical
11 impact here. This would simply be a financial
12 limitation on shopping that translates into more
13 stabilized rates.

14 Q. And so on page 7 when you discuss a
15 hundred percent reliance on the market and the cost
16 effect of that, as you understand it, there would
17 only be 95 percent based on the market under this
18 proposal; is that right?

19 A. Yes, approximately.

20 Q. Okay.

21 A. Which I still would maintain is a fairly
22 high percentage. I'm not advocating that a
23 95/5 percent is probably the ideal percentage. In
24 other jurisdictions that I've overseen hedging
25 transactions a larger percentage of customer loads

1 are usually hedged than just 5 percent.

2 Q. And CRES providers usually hedge a larger
3 portion of their generation than 5 percent too,
4 wouldn't you assume?

5 A. I would imagine but I do not know for
6 sure.

7 Q. On pages 8 and 9 of your testimony you
8 discuss call options and strike prices that have an
9 effect of capping a buyer's cost. Do you see that?

10 A. Yes.

11 Q. As you understand AEP's proposal, AEP has
12 not proposed a strike price; is that correct?

13 A. Not in the classic call option sense.

14 Q. Right. And so OVEC's costs are not
15 capped either; isn't that correct?

16 A. That is correct.

17 Q. And so if the fixed price, if it's not --
18 if OVEC's costs are not fixed and there's no cap on
19 customers' costs, then OVEC is not a call option;
20 isn't that correct?

21 A. No. I wouldn't jump to that conclusion.
22 The call option analogy is used frequently in the
23 industry to -- as an analogy or as a representation
24 for classic power agreements, PPAs, which may even be
25 tolling agreements. I oversee a lot of transactions

1 and help negotiate contracts for gas-fired facilities
2 that have tolling transactions. The strike price is
3 usually in the form of a heat rate and the price of
4 natural gas may rise or fall but the utility still
5 has a strike price of basically the heat rate. So
6 financial call options in the utility industry are
7 often heat rate based.

8 Q. Or, as you point out on page 9, it's a
9 fixed-price contract.

10 A. For a very short-term deal. Sometimes
11 there are monthly financial call options in the
12 industry that are based on a dollar per megawatt-hour
13 fixed price.

14 Q. On page 10 you talk about the California
15 contracts. What were the terms of those -- you call
16 them long-term contracts on line 20 but you don't
17 tell us the term. What were the terms of those
18 contracts that you are referencing on page 10?

19 A. I've overseen a number of solicitations
20 in California and as far as these hedging type
21 transactions, the most recent round have involved
22 ten-year contracts.

23 Q. As you understand the proposed PPA rider,
24 do you know whether the actual OVEC contract or any
25 other PPA contracts are approved by the Commission,

1 the Public Utilities Commission of Ohio?

2 A. I do not.

3 Q. Do you know whether those contracts are
4 approved by FERC, Federal Energy Regulatory
5 Commission?

6 A. I would imagine they would be but I don't
7 know for sure.

8 Q. Do you know under AEP's proposal whether
9 the Commission has the authority to review the
10 contract and approve it for prudence?

11 A. I do not. I would imagine that the
12 Commission has the authority to determine whether
13 rates are just and reasonable and in doing so review
14 any sort of costs that are being passed through to
15 customers.

16 Q. So you believe that the Commission would
17 have authority to disallow some of the OVEC costs and
18 not charge customers that full cost if it was a net
19 charge to customers.

20 A. I'm certainly not taking the stand here
21 as an expert in Ohio regulatory or legislative
22 mandates, but from my experience in other
23 jurisdictions around the country, usually the
24 Commission has some sort of judgment there.

25 Q. Judgment and authority to disallow

1 associated costs?

2 A. That is my understanding, certainly,
3 elsewhere.

4 Q. And just so we're clear, on page 14, I
5 heard a couple of different things this morning, but
6 on page 14 it's your testimony that you can't be
7 certain what OVEC's costs will be in the future and
8 you can't be certain that it will result in a net
9 credit to customers; is that accurate?

10 A. Yes, in that there is no certainty on any
11 of the costs that may be facing AEP Ohio customers.
12 My professional opinion is that there has been a
13 period of tame market pricing both in the capacity
14 and energy pricing area that has been enjoyed for the
15 last five to ten years and that PJM is likely to
16 experience some tight capacity markets that will
17 drive prices up, and certainly the hundreds of
18 contracts that I've overseen the negotiation and
19 execution of in other parts of the country are at
20 prices for new generation that are much higher than
21 what PJM has been experiencing as far as its market
22 pricing and that, therefore, it's highly likely that
23 this hedge will be economically beneficial.

24 Q. Well, highly likely. You're discussing
25 forecasting; is that right?

1 A. That's correct.

2 Q. Okay. And on page 18 you state
3 "Forecasts are never perfect." Is that correct?

4 A. Correct.

5 Q. And on page 15 you state that you believe
6 that the benefit, if any, would likely not occur
7 until after the three-year ESP period; is that
8 correct?

9 A. That was based on the most recent
10 forecast of information that I had at this time.
11 It's my understanding that it is now looking like the
12 near-term benefits are likely to be positive for the
13 OVEC assets.

14 Q. Your testimony -- you didn't change or
15 modify your testimony that was filed with this
16 Commission in this docket, did you?

17 A. That's correct.

18 Q. Okay. And that's what your testimony on
19 page 15 says, that you don't believe that there would
20 be a benefit until after the three-year ESP period;
21 is that correct?

22 A. That's my testimony.

23 Q. Okay.

24 A. I think that --

25 Q. Thank you.

1 A. -- there is a benefit to having the
2 eight-and-a-half years of savings amortized over the
3 nine-and-a-half years for a PPA rider in that there
4 really are highly likely considerable net benefits
5 that would be outside the near term.

6 Q. Outside the near term. And it is your
7 understanding that as things currently stand, AEP's
8 proposal is for a three-year PPA rider during the
9 term of the ESP or a two-year PPA rider if they
10 terminate the ESP a year early.

11 A. On your first point, yes, it's my
12 understanding that AEP's proposal is just for a
13 three-year rider. The two-year element I don't have
14 any knowledge of.

15 Q. But the response would be the same
16 whether it would be a two-year or three year --

17 A. That's correct.

18 Q. -- that there were concerns with the
19 short-term nature of this PPA rider as proposed.

20 A. Yes.

21 MS. BOJKO: Okay. Thank you. Thank you,
22 sir. I have no further questions.

23 EXAMINER SEE: Mr. Petricoff?

24 MR. PETRICOFF: Thank you, your Honor.

25 - - -

CROSS-EXAMINATION

By Mr. Petricoff:

Q. Good morning, Mr. Taylor.

A. Good morning.

Q. I have a few follow-up questions for some of the answers that you gave to the Appalachian people's counsel and to the OMA.

First, the Appalachian people's counsel asked you about the new carbon dioxide emission rules or potential rules. Do you remember that dialogue?

A. Yes, I do.

Q. And, correct me if I'm wrong, but I thought I heard you say that in the end the impact of those could be a wash because all prices would -- all power prices would go up because of those rules?

A. I think in the time frame of the PPA rider that I am talking about, yes, that was the essence of my response. I think one point to clarify is the nine-and-a-half year period that I'm looking at for this rider or the eight-and-a-half years' actual net benefit calculations was derived partly with two things in mind: One, the nature of the hedges that I've seen in other transactions where generally there are contracts on the order of ten years or so, but, secondly, understanding that there

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1 are some major uncertainties out there with respect
2 to CO2.

3 The EPA's recent proposal, and it won't
4 be finalized until next summer, the summer of 2015,
5 but it basically requires that states take action so
6 if the rules go forward, states will have to come up
7 with a plan in order to achieve savings by 2030 and I
8 think that that creates some significant
9 uncertainties as we move through the next decade, the
10 2020s, and that's part of the rationale and reasoning
11 behind my focusing on just the next eight or nine
12 years or so rather than having a PPA rider that would
13 go even further out in time.

14 Q. But you'd agree with me that not all
15 generation assets are going to be impacted in the
16 same fashion by CO2 rules.

17 A. Yes. I agree with that.

18 Q. And, for example, a nuclear power plant
19 or a coal-fired power plant should have -- be less
20 impacted in terms of their costs for power than a
21 coal-fired plant.

22 MR. DARR: Could I have that question
23 back again?

24 THE WITNESS: Yeah.

25 MR. NOURSE: Yeah.

1 MR. PETRICOFF: I can rephrase the
2 question.

3 A. I think you said coal-fired and nuclear
4 would have less impact than a coal-fired.

5 Q. No, I'm -- let me redo it.

6 Isn't it true that a nuclear power plant
7 and a gas-fired power plant are likely to be less
8 affected by CO2 rules than a coal-fired power plant?

9 A. I would agree with that. I think that it
10 will ultimately be determined by the state
11 implementation plans as far as exactly how a state
12 decides to achieve the reductions that the EPA
13 proposed rules require. So it may be premature to
14 state that definitively, but on balance I think yes.

15 Q. Okay. And you would agree with me that
16 if you are selling power into the PJM market, that
17 basically power is sold into the market and accepted
18 into the market based on its price at the clock hour?

19 A. Correct.

20 Q. And so, relatively speaking, the CO2
21 rules could move the position of a coal-fired plant
22 in that dispatch stack in the locational marginal
23 price market?

24 A. Potentially. I think that my point is
25 that market prices, particularly in off-peak hours

1 when coal-fired power plants might be on the margin,
2 would be elevated by any sort of CO2 costs that those
3 coal-fired power plants would have to pay so that
4 market prices would move up during those periods and
5 the dispatch may be relatively unaffected.

6 Q. But isn't it true in those off-peak hours
7 that the price covers the variable cost of generation
8 and very little in the way of capacity?

9 A. Correct. I believe so.

10 Q. Now, I want to switch with you and talk a
11 little bit about coal. There are a number of
12 questions that Ms. Bojko asked you about the coal
13 market and coal-fired generation. And I believe that
14 you told her that you expected that because of the
15 closings of coal-fired power plants the price of coal
16 may actually go down instead of up.

17 A. I believe that there will be downward
18 pressure. When that's -- downward pressure meaning
19 that there wouldn't be any sort of upward movement in
20 coal prices, I don't know that they'll necessarily go
21 down, but I don't believe that coal price escalation
22 is going to be a significant concern in the coming
23 years.

24 Q. Let's go down one level of detail. Isn't
25 it true that the coal that's going to a specific

1 power plant has to have very defined -- meet very
2 defined quality standards?

3 A. Generally, although coal plant owners
4 have been finding greater flexibility in being able
5 to redesign or reconfigure boilers to be able to
6 accept coals of different varieties. In the past
7 that's definitely been the case where a particular
8 mine supplies a particular power plant and the plant
9 has been optimized in its construction for the use of
10 that very specific coal.

11 Q. And those variables are things like the
12 Btu content, the amount of silicon, the amount of
13 sulfur, the heat rate.

14 A. Among other things, yes.

15 Q. So even if a plant closed and freed up a
16 particular mine to -- coal mine to sell the coal to
17 other consumers, the OVEC plants couldn't necessarily
18 burn that coal.

19 A. Not necessarily, but not definitively no,
20 either.

21 Q. Okay. I guess just one or two more
22 points on the coal and that is generally does a coal
23 mine have more than one power plant as a customer?

24 A. I don't know if I could make a
25 generalization about that.

1 Q. Are you familiar with the coal contracts
2 that OVEC has for its two power plants?

3 A. Not in detail, no.

4 Q. So you don't know if they're long term or
5 short term?

6 A. I have seen some references as far as
7 some blending of near-term and longer-term elements
8 of the coal contracts, but I don't have specifics to
9 that.

10 Q. And I take it, then, the last question,
11 so you don't know if any of these mines are
12 exclusively dedicated to OVEC -- to the two OVEC
13 plants.

14 A. I don't know if they are exclusively
15 dedicated, and in the same vein I don't know if OVEC
16 itself is exclusively limited in the future from
17 looking at other alternative supplies of coal that
18 may be freed up by a lot of the closures that are
19 likely to occur in the coal area.

20 Q. So it's possible that if there are more
21 than one mine, more than one power plant being
22 covered by the contract that is supplying OVEC and
23 that other power plant closes, I'm sorry, that other
24 mine -- let me start over.

25 It is possible, then, that the mines that

1 are supplying OVEC are also supplying other power
2 plants that may close because of environmental rules.

3 A. Yes, that's a possibility.

4 Q. And in that case would the OVEC contract
5 have to support all of the operation and maintenance
6 expense of severing coal from those mines?

7 A. I don't know. It may be that the coal
8 mine now can ramp back on its costs and operations
9 because it's supplying fewer power plants with coal
10 supply.

11 Q. Given all the variables we've just
12 discussed is it fair to say then that one really
13 couldn't speculate as to what the impact will be on
14 coal prices because of the closures and the
15 environmental rules?

16 A. I think there are a number of
17 complicating factors but I still maintain that with
18 the closure of 28,000 megawatts of coal plants, the
19 retirement of these facilities, it's likely to put
20 downward pressure on coal prices.

21 Q. Okay. If you would, I'd like you to take
22 a look on page 2, lines 21 and 22 of your testimony,
23 and there you indicate that you have monitored and
24 evaluated hedging product solicitations and auctions
25 where utility clients were seeking to fix -- seek to

1 fix prices, I'll just summarize it as that. Do you
2 see that --

3 A. Yes, I do.

4 Q. -- where I'm referring?

5 Why is it important for a utility to want
6 to fix the price for generation for its units?

7 A. Well, on behalf of its customer base it's
8 trying to provide stable pricing, stable rates, so
9 that its customers are not exposed to a 100 percent
10 marginal cost pricing where prices may rise very
11 dramatically and disadvantage the customers.

12 Q. Have you had any experience with
13 utilities that are in the competitive market?

14 A. Yes.

15 Q. And why would a competitive market
16 utility want to fix the price with a hedge or
17 fixed-price sale?

18 A. In order to provide power supplies that
19 are more reliable and less volatile than offering a
20 product that's 100 percent market based.

21 Q. Wouldn't it also be important to them
22 that they have to cover some costs?

23 A. In these transactions it's not that
24 they're trying to cover some costs. They're simply
25 establishing hedges such that their final costs for

1 providing reliable power supplies are less volatile
2 than if they didn't secure those contracts.

3 Q. So the purpose, though, is to reduce the
4 risk that they won't have enough revenue to meet
5 their sunk costs?

6 A. No, I wouldn't say that. It's to provide
7 price stability for their customers.

8 Q. So those utilities are not worried at all
9 about meeting their own financial needs?

10 A. I think they are, but that's a separate
11 issue altogether. That's not the reason why they get
12 into -- why they entertain or execute these hedging
13 products.

14 Q. So it's your testimony that when a
15 competitive utility is seeking -- a competitive
16 utility gets into either a long-term price contract
17 or hedges the price, it's not for -- to meet its own
18 financial needs? That's not a factor?

19 A. I'm not saying it would not be a factor,
20 but my testimony is that it is generally pursued for
21 price stability of what they can offer to their
22 customers and that they recognize that that's a
23 valuable product to offer their customer base.

24 Q. Why are customers interested in stable
25 prices?

1 A. I think most households like to have some
2 degree of certainty in their budgeting about what
3 their utility bill is going to be and being entirely
4 open to marginal cost pricing may result in utility
5 bills that are a great surprise and a burden for a
6 household.

7 Q. And what tools are available to a
8 household or a small business in order to eliminate
9 price volatility?

10 A. I think in Ohio there are various
11 opportunities through the CRES providers for
12 potentially having fixed or less-volatile pricing
13 than I'm suggesting here as far as the market, but
14 those are only short-term solutions.

15 What my testimony has really been
16 focusing on is where things are likely to go over the
17 next eight to nine years, and I think what is likely
18 to be faced in the PJM market are some significantly
19 higher prices than what has been the case over the
20 last five or so.

21 So my point is not that fixed pricing
22 can't be obtained in the current Ohio marketplace for
23 some degree of, you know, one to three years, it's
24 after that. It's my understanding that there is no
25 ability to achieve the kind of price stability over

1 the next, say, nine or ten years as what's being
2 offered with the OVEC hedge.

3 Q. Okay. Is there an ability to get a
4 fixed-price contract for two to three years?

5 A. There may be. I do not know.

6 Q. What -- if you could tell me what steps
7 you took to -- well, did you take any steps to
8 investigate what firm- or fixed-price contracts were
9 available to customers in the Ohio Power service
10 territory for preparation of your testimony?

11 A. I had discussions with counsel and it is
12 my understanding that there may be market
13 alternatives for short-term kind of fixed-rate
14 contracts available to Ohio customers, but that those
15 do not go out beyond this three-year time period.

16 Q. But you didn't contact any of the 40
17 suppliers who are registered to sell in Ohio Power to
18 ask if they had fixed-price contracts over a two- to
19 ten-year period.

20 A. I did not.

21 Q. Okay. Now, in your conversation with
22 Ms. Bojko you indicated that, and I believe it's your
23 testimony also on page 17, that you believe that
24 large industrial customers ought to have the option
25 to opt out of the PPA program. Is that correct?

1 A. To self-insure was my term, and I have to
2 say that that's not a sacrosanct element of my
3 proposal. The main crux of what I'm proposing as far
4 as a PPA stability rider is that it be over a longer
5 time period than just the next three years. That it
6 cover the next eight-and-a-half to nine-and-a-half
7 years.

8 The self-insurance provision I think may
9 be beneficial, but it's not a -- it's not a must
10 have. It will be in the Commission's decision how to
11 decide to move forward with something like that.

12 Q. But it is your testimony that it would be
13 advantageous to allow customers who have the ability
14 to, and I'll use your term "insure" a price stability
15 to be given the option to design their own program.

16 A. Yes, that is my testimony. I think the
17 practical effect is that once these more
18 sophisticated large customers look at the final
19 details of the OVEC hedge, that they would decide to
20 participate in it.

21 What I definitely state in my testimony
22 is that this is a decision that must be made at the
23 beginning of the nine-and-a-half year period, so they
24 can't come back halfway through and say this hedge
25 looks like it's very much in the money and we want to

1 be back onboard with it. The idea here is to make
2 sure that both AEP Ohio as a company and the
3 customers are actually both on this train when it
4 leaves the station and you're either on or off.

5 Q. Is it important for AEP to be, as you
6 would, on the train for the whole nine-and-a-half
7 year period?

8 A. I believe so. From my standpoint, when I
9 first read the initial AEP testimony, the three-year
10 period of the OVEC hedge struck me as an unattractive
11 option and one where I felt that AEP Ohio's customers
12 could be potentially losing out to the future
13 benefits if they absorbed the up-front period where
14 the net benefits might not be positive, and then in
15 later ESPs the company would retain the flexibility
16 to either reintroduce the rider or not and that they
17 would be inclined not to if the hedge were very much
18 in the money.

19 So the whole concept around my testimony
20 was really to lock in a longer term process where
21 AEP Ohio would be committing to having this rider in
22 place over basically the next three ESP periods.

23 Q. But if you're correct and the value of
24 this generation, relatively speaking, in the market
25 is only going to be positive, then couldn't AEP just

1 sell that power into the market and financially be
2 indifferent if a customer owned the -- if a customer
3 dropped out?

4 A. I think so, but I think that there are
5 benefits to AEP as far as having earnings stability
6 by having this PPA rider in place. They are an
7 investor-owned utility, therefore, they have to
8 answer to Wall Street. Institutional investors and
9 private investors place a premium on securities
10 that -- equities that have fairly stable earnings
11 streams. So I can see that AEP even if they're
12 looking at this time period and saying we should just
13 take this on ourselves and get these net benefits, I
14 could see them still wanting to have a PPA rider in
15 place in order to levelize or smooth out what would
16 otherwise be a potential volatile element in their
17 earnings.

18 Q. But didn't you just earlier testify to me
19 that the reason that, and we were referring to page 2
20 of your testimony, lines 21 and 22, that utility
21 clients hedged out into the future was to give stable
22 prices to their customers, not for their financial
23 needs?

24 A. In the case of the other solicitations I
25 have overseen, that has been the central thrust.

1 Q. Okay. Now, let's go back. In order to
2 be -- have the sophistication to be able to insure
3 your own price stability for power is it a
4 requirement that you have to have a demand of
5 10 megawatts or greater?

6 A. That is how I developed my testimony.

7 Q. Let's take a client, one of the
8 intervenors in this proceeding is Wal-Mart who I
9 believe is good for 2 percent of the GDP of the
10 United States, would they have the sophistication to
11 hedge their own power?

12 A. I would presume they would.

13 Q. Even though they don't have 10 megawatts
14 per site?

15 A. And I think that it would be certainly
16 within the reasonable judgment of the Commission to
17 decide how to proceed with this self-insurance
18 element, A, whether to keep it at all, or, B, whether
19 to expand it from a single-site, 10-megawatt
20 parameter or a multi-site parameter.

21 Q. And would you also -- would you also --
22 let me strike that.

23 What if the Commission decided that
24 everyone should have the choice to opt in or opt out
25 of this price stability program, would that change

1 your recommendation of the program if that amendment
2 was made?

3 A. I think administratively that would
4 create a significant burden. I think that for small
5 customers, they place a certain amount of confidence
6 in having a public utilities commission that is going
7 to oversee the structuring of their SSO service and
8 not have to be involved in a lot of the decisions
9 about different elements that go into the pricing of
10 electricity, so they are -- they are entrusting the
11 public utilities commission to make decisions that
12 would make their lives easier.

13 Q. No, but I'm giving you a hypothetical
14 where a customer knows about this and does not care
15 to participate in it. Do you believe that the
16 Commission should forcibly conscript these customers
17 into the PPA program against their will?

18 A. I think there is an administrative
19 benefit to having this process roll out on a more
20 institutionalized basis, but I can agree with you
21 that from a philosophical standpoint I don't think
22 that anybody should be conscripted in this process,
23 but I think that it makes sense for the Public
24 Utilities Commission to make various decisions that
25 flow through for the benefits of customers and not

1 require everybody to basically participate in some
2 sort of a town hall meeting to decide exactly what
3 their utility bill needs to look like and every
4 little rider.

5 Q. But your program that you are proposing
6 is one in which unless you are a 10-megawatt customer
7 or larger, you must participate even if you don't
8 want to.

9 A. That is my proposal.

10 Q. Thank you.

11 Now I'd like you to take a look at page 9
12 of your testimony, lines 21 to 23. I'm sorry. That
13 is not the correct reference. I'm sorry, if you
14 could, I gave you the wrong reference, give me a
15 minute to find this.

16 I'm having some difficulty getting the
17 exact site so I think I'll just ask you in general.
18 Basically, you had talked about -- well, can you
19 agree with me that electric prices are affected, and
20 I know you've testified in here somewhere and I can't
21 find it at the moment, that weather, gas prices, and
22 capacity scarcity affect the price of power?

23 A. Yes.

24 Q. And that those effects could be both
25 positive or negative, mild weather would bring prices

1 down, severe weather would bring prices up.

2 A. Correct. And I think that the -- there
3 is evidence that was presented earlier in this docket
4 that severe weather actually tends to cause prices to
5 move upward much more so than mild weather causes
6 prices to go downward.

7 Q. Did that testimony also indicate that was
8 for short periods of time?

9 A. I think that was looking at historical
10 information over this past winter.

11 Q. Speaking of the past winter, are you
12 familiar with the so-called polar vortex in January
13 and February?

14 A. Yes.

15 Q. Do you recall how many days that PJM had
16 special pricing on because of the weather?

17 A. I do not know the specifics, no.

18 Q. But you'd agree with me it was just a
19 couple of days.

20 A. I do not know.

21 Q. Now, the price that -- well, let's see.
22 Let's go back. The PPA mechanism that you are
23 proposing to be in effect for eight-and-a-half years,
24 that is basically, if we're looking at it in terms of
25 a formula, it's the revenue that Ohio Power gets from

1 selling the power into the market minus the OVEC cost
2 for power divided by the kilowatt-hour sales and then
3 the credits on a per kilowatt-hour or megawatt-hour
4 basis?

5 A. From a simplistic standpoint, yes.

6 Q. Okay. And I think earlier you testified
7 that that price that OVEC charges is variable and
8 would be adjusted or it would be adjusted every year
9 to actual?

10 A. Correct. The PPA stability rider that I
11 proposed is for eight-and-a-half years of savings
12 over a nine-and-a-half year period. The additional
13 year at the end is to handle this annual true-up
14 process at the close of each calendar year, and it
15 could be more frequently if the Commission felt that
16 there was a benefit to that, but I was thinking from
17 an administrative ease standpoint to have an annual
18 true-up process where the actual costs of OVEC and
19 the actual energy and capacity market revenues
20 associated with the capacity and energy from the OVEC
21 entitlement would be trued up to what had been the
22 forecasted number that had been put into the original
23 rider.

24 Q. Now, would your costs be all the OVEC
25 costs regardless of the cause for the costs?

1 A. It would be those -- that percentage of
2 the OVEC costs that were attributable to AEP Ohio's
3 entitlement and it would be the actual costs that
4 they were facing from that year's operations.

5 Q. So, for example, if the Kyger Creek plant
6 went down and was not available for sales because of
7 fouling into the boiler lines, that cost would get
8 included regardless of the reason that the lines were
9 fouled?

10 A. Depending on what jurisdiction and
11 ability the Ohio Commission currently has over
12 reviewing OVEC costs or has traditionally and what
13 gets passed through to customer rates, I would
14 presume they would have the same -- my proposal is
15 that they would continue to have the same kind of
16 oversight.

17 Q. And you don't know what that level of
18 oversight is?

19 A. I do not.

20 Q. And the same would be true on the revenue
21 side, so if we're using my example before, if the
22 plant went down because it had fouled tubing, then
23 there would be less revenue because they wouldn't be
24 able to sell power for those days into the market?

25 A. That's correct.

1 Q. And you would once again give the
2 Commission the right to decide whether or not there
3 would be an adjustment for that?

4 A. Correct. To the extent that they have
5 had that kind of jurisdiction in the past.

6 MR. PETRICOFF: Okay. Your Honor, I
7 don't believe I have any more questions.

8 Thank you very much, Mr. Taylor

9 EXAMINER SEE: Mr. McDermott?

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

12 EXAMINER SEE: Mr. Darr?

13 MR. DARR: Thank you, your Honor.

14 - - -

15 CROSS-EXAMINATION

16 By Mr. Darr:

17 Q. Good morning, Mr. Taylor.

18 A. Good morning.

19 Q. If you could turn to page 10 of your
20 testimony, and here you note that one of the reasons
21 that you're looking at the hedge as a possibility is
22 based on experiences that have occurred in
23 California, correct?

24 A. That is correct.

25 Q. In fact, you've been involved --

1 according to your résumé attached to your testimony,
2 you've been involved in the solicitations made by
3 various entities to secure capacity resources; is
4 that correct?

5 A. That is correct.

6 Q. Now, the California situation is a
7 market-based -- there is a market-based energy
8 market, correct?

9 A. Yes, there is.

10 Q. In addition to that there is an ISO that
11 is responsible for maintaining the integrity of the
12 transmission system; is that correct?

13 A. Yes, it is.

14 Q. With regard to capacity in the California
15 system, could you explain for the record the process
16 that has been adopted in California for assuring
17 capacity reliability.

18 A. Certainly. There were shortages in the
19 2000-2001 time period that led to rolling blackouts
20 and very poor reliability for the system and the
21 state legislature adopted AB-52, Assembly Bill 52,
22 which basically insured that new generation would be
23 developed and allow for a reliability system, that
24 generation would be developed in response to
25 basically a determination on a biennial basis, every

1 two years, the investor-owned utilities in the state
2 would be given procurement targets that were
3 established through a long proceeding where
4 interested stakeholders could argue about exactly
5 what number of megawatts really should be procured.

6 Q. And those have been very long proceedings
7 as I understand it.

8 A. They have. But out of that process it's
9 established what sort of megawatt procurement needs
10 to occur in order to keep the system reliable. And
11 then the utilities hold solicitations, they issue
12 requests for proposals where they evaluate the best
13 resources, again these stakeholders are part of that
14 process on a confidential level, they're able to
15 review all the proposals and watch the utility
16 process where these contracts ultimately are
17 negotiated and executed and under anything from ten
18 years or more these contracts then provide the
19 independent power producers and the competitive
20 suppliers in the marketplace assurance of a revenue
21 stream so that they can get their projects financed
22 and those projects get built and therefore adequate
23 reserve margins are maintained.

24 Q. So the California solution to the
25 capacity shortfalls that were identified roughly in

1 1999 and 2000, maybe into 2001, was to adopt a
2 regulatory model to encourage, and in fact require,
3 the independently-owned -- or, excuse me,
4 investor-owned utilities to secure sufficient
5 capacity resources to maintain reliability within the
6 California region, correct?

7 A. Correct. The investor-owned utilities,
8 though, are doing that not just for their customers
9 but actually for the benefits of all customers. So
10 that also, then, applies to any sort of CRES-type
11 providers also enjoy the benefits of these new
12 megawatts that are procured.

13 Q. Now, within the PJM region an alternative
14 solution has been devised to meet reliability
15 requirements, correct?

16 A. I don't know if it has passed the test of
17 meeting the reliability requirements. For the most
18 part there has been little to no generation developed
19 on a merchant basis, particularly in the Midwestern
20 portion of the PJM Interconnection.

21 Q. Well, let's --

22 A. So I think it's yet to be determined
23 whether that solution is going to work because it
24 really only provides market signals out for at most
25 three years.

1 Q. That wasn't really responsive to my
2 question. My question was the reliability approach
3 adopted by PJM is basically a market-based approach,
4 correct?

5 A. That is my understanding.

6 Q. Now, the problems that led to the
7 California solution you indicate in your testimony
8 were preceded by some pretty significant market
9 volatility that ultimately led to one utility,
10 Pacific Power and Gas, entering bankruptcy, correct?

11 A. It was Pacific Gas and Electric, PG&E,
12 and I guess one additional element I would add on to
13 the previous response is that I believe that the
14 solution that California has adopted is a
15 market-based solution. It is simply -- it allows
16 greater certainty for the market participants, the
17 independent power producers, to establish revenue
18 streams where they can go to their banks, their
19 lenders, and achieve the necessary financing to get
20 the iron in the ground.

21 Q. We'll get to that, I think we'll come
22 back to that here in a second.

23 With regard to the OVEC proposal, are you
24 suggesting that without a PPAR, whether it's three
25 years or nine-and-a-half years, that Ohio Power

1 Company would somehow be at risk in the same way that
2 Pacific Gas and Electric was at a risk?

3 A. I don't know, because I don't know the
4 particulars of AEP Ohio's cost recovery process which
5 was part of the problem in California.

6 Q. Okay. Let's investigate that a little
7 bit, then. By your estimate over the next
8 nine-and-a-half years the OVEC entitlement will not
9 only cover its costs but provide a \$49 million
10 benefit. Under your estimate do you perceive that
11 Ohio Power is at risk in any way?

12 A. I don't believe so. I think that this is
13 a benefit for AEP Ohio's customers, but I do not see
14 the PPA rider as having a direct financial
15 implication for AEP Ohio outside of the 10 percent
16 participation rate that they would have in it.

17 Q. Now let's come back to the issue that you
18 raised with your comment about the financial markets
19 and the effect or benefit to customers in the
20 California situation. And what's at issue here, as I
21 understand it, is that customers are better assured
22 that when they hit the switch, the lights are going
23 to come on, correct?

24 A. Correct.

25 Q. That's what reliability is all about.

1 That's what we're talking about, correct?

2 A. Yes. Reliability and, in the case of the
3 OVEC hedge, price stability.

4 Q. Okay. Well, and that was going to be my
5 next question to you. With regard to the OVEC hedge,
6 we're not talking about increasing or decreasing the
7 amount of power available to the Ohio Power
8 customers, correct?

9 A. That is correct. This is not a physical
10 product. This would be a financial product so it
11 does not change the amount of megawatt-hours that
12 customers would need to shop for or attain under the
13 SSO-type service.

14 Q. And, by the same token, the reliability
15 function would still remain with PJM to determine a
16 reliability target, set up the auction, clear the
17 auction, and then assure that the power is there when
18 it's called upon, correct?

19 A. That's correct. I guess there would be
20 one reliability element that I would point out for
21 the OVEC hedge. If the Commission adopts this kind
22 of long-term hedge, it would secure the OVEC
23 resources for the benefit of AEP Ohio's customers.
24 If the hedge is not pursued, AEP Ohio will have those
25 assets to dispose of as they -- as they choose, which

1 they could potentially, if they got final approval
2 from the OVEC board, decide to sell those off to some
3 outside marketing operation or one of the banks that
4 transact in the power markets, Goldman-Sachs, for
5 example, and once that occurred then the assets would
6 be outside any sort of purview of the Ohio Commission
7 and could be used or perhaps retired based on
8 whatever that new owner's decisions were.

9 Q. Going back to my original question,
10 though, the stability function would still remain
11 with PJM, correct? The reliability function, excuse
12 me.

13 A. Yes. When you say the "reliability
14 function," it's my understanding that even the former
15 chairman of the Commission back this past fall has
16 expressed concerns in filings before the FERC that
17 that reliability function and process at PJM needs
18 some thorough examination and there is concern that
19 in its current state it is not likely to encourage
20 the development of new generation. And I share that
21 concern based on what I saw from the California
22 experience.

23 Q. Are you aware of activities undertaken by
24 PJM and its members, which includes AEP Ohio -- or,
25 excuse me, AEP, to address these reliability issues

1 through the various working groups and through
2 proceedings at the FERC?

3 A. I understand that there are workshops and
4 working groups exploring this issue.

5 Q. And it would be fair to say that given
6 the information that developed as a result of the
7 polar vortex both PJM, the FERC, and the various
8 generation owners in the PJM region have, for lack of
9 a better term, have some new experience that they can
10 incorporate into those discussions?

11 A. I think that that's a fair statement.

12 Q. Now, the value of the hedge that you
13 proposed, and the one proposed by AEP Ohio, in a
14 simplified form have four variables: Capacity price,
15 energy price, capacity cost, and energy cost.
16 Correct?

17 A. Correct.

18 Q. And of those variables they are known
19 over any particular period.

20 A. I wouldn't say any of them are known.

21 Q. Well, let's take capacity price. For the
22 period between now and the end of the proposed ESP
23 the capacity price is now known, correct?

24 A. Correct.

25 Q. With regard to the energy price through

1 the PJM market, that's an unknown, correct?

2 A. That is an unknown, correct.

3 Q. And you've indicated in your testimony
4 the capacity cost is more a known than an unknown,
5 correct?

6 A. I believe in my testimony I've really --
7 I'm sorry, capacity cost?

8 Q. Yes.

9 A. Okay. Yes, I believe that it is -- has a
10 narrower band of uncertainty associated with it than
11 the market capacity value.

12 Q. And though you indicated that you have
13 not looked at the energy contracts for OVEC, would
14 you agree with me that the capacity -- excuse me, the
15 energy cost represented by coal contracts primarily
16 is more known than unknown?

17 A. Yes.

18 Q. So the one variable, which is subject to
19 the most volatility, would be the energy price,
20 correct?

21 A. Over the next three periods. My
22 testimony was really looking out over the next
23 eight-and-a-half to nine-and-a-half years so that's
24 where I was examining and focusing on a lot more of
25 the potential implications in the capacity and energy

1 markets and the uncertainty there and the stability
2 that the OVEC hedge would provide for AEP Ohio
3 customers.

4 Q. So, in particular, at least with regard
5 to the way you forecasted it, over the initial three
6 years, that the volatility of the energy price is
7 probably the one factor that's the most unknown?

8 A. I would say yes, it's the most unknown.

9 Q. Now, as part of your review, did you go
10 back and look at the OVEC annual reports for 2012 or
11 any prior year?

12 A. I believe I glanced at the most recent
13 one, I believe it was 2012.

14 Q. And then, therefore, you're aware that
15 the price movement with regard to -- excuse me, the
16 cost movement with regard to the OVEC generation
17 increased by \$12 from one year to the next as
18 reported in that 2012 annual report, correct?

19 A. I have a vague recollection of that.

20 Q. And that cost movement was a function of
21 multiple factors including weather, market prices,
22 and other factors, correct?

23 A. I believe that was an all-in price, so
24 yes. To the extent that low market prices in the
25 2011 to 2012 time frame caused less generation to be

1 dispatched from the resources, then certainly the
2 all-in price moved up.

3 Q. Now, with regard to the studies that you
4 looked at as to the forward price, am I correct that
5 you were using what's been referred to as Attachment
6 2 of the response by AEP Ohio to IEU Interrogatory
7 2-1?

8 A. I believe that's the correct reference.

9 Q. And are you aware of whether or not there
10 was any carbon tax adjustment made to the forward
11 prices and costs used for that run?

12 A. I do not.

13 Q. At page 11 of your testimony, if you'd
14 turn there, you indicate -- excuse me, page 14, line
15 11, you state that the OVEC hedge would have no
16 effect on CRES providers. Do you see that?

17 A. Yes.

18 Q. Now, the OVEC entitlement, in your
19 proposal and AEP Ohio's proposal, would be bid into
20 the PJM market, correct?

21 A. Correct.

22 Q. OVEC under your proposal and AEP Ohio's
23 proposal would recover the full cost of the
24 generation through a combination of prices received
25 from PJM for capacity and energy plus or minus the

1 credit, correct?

2 A. Plus or minus the credit? I'm sorry,
3 could --

4 Q. Plus or minus the credit or charge
5 represented by the PPAR.

6 A. Okay. Yes.

7 Q. Under both your proposal and the one
8 provided by AEP Ohio AEP Ohio would be recovering the
9 full cost of the entitlement from PJM and ratepayers
10 through this combination of PJM revenues and the
11 charge or credit represented by the PPAR, correct?

12 A. Correct.

13 Q. Are you aware of any CRES provider in
14 Ohio that is provided a regulatory opportunity to
15 recover costs through a nonbypassable charge?

16 A. In a sense this would be a benefit for
17 all of the CRES providers too in that --

18 Q. That wasn't my question, sir. Would you
19 answer my question.

20 A. I believe I was answering it in that this
21 would reduce the ultimate utility bill for customers
22 that receive their energy supply from a CRES
23 provider.

24 Q. Sir, are you aware of any CRES providers
25 in Ohio that provide a -- that are provided a

1 regulatory opportunity to recover costs through a
2 nonbypassable charge?

3 A. I do not know the details of the CRES
4 arrangements so I do not know one way or the other.

5 Q. Are you familiar with the term "contract
6 for differences"?

7 A. Yes.

8 Q. This is a term that's been used in
9 New Jersey and I believe Maryland, correct?

10 A. Subject to check, yes.

11 Q. Are you aware the status of the
12 commission decisions dealing with contracts for
13 differences in Maryland or New Jersey in the federal
14 courts?

15 A. No, I am not.

16 Q. So is it fair to say you haven't
17 investigated whether or not there are any
18 jurisdictional problems associated with -- and when I
19 speak of "jurisdictional," I mean jurisdictional with
20 regard to who has authority to regulate the price of
21 wholesale power contracts, you haven't investigated
22 whether -- the jurisdictional issues that might be
23 raised by a contract for differences?

24 A. I have not.

25 Q. Have you reviewed the ICPA, the agreement

1 between the various sponsoring parties and OVEC, that
2 established the cost mechanisms?

3 A. I've skimmed it.

4 Q. In your testimony you have not addressed
5 whether AEP can assign its entitlement to a third
6 party; is that correct?

7 A. Assign its entitlement.

8 Q. Sell it.

9 A. It's my understanding that they attempted
10 to do that but that they did not get the consent of
11 the OVEC board to perform that assignment.

12 Q. Did you look at whether or not AEP Ohio
13 had any other alternatives to the method that they
14 used, that they explored with these sponsoring
15 parties previously?

16 A. I did not.

17 Q. You addressed or began to address this
18 issue with Mr. Petricoff and I believe Mr. Smalz and
19 that's the effect of the EPA decision. Under the
20 current calendar is it fair to say that the
21 rulemaking is going to take at least another year to
22 complete?

23 A. I believe EPA's schedule is to try and
24 have the rule formalized by next summer. There's
25 been some activity on Capitol Hill to slow things

1 down so ultimately we'll see what political or
2 legislative issues arise at the federal level in the
3 process, but the ESP's I think current plan, and it
4 may be optimistic, is to have a rule finalized in the
5 summer of 2015 with states then being required to
6 come up with their implementation plans over the next
7 two to three years after that.

8 Q. That was going to be my next question.
9 Even if the rule is finalized in 2015, the first
10 plans would not be required until 2016, correct?

11 A. I believe --

12 Q. Or 2017.

13 A. -- 2017 would be the earliest date for
14 plans to be submitted.

15 Q. And some states would be offered the
16 opportunity to file a year after that under the
17 current proposal, correct?

18 A. That is my understanding, yes.

19 Q. Now, are you familiar with statements
20 made by the director of EPA indicating that it
21 would -- that the administration would consider
22 alternative proposals to that which had been
23 presented to it -- excuse me -- alternative proposals
24 to the one that it has presented in the last couple
25 of weeks?

1 A. Yes. And I believe that even the current
2 proposal leaves a lot of flexibility for states to
3 address the CO2 targets in a variety of different
4 ways.

5 Q. And there's also been reports in the
6 media and I think they actually relate back to the
7 administrator's statement to the effect that EPA
8 could completely rewrite its proposed rules, correct?

9 A. That's my understanding.

10 Q. Is it further your understanding that
11 among the proposals that could be provided by states
12 are what are called outside-the-fence solutions?

13 A. Yes.

14 Q. Could you describe for the record what is
15 an outside-the-fence solution?

16 A. My understanding is that there may be
17 options for reducing a state's CO2 footprint with
18 activities that may be even outside of the state's
19 borders.

20 Q. And that recognizes the fact that among
21 the various concerns that are involved here,
22 including lower CO2 emissions, that the solution
23 could be done on both a state-by-state basis or on a
24 regional basis, correct?

25 A. Correct.

1 Q. And the current rulemaking recognizes
2 that there's also a reliability interest involved
3 here as well, correct?

4 A. Yes, that's my understanding.

5 Q. And reliability concerns are not limited
6 to just one state.

7 A. Correct.

8 Q. Now, the nine-and-a-half year sweet spot
9 that you've identified, and I used your term --

10 A. Right.

11 Q. -- to address the problem of the forecast
12 is that you don't want to go out too far because the
13 forecasts get a little bit shaky at that point,
14 correct?

15 A. Correct. I think there are some
16 significant uncertainties as we move forward to 2030.

17 Q. And, as we found out over the last
18 two-and-a-half weeks, forecasts are inherently prone
19 to adjustment over time, correct?

20 A. That is correct.

21 Q. In fact, the forecast that you've relied
22 upon apparently has been revised by \$20 million --
23 \$29 million over the last two-and-a-half weeks,
24 correct?

25 A. It's my understanding that it's been

1 revised by about \$21 million and that's predominantly
2 because of reductions in OVEC costs that are
3 attributable to the LEAN program that the owners of
4 OVEC, the OVEC assets, have been employing to contain
5 costs.

6 Q. Well, I don't want to quibble too much
7 but just to make sure the record is clear, you
8 initially estimated that the PPAR would cost
9 customers \$21 million in charges over the first three
10 years. Do I have that correct?

11 A. No. It was the net difference between
12 the \$8 million and approximately \$13 million that
13 created a \$21 million total adjustment. So my
14 original number had been approximately \$13 million of
15 net costs over the three years and it's my
16 understanding that information has been provided in
17 this proceeding that it looks like over that
18 three-year period there won't be \$13 million of net
19 costs, or negative net benefits, but actually
20 positive \$8 million of net benefits.

21 Q. I apologize because I misunderstood your
22 prior testimony. I thought you indicated initially
23 that there was a \$21 million cost associated with the
24 first three years.

25 A. No.

1 Q. So on net over the last two-and-a-half
2 weeks we've had a \$21 million swing over the first
3 three years.

4 A. That's correct.

5 Q. If we accept the results of the forecast
6 contained in Attachment 2 to IEU 2-1.

7 A. Right. And I would point out that
8 that -- so to get to your point of the last
9 two-and-a-half weeks, that analysis was from
10 September of 2013. So I wouldn't say that we've seen
11 that swing in two-and-a-half weeks, but more like
12 nine months.

13 Q. Well, it's fair to say that your initial
14 testimony relied on the September 2013 estimates,
15 correct?

16 A. Correct.

17 Q. And you didn't attempt to update your
18 estimates prior to filing your testimony, correct?

19 A. There was no additional later
20 information.

21 Q. So the answer to my question is you did
22 not do that, correct?

23 A. There was nothing to update, correct.

24 Q. And so whatever happened has happened in
25 the last two-and-a-half weeks. We now understand

1 that there's potentially an \$8 million benefit if you
2 accept the assumptions contained in Attachment 2 of
3 IEU 2-1, correct?

4 A. Correct.

5 MR. DARR: I believe that's all I have.
6 Thank you.

7 EXAMINER SEE: Mr. Yurick?

8 MR. YURICK: Briefly, if I might, your
9 Honor. Thank you.

10 - - -

11 CROSS-EXAMINATION

12 By Mr. Yurick:

13 Q. Good morning, Mr. Taylor.

14 A. Good morning.

15 Q. I'd like to focus on one part of your
16 testimony that begins on page 19, the last question
17 and your answer, and that bleeds over to the next
18 page, page 20. Will you let me know when you're
19 there?

20 A. Yes, I am.

21 Q. Okay. So at the bottom of page 19 you
22 propose that any customer with more than 10 megawatts
23 of load per single site should be given the chance to
24 self-insure and not participate in the OVEC hedge; is
25 that -- do you see that?

1 A. Yes, I do.

2 Q. Okay. Now, would I be correct in saying
3 that the same rationale would apply to customers that
4 had more than 10 megawatts of load at multiple sites
5 should they -- should those customers also be given
6 the chance to, as you put it, self-insure or opt-out
7 of the rider?

8 A. I believe that such customers would
9 probably have the sophistication and the financial
10 departments to be considering hedging products and be
11 able to self-insure if they wished so, yes, if the
12 Commission deemed it appropriate, I could certainly
13 see the 10 megawatts being applied to customers with
14 that kind of load over multiple sites instead of just
15 the one site.

16 MR. YURICK: I don't have any further
17 questions at this time, thank you, your Honor.

18 MR. KURTZ: Your Honor, I'm sorry, could
19 we take a five-minute break before OCC starts. He's
20 been on there for almost two hours, if that's okay.

21 EXAMINER SEE: That's fine. Let's take a
22 ten-minute recess.

23 MR. KURTZ: Thank you, your Honor.

24 (Recess taken.)

25 EXAMINER SEE: Let's go back on the

1 record.

2 Mr. Berger.

3 MR. BERGER: Thank you, your Honor.

4 - - -

5 CROSS-EXAMINATION

6 By Mr. Berger:

7 Q. Good morning, Mr. Taylor. How are you?
8 My name is Tad Berger, I'm with the Office of the
9 Ohio Consumers' Counsel. I have a number of
10 questions for you.

11 EXAMINER SEE: Mr. Berger, turn the stem
12 of the --

13 MR. BERGER: Can you hear me okay now?

14 EXAMINER SEE: Much better, thank you.

15 Q. Mr. Taylor, your recommendation with
16 respect to the 10-megawatt threshold for the
17 self-insurance, are all of OEG's members 10 megawatts
18 or greater?

19 A. I don't know.

20 Q. You didn't evaluate that? You weren't
21 informed of that prior to this hearing?

22 A. No.

23 Q. And it sounds like from your testimony
24 that you don't necessarily think that the
25 10 megawatts is something that is set in stone, that

1 that's a matter for the discretion of the Commission;
2 is that correct?

3 A. That is correct.

4 Q. You've indicated that you don't object to
5 a number -- or, customers that have a number of
6 different sites that might add up to a certain
7 threshold value; is that correct?

8 A. That is correct.

9 Q. And would you have any objection if, for
10 example, the Commission or the Office of the Ohio
11 Consumers' Counsel were to retain a consultant on
12 behalf of the residential class to make that election
13 for self-insurance on behalf of residential
14 customers? Would that be of concern to you?
15 Certainly that class adds up to far more than
16 10 megawatts.

17 A. No. I mean, ultimately my participation
18 in this proceeding is really on behalf of the
19 customers of the state of Ohio, that's really how I
20 approach most of my consulting engagements because
21 I'm really trying to procure the best supplies for
22 the people of the state of the jurisdiction that I'm
23 operating in. So I'm advocating on behalf of this
24 OVEC hedge principally because I do believe it is
25 going to be a real benefit for the customers of the

1 state of Ohio.

2 Q. Now, in terms of that benefit, you talked
3 about the \$21 million shift in the -- from being a
4 cost of 13 million to being a net benefit of
5 8 million. Do you recall that?

6 A. Yes, I do.

7 Q. And is that based upon IEU 2-1,
8 Attachment 2?

9 A. Yes, it was. The \$13 million number.

10 Q. Okay. What was the change -- just
11 explain to me your understanding of the change that
12 caused that shift in the results of Attachment 2.

13 A. Well, there are four basic elements that
14 go into the net benefit calculation: The market
15 capacity revenues and market energy revenues
16 associated with the expectation of what the next
17 three years might net for the OVEC assets and then
18 their capacity or demand costs and their energy
19 costs.

20 Predominately it seemed like the demand
21 costs were lower than what they had been anticipated
22 to be nine months ago.

23 Q. Okay.

24 A. I believe that that's attributable
25 primarily to the LEAN program which is something

1 that's been implemented by the co-owners of the OVEC
2 assets to try to control their costs. And I think
3 it's also worth -- we talked a little bit about the
4 10 percent element in my proposed PPA rider. As far
5 as AEP Ohio's corporate participation in the rider,
6 that would largely be to incentivize AEP Ohio to
7 continue as a co-owner in the OVEC assets to manage
8 those costs and to ensure that they're getting the
9 maximum market revenues as far as sales of capacity
10 in energy.

11 Q. Okay.

12 A. So it's kind of skin in the game, if you
13 will, associated with AEP Ohio's participation in the
14 overall rider structure.

15 Q. But what your understanding is the LEAN
16 improvements were not originally included in
17 Attachment 2 and that that is the primary reason that
18 there's been a resultant change in the amount that
19 would be indicated from Attachment 2; is that right?

20 A. There may have been certain assumptions
21 about the LEAN improvements already included in that
22 fall forecast, but it is my understanding in looking
23 at the numbers that the demand costs have declined
24 from what they were expected to be back in the fall
25 so that the LEAN improvements are even more than what

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1 may have been assumed back in the fall of 2013.

2 Q. You're aware that that's all based on a
3 budget and has not actually occurred.

4 A. Correct.

5 Q. Okay. And it's based on a five-year
6 budget; is that correct?

7 A. Subject to check, that's my
8 understanding.

9 Q. And that analysis, it doesn't include any
10 update to forecasted market prices, correct?

11 A. I believe it may have. I did not study
12 those numbers. I noticed that they hadn't moved as
13 much, so I was looking really for the main -- the
14 main drivers in things shifting from the
15 \$13 million of cost to the positive \$8 million in net
16 benefits. But those forecasts may have been revised.

17 Q. You don't know whether the analysis that
18 indicated an \$8 million benefit included an update of
19 forecasted market prices or not?

20 A. I presumed that it had but --

21 Q. You do or you don't know?

22 A. I don't know in that the numbers that I
23 saw in an exhibit were just total dollar numbers.

24 Q. Okay. You're not aware of any updated
25 prices that were used in that analysis, whether they

1 were for particular dates or anything of --

2 A. I do not know for sure.

3 Q. Okay.

4 A. I am presuming that there were perhaps
5 revisions but I don't know for sure.

6 Q. And you're familiar with Mr. Wilson's
7 testimony?

8 A. Somewhat, yes.

9 Q. OCC Witness Wilson's testimony, you're
10 aware that he used more -- more current forward
11 prices in his analysis; is that -- are you aware of
12 that?

13 A. I believe he made a number of assumptions
14 in revising his estimates of what the net benefits
15 would be.

16 Q. It is likely to be me from what I
17 understand.

18 A. Okay.

19 (Laughter.)

20 A. I don't know exactly all the parameters
21 that he changed, but I remember skimming his
22 testimony and seeing that he had some more
23 conservative assumptions about what the net benefits
24 may be from the OVEC hedge.

25 Q. Conservative meaning?

1 A. He -- I shouldn't say "conservative."
2 That's possibly the inappropriate word.

3 He had more pessimistic assumptions about
4 the potential for the OVEC assets to generate at the
5 levels that they're likely to be able to generate at.

6 Q. And you're familiar with the reasons that
7 his forecast was -- of the net cost, or net benefit,
8 was that it would be a \$116 million net cost. You're
9 aware of the three reasons that he identified; is
10 that right?

11 A. Again, I skimmed his testimony, but I'm
12 not prepared to state exactly what his analysis was
13 all about. I will take it at your -- at face value
14 as far as what those parameters were, but one of them
15 I recall had to do with lower generation levels as
16 part of his assumptions.

17 Q. But you're aware that he used forward
18 market prices from dated May 6th, 2014, in
19 developing his analysis. Are you aware of that?

20 A. That's my general recollection.

21 Q. And you're aware that Attachment 2 upon
22 which you're relying utilized forward market prices
23 from September of 2013.

24 A. I could definitely attest to what mine
25 relied on, yes.

1 Q. Okay. And have you reviewed recent
2 forward prices for the AD Hub?

3 A. I have, as recently as this morning, I
4 was seeing that market prices for this afternoon are
5 supposed to be above \$100 per megawatt-hour which is
6 much, much higher than any of the forecasted numbers
7 that are in the tables right now. And we're just
8 starting the summer season.

9 Q. Have you reviewed Mr. Wilson's Exhibit
10 JFW-1? Are you familiar with the forward prices
11 reflected there?

12 A. No, I have not.

13 Q. In terms of the forward prices that you
14 were talking about, were those forward prices for
15 next month or are you talking about forward prices
16 for the next three years that's applicable to the
17 OVEC estimate?

18 A. I'm sorry. The price that I just
19 mentioned was for this afternoon.

20 Q. Okay.

21 A. So it's a very current price.

22 Q. So you're talking about a day-ahead
23 price.

24 A. Correct. Or realtime price, perhaps.

25 Q. Have you reviewed the forward curve for

1 the next three years for the OVEC period --

2 A. I have not.

3 Q. -- for the proposed PPA rider period?

4 Okay. So you don't know whether those look anything
5 different than what Mr. Wilson shows in his Exhibit
6 JFW-1 that you haven't reviewed.

7 A. Correct.

8 Q. Okay. And you haven't prepared your own
9 forecast of market prices for that three-year period,
10 have you?

11 A. I have not. I focused really on the
12 overall eight-and-a-half to nine-and-a-half year
13 perspective and looked at the assumptions
14 predominantly for capacity pricing in PJM and
15 compared them to my knowledge of what ten-year
16 contracts have been signed for elsewhere in the
17 country and simply recognized that the prices that
18 are inherently in this eight-and-a-half year forecast
19 appear to be rather low and I don't think are going
20 to be sufficient to induce new generation into the
21 PJM structure.

22 So I think that the market truly has yet
23 to really develop. Sometimes when people talk about
24 whether a competitive market is fully developed, they
25 might use some simplistic metric of how many

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1 load-serving entities or competitive suppliers might
2 there be in the marketplace and that's one metric,
3 but I think that the true test is going to be in
4 whether new generation is actually developed under
5 the RPM, the reliability pricing model, that PJM has
6 developed as its construct.

7 So my focus in looking at a lot of these
8 forward prices was not over the next three-year
9 period but over the nine-year period and recognizing
10 that there's going to have to be a change either in
11 the way that PJM implements its pricing process or,
12 if it stays with the three-year forward price kind of
13 process, layering in from year to year, and I think
14 that there's a very strong possibility that the
15 dollar per megawatt-day capacity costs of new
16 generation are going to be driving that number up
17 more than has been the expectation in the forecasts
18 that I've been reviewing from AEP Ohio

19 Q. Now, your forecast, that price -- your
20 viewpoint that prices are low currently and are going
21 to increase substantially over time, you haven't
22 prepared any kind of analysis of that, that's just
23 your judgment; is that right?

24 A. Correct. It's my judgment.

25 Q. Okay. And you haven't looked at the

1 current forward prices over the next three years or
2 over the next ten years -- well, the fundamental
3 prices other than looking at what AEP provided in
4 Attachment 2 to IEU 2-1; is that right?

5 A. Correct. But to be clear, the only
6 forward prices for capacity that we have with any
7 sort of assurance is over the near term and it's the
8 long term that I'm concerned about. And it is my
9 testimony that my support for the OVEC hedge is
10 largely based on the information that I have from
11 other activities around the country and what it tends
12 to cost on a capacity price basis to induce the
13 development of new generation.

14 Q. Now, OEG's customers are largely large
15 customers, many of whom are probably over the
16 10-megawatt threshold and may self-insure. You're
17 proposing that they have an opt-out; is that correct?

18 A. That is my proposal.

19 Q. So you're not really -- to use the
20 expression, you're not putting your money where your
21 mouth is, you're giving those guys an out on what you
22 yourself are proposing.

23 A. I think that this OVEC hedge is going to
24 be very beneficial for customers and I believe that
25 if the Commission -- I think that a lot of this

1 analysis came together quickly enough that the OEG
2 customer group may not have had an opportunity to
3 review the benefits of a nine-and-a-half year kind of
4 OVEC hedge that I am proposing. I think that once
5 they do that, they will, in all likelihood, decide
6 that they want to be part of this operation,
7 particularly since it does involve under my structure
8 an immediate credit that will occur in the very first
9 year.

10 If the Commission feels like the
11 self-insure provision that I have included in my
12 testimony is something that they don't like, I
13 probably support the concept of simply making this a
14 nonbypassable charge. So I don't want this
15 self-insurance element to sound like I don't have
16 confidence in what I'm proposing here as far as the
17 OVEC hedge. I do have strong confidence in it. I
18 think it's going to be a winner for everybody. And
19 if making it a nonbypassable charge is what the
20 Commission decides, I -- I fully support that
21 concept.

22 Q. Okay. So you're saying that you have no
23 opposition to the self-insured insurance opt-out
24 being eliminated from the proposal and all of the
25 10-megawatt or large customers being subject to the

1 PPA rider charge; is that what you're saying?

2 A. That's correct.

3 Q. Now, with respect to what happened in
4 California that you talk about on page 9 of your
5 testimony, you testified that insufficient generating
6 capacity and alleged market manipulation pushed PG&E
7 into bankruptcy. Do you recall that?

8 A. Yes, I do.

9 Q. And are you aware of other factors that
10 contributed to PG&E going into bankruptcy?

11 A. I'm sure there were a number of factors,
12 but I don't -- the ones that I stated in my testimony
13 are the ones that I'm primarily aware of.

14 Q. Are you aware that they were purchasing
15 at market-based wholesale prices but they were locked
16 into retail sales at fixed prices, for example?

17 A. That is my understanding.

18 Q. Are you aware that that was a substantial
19 factor contributing to their bankruptcy?

20 A. Yes.

21 Q. At page 11 of your testimony at lines 10
22 through 12 you suggest that the PPA rider would
23 protect AEP Ohio customers from, quote, being overly
24 exposed to the energy market. Do you see that?

25 A. Yes.

1 Q. Is it your testimony that some customers
2 are presently overly exposed to the energy market?

3 A. Yes. And I would expand that to be
4 energy and capacity markets. I believe that --

5 Q. Would that be SSO customers or CRES
6 supplier customers?

7 A. I would say SSO customers and CRES
8 supplier customers.

9 Q. And if SSO customers were paying their
10 rates based upon one-year, two-year, and three-year
11 SSO actions how are they being overly exposed to
12 those markets?

13 A. Over the nine-year term I believe there
14 is an opportunity that's been provided through this
15 PPA stability rider for protection against where
16 market prices are going to go. I grant you that over
17 the near term the layering in or feathering of
18 auction results for SSO and the ability of customers
19 to shop among CRES providers can potentially give
20 them firm nonvolatile rates in the near term.

21 What I'm most concerned about is where
22 things are headed over the rest of this decade and
23 into the early 2020s, and I think that the
24 fundamental element of my testimony is really that
25 this PPA rider needs to be a longer-term element to

1 go ahead and capture its benefits and provide
2 stability that I don't think is going to be there in
3 the CRES or SSO world as we move through this
4 nine-year period.

5 Q. But you said that SSO customers in the
6 short term, and you're talking about basically a
7 three-year period, are not exposed to volatile prices
8 because of the way that their pricing works; is that
9 correct?

10 A. That is my understanding, yes.

11 Q. Okay. And you recognize the limited
12 amount of the PPA as a hedge; is that correct?

13 A. Yes. It's not going to be an all-out
14 savior if market prices explode. It will certainly
15 help. But I do recognize that we're only talking
16 about a 5 percent kind of benefit here versus being
17 95 percent reliant on the market.

18 I believe that probably 95 percent
19 reliant on the market is going to be still a high
20 percentage and that hopefully the Commission and OCC
21 will look for other opportunities in the coming years
22 to perhaps have other types of hedging products, be
23 they long-term PPAs or swaps or other things that
24 might help stabilize things because I do think that
25 95 percent market is still a pretty high market

1 exposure issue.

2 And the problem with that is if a market
3 does explode, there are risk premiums, then, that
4 even locking in prices tend to increase so that
5 turning to CRES providers or the SSO process, it's
6 true that those prices over time may continue to be
7 fixed for their near-term three-year period, but I'm
8 talking about a sea change where the rising tied
9 starts to carry up all of these prices. So I think
10 as we run into potentially more volatility and the
11 need for new capacity drives up both capacity and
12 energy prices in PJM, we're likely to see
13 opportunities disappear for locking in the kinds of
14 beneficial pricing that might be available now in
15 mid-2014.

16 Q. Mr. Taylor, are you aware of Mr. Allen's
17 workpaper where he showed the net benefit to
18 customers under his revised calculation in terms of a
19 cents per megawatt-hour? Are you familiar with that,
20 which was marked and introduced into this record as
21 IEU Exhibit 8?

22 A. I believe that was the exhibit that I
23 reviewed, yes.

24 Q. And are you aware that it's in the order
25 of pennies per megawatt-hour?

1 A. Yes, I am. 10 to 20 cents, I think,
2 potentially negative 20 cents as a credit.

3 Q. Yes. And you're aware of what the
4 average residential consumption is in a year's time
5 that would make that virtually insignificant to a
6 residential customer. Are you aware of that?

7 A. I am. I wasn't sure if that was in
8 megawatt-hours or kilowatt-hours, but I -- subject to
9 check, I will agree with your premise that the
10 hedging benefits are not going to be -- are not going
11 to result in very large numbers here unless the
12 market moves dramatically up in which case I think
13 the numbers could get fairly large. But the sheer
14 fact that we're only talking about hedging 5 percent
15 of the portfolio is certainly a concern from my
16 standpoint, you know, looking out for the Ohio
17 customers. I think that that's still a fairly large
18 exposure at 95 percent to market prices.

19 And I should add that most hedging
20 products generally are at market if they're
21 appropriately priced, so they're naturally going to
22 be bobbing up and down around a zero point.

23 In this case I think that the
24 eight-and-a-half year benefits amortized over the
25 nine-and-a-half year rider period that I'm proposing

1 so that there's going to be a baseline that would
2 actually be a credit but not a substantial one, but
3 if things really do move dramatically upward as far
4 as energy and capacity prices, I think the rider
5 could be a nice counterweight against that kind of
6 market move.

7 Q. You did -- you make an analogy in your
8 testimony, Mr. Taylor, to homeowners insurance. Do
9 you remember that analogy on page 6?

10 A. Yes.

11 Q. You're aware common cost of homeowners
12 insurance might be a thousand dollars a year?

13 A. Yes.

14 Q. Or about a hundred a month, more or less.

15 A. Yes.

16 Q. And you talk about fires and flood and if
17 there's a fire or flood, a homeowner could lose value
18 of a hundred thousand dollars or even more; is that
19 right?

20 A. I would take that as an appropriate
21 statement, yes.

22 Q. So would you agree with me that a hundred
23 dollar monthly homeowners insurance premium would
24 protect a homeowner on the order of a thousand times
25 greater than their investment for that particular

1 month?

2 A. I agree with your arithmetic, yes.

3 Q. Have you made any estimates of what the
4 ratio is between the investment in the PPA rider that
5 a customer might make and the return they might get
6 if there is a -- the kind of events that you're
7 talking about? Have you made any kinds of estimates
8 like that?

9 A. Well, first of all, the PPA rider as I've
10 structured it is actually a credit so it would not
11 require a payment. Currently, it is expected to be
12 \$49 million beneficial to the customer over the
13 eight-and-a-half year period and that's based on the
14 current analysis and it could be, as I say,
15 considerably more. So it's a little bit hard to do
16 the same kind of arithmetic ratio because there's no
17 presumed payment that would need to be made by the
18 customer base.

19 Q. Under your estimate. Of course, under
20 other people's estimate there is, you're aware of
21 that.

22 A. Right.

23 Q. Okay. But you haven't done any analysis
24 of the return to investors for this -- for doing
25 this -- return to customers for doing this under --

1 A. I have not.

2 Q. -- under different scenarios.

3 A. I have not. Again, under my scenario
4 there isn't actually a payment or a premium, it is
5 over the eight-and-a-half to nine-and-a-half year
6 period an actual positive net benefit.

7 Q. And you used Attachment No. 2 as the
8 basis for your estimate. You're familiar with
9 Attachment 1 to IEU 2-1, right?

10 A. I believe so, yes.

11 Q. You're aware --

12 A. There was an older analysis, I think,
13 or --

14 Q. Older meaning the month before?

15 A. No. I think it was -- I have to say I
16 don't know exactly which attachment you're referring
17 to.

18 Q. Okay. So Attachment 1, you're not aware
19 that it is based on market -- performed in August of
20 2013?

21 A. No, I believe there was another
22 attachment that was earlier than that, but I don't
23 have it off the top of my head as far as what the
24 date of that was. I used the latest forecast.

25 Q. And you're aware that that Attachment 2

1 didn't break down the estimate for the PPA rider --
2 for the SSO -- proposed SSO period, the proposed ESP
3 period.

4 A. That's correct. It was a calendar year
5 analysis. So when I've been talking about what sort
6 of change in value has been seen from, say, the fall
7 2013 analysis to one more current, I am doing some
8 partial-year dissection that actually is not
9 specifically something that one can tie to the ESP
10 period from June of 2015 through May of 2018.

11 Q. You're looking at it just on a
12 calendar-year basis. Or you are doing a
13 seven-twelfths for 2015 and five-twelfths for 2018?

14 A. Precisely, the latter.

15 Q. And that's reflected in your exhibits?

16 A. Correct.

17 Q. Which exhibit would it be reflected in?
18 AST-2? AST-3?

19 A. Both, basically AST-1 -- I'm sorry, AST-2
20 does include the adjustment for the initial partial
21 year on line 17 and then line 17 becomes line 1 for
22 Exhibit 3.

23 Q. When you adjusted for the initial partial
24 year, you're also adjusting it for -- you're
25 adjusting for both 2015 and 2018; is that correct?

1 A. In the exhibit I am not.

2 Q. Okay.

3 A. After 2015 these are simply calendar year
4 numbers. In what I verbally introduced into my
5 testimony this morning in trying to come up with just
6 an ESP 3 kind of block of expected net benefits as it
7 was represented here in this table versus what I
8 understand has been more current information, I have
9 used a five-twelfths kind of value for taking the
10 2018 expected net benefits on line 16 or 17 of that
11 table and coming up with a partial year value.

12 MR. BERGER: Just one minute, your Honor.
13 I may be done.

14 Q. We were talking earlier about the
15 opt-out, if residential customers could opt out as a
16 class based on the recommendation and self-insure if
17 they chose to. If -- let's just hypothetically say
18 everybody was to opt out, would it be your position
19 that there should be no PPA rider, then?

20 A. Well, I gather that there would not be a
21 PPA rider. In that case AEP's 10 percent
22 participation would go to 100 percent, effectively
23 there would be no rider and they would roll back to
24 simply having control of these assets to dispose of
25 as they saw fit. Which, unfortunately, over the

1 nine-and-a-half years may mean that there would never
2 be an opportunity again to get the benefits that I
3 think are associated with these assets.

4 Q. Would you agree that under the scenario
5 that is in the hypothetical, that those costs would
6 end up being the responsibility of the owner of the
7 OVEC assets, whether it's AEP Ohio or whoever at that
8 point in time owns them? And they would not be
9 subject to regulatory recovery.

10 A. I presume that's, you know, based on
11 Ohio's statutes, I do not know the details, but, yes,
12 I think that the costs and the benefits associated
13 with those assets, so what I expect to be net
14 positive benefits, it would accrue to the owner of
15 those assets.

16 MR. BERGER: Thank you. That's all I
17 have, your Honor.

18 EXAMINER SEE: Mr. Nourse?

19 MR. NOURSE: Thank you, your Honor.

20 - - -

21 CROSS-EXAMINATION

22 By Mr. Nourse:

23 Q. Good morning, Mr. Taylor.

24 A. Good morning.

25 Q. Let me start with the topic you were just

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1 discussing with Mr. Berger. Your opt-out proposal I
2 guess in your testimony has gotten quite broad as
3 we've gone around the table with the series of
4 questions from counsel. So would I -- and I
5 understand that your recommendation on the opt-out is
6 sort of optional and I appreciate your statements
7 about that, but as was just discussed, your openness
8 to expanding that opt-out has I guess developed into
9 making it potentially an option -- an optional
10 product or an optional PPA rider for virtually
11 potentially all customers, correct?

12 A. Correct. I think -- that's not my
13 recommendation to the Commission. I honestly think
14 that they should use the power that's vested in them
15 to garner these benefits for the overwhelming
16 majority of customers and I think it increases the
17 administrative burden to have a customer-by-customer
18 opt-out. If I were pushed on this one way or the
19 other, I would say take self-insurance off the table
20 and simply make this an across the board kind of PPA
21 rider.

22 Q. And as I understood your original I guess
23 proposition in your testimony in this regard, I
24 thought the rationale, if you will, was based on the
25 level of sophistication of a customer and a large

1 energy user being able to self-insure or make those
2 kind of high-stakes decisions for themselves
3 individually; is that correct?

4 A. That's correct. They may already have
5 hedges in place that they would have to unwind or
6 would not mesh well with the OVEC hedge, so I thought
7 that it may make sense to have them be able to assess
8 their own situation and that they would have the
9 sophistication to be able to make a final decision.

10 Q. Okay. And in the same regard I think
11 earlier questioning from counsel you, I believe,
12 described -- you made a statement that AEP Ohio is
13 not at risk in any way in connection with collecting
14 costs I guess under the PPA rider. Do you recall
15 that?

16 A. I do, and that actually deserves some
17 modification because, truly, under my proposal
18 AEP Ohio would have skin in the game here and that
19 they would be participating in it at least at a
20 10 percent level so I shouldn't say AEP Ohio would no
21 risk under my proposed structure. The company would
22 have strong incentives to make sure the rider was as
23 positive from a net benefits standpoint as possible.

24 Q. And, in fact, under your modified I guess
25 proposal or your discussion on the stand here today,

1 the 10 percent could become as high as a hundred
2 percent or something just short of a hundred percent,
3 correct?

4 A. Correct. If you went to the extreme of
5 having the Commission simply release this as a true
6 rider and make it optional for everybody.

7 Q. Okay. And in that same regard I guess,
8 whether it's, you know, a 5 percent hedge and
9 95 percent exposure to market or a different mix
10 based on the same topic we've been discussing, do you
11 believe that -- well, let me ask you this: Do you
12 understand that the expanded -- so-called expanded
13 PPA as compared to OVEC could enable the Commission
14 in a future case to decide more than just OVEC would
15 be appropriate for inclusion in the PPA rider?

16 A. Yes. I think depending on the additional
17 assets that would be included there it would be
18 appropriate for the Commission to review how the
19 projections are for those assets and whether they
20 make sense to include in the rider.

21 Q. And if the Commission were to agree with
22 your general proposition, that there be benefit to
23 doing that, that potential benefit would be lost if
24 the PPA rider is denied in its entirety in this
25 proceeding, correct?

1 A. That's correct.

2 Q. Okay. You also earlier talked about your
3 levelization proposal in testimony.

4 A. Yes.

5 Q. I believe you made a statement that the
6 company would create a regulatory liability in order
7 to implement your levelization solution. Did you
8 mean to refer to a regulatory asset in that regard?

9 A. I probably was not being precise there.
10 I certainly used the term regulatory balancing
11 account recognizing it could be positive or negative
12 so it could take on either asset or liability
13 elements, but I think under the current expectation
14 is that it would be a regulatory asset initially in
15 that AEP Ohio would effectively be providing a credit
16 on customers' bills that was not actually being
17 achieved through the OVEC benefits just yet.

18 Q. Okay. And your testimony -- or, your
19 recommendation in that regard would be that the
20 company would create a regulatory liability and would
21 include -- which would include a carrying charge or
22 return component as part of that, correct?

23 A. A regulatory liability or a regulatory
24 asset depending on how it gets, you know,
25 characterized, but yes, that there would be a

1 carrying charge on that account.

2 Q. Okay. Now, last area I want to talk to
3 you about was there was some discussion of the carbon
4 rule. Do you recall that?

5 A. Yes, I do.

6 Q. The proposed carbon rule I should say.
7 And I believe Mr. Petricoff asked you specifically
8 about whether -- I guess the relative comparison of
9 gas compliance under that rule compared to coal
10 compliance. Do you recall that?

11 A. Yes, I do.

12 Q. Okay. And do you know whether the carbon
13 rule as proposed would implement a mass reduction in
14 carbon or, alternatively, whether it could end up
15 being focused on the rate of emission being reduced?

16 A. That is my understanding is that this
17 could be a pounds of CO2 per megawatt-hour kind of
18 structure and that there's a lot of flexibility that
19 has been included in the EPA proposal and, therefore,
20 a lot has yet to be decided, not just in the rule
21 itself, but even once the rule's promulgated there
22 will be a lot of flexibility provided to states where
23 they will be able to decide exactly what sort of
24 activities or actions they want to take in order to
25 bring their state into compliance.

1 Q. Well, and speaking of flexibility, is it
2 your understanding that a coal plant closing or
3 retiring early would be beneficial necessarily under
4 the rule or could that -- could that limit or even
5 impair a state's compliance plan flexibility and
6 options?

7 A. It's hard to truly predict because, as I
8 say, the state implementation plans will have a lot
9 of flexibility, but I would think that the retirement
10 of a coal plant that was otherwise expected to move
11 ahead with its generation would be a positive element
12 for a state implementation plan, generally speaking,
13 all else being equal.

14 Q. Okay. And are you aware of any
15 statements to date, public statements by the Ohio EPA
16 director about an attempt to keep coal plants
17 running?

18 A. I don't have personal knowledge of any
19 particular statements. Certainly I've been hearing a
20 lot in the news from a variety of federal and state
21 EPA folks who are exploring what this new rule may
22 mean, and it could be the case that coal retirements
23 for some power plants might actually open up the
24 ability for other coal plants that are still in
25 operation to continue to operate without additional

1 costs.

2 Q. And if it's a rate of emission compliance
3 option, is it your understanding that closing a coal
4 plant wouldn't necessarily help with compliance then?

5 A. I would imagine that it would, it would
6 be bringing down the statewide rate per megawatt-hour
7 that the state needs to adhere to.

8 Q. And do you have an opinion on whether
9 the, you know, granting the PPA for OVEC now and
10 preserving the option for expansion of the PPA later
11 would help facilitate flexibility for the state of
12 Ohio in looking at compliance around the carbon rule?

13 A. I think that all options will be on the
14 table, and a lot is yet to be determined based on the
15 final rule and then Ohio's response to it, but
16 certainly the PPA rider would provide for continuing
17 operation of these facilities or promote the
18 continued operation and would have reliability
19 benefits and perhaps benefits under a state
20 implementation plan where there would be more coal
21 plants to play with as far as how the state would
22 meet its new EPA rule requirements.

23 MR. NOURSE: Thank you, Mr. Taylor.

24 That's all I have, your Honor

25 EXAMINER SEE: Mr. Parram?

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

3 EXAMINER SEE: Any redirect, Mr. Boehm?

4 MR. K. BOEHM: No redirect, your Honor.

5 - - -

6 EXAMINATION

7 By Examiner See:

8 Q. Mr. Taylor, I have one question. Well,
9 you in your proposal for the PPA stability rider, you
10 have a provision for customers using 10
11 megawatt-hours and you also indicate that there would
12 be no in or out after the start of the program as you
13 propose it. How does that effect -- how does that
14 work with new customers? With new customers coming
15 to the AEP Ohio service area.

16 A. Well, certainly for those who are part of
17 the main body of customers that were in the
18 residential and commercial class and were already
19 included in the rider, new customers would enjoy the
20 benefits of the rider automatically as being part of
21 one of that main block, the main body of customers.

22 As far as those that would fall into this
23 10-megawatt kind of category, I haven't really
24 thought that through to be honest. I guess my
25 knee-jerk reaction would be that if they're new to

1 the territory, the train has already left the
2 station, to use my analogy, and they would not be
3 able to opt in partway through but I leave that open
4 for the Commission to consider. That may be a
5 particularly -- if the credit, the net benefits
6 continue to increase and the credit gets more and
7 more enticing, it may be a way to entice new
8 businesses to come to Ohio.

9 EXAMINER SEE: Okay. Thank you.

10 OEG Exhibit 3 has already been marked and
11 moved. Are there any objections to the admission of
12 OEG Exhibit 3?

13 (No response.)

14 EXAMINER SEE: Hearing none, OEG Exhibit
15 3 is admitted into the record.

16 (EXHIBIT ADMITTED INTO EVIDENCE.)

17 EXAMINER SEE: Thank you very much,
18 Mr. Taylor.

19 THE WITNESS: Thank you.

20 MR. NOURSE: And, your Honor, I'm sorry,
21 could I just inquire about the confidential exhibits
22 for Mr. Taylor. Are these treated as part of 3? I
23 thought there would have been two different versions.

24 EXAMINER SEE: Let's treat them
25 consistent with the way we have treated the other

1 confidential versions in the record and make --

2 EXAMINER PARROT: We don't have a public
3 version of his exhibit though, do we? It was my
4 understanding --

5 MR. NOURSE: I believe it was docketed.
6 I don't know if --

7 EXAMINER PARROT: I thought you had told
8 me, Mr. Nourse, that the entire exhibit was --

9 MR. NOURSE: No, but I mean a redacted
10 version is a public version.

11 EXAMINER PARROT: That's what I'm saying,
12 I didn't think we had a redacted version, I thought
13 you represented to me that the entire exhibit was
14 confidential.

15 MR. NOURSE: No. No. We didn't have a
16 revised version. He did file -- he did file a
17 redacted version and we did not revise -- he had
18 appropriately redacted everything so we didn't revise
19 it when we revised the other two pieces of testimony
20 during the hearing. But I think there still should
21 be a 3A and 3 or however you want to do it. But,
22 obviously, we still need to protect the confidential
23 exhibits as filed.

24 EXAMINER SEE: Let's go off the record
25 for just a second.

1 (Discussion off the record.)

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

4 Mr. Boehm.

5 MR. K. BOEHM: Thank you, your Honor.
6 OEG moves for the admission of OEG Exhibit 3A, the
7 confidential version of Mr. Taylor's testimony.

8 (EXHIBIT MARKED FOR IDENTIFICATION.)

9 EXAMINER SEE: And we'll appropriately
10 docket that version of the testimony. Are there any
11 objections to OEG Exhibit 3A, the confidential
12 testimony of Alan Taylor?

13 MR. NOURSE: No objections, your Honor,
14 just want to make sure we enter that and keep it
15 under seal, thank you.

16 EXAMINER SEE: OEG Exhibits 3 and 3A are
17 admitted into the record.

18 (EXHIBIT ADMITTED INTO EVIDENCE.)

19 EXAMINER PARROT: Mr. Petricoff, next
20 witness, please.

21 MR. PETRICOFF: Yes, your Honor. At this
22 time we would like to call to the stand Stephen
23 Bennett. And also, your Honor, we would like to have
24 marked as RESA Exhibit No. 3 the direct prepared
25 testimony of Stephen Bennett.

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1 EXAMINER PARROT: So marked.

2 (EXHIBIT MARKED FOR IDENTIFICATION.)

3 MR. PETRICOFF: Your Honor, I ask that
4 RESA Exhibit 3 be moved for admission into the record
5 subject to cross-examination.

6 EXAMINER PARROT: Please raise your right
7 hand.

8 (Witness sworn.)

9 EXAMINER PARROT: Please have a seat.

10 - - -

11 STEPHEN E. BENNETT

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

14 DIRECT EXAMINATION

15 By Mr. Petricoff:

16 Q. Would you please state your name and
17 business address for the record.

18 A. My name is Stephen Bennett. My business
19 address is Two North Ninth Street, Allentown,
20 Pennsylvania 18101.

21 Q. And on whose behalf do you appear today?

22 A. The Retail Energy Supply Association, or
23 RESA.

24 Q. Do you have with you on the stand a copy
25 of what has just been marked as RESA Exhibit No. 3?

1 A. Yes, I do.

2 Q. Is that your direct prepared testimony?

3 A. Yes, it is.

4 Q. Was that made under your direction or
5 written by you?

6 A. Yes.

7 Q. And do you have any changes or amendments
8 that you would like to make to that testimony?

9 A. Yes. On page 10, line 17, changing the
10 word "three" to the word "two."

11 Q. So the sentence would now read "There are
12 two other billing and collection concerns"?

13 A. That's correct.

14 Q. Are there any other changes?

15 A. No.

16 Q. And if I were to ask you today the
17 questions that are asked in RESA Exhibit No. 3, would
18 your answers be the same?

19 A. Yes, they would.

20 MR. PETRICOFF: Your Honor, the witness
21 is available for cross-examination.

22 EXAMINER PARROT: Mr. Smalz?

23 MR. SMALZ: Yes.

24 - - -

25

CROSS-EXAMINATION

By Mr. Smalz:

Q. Mr. Bennett, turning to page 7 of your testimony, on that page you enumerate a number of reasons -- or, actually a number of benefits that you think will be derived from Ohio Power's proposed POR program. Looking at the first two, No. 1, which begins on line 9, and No. 2 that begins on line 13, you talk about how the POR program would be a significant step to encourage more CRES providers to enter into Ohio Power's service territory and then you also talk about the POR lowering the hurdle for market entry in the company's service territory.

At this time I understand there are about 40 CRES providers registered in Ohio Power's service territory. Is that your understanding?

A. Yes.

Q. And how many of those are actually offering service in Ohio Power's service territory?

A. I'm not exactly sure. I know that about 20 of those suppliers have offers on the Apples-to-Apples website for residential customers.

EXAMINER PARROT: Mr. Smalz, can you turn your microphone on, please.

MR. SMALZ: Oh, I'm sorry.

1 Q. Okay. So there are at least 20 CRES
2 providers offering service to customers in the Ohio
3 Power service territory at the present time.

4 A. To residential customers.

5 Q. To residential customers, okay.

6 Are there additional CRES providers
7 offering service to nonresidential customers?

8 A. As far as I know, yes.

9 Q. And about how many of those are there?

10 A. I'm not aware.

11 Q. Okay. Would you say that we now have a
12 robust market for electric generation supply in Ohio
13 Power's territory?

14 A. No, I wouldn't make that
15 characterization.

16 Q. So having 40 registered providers and
17 20-plus actual -- providers actually offering service
18 does not rise to the level of a robust market in your
19 estimation.

20 A. I don't think you can define a robust
21 competitive market on any one particular component.
22 I think it takes a combination of components to
23 define a robust market, and overall that market has
24 to be designed for sustainability. So just saying a
25 number of suppliers in and of itself does not make a

1 robust market. You need -- you need low barriers to
2 entry, you need low barriers to actual effective
3 participation in the marketplace, you need a large --
4 or, you need a variety of product and product
5 offerings that can effectively compete in the
6 marketplace. You have to be concerned about
7 advantages granted to default supply by regulatory or
8 legislative fiat and the impact that that might have
9 on effective participation in the marketplace. You
10 have to look at the number of shopping customers.

11 But the point is you have to look at
12 these things in total and in aggregate before you can
13 define the market as being robust.

14 Q. So would you look at the, for example, at
15 the amount of load that is being served in the Ohio
16 Power service territory by CRES providers?

17 A. Again, that would be one component of an
18 assessment of competitive -- of the robustness of the
19 marketplace.

20 Q. And at this time do you know what
21 proportion of the load in Ohio Power's service
22 territory is being provided by CRES providers?

23 A. The total -- yeah, actually I have the
24 statistics with me on the stand, so I can read from
25 that. And according to the statistics published on

1 the PUCO website as of March 31st, 2014, it says
2 that total sales in the AEP Ohio zone are roughly
3 60 percent switch rate. The switch rate for AEP Ohio
4 is roughly 60 percent of total sales.

5 Q. So that's more than a majority of the
6 total load in Ohio Power's service territory.

7 A. Total sales, yes.

8 Q. Total sales, yes.

9 A. I'd like to point out that the
10 residential sales is 27, roughly 28 percent.

11 Q. But total sales are a substantial
12 majority being provided by the CRES providers.

13 A. I don't know if I would say "substantial"
14 or "unsubstantial," 60 percent of course is the
15 majority however, you know, POR and the
16 implementation of POR tends to accrue benefits more
17 proportionately to smaller and residential customers
18 than to the larger customers and is more of a
19 enhancement to shopping rates and market robustness
20 for smaller customers and, again, there we're talking
21 about less than the majority, we're talking about
22 28 percent, not 60 percent.

23 Q. And your assumption is that those
24 residential customers who have not switched have not
25 switched because of, quote/unquote, market barriers?

1 A. I wouldn't be able to conjecture why they
2 haven't switched. I can tell you there are some
3 barriers that exist in the markets here in Ohio.

4 Q. Turning to another one of your points
5 here at No. 3 where you state that the POR simplifies
6 the debt and collection process. We already have
7 consolidated billing here in Ohio, don't we? In Ohio
8 Power's service territory.

9 A. Yes.

10 Q. And Ohio Power provides that consolidated
11 billing for its customers and for the CRES providers.

12 A. Yes.

13 Q. And so customers are receiving one bill
14 and that bill comes from Ohio Power; is that correct?

15 A. That's a -- yes, that's an option. If
16 the customer is on a consolidated bill, yes, they
17 would receive one bill and the bill would come from
18 AEP Ohio.

19 Q. Okay. Let me ask you this: How would
20 the customer interaction with either Ohio Power or
21 the CRES provider change under POR?

22 A. The change would be specific and
23 especially around collection and arrearage
24 situations. So currently even though we have a
25 consolidated bill in AEP Ohio, if a customer were to

1 get to an arrearage and collection scenario, they
2 oftentimes will deal with both the utility, in this
3 case AEP Ohio, and the CRES provider to resolve both
4 portions of the arrearage, you know, and collection
5 portion of the bill. So dealing with the utility on
6 the distribution and utility portion, dealing with
7 the CRES provider on the commodity supply portion of
8 their bill.

9 Under a POR scenario or where a POR is
10 implemented the customer now has one point of contact
11 for the entire bill for the entire arrearage and for
12 the entire collection process, so one thing that POR
13 does is it removes any duplicative efforts on the
14 part of the CRES provider and utility in dealing with
15 a customer for those arrearage and collection
16 activities.

17 So it simplifies the customer's
18 experience because now the customer has one point of
19 contact instead of two, one entity with whom to
20 negotiate and work with to clear their arrearage and
21 collection situation, and that entity, in fact, is
22 the one that has been managing the bill and the
23 arrearage and the information from the beginning.

24 So not only is it one entity but it is
25 the entity that has all the information necessary to

1 develop and work through the arrearage -- work
2 through the arrearage.

3 Q. Thank you, Mr. Bennett.

4 So if a customer -- when a customer makes
5 an arrearage payment, is the customer making that
6 payment to Ohio Power which does the consolidated
7 billing or does the customer have to split up that
8 payment?

9 A. Initially the customer would make the
10 payment to Ohio Power, but if the arrearage scenario
11 continues beyond a certain point, the customer may be
12 switched to dual billing or maybe even switched back
13 to default supply, SSO supply, and in those cases
14 that's when the customer would then need to clear the
15 arrearage and collection scenario with both the
16 utility and the CRES provider.

17 Q. Okay. Honestly I'm trying to just
18 understand what happens in this situation. So if the
19 customer has an arrearage but the CRES provider
20 hasn't terminated their relationship, their supply
21 relationship with the customer, somehow during that
22 time period the customer can be switched to dual
23 billing?

24 A. I'm trying recall whether or not that's a
25 step -- interim step before the customer is just

1 switched back to default supply and actually right
2 now my memory is failing me on that point.

3 Even if that's not the case, if the
4 customer is switched back to default supply, the
5 arrearage with the CRES provider oftentimes remains
6 and, again, the customer would have to -- and it can
7 be even more confusing for the customer because if
8 the customer is moved back to default supply and the
9 arrearage hasn't been cleared with the CRES provider
10 and then they're working exclusively with the
11 utility, they may feel -- or, you know, they may be
12 under the impression that they have actually resolved
13 all of their arrearage where, in fact, because they
14 haven't been making payments to the CRES provider in
15 the past they still maintain an arrearage account
16 with the CRES provider.

17 It can be very confusing when they're all
18 of a sudden getting bills and collection notices from
19 the CRES when all of their payments to this point
20 have gone to the utility even though the arrearage is
21 valid and appropriate.

22 Q. And even though they are no longer an
23 ongoing customer of the CRES provider.

24 A. That's correct.

25 Q. Now, I understand that under current

1 practice a residential customer cannot be
2 disconnected because of an arrearage owed to the CRES
3 provider; is that correct?

4 A. My understanding is that's exclusive to
5 the electric part of the industry and not to the gas
6 part of the industry. My understanding is that's
7 also the case because of a regulatory order and not a
8 statutory requirement.

9 Q. Okay. But that is currently the case for
10 electric customers.

11 A. That's my understanding, yes.

12 Q. Okay. And would that change under the
13 company's proposal?

14 A. Yes. The company would ask for a waiver
15 of the regulatory order so that they would be able to
16 terminate for arrearages of CRES supply.

17 Q. Okay. So if the POR is approved as
18 proposed, then, unlike the current situation,
19 customers could be disconnected for nonpayment of
20 CRES provider charges.

21 A. That's my understanding, yes.

22 Q. Okay. And so the process, in your view,
23 is being simplified for residential customers but, at
24 the same time it's being simplified, it's increasing
25 their vulnerability to disconnection of service; is

1 that correct?

2 A. I don't know if I would necessarily
3 characterize it in that manner. I mean, again, if a
4 customer maintains an arrearage under the current
5 situation, they will eventually be dropped back to
6 SSO supply. If they continue to not pay their bill,
7 then they will eventually be terminated by the
8 utility. So I'm not sure that I see the outcome
9 being particularly different.

10 I mean, if a customer finds themselves in
11 an arrearage situation and then can resolve that
12 situation, then they won't be terminated. If they
13 can't or don't resolve that arrearage situation, in
14 both cases they will eventually be terminated.

15 Q. But if they're switched to the SSO and
16 they keep their payments current on the SSO, then
17 they would not be subject to disconnection under the
18 current practice; is that your understanding?

19 A. I guess that's my understanding, but then
20 I guess that would also mean that a customer did not
21 pay a CRES provider, developed an arrearage account
22 with that CRES provider, went back to default supply,
23 paid default supply, but just didn't pay the CRES
24 provider. So the CRES provider is put in the
25 situation where although they provided a service and

1 a commodity, they're not paid, but the utility is,
2 for that same service.

3 Q. The CRES provider, though, could still
4 pursue any other legally available methods of
5 collection, couldn't they?

6 A. They could, but I'd like to point out
7 that without the right to termination that's a
8 fundamental inequity between SSO supply and CRES, you
9 know, CRES supply, you're actually designing a
10 program where there's a product offering in the
11 marketplace that has the advantage of a payment
12 incentive that the other products don't. So when you
13 talk about -- again, when you talk about robust
14 competitive market structure, you have a market -- a
15 product in the market that has an advantage granted
16 to it by regulatory fiat.

17 Q. So, from your vantage point, that's a big
18 deal for the CRES providers. From the customers'
19 perspective is becoming vulnerable to connection --
20 to disconnection of service for nonpayment of charges
21 to the CRES providers potentially a big deal for
22 them?

23 A. Again, I can't conjecture on what is and
24 isn't a big deal to the millions of customers in
25 Ohio. And, again, obviously nobody wants to be in an

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1 arrearage situation and nobody wants to be providing
2 a commodity or a product to somebody that can't pay
3 for that product, but, again, in both cases if the
4 customer clears the arrearage, creates a payment
5 program or does something that, you know, that
6 resolves the problem, their power stays on. If the
7 customer drops back to SSO supply and doesn't pay
8 their bill, they'll be terminated. So, again, I
9 don't really see a large discrepancy in the outcomes
10 whether there's POR or not POR because in both cases
11 if you resolve your arrearage, your power stays on,
12 but if you don't resolve your arrearage, your power
13 is shut off.

14 Q. You don't see any difference in the
15 timing of the disconnection of service?

16 A. You know, I don't know for certain. I
17 don't know what the timing would be under the POR
18 program. I don't know if it would be faster, slower,
19 or the same. So I can't really say.

20 Q. But the bottom line is that the customer
21 currently cannot be disconnected for service -- have
22 service disconnected because of nonpayment of the
23 CRES charges and they could be under this proposal.
24 "Yes" or "no"?

25 A. Yes.

1 Q. Thank you.

2 Turning to No. 5 which begins at line 24
3 on page 7, where it says "The proposed POR program
4 will reduce the uncollectible risk for the CRES
5 provider," I can certainly understand that. Would it
6 be also correct to say, though, it reduces any
7 uncollectible risk whatsoever for the CRES provider
8 or Ohio Power?

9 A. It would -- yes. Under the company's
10 proposal, using the bad debt rider with a zero
11 percent discount, then you would get to a situation
12 where bad debt would equitably across the board, you
13 know, there would be no bad debt risk to either of
14 the companies and that's the idea behind leveling the
15 playing field.

16 Because you have SSO as a product
17 available in the marketplace, if you're looking for a
18 robust market structure, you make sure that both the
19 SSO product and the CRES provided products are on a
20 level playing field, and currently the SSO product
21 has no bad debt risk so the idea would be to make
22 sure that the competing CRES provider product had no
23 bad debt risk either.

24 Q. So neither company would face any bad
25 debt risk regardless of who the customers were or

1 what steps they took to collect the debt or whatever.

2 A. I think similar to how the SSO works now,
3 I believe that is the case. I believe similar to how
4 currently the company has no bad debt risk associated
5 with the SSO product pursuant to being able to
6 collect it either through base rates, a rate case, or
7 through the implementation of a bad debt rider, yes,
8 that would continue to be the case.

9 Q. Okay. Now, Mr. Taylor, your next point
10 here, No. 6 on line 28, where you assert that the
11 proposed POR program removes the need for Ohio Power
12 to provide data to CRES providers on the total amount
13 paid by the customer and how it was applied to the
14 bill, just for purposes of clarification, would this
15 have -- would the POR program have any impact on the
16 need of Ohio Power to provide data to CRES providers
17 on -- the need for Ohio Power to provide usage data
18 to CRES providers?

19 A. No.

20 Q. So we're just talking about the dollar
21 amounts on the bill, nothing else.

22 A. Yeah, I believe in this case we're
23 talking about -- actually what we're talking about is
24 the amount of the payment that was received from the
25 customer and how that payment was applied.

1 Q. And doesn't Ohio Power already provide
2 that information to the CRES provider?

3 A. Theoretically, yes. I think what we've
4 learned when we went through the, you know, what we
5 have colloquially called the RMI which I think in
6 Ohio is the COI, there was a lot of discussion about
7 whether or not that data was provided in a timely
8 manner, if that data was comprehensive, and one of
9 the things that came out of that and I believe is --
10 I believe is in the Commission order on the COI is
11 that the utilities need to do an analysis of the data
12 that they provide to make sure that that data is
13 comprehensive.

14 Again, I'll say that as a retail supplier
15 it's more efficient for me not to rely completely on
16 the utility and kind of have blind faith that the
17 utility is in all cases providing me all the data I
18 need to manage and age my accounts without error.

19 Q. So, I mean, does the company normally
20 provide this data and sometimes screw up, or what is
21 the problem?

22 A. I think that's one of the situations that
23 can occur. Again, I'm not sure that in all cases
24 retail suppliers are given all the data necessary to
25 manage their collections, both to manage and analyze

1 and then have all the data necessary to actually
2 pursue collection with the customer themselves.

3 MR. SMALZ: Thank you, Mr. Bennett.

4 I don't have any other questions, your
5 Honor

6 EXAMINER PARROT: Mr. McDermott?

7 MR. McDERMOTT: No questions, your Honor.

8 EXAMINER PARROT: Ms. Hussey?

9 MS. HUSSEY: No questions, your Honor.

10 EXAMINER PARROT: Mr. Boehm?

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

12 EXAMINER PARROT: Mr. Darr?

13 MR. DARR: Thank you.

14 - - -

15 CROSS-EXAMINATION

16 By Mr. Darr:

17 Q. In your discussion with Mr. Smalz just a
18 moment ago you indicated that one of the issues with
19 regard to your support of the POR was to encourage
20 market development; is that fair?

21 A. Yes.

22 Q. And you indicated I think in response to
23 a question by Mr. Smalz that you did not think that
24 the market was currently robust. Fair?

25 A. Yes. That's what I said.

1 Q. And as part of your explanation for that,
2 you indicated that the analysis is more complicated
3 than simply looking at the number of CRES providers
4 currently serving customers in the AEP Ohio service
5 territory, correct?

6 A. Correct.

7 Q. Now, the decision on the part of a
8 marketer to enter or not enter is a relatively
9 complicated decision, is it not?

10 A. It has several factors, yes.

11 Q. And, in fact, you're employed by an
12 energy provider, PPL Energy Plus, correct?

13 A. That's correct.

14 Q. And the complexity of this decision to
15 enter or not enter a market would consider such
16 things as the regulatory environment, correct?

17 A. Yes.

18 Q. That regulatory environment would
19 consider the price of the standard offer that's
20 currently in effect or is likely to be in effect,
21 correct?

22 A. Yes, that's one component.

23 Q. And to the extent that more costs shifted
24 from the standard service offer to a nonbypassable
25 charge, that would give a CRES provider less room to

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1 price its product; is that fair to say?

2 A. I'm sorry. Can you repeat the question?

3 Q. Sure. To the extent that costs are moved
4 from the bypassable side of the ledger to the
5 nonbypassable side of the ledger, that would lower
6 the standard service offer price all other things
7 equal, correct?

8 A. Yes. Yes, as you defined it, yeah.

9 Q. And as you lower the price of the
10 standard service offer, that determines in Ohio, in
11 part, the price to compare, correct?

12 A. Yes.

13 Q. And as you lower the standard service
14 offer, that gives the CRES provider less room to
15 price its product; is that fair?

16 A. Yes.

17 Q. Now, in determining pricing -- or, excuse
18 me, in determining whether or not to enter a
19 particular market the company would be looking at --
20 "the company" meaning the CRES provider would be
21 looking at its expected rate of return in that
22 particular market, would it not?

23 A. Yes.

24 Q. And, in fact, the decision would largely
25 be driven from the finance side of the shop by

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1 whether or not the rate of return in one market was
2 superior to that available in another market. Fair?

3 A. Fair.

4 Q. The decision to enter would also be
5 affected by the resource availability of the CRES
6 provider; is that fair?

7 A. Yes.

8 Q. You can't sell something you don't have,
9 right?

10 A. It's hard to argue with that
11 characterization. I think in this particular
12 industry, because you have access to the PJM
13 wholesale market, whether you have assets in an area
14 or not doesn't necessarily restrict your ability to
15 sell energy in that marketplace.

16 Q. Good point.

17 To the extent that you can't -- that you
18 don't have the asset or you can't secure the asset in
19 the marketplace at a price that meets the financial
20 goals, that's going to adversely affect your decision
21 to -- whether or not you can enter that market,
22 correct?

23 A. That's correct.

24 Q. You would also evaluate the existing
25 competitive environment, would you not?

1 A. Yes.

2 Q. To the extent that a marketer or
3 marketers has already secured a substantial portion
4 of that market, is it fair to say that you would be
5 less likely to enter that particular market?

6 A. It's possible. I think you'd have to do
7 an assessment of how firm or tenuous that existing
8 market share or hold is and on what it's based. But
9 I suppose if you were looking at a marketplace and
10 there was one or more marketers that had gained
11 market share, that you would not be able to -- to,
12 you know, compete against, it could influence your
13 decision to enter in a market negatively.

14 Q. And that would also be a factor that you
15 could consider in terms of establishing the what the
16 marketing costs would be to enter in a market,
17 correct?

18 A. Yes.

19 Q. To the extent that one or more marketers
20 had already secured a substantial portion and you
21 determined that that would affect your determination
22 of how much it would cost to market -- to secure a
23 substantial or significant portion that would justify
24 entry into that market, correct?

25 A. I mean, marketing costs are one of many

1 factors that we would assess in the overall financial
2 analysis of entering a marketplace or not.

3 Q. Are there other factors that we haven't
4 discussed in the last five minutes that go into the
5 decision whether or not to enter a market or not by a
6 CRES provider?

7 A. I think -- I think we implied it, but one
8 of the things that is a large component of assessing
9 the market would be long-term sustainability. So,
10 again, we've talked about some of the components that
11 go into that assessment, but, you know, my company
12 especially -- or, I can speak for my company
13 specifically I should say, not especially, but
14 specifically, when we make an investment in a
15 marketplace, it's not a short-term investment. We
16 don't look to kind of jump in and out of markets. We
17 look for a market that has a combination of factors
18 that lends itself to the idea that that market will
19 be sustainably competitive for a long period of time.

20 So several of the factors that we've
21 discussed and that you've questioned me about play
22 into that assessment of long-term sustainability,
23 there's probably others as well.

24 Q. That's fair.

25 I want to talk briefly about -- talk with

1 you briefly about the operation of the proposed POR
2 with the bad debt rider. For the CRES provider let's
3 walk through what the proposal is. The CRES provider
4 would contract with the customer initially to
5 establish an account, correct?

6 A. Correct.

7 Q. The CRES provider would, under that
8 account, supply generation, transmission, it would be
9 responsible for environmental compliance, and it
10 would also be responsible for losses associated with
11 the transmission of the power to the customer. Is
12 that fair?

13 A. Fair.

14 Q. All of this would be wrapped into an
15 account receivable which would then be given or
16 transferred to AEP Ohio, correct?

17 A. Correct.

18 Q. The CRES provider in receipt of that
19 would receive a hundred percent of the account
20 receivable given that it's proposed -- and it would
21 be a nonrecourse transaction.

22 A. Under this proposal, yes, that's my
23 understanding.

24 Q. So, in effect, the CRES provider recovers
25 its total billed revenue associated with that

1 individual account.

2 A. Yes.

3 Q. If some portion of the account receivable
4 becomes bad debt, then that is charged to the bad
5 debt rider to all customers through the base rates
6 and the bad debt rider itself.

7 A. Yes, that's my understanding.

8 Q. Now, at page 7, line 24 of your
9 testimony, you state that the proposed POR program
10 will reduce the uncollectible risk for the CRES
11 provider by leveling the playing field between the
12 utility and the CRES provider, and you've already
13 discussed with Mr. Smalz about the reduction of the
14 uncollectible risk. I'm interested in what you mean
15 by leveling the playing field. What does that mean
16 to you?

17 A. Yes. So, again, the SSO product is, in
18 effect, a product that is -- it is, in effect, a
19 competing product to CRES supply and the structure of
20 the SSO product is currently such that the suppliers
21 of the SSO product have no bad debt risk because that
22 bad debt risk is guaranteed to be collected through
23 base rates. There is no bad debt risk to the utility
24 so, therefore, it's not appropriately modeled in the
25 pricing for that product whereas CRES providers,

1 because they have no such guarantee and not only do
2 they have no such guarantee but they have no
3 termination rights, must therefore price the bad debt
4 risk and the uncertainty around the bad debt risk
5 into their product. And that's where the inequity
6 lays. That's where the playing field is not level.

7 Q. And by your answer I assume that you're
8 factoring in two issues here, number one, that in
9 fact you are competing against the SSO, correct?

10 A. Yes.

11 Q. And, number two, that customers would
12 realize a benefit in terms of lower prices if the bad
13 debt risk were transferred from the CRES provider
14 effectively to the customers through this bad debt
15 rider, correct?

16 A. I think what I can say is that if you
17 level the playing field and you remove barriers to
18 viable participation in the marketplace, you enhance
19 competition, you open the opportunity for more
20 suppliers to participate in the marketplace, and what
21 we've generally seen and is generally accepted
22 economic principle is that lowering barriers to
23 entry, increasing supply, increasing a variety of
24 offers and suppliers tends to drive prices down to
25 the most efficient level.

1 Q. Okay. I understand your efficiency
2 argument. What I'm asking you is the assumption that
3 you're making is that the efficiency outcome
4 resulting from the POR in and of itself will offset
5 any increase in the bad debt rider. Are you making
6 that representation here today?

7 A. I can't say that for sure.

8 Q. Now, turning to page 10, line 12 of your
9 testimony, you indicate that an advantage of the
10 proposal is that suppliers would no longer be
11 incented to keep only the paying customers. And I
12 think you probably already are aware that
13 Mr. Gabbard, Gabbard, excuse me, I mispronounced it
14 again, indicated that there's an opportunity here to
15 market to customers that may not be marketed to
16 currently because they're perceived as a bad debt
17 risk; is that fair?

18 A. That's fair.

19 Q. Now, do you care if a customer is
20 terminated because he doesn't pay you or he doesn't
21 pay AEP for the same service provided by you?

22 A. I'm sorry, one more time.

23 Q. Sure. A customer doesn't pay you, he
24 doesn't pay AEP, the customer gets terminated,
25 correct?

1 A. Under the proposal, yes.

2 Q. Okay. Customer doesn't pay AEP, doesn't
3 pay you, under current circumstances customer gets
4 terminated, right?

5 A. Under current -- so just making sure I'm
6 clear, so under current circumstances if the CRES
7 provider isn't paid, the utility is not allowed to
8 terminate for nonpayment of the CRES provider portion
9 of the bill. Under the proposal they would. So
10 currently I think the answer is actually no, the
11 customer wouldn't be terminated for nonpayment to the
12 CRES provider. Under the proposal, yes, they could
13 be terminated for nonpayment to the CRES provider.

14 Q. Now, the assumption that you're making is
15 that the customer can pay AEP but chooses to not pay
16 the CRES provider; is that fair?

17 A. I don't think -- no, I don't think I'm
18 asserting that at all.

19 Q. Well, under the current situation the
20 only time that AEP would not be in a position to --
21 not be in a position to terminate the customer is if
22 it's being paid, correct?

23 A. Under the current situation the only time
24 that AEP could terminate the customer is if it's not
25 receiving payment for its portion of the bill.

1 Q. Right. So under your scenario, the one
2 that seems to have everybody so bent out of shape in
3 this proceeding, AEP is getting paid, but the CRES is
4 not, and the CRES is on the hook for continuing to
5 provide service to the customer.

6 A. Yeah, temporarily that's how that would
7 work. So the payment would be made to AEP, AEP would
8 dole out portions of that payment based on the
9 payment priority plan that's in place. If over time
10 the payments aren't made whole, then the customer
11 would be dropped back to SSO supply. When that
12 happens, there may or -- most likely when that
13 happens there remains an arrearage with the CRES
14 provider and, again, if the customer continues not to
15 pay AEP at that time once they're back on SSO supply,
16 that's when termination would occur.

17 Q. Do you know anywhere in this record where
18 we've identified how many of those uniquely
19 despicable customers there are in the AEP system who
20 are paying AEP but not their CRES provider? Is there
21 anywhere in the record a demonstration of who those
22 despicable people are?

23 A. I certainly wouldn't use that
24 characterization personally, but I don't know of any
25 record of -- I don't know of any mention in the

1 record of how many customers don't pay while they're
2 on CRES supply but then make their account is whole
3 with the utility once they've dropped back to SSO
4 supply.

5 Q. Yeah, and I don't mean to disparage
6 customers either but the point of my question is
7 we've been through two weeks of testimony now and we
8 still haven't identified a single customer that meets
9 that requirement. Correct?

10 A. As far as I know, no.

11 Q. We've already established that the POR
12 and the bad debt rider place bad debt risk CRES
13 customers on all AEP Ohio customers, fair? Under the
14 POR proposal.

15 A. Right. It puts the bad debt risk of all
16 customers on all customers.

17 Q. Now, and we've already discussed that the
18 customer account receivable that would likely turn
19 into bad debt relates to CRES service generation and
20 transmission and also environmental compliance,
21 correct?

22 A. Yes.

23 Q. Now, in your testimony starting roughly
24 about page 13 you indicate that with corporate
25 separation and the establishment of a truly

1 competitive market for generation the risk of owning
2 generation is no longer borne by the utility
3 ratepayers; is that correct?

4 A. Can you tell me what line that is?

5 Q. Line 10 on page 13.

6 A. Yes.

7 Q. And on that basis you argue that the
8 purchase -- or, excuse me, the purchased power
9 agreement rider is inappropriate; is that correct?

10 A. Yes.

11 Q. Okay. So, if I understand your testimony
12 correctly, it's inappropriate or -- excuse me, it's
13 appropriate to assign CRES provider bad debt risk
14 which includes compensation for generation-related
15 services of a CRES provider to customers on a
16 nonbypassable basis but not okay to assign
17 above-market generation costs to customers of an EDU
18 to customers on a nonbypassable basis as represented
19 by the PPAR. Is that the position that you're taking
20 in this proceeding?

21 A. I think what -- the position that I'm
22 taking is, from a generation perspective, that it is
23 inappropriate to have generation be a nonbypassable
24 supply cost because customers that have shopped have
25 made the affirmative choice to get their generation

1 supply from someone else.

2 Q. But it's okay to assign the risk
3 associated with generation-related resources that
4 have gone to bad debt, have become bad debt, to all
5 customers. That's the position that you've advocated
6 here today, correct?

7 A. What I've said was that there exists an
8 inequality in the way bad debt is treated between SSO
9 supply and CRES supply and one way to resolve that
10 inequality is to implement a POR program. That POR
11 program can be implemented with a zero percent
12 discount or it can be implemented with a discount
13 rate. In this proposal from AEP Ohio it's a zero
14 percent discount and largely that's to make sure that
15 the utility is not double collecting bad debt from
16 any customer.

17 It could easily be a POR program with a
18 discount rate that would actually apply the bad debt
19 risk to the supplier itself. The basis of RESA's
20 support for POR is not to remove bad debt risk from
21 suppliers. It's to make the market fair and to make
22 the market sustainably competitive going forward.

23 Q. So you would not be opposed to a POR that
24 includes a discount on the accounts receivable.

25 A. As long as it was reasonable, as long as

1 it was based on actual bad debt experience by
2 customer class within the utility territory, RESA has
3 maintained support for that in this and other
4 jurisdictions.

5 Q. But as we sit here today, the proposal in
6 front of the Commission would assign
7 generation-related bad debt to all customers,
8 correct?

9 A. That is correct. Similar to how it's
10 assigned currently if you're an SSO customer.

11 MR. DARR: Thank you. I have nothing
12 further.

13 EXAMINER PARROT: Mr. Yurick?

14 MR. YURICK: No questions for this
15 witness, thank you, your Honor.

16 EXAMINER PARROT: Mr. Serio?

17 MR. SERIO: Yes, please.

18 - - -

19 CROSS-EXAMINATION

20 By Mr. Serio:

21 Q. Good afternoon, Mr. Bennett.

22 A. Good afternoon.

23 Q. Your discussion with counsel for IEU, am
24 I correct to boil it down to it's okay to subsidize a
25 CRES provider through a POR but it's not okay to

1 subsidize AEP through the PPR?

2 A. No --

3 MR. PETRICOFF: Objection. Objection.

4 The record does not support that summary.

5 EXAMINER PARROT: Response?

6 MR. SERIO: I'll let it stand. I'll go
7 on to others, your Honor.

8 Q. Now, you indicated in response to counsel
9 for the Appalachian people's group that you thought
10 that the lack of a POR was a barrier to entry; is
11 that correct?

12 A. Yes, it's a barrier to entry and it's a
13 barrier to effective participation in the market.

14 Q. Can you point to anywhere in your
15 testimony where you say the lack of a POR is a
16 barrier to entry, in those words?

17 A. I don't know that I can point to it in
18 those exact words but on page 7, line 13, it does say
19 that "POR lowers the hurdle for market entry in Ohio
20 Power's service territory and thus should increase
21 competition, which in turn should bring more
22 competitive prices and product offers."

23 Q. I understand that you believe it will
24 lower the bar. My question is, is there anywhere in
25 your testimony that you say that that bar is

1 insurmountable and, therefore, is actually a barrier
2 to entry?

3 A. I don't think there's anywhere in my
4 testimony that says the bar is insurmountable, no.

5 Q. Now, can you tell me if there's anywhere
6 in your testimony that there's any quantification of
7 the magnitude of the billing problems that CRES
8 providers have that you talk about?

9 A. No.

10 Q. Do you know if there's any quantification
11 anywhere in the record of this proceeding anywhere,
12 in the application or any other witness testimony?

13 A. I believe, if my memory serves, that the
14 testimony of Mr. Gabbard indicated roughly
15 3.2 million of uncollected consolidated billing CRES
16 charges.

17 Q. Does that figure, the 3.2 million,
18 include the costs that CRES providers incur because
19 of bad -- because of the lack of a POR?

20 A. I, actually, I don't know what went into
21 the calculation of that amount.

22 Q. Do you know if there's any number in the
23 record anywhere that quantifies what CRES providers
24 incur in the way of costs because there is no POR?

25 A. I don't believe there is.

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1 Q. Now, you indicated that there's a lot of
2 things that go into a decision as to whether you're
3 going to enter a market or not, correct?

4 A. Yes.

5 Q. Could one of those be whether there is an
6 affiliate of the EDU in that market that is actually
7 competing against other CRES providers?

8 A. Not in and of itself, no.

9 Q. Now, if the utility affiliate is using
10 the utility name, does that enter into your decision
11 as to whether you might enter into a market or not?

12 A. No.

13 Q. No?

14 Now, to the extent that you believe that
15 the lack of a POR is a barrier to entry, are you
16 aware if any CRES provider has ever filed a complaint
17 in Ohio indicating that there's a barrier to entry
18 because there's no POR program?

19 A. Filed a complaint?

20 Q. Yes.

21 A. No.

22 Q. Is there anything that would preclude a
23 CRES provider from filing such a complaint?

24 A. Not that I'm aware of.

25 Q. Now, you indicated that it was not

1 your -- it was your belief that the AEP market is not
2 a robust market, correct?

3 A. Correct.

4 Q. Are you familiar with the Duke, the
5 Dayton, and the FirstEnergy markets in Ohio?

6 A. I'm most familiar with the Duke and the
7 Ohio Edison market.

8 Q. Are any of the other EDU electric retail
9 programs in Ohio robust markets?

10 A. Well, I would say the Duke market is
11 closer to being a robust market than the AEP Ohio
12 market, yes.

13 Q. Okay. I asked if it was. Not that it's
14 closer, but is it actually what you consider robust
15 today?

16 A. Is it robust? You know, I haven't
17 actually sat down to think through whether or not it
18 has all of the components necessary for me to
19 personally characterize it as robust, but certainly
20 from the extent of the POR question it is further
21 along than the AEP Ohio.

22 Q. So it's very possible that even though
23 Duke has a POR, it's still not a robust market,
24 correct?

25 A. You know, it's possible. I mean, when

1 you look at the number of suppliers in comparison to
2 AEP Ohio and Ohio Edison, it's -- you know, it's
3 50 percent to a hundred percent higher. When you
4 look at the number of offers in the Duke market, it's
5 significantly higher than AEP Ohio or Ohio Edison.
6 And all of that is also with a smaller number of
7 eligible customers.

8 Q. Okay. So you're saying that Duke is,
9 then, a robust market because of those factors.

10 A. I'm saying it's much more robust than
11 AEP Ohio.

12 Q. Can you unequivocally say that it is
13 robust or not?

14 A. I don't know that we have established
15 objective and fully measurable metrics for robust, so
16 what I can tell you is when I look -- as a supplier
17 analyzing the market in Ohio, between the three
18 markets that we're discussing the one that is -- has
19 the least barriers to entry and the one that would be
20 most preferential for my company to enter on the
21 residential marketplace would be Duke.

22 Q. Okay. You just said that we do not have
23 the analytical metrics to determine whether a market
24 is robust or not, right? Is that what you said just
25 now?

1 A. That is what I just said.

2 Q. Okay. So if we don't have the metrics to
3 determine whether Duke is robust or not, then do we
4 have the metrics to determine that the market in the
5 AEP territory is not robust?

6 A. I can say the fact that the way bad debt
7 is handled in the AEP Ohio market alone would
8 probably negate any thought that that is a fully
9 robust market, in my -- in my estimation.

10 Q. So all things being equal the lack of a
11 POR in and of itself is the one factor that can take
12 a market from being robust to not being robust,
13 right?

14 A. No, but it is one factor that can play
15 into that assessment, yes.

16 Q. Okay. What other factors exist in the
17 Duke territory that don't exist in the AEP territory
18 other than the POR that make Duke robust and that
19 make AEP not robust?

20 MR. PETRICOFF: Objection. There's been
21 no answer that indicated that Duke was robust.

22 MR. SERIO: Well, your Honor, that's
23 exactly what I was trying to get him to say and he
24 still won't say that, so if counsel wants to say that
25 the Duke market is not robust, I'll accept that

1 answer and move on.

2 MR. PETRICOFF: It's not counsel
3 testifying, it's protecting a record, and you can't
4 make assumptions that aren't supported.

5 MR. SERIO: Then I'll rephrase the
6 question, your Honor.

7 EXAMINER PARROT: That's fine.

8 Q (By Mr. Serio) Is the Duke market robust
9 today, "yes" or "no"?

10 A. Yes.

11 Q. Okay. Now, if the Duke market is robust
12 and the AEP market is not, what factors, other than
13 the lack of a POR, exist that make the Duke market
14 robust and the AEP market not robust?

15 A. Nothing else comes to mind.

16 Q. Is the AEP retail market competitive?

17 A. Can you define "competitive"?

18 Q. Are there a number of providers out there
19 that compete against each other to give customers an
20 option of choices?

21 A. Yes. And notably fewer than in the Duke
22 market.

23 Q. As the expert witness for RESA in this
24 case, what do you consider to be a competitive
25 market? What are the factors?

1 A. Well, a fully competitive market would
2 actually involve the removal of default service and
3 have only competitive supply as an option. But
4 reasonably competitive markets would include a market
5 that has low barriers to entry; market reflected
6 default service pricing that are -- that is based on
7 wholesale, open, transparent wholesale auctions; it
8 would include as much equality as possible between
9 the default service supply option and competitive
10 supply options. I'll go with that.

11 Q. Okay. So you've identified a fully
12 competitive market and a reasonably competitive
13 market. Is the only other category then a
14 noncompetitive market, or would there be anything
15 between noncompetitive and reasonably competitive?

16 A. I would imagine competition can be
17 assessed on a spectrum, yes.

18 Q. So, in your opinion, the AEP competitive
19 market falls somewhere between reasonably competitive
20 and whatever exists above not competitive at all.

21 A. Yes.

22 Q. And the Duke market, where would that
23 fall in your scale?

24 A. Above reasonably competitive.

25 Q. And, again, it would fall there simply

1 because of the existence of the POR in Duke and the
2 lack of a POR in AEP, correct?

3 A. You know, I can't say that that's the
4 only thing that goes into the fact that there are 32
5 suppliers offering, you know, 32 suppliers offering
6 residential service on the Apples-to-Apples chart in
7 Duke, they have 68 residential offers on the
8 Apples-to-Apples chart in Duke. In AEP Ohio there
9 are 20 suppliers doing the same with 51 offers.

10 Q. Okay. Good. Do we know why the
11 providers that participate in the Duke program do not
12 participate in the AEP program? Is there anything in
13 your testimony or evidence anywhere in this record
14 that says this is why we participate in Duke but we
15 don't participate in AEP?

16 A. No.

17 Q. Is there anything in the record of any
18 proceeding that you've seen in your time in doing
19 regulatory work in Ohio, in any Ohio proceeding,
20 where any CRES provider said "I'm not participating
21 in a market because of a lack of a POR"?

22 A. In written testimony?

23 Q. Something under oath, yes.

24 A. Oh, no.

25 Q. Okay. So we've heard it but we've never

1 heard it where somebody had to swear that that was
2 the reason, correct?

3 A. To my knowledge, correct.

4 Q. Now, you indicated that the standard
5 offer is competition for CRES providers, correct?

6 A. Yes.

7 Q. Okay. CRES providers, they're not --
8 they don't have any price regulation on what they
9 charge, correct?

10 A. That's correct.

11 Q. And they can make a profit as much as
12 they want, correct?

13 A. Ostensibly, yes.

14 Q. Can AEP make a profit from the standard
15 offer?

16 A. No.

17 Q. Okay. Now, if I look at offers that CRES
18 providers are offering today and I look at the
19 standard service offer, am I correct that there's a
20 lot of CRES offers out there today that are better
21 than the SSO?

22 A. Yes.

23 Q. So that means that CRES providers without
24 a POR are able to offer a product that's a better
25 price than the standard offer product, correct?

1 A. In this current point in time.

2 Q. Now, is it possible that the reason that
3 a lot of customers don't shop today is because they
4 may have had a bad experience and, therefore, it
5 doesn't matter what the price is, they prefer the
6 default price?

7 A. I can't speculate to why people shop and
8 don't shop.

9 Q. So you've done no analysis to study why
10 people do or don't shop.

11 A. Not in support of my testimony, no.

12 Q. There's none in -- there's none of that
13 type of analysis anywhere in the record in this
14 proceeding, correct?

15 A. Not that I know of.

16 Q. Are you aware of if there was any of that
17 type of analysis or study done as part of the retail
18 market investigation, the docket 3151?

19 A. I don't recall. I vaguely recall that
20 one of the CRES providers offered anecdotal -- not
21 anecdotal but some summary information about internal
22 offer or internal assessments that they had done but
23 I don't remember, so I would say not to my
24 recollection.

25 Q. And you participated in that retail

1 market investigation, correct?

2 A. Yes, I did.

3 Q. And you've -- in particular you
4 participated in the POR subcommittee.

5 A. Yes.

6 Q. So if there had been that type of
7 analysis documented, you would have seen it, correct?

8 A. Most likely, yes.

9 Q. And there wasn't any of that type of
10 analysis attached to the Staff Report or mentioned
11 anywhere in the Commission order in that proceeding,
12 correct?

13 A. To my -- yes, that's correct. To my...

14 Q. Now, you indicated that RESA had no
15 objection to a bad debt rider at an actual amount
16 rather than zero, correct?

17 A. I didn't say no objection. I said it was
18 conditional on the fact that it would have to be
19 reasonable, it would have to be based on the actual
20 bad debt experience in the utility, and it would have
21 to be based on specific customer rate classes.

22 Q. So would RESA be opposed to a bad debt
23 rider that was set based on an individual CRES
24 provider's level of bad debt?

25 A. Not necessarily, although I think that's

1 something that would be better implemented at a later
2 date. I think that you give up some of the
3 simplicity gains by trying to implement that
4 immediately. I also think that you probably increase
5 implementation costs.

6 So if the eventual goal was to try to get
7 to an individual CRES provider discount rate, that's
8 something that would probably be better suited for a
9 period of time after POR is implemented the way it's
10 been implemented everywhere else in Ohio, an
11 assessment is made on whether or not that's a logical
12 next step.

13 Q. If a CRES provider today had \$10 million
14 in annual billings, okay, and they had 5 percent bad
15 debt, that would be \$500,000, correct?

16 A. Sure.

17 Q. Okay. So at the end of the year if that
18 was their bad debt, they'd have to write off that
19 500,000, correct?

20 A. Yeah, I suppose so.

21 Q. Now, if there's a bad -- if there's a POR
22 with a bad debt rider set at zero, that \$500,000, the
23 utility would purchase that from the CRES provider
24 making them whole, correct?

25 A. Under the current proposal, yes.

1 Q. So that could be \$500,000 to the CRES's
2 bottom line, correct?

3 A. Yeah, I guess the difference is if it's
4 written off, it doesn't go to the bottom line and if
5 it's not written off, it does go to the bottom line.

6 Q. And we have no guarantee or assurance
7 that if the CRES provider gets that extra \$500,000,
8 they're going to turn around and reduce rates by
9 \$500,000 in order to be more competitive in the
10 market, do we?

11 A. I think all we have is the economic
12 principle of if -- you know, if you're not offering
13 the most efficient price, somebody else may, and if
14 they do and you don't, you most likely won't be in
15 the marketplace very much longer.

16 Q. Now, you talk about this economic theory.
17 Are you an economist by training?

18 A. I'm not.

19 Q. No. So this is just your layman's
20 interpretation of economic theory.

21 A. Yes.

22 Q. Okay. And you're employed by PPL,
23 correct?

24 A. PPL Energy Plus.

25 Q. Does PPL Energy Plus participate in the

1 AEP electric retail market?

2 A. We participate in the Ohio market and
3 it's -- we're very new entrants to the marketplace,
4 and I'm actually not completely familiar with where
5 all of our customers are located.

6 Q. Do you know if you're certified --

7 A. Yes, absolutely.

8 Q. So you know you're certified but you're
9 not sure if you're actually out there making offers,
10 correct?

11 A. We're making offers. I'm not positive if
12 we're making offers in the AEP Ohio territory
13 currently.

14 Q. Do you know if you're making offers in
15 the FirstEnergy service territories?

16 A. I don't know.

17 Q. How about the Dayton Power and Light?

18 A. I'm not sure.

19 Q. So you don't know if you're actually
20 making offers in other territories that do not have a
21 POR.

22 A. I know that we're making no residential
23 offers anywhere in Ohio and that's largely because
24 there's no POR.

25 Q. Are you making residential offers in the

1 Duke service territory?

2 A. No.

3 Q. And Duke has a POR.

4 A. Yes.

5 Q. Okay. Now, if I look at the list of RESA
6 members that's in your testimony, do you know how
7 many of those members actually are certified in Ohio
8 in the AEP service territory?

9 A. No.

10 Q. Do you know which ones are certified in
11 the Duke, FirstEnergy, or Dayton Power and Light
12 service territories?

13 A. Not off the top of my head, no.

14 Q. Is it possible that a majority of them
15 are not certified in any of the Ohio retail service
16 territories?

17 A. I don't -- yeah, I don't know if it's
18 majority. I don't know if it's some, all, or -- I
19 know it's not all. I know some are certified, I
20 don't know how many are.

21 Q. Now, of the ones that are not certified
22 in AEP, do you know -- do you have any reason as to
23 why they're not certified?

24 A. No, I wouldn't be able to know that.

25 Q. Now, you indicate that RESA is a broad

1 and diverse group who share the common vision of
2 competitive retail energy markets, correct?

3 A. Yes.

4 Q. Is one of those common visions reducing
5 their common costs?

6 A. I don't think that's an appropriate
7 characterization. I think our common vision is to
8 try to make markets fair, open, and sustainable.

9 Q. But if you get a POR and a marketer could
10 save 500,000 to the bottom line, that's a reduction
11 of costs, correct? As we discussed a few minutes
12 ago.

13 A. It's a reduction in cost. I don't think
14 that I necessarily put those two things together as
15 cause and effect but, yeah, it's a reduction in cost.

16 Q. So if six or seven of the RESA members
17 who currently participate in the AEP market all had
18 that million dollar level [verbatim] with 5 percent
19 bad debt, their common vision could be I can get
20 500,000 in my bottom line by getting a POR, correct?

21 A. I can tell you categorically that's never
22 been the rationale for RESA to support a POR in Ohio
23 or any other jurisdiction.

24 Q. Now, would you agree with me that bad
25 debt is a business risk that any unregulated industry

1 participant faces?

2 A. Generally, yes.

3 Q. Do you know of any other unregulated
4 business where they're guaranteed bad debt recovery?

5 A. None come to mind.

6 Q. Now, you indicated, although it doesn't
7 say it in your testimony, that the lack of a POR is a
8 barrier to entry. Is that a position that you're
9 taking or is that a position that RESA's taken?

10 A. RESA.

11 Q. And you're not aware of RESA filing any
12 kind of complaint action alleging that the lack of a
13 POR was a barrier to entry anywhere in Ohio, correct?

14 A. I believe that in all of the ESP
15 proceedings over the past several years RESA has in
16 its testimony actually indicated that the lack of a
17 POR is a barrier to entry.

18 Q. But RESA's never gone as far as to
19 actually file a complaint, correct?

20 A. No.

21 Q. No.

22 And other than what you mentioned
23 previously as anecdotal evidence, are you aware of
24 any evidence in any of those other ESP cases that
25 supported the position that a lack of a POR is a

1 barrier to entry?

2 A. Other than the discrepancy in the number
3 of suppliers and number of offers, no.

4 Q. And there's no analysis that shows that
5 that's a cause and effect, that the implementation of
6 a POR will automatically lead to more CRES providers
7 participating in the market, correct?

8 A. That's correct.

9 Q. Are you familiar with the FirstEnergy
10 proceeding 12-1230?

11 A. Not by the -- I'm sorry, not by the
12 docket number.

13 Q. It's the proceeding where IGS and other
14 marketers argued that the lack of a POR was a barrier
15 to entry.

16 A. Is this where the -- I'm sorry. Is it
17 a -- was it an ESP case? Can you tell me what the
18 case was?

19 Q. I'll get that. We'll move on and I'll
20 get to it.

21 A. Okay.

22 Q. Now, are you familiar with the type of
23 products that CRES providers offer in the AEP market
24 today?

25 A. At a very high level.

1 Q. Would you agree with me that if you
2 looked at the Apples-to-Apples chart, you'd find
3 fixed contract offerings, variable contract
4 offerings, and combinations of fixed and variable
5 that are offered sort of as a hybrid product?

6 A. That seems reasonable. That's a standard
7 product.

8 Q. Are you aware of any other products
9 offered in the AEP territory other than one of those
10 three categories?

11 A. I really don't have a comprehensive
12 knowledge of all the products being offered in the
13 territory, no.

14 Q. Are you aware of any product that's
15 offered in the Duke service territory that is not
16 offered in the AEP service territory?

17 A. Not specifically, no.

18 Q. So when we look at your testimony on page
19 7 where it says that it should increase competition
20 which could bring more competitive prices and product
21 offers, we have -- you're not able to point to any of
22 those particular product offerings that are available
23 in a service territory where there is a POR compared
24 to one where there isn't, correct?

25 A. The only thing I can point to is the fact

1 that there are substantially more offers and more
2 suppliers in a territory that has POR in comparison
3 to ones that don't. And, actually, that actually
4 transcends not just Ohio but into other jurisdictions
5 as well.

6 Q. If you had a market where you've got 10
7 providers offering widgets and you got a market where
8 there's 50 offering widgets but the price in both
9 markets is identical, then what's the benefit of
10 having the additional 40 providers?

11 A. Under that theoretical scenario, which I
12 don't see how it's applicable to my industry, I guess
13 there's not except for there could be, I mean unless
14 there's -- there could be service level services
15 between the companies, there could be quality of
16 widget issues. Perhaps one company sells a
17 higher-quality widget. Maybe one has nicer customer
18 service representatives.

19 Q. Okay. So in that scenario if there's no
20 difference in the price, it doesn't matter. So if
21 I'm in the AEP market today and I'm a customer and
22 I'm shopping, I've got -- if you accept, subject to
23 check, Mr. Gabbard indicated there are 29 CRES
24 providers offering service to retail -- to
25 residential customers, okay? So I've got a choice of

1 29 different offers out there, correct?

2 A. Yeah, what I saw on the Apples-to-Apples
3 chart is 20 active suppliers, but I have no reason to
4 believe that Mr. Gabbard isn't correct.

5 Q. Now, if tomorrow there's 59 CRES
6 providers out there, how do I know if any difference
7 in price came about because there's more CRES
8 providers versus there might be a change in the
9 market or there could be other changes that could
10 affect the price? How can I specify that that's the
11 exact reason why?

12 A. You can't specify the exact reason why.

13 Q. So there's no way of knowing with any
14 certainty that additional providers beyond a certain
15 number will guarantee a better price, correct?

16 A. Well, as you pointed out, I'm not an
17 economist but in college I did take Economics 101 and
18 we learned the supply and demand curve, and in the
19 supply and demand curve when you increase supply, the
20 price goes down.

21 Q. Is there a point in the supply and demand
22 curve where you saturated the market and adding
23 additional providers does not impact the price?

24 A. There's probably a saturation point, yes.

25 Q. Do you know where that saturation point

1 might be with number of providers?

2 A. No.

3 Q. Do you know what the minimum number of
4 providers necessary to have a robust or competitive
5 market is?

6 A. No.

7 Q. Now, you talk about the consolidated
8 billing, and I think one of the options that
9 customers have with the SSO is that they can get
10 budget billing, correct?

11 A. Yes.

12 Q. Is there anything that precludes a CRES
13 provider today from offering a customer budget
14 billing?

15 A. Not -- I don't know, actually. None that
16 I'm aware of.

17 Q. Now, you indicated that you're familiar
18 with the other SSO proceedings so the case that I
19 mentioned earlier, the 12-1230-EL-SSO, that was the
20 Ohio Edison Company, CEI, Toledo Edison ESP case.

21 A. The most recent one?

22 Q. The one that was -- there was an order in
23 2013.

24 A. Yes, I believe I was --

25 Q. Okay.

1 A. Yes.

2 Q. And in that proceeding do you recall that
3 the Commission indicated that the CRES providers had
4 failed to show that there was a barrier to entry as a
5 result of a lack of a POR?

6 A. Yeah, without having it in front of me,
7 I'd have to take your word for it.

8 Q. To the extent that RESA or CRES providers
9 argued on behalf of a POR in the FirstEnergy ESP
10 case, you would have been familiar with any evidence
11 and the case that they made in that proceeding,
12 correct?

13 A. Yes.

14 Q. Are you aware of any evidence in this
15 proceeding that RESA or any CRES provider provided
16 that is different than any evidence that was provided
17 in the FirstEnergy ESP case showing that the lack of
18 a POR is a barrier to entry?

19 A. No, I'm not aware of any.

20 Q. Is there any way to quantify any benefits
21 that customers get from implementation of a POR?

22 A. There may be.

23 Q. How would you do it? How would you
24 benefit the cost savings to a customer as a result of
25 a POR?

1 A. Well, as you pointed out, I'm not an
2 economist so I don't know that I have the training to
3 indicate how that could be done, but it seems
4 feasible to do -- that you would be able to do an
5 assessment that would actually indicate.

6 Q. Are you aware of any CRES provider either
7 individually or part of a group like RESA has ever
8 done any kind of analysis to show the cost/benefit of
9 a POR program for the residential customers?

10 A. No. Quite honestly, it really hasn't
11 been necessary. Most other jurisdictions that have
12 implemented POR, it's been a nonissue. The POR's
13 been implemented and there hasn't been any concern or
14 reason to do an assessment or backwards kind of look
15 at the decision that was made to implement the POR
16 program.

17 Q. CRES providers in RESA have wanted a POR
18 in the electric retail market for a period of time
19 now, correct?

20 A. Correct.

21 Q. Is there any reason that they haven't
22 done any kind of analysis to show that cost benefit
23 since they've run into those barriers in Ohio?

24 A. I don't know why they haven't done that.

25 Q. Now, you indicated that you had the

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1 shopping statistics with you?

2 A. A limited number, yes.

3 Q. Do you have the ones for the shopping
4 rates for the month ending December 31st, 2013?

5 A. December 31st? No, I'm sorry, I don't.
6 I have March 31st.

7 Q. You have March, you don't have December?

8 A. That's correct, March 31st, 2014.

9 Q. Oh, so you have more current, okay.
10 Yours are more current than mine. If we look at
11 those numbers, would you agree with me that there's a
12 greater rate of shopping in the FirstEnergy market
13 among residential customers than there is in the Duke
14 service territory?

15 A. Are we looking at by customer or by load?

16 Q. Residential sales.

17 A. By customer? Oh, by sales, so by load.

18 Q. Yes.

19 A. Which FirstEnergy territory are you
20 speaking of?

21 Q. If you look at the total for FirstEnergy.

22 A. I'm sorry, there are three FirstEnergy
23 companies I believe.

24 Q. Right. Isn't there a total switch rate
25 at the bottom?

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1 A. Yeah, but are we talking about Toledo
2 Edison, Ohio Edison, or the Illuminating Company?
3 Isn't FirstEnergy three separate utilities? And I
4 believe their switching statistics are reported that
5 way. At least the ones I have.

6 Q. Okay. Under Provider Name the first one
7 you have is Cleveland Electric Illuminating Company,
8 correct?

9 A. Yes.

10 Q. And then it lists residential sales and
11 if you go down to Electric Choice Sales Switch Rate
12 there's a percentage there?

13 A. Yes.

14 Q. What's the percentage that you have?

15 A. So for March 31st that percentage is
16 79.38 percent.

17 Q. And what's the comparable percentage for
18 Duke?

19 A. For Duke is 49.67 percent.

20 Q. And FirstEnergy does not have POR but
21 Duke does, correct?

22 A. Yes.

23 Q. Then if you go down further and look at
24 Dayton Power and Light, what's the percentage you
25 have for Dayton?

1 A. 45.56 percent.

2 Q. So it's almost the same rate as Duke but
3 Dayton has no POR, correct?

4 A. Correct.

5 MR. SERIO: That's all I have, your
6 Honor.

7 Thank you, Mr. Bennett.

8 EXAMINER PARROT: Mr. Satterwhite?

9 MR. SATTERWHITE: Thank you, your Honor.

10 - - -

11 CROSS-EXAMINATION

12 By Mr. Satterwhite:

13 Q. Let's pick up where you just left off.
14 What's your understanding of why there's
15 79.38 percent in the FirstEnergy territory of
16 shopping?

17 A. My understanding is the FirstEnergy
18 territories in general have a large amount of opt-out
19 aggregation and that has increased their overall
20 residential shopping numbers. My understanding is
21 also that those aggregations are generally served by
22 one supplier.

23 Q. Is DP&L's the same issue as far as its
24 aggregation that makes up a large bit of that number?

25 A. You know, I'm not as familiar with the

1 DPL territory so I can't -- I'm sorry, I can't
2 respond.

3 Q. You're familiar with the Duke territory,
4 correct?

5 A. Yes.

6 Q. So how would you compare the percentages
7 of what you talked about at FE versus the Duke
8 territory, is aggregation the difference? Explain
9 that for me.

10 MR. SERIO: Objection. Your Honor, I let
11 the first couple questions go but the company wants a
12 POR, this witness wants a POR, sounds to me like this
13 is rehabilitative friendly cross and if Mr. Petricoff
14 wants to do redirect, he can do it and then we get
15 another shot at it, but allowing the company to do
16 redirect in the guise of doing cross-examination is
17 totally unfair.

18 MR. SATTERWHITE: Your Honor, the witness
19 made a lot of statements in his testimony that I
20 think go against what the company's offering here.
21 I'm just trying to clear up a lot of this stuff for
22 the record. I think that's appropriate.

23 MR. SERIO: Well, your Honor, if that's
24 the case, then the question should be limited to the
25 areas where there's a difference of opinion, and I

1 don't know that anybody can list the areas where
2 there's a difference of opinion, and asking about
3 shopping rates isn't a difference of opinion between
4 the marketers and AEP.

5 MR. SATTERWHITE: It's a clarification
6 and, your Honor, I have a difference of opinion with
7 this witness. What he's testified with Mr. Serio
8 stopped short of the facts in Ohio to explain why
9 there's a difference in shopping rates and I think
10 it's important for the Commission to understand that.

11 EXAMINER PARROT: The objection is
12 overruled with respect to the pending question.

13 THE WITNESS: Can you please repeat the
14 question.

15 MR. SATTERWHITE: Can we have it reread,
16 please?

17 (Record read.)

18 A. My understanding is that the rates of
19 aggregation in the Duke territory are much lower than
20 the rates of aggregation in any of the FirstEnergy
21 territories.

22 Q. Now, with Mr. Serio you were talking
23 about his hypothesis of 50 CRES providers at the same
24 price if there's 10 CRES providers in a territory.
25 Do you remember that conversation?

1 A. I do.

2 Q. Your testimony was you didn't see any
3 real benefit, maybe there's better customer service,
4 correct?

5 A. I don't know that -- well, I hope I
6 didn't say there's no benefit. If I did, I think it
7 was very narrowly in response to that theoretical
8 situation which I also said I don't believe actually
9 applies to this particular industry.

10 I think that there is the potential for a
11 large amount of benefit when you have supplier
12 diversity. You know, price is only one reason why
13 people shop. Supplier diversity brings with it,
14 again, various levels of customer service. Perhaps
15 other, you know, nonelectric time-of-use tariff
16 products. Could be the ability to bundle your gas
17 and electric together. You know, there's numerous
18 benefits that are brought about by the competitive
19 market in shopping.

20 There are numerous benefits that are
21 brought about by supplier diversity, price is only
22 one of them, so if I did indicate that, then, again,
23 I think it was in the narrow, very narrow theoretical
24 nonapplicable situation. But in our industry there
25 are several benefits to supplier and offer diversity.

1 Q. I'm also confused by another issue. I'm
2 not sure what your testimony is now after your
3 conversation with Mr. Serio. He asked you if there
4 was evidence anywhere that a supplier will enter a
5 market because a POR is in existence, and I thought
6 you were supportive of that but it sounded like in
7 your testimony you were saying that there is no
8 evidence of that. Is it -- so that's the basis.

9 So let me ask, are you testifying that if
10 there's a purchase of receivables program in
11 AEP Ohio, that current CRES providers that aren't
12 currently offering service are likely to offer
13 service in the territory?

14 MR. DARR: Objection, your Honor.

15 MR. SERIO: Objection.

16 MR. DARR: This is exactly the problem
17 that I identified before we went on the record this
18 morning with the order of cross-examination. As
19 Mr. Serio made very clear in his prior objection,
20 what we're now faced with is a series of questions
21 where basically counsel for AEP is asking for
22 clarification that allows for the rehabilitation of
23 the testimony that was elicited on cross-examination.
24 If anyone has a right to do it, it's Mr. Petricoff.
25 It is not AEP Ohio.

1 MR. SERIO: Your Honor, my objection goes
2 more to the specific question, although I agree with
3 everything that counsel for IEU said. My question
4 said was there any evidence, and here is do you
5 believe. And we can't confuse belief with evidence.
6 And I think I made it very clear, and the witness
7 made it very clear, he's not aware of any evidence
8 anywhere other than anecdotal discussions and stories
9 like that.

10 And that also is the heart of why I
11 objected previously that this was friendly cross,
12 because what he's doing is he's getting the witness
13 to retract answers that he gave to my questions that
14 doesn't give anyone else an opportunity to go back
15 and determine why he changed his answers.

16 MR. SATTERWHITE: Your Honor, he asked
17 questions that the answers contradict the position of
18 AEP Ohio and I have the right to ask and clarify to
19 make sure if that's really what this witness
20 believes, otherwise I have to leave statements in the
21 record that are against my interests which is
22 inappropriate.

23 And the question here, Mr. Serio has a --
24 I don't know where he gets the presumption that this
25 witness testifying is not evidence, which is the

1 exact point I'm trying to make. He contorted the
2 question through a number of questions by raising his
3 voice and yelling at the witness trying to make him
4 think that there wasn't evidence out there of this
5 factor, and I'm asking the witness if he will testify
6 to that if that's true or not, because I don't know
7 if he's retracted from that, if that's his belief or
8 not. I'm trying to establish that for the record.

9 MR. DARR: If I may complete the thought,
10 your Honor.

11 EXAMINER PARROT: Yes, Mr. Darr.

12 MR. DARR: I think Mr. Satterwhite has
13 confirmed exactly the concern that I've raised in my
14 objection. The alignment of the parties as to this
15 issue between RESA and AEP Ohio are the same. As a
16 result, basically what we're getting here is
17 rehabilitation.

18 MR. SATTERWHITE: Your Honor, I
19 appreciate that Mr. Darr lost the request he had
20 earlier about order. I don't believe this is
21 friendly cross. Something happened in this case, a
22 case where the company has the burden of proof, and
23 I'm trying to clarify the record and see exactly
24 where we are on this issue because I'm confused now
25 with this witness because different things were said

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1 at different points. So I think it's appropriate for
2 AEP, as an attorney for AEP, to clarify this point
3 and make sure the record's clear on it.

4 EXAMINER PARROT: The objection is
5 overruled.

6 Q. (By Mr. Satterwhite) Would you like the
7 question reread?

8 A. Yes, please.

9 (Record read.)

10 A. In an attempt to be perfectly clear, RESA
11 has maintained in this proceeding and several
12 proceedings in Ohio that they believe the lack of POR
13 in Ohio to be a barrier to entry and a barrier to
14 effective participation in the marketplace. That is
15 a fundamental advocacy point for RESA in Ohio and in
16 other jurisdictions.

17 RESA maintains that removing that barrier
18 will very likely allow additional suppliers to enter
19 the marketplace and the current suppliers that are in
20 the marketplace to make additional offers.

21 My understanding is, however, that no one
22 supplier nor has RESA indicated under oath and, you
23 know, categorically that if POR is implemented in
24 AEP Ohio, that they will then immediately enter the
25 marketplace.

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1 Q. I'll take you to page 10 of your
2 testimony where you talk about RESA's billing
3 concerns. This is where you made the correction from
4 three to two. Let me know when you're there.

5 A. Yes.

6 Q. And you're making a suggestion there that
7 AEP essentially comply with what the Commission
8 ordered in the 12-3151, to provide data, correct?

9 A. I'm sorry. Can you repeat the question?

10 Q. Yeah. The first concern you have with
11 collections is that you want AEP to offer the
12 information that the Commission described in the
13 12-3151 docket --

14 A. That's --

15 Q. -- is that correct?

16 A. -- correct.

17 Q. And on line 19 you say "until the POR
18 program is completely established." So is that a
19 temporary provision if the AEP provision or proposal
20 in this case is adopted?

21 A. Yes.

22 Q. Do you believe that if the information is
23 provided as you've listed here and the Commission
24 provides in the 12-3151 docket, that that's an
25 adequate substitute for purchase of receivables and

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1 you don't need a purchase of receivables program?

2 A. So I struggle with "adequate" in that
3 question. What RESA's position has been is that it
4 is theoretically possible for a payment priority plan
5 to work if all of the data necessary to do the
6 analysis and management of the arrearage is provided.
7 However, RESA's position has been and continues to be
8 that it is not an optimal solution, it is not in the
9 best interest of the customers, and that there are
10 gains to be made both from a market structure
11 perspective as well as customer experience
12 perspective by implementing a POR program.

13 Q. Now, on page 11 of your testimony when
14 you talk about the early termination, around line 16
15 you start the sentence "Suppliers who have entered
16 Ohio Power territory over the past several years have
17 done so on faith that the Commission will protect the
18 rights of customers who switch to a supplier and
19 ensure true options exist." Do you see that?

20 A. I do.

21 Q. Is it your opinion that the Commission's
22 met that expectation of protecting customers who have
23 switched?

24 A. I have no reason to believe that the
25 Commission in Ohio has done anything but attempt to

1 protect the right of customers in all cases, whether
2 they switch to a supplier or not. I think that there
3 is still some work that can be done in this
4 marketplace to ensure that true options exist in a
5 completely unfettered and fair manner.

6 Q. But it's not your expectation the
7 Commission will suddenly abandon customers and not be
8 concerned about customers that have switched,
9 correct?

10 A. No.

11 Q. In fact, they opened a market
12 investigation to look into issues to protect them or
13 to help facilitate the market, correct?

14 A. Indeed.

15 Q. You give some testimony starting on page
16 13 dealing with the rider PPA. My questions are very
17 focused and limited here almost at a grammarian level
18 to make sure I understand your sentence structure,
19 but I won't make you graph anything. You talk on
20 here around line 7 that your counsel has advised you
21 of some things. I'm just trying to figure out what
22 your counsel has advised you of and what is your
23 opinion.

24 So am I correct that starting on line 7,
25 that and the next two sentences are what your counsel

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1 has advised you of, and then this is especially true
2 of ratepayers is where you start to apply the advice
3 of your counsel?

4 A. Yes, I think that's a fair
5 characterization.

6 MR. SATTERWHITE: Just one second, your
7 Honor. I'm wrapping up.

8 Thank you very much, that's all I have.

9 EXAMINER PARROT: Mr. Parram?

10 MR. PARRAM: No questions, your Honor.

11 EXAMINER PARROT: Any redirect,
12 Mr. Petricoff?

13 MR. PETRICOFF: Could we have a minute,
14 your Honor?

15 EXAMINER PARROT: You may.

16 (Recess taken.)

17 EXAMINER PARROT: Any redirect?

18 MR. PETRICOFF: Yes, your Honor, I have a
19 number of questions.

20 - - -

21 REDIRECT EXAMINATION

22 By Mr. Petricoff:

23 Q. Mr. Bennett, what states have POR for
24 electric service?

25 A. Illinois, Maryland, Pennsylvania,

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1 Connecticut, Massachusetts has recently implemented
2 it, New York, I believe Delaware as well.

3 Q. All right. Given your testimony on Duke
4 shall we add Ohio?

5 A. I'm sorry. Yes, Ohio.

6 Q. Are you familiar about how POR works in
7 any of those states and how those states adopted POR?

8 A. Yes. Several of them, most especially
9 Illinois and Pennsylvania.

10 Q. Any of those states ask for the kind
11 of -- ask for a cost-benefit analysis before they
12 ordered POR?

13 A. No, none of them asked for a cost-benefit
14 analysis and none has been asked since it's been
15 implemented.

16 Q. If this Commission granted the POR and
17 bad-debt tracker request that is in the application,
18 do you believe, from your knowledge in the industry,
19 that there would be more suppliers who would enter
20 the AEP Ohio market and more products being offered?

21 A. I do believe that, yes.

22 Q. Why?

23 A. Any supplier out there has a limited
24 number of resources and when we do assessments of the
25 markets where we're going to enter, we look at a

1 number of factors, as I indicated earlier in my
2 questioning. Again, most specifically we look at
3 market structure and whether or not it's supportive
4 for long-term competitive viability.

5 POR is just generally one of the things
6 that we look for as a supplier community, which is
7 why we have been so adamant and advocating for it in
8 multiple jurisdictions.

9 So when you look at Ohio as a marketplace
10 as a whole, the Commission has done a number of very
11 supportive -- there's been a number of proceedings
12 where market reforms that support competitive markets
13 have come out moving away from FRR to an RPM
14 structure for capacity, moving to wholesale auctions
15 with corporate separation, so Ohio in general has
16 become a more attractive place to do business. More
17 suppliers are looking to Ohio as a market
18 possibility.

19 But, again, from a small customer
20 perspective on the residential, and especially on the
21 residential side, when you look at Ohio as a
22 marketplace versus a Pennsylvania or a Maryland or a
23 New York or Illinois where they do have POR outside
24 of the Duke territory here in Ohio, that's going to
25 play into your decision.

1 So if you level that playing field, if
2 you bring Ohio across the board, gas, electric, all
3 POR, like these other jurisdictions, then you're
4 going to have suppliers that look at Ohio as the most
5 attractive place for their investment.

6 Q. Now, Mr. Serio in his cross-examination
7 asked you about the 12-1230 case, the FirstEnergy
8 ESP 2 case on the subject of POR. Has the Commission
9 brought up the subject of POR since that FirstEnergy
10 opinion and order?

11 A. Yeah, my recollection is that they
12 specifically addressed POR in the Commission-ordered
13 investigation on retail markets.

14 Q. And did you participate in that
15 proceeding?

16 A. I did.

17 Q. And were you on part of the en banc
18 Commission proceeding in the RMI?

19 A. Yes, I was.

20 Q. And what is your understanding of what
21 the Commission ordered in the RMI?

22 A. My understanding is that the Commission
23 ordered that all EDUs that don't currently have POR
24 should look to implement POR in their upcoming cases.

25 MR. PETRICOFF: I have no further

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1 questions. Thank you, your Honor.

2 EXAMINER PARROT: Any recross, Mr. Smalz?

3 MR. SMALZ: No, your Honor.

4 EXAMINER PARROT: Mr. McDermott?

5 MR. McDERMOTT: No, thank you, your
6 Honor, your Honor.

7 EXAMINER PARROT: Ms. Hussey?

8 MS. HUSSEY: No, your Honor.

9 EXAMINER PARROT: Mr. Boehm?

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

11 EXAMINER PARROT: Mr. Darr?

12 MR. DARR: No, your Honor.

13 EXAMINER PARROT: Mr. Yurick?

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

15 EXAMINER PARROT: Mr. Serio?

16 MR. SERIO: Yes, your Honor, thank you.

17 - - -

18 RECROSS-EXAMINATION

19 By Mr. Serio:

20 Q. Mr. Bennett, you just answered a question
21 about the 3151 proceeding. Was there any evidence in
22 the way of any kind of analysis or studies provided
23 in the 3151 docket that were not made available to
24 the Commission in the 12-1230 docket?

25 A. When you say "evidence," you mean other

1 than the testimony provided by suppliers that
2 indicated that POR would be supportive of the market
3 structure in Ohio?

4 Q. Any quantitative evidence. Not somebody
5 saying it, but anything that supports what they're
6 saying.

7 A. My recollection is the Commission came to
8 the decision to support POR without that kind of
9 evidence like other jurisdictions have.

10 Q. My question was: Was there any evidence
11 in the 12-3151 docket that was not available to the
12 Commission in the 12-1230 docket?

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

15 EXAMINER PARROT: Overruled.

16 A. To my knowledge, there was, you know, I
17 don't have an exhaustive knowledge of all the
18 testimony presented in both cases. Do I know of any
19 specific empirical evidence that was implemented or
20 that was submitted in the COI investigation? No.
21 The Commission came to its position of support for
22 POR without such evidence.

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

25 EXAMINER PARROT: Mr. Satterwhite?

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1 MR. SATTERWHITE: No questions, thank
2 you.

3 EXAMINER PARROT: Mr. Parram?

4 MR. PARRAM: No questions.

5 EXAMINER PARROT: Thank you very much,
6 Mr. Bennett.

7 I believe that Mr. Petricoff has already
8 moved for the admission of RESA Exhibit 3. Are there
9 any objections?

10 (No response.)

11 EXAMINER PARROT: Hearing none, it is
12 admitted.

13 (EXHIBIT ADMITTED INTO EVIDENCE.)

14 EXAMINER PARROT: I believe that
15 concludes our witnesses for today. Our schedule for
16 tomorrow, first up we will have OCC Witness Effron
17 followed by possibly IGS Witness Wilson depending on
18 whether or not we have questions, we may be able to
19 stipulate his testimony into the record, we'll decide
20 that tomorrow, next up would be OEC and EDF Witness
21 Roberto followed by Staff Witness Choueiki.

22 Anything else today?

23 (No response.)

24 EXAMINER PARROT: All right, we will
25 reconvene tomorrow morning at 9. We are adjourned

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1 for today. Thank you.

2 (Thereupon, the hearing was adjourned at
3 1:45 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 Tuesday, June 17, 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.

(75909-MDJ)

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