BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

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In the Matter of the Application of Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to §4928.143, Revised Code, in the Form of an Electric Security Plan.	:Case No. 13-2385-EL-SSO
In the Matter of the Application of Ohio Power Company for Approval of Certain Accounting Authority.	:Case No. 13-2386-EL-AAM

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PROCEEDINGS

before Ms. Greta M. See and Ms. Sarah J. Parrot, Hearing Examiners, at the Public Utilities Commission of Ohio, 180 East Broad Street, Room 11-A, Columbus, Ohio, called at 9:00 a.m. on Monday, June 30, 2014.

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VOLUME XIII-REBUTTAL

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Monday Morning Session,

June 30, 2014.

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EXAMINER SEE: Let's go on the record. Let's take brief appearances of the parties present. Let's start with the company and go around the table.

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

MR. BERGER: Good morning. On behalf of the Office of the Ohio Consumers' Counsel, Tad Berger, Joe Serio, and Maureen Grady. Thank you.

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

MR. PARRAM: On behalf of the staff of the Public Utilities Commission of Ohio, Devin Parram, Werner Margard, and Katie Johnson.

MR. KURTZ: For the Ohio Energy Group, Michael Kurtz.

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

MS. BOJKO: Thank you, your Honor. On behalf of the Ohio Manufacturers' Association, Kim Bojko, Rebecca Hussey, and Mallory Mohler.

MR. MCDERMOTT: On behalf of FirstEnergy, Jacob McDermott, Mark Hayden, and Scott Casto.

MR. CLARK: On behalf of Direct Energy, Joseph Clark.

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

MR. O'BRIEN: On behalf of the Ohio Hospital Association, Richard L. Sites, Thomas J. O'Brien, and Dillon Borchers.

MR. SINENENG: On behalf of Duke Energy Commercial Asset Management, I'm Philip Sineneng.

EXAMINER SEE: Okay. Then let's get started with the first rebuttal witness.

Mr. Nourse.

MR. NOURSE: Thank you, your Honor. The company calls Karl McDermott.

(Witness sworn.)

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

MR. NOURSE: Thank you, your Honor.

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KARL A. McDERMOTT, Ph.D.

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

DIRECT EXAMINATION

By Mr. Nourse:

Q. Good morning, Dr. McDermott.
A. Good morning.
Q. Did you prepare testimony that was filed in this case, rebuttal testimony, dated June 23, 2014?
A. I did.
Q. Okay. And, I'm sorry, can you state and spell your name for the record, please.
A. It's Karl with a K, K-a-r-l, McDermott, M-c-D-e-r-m-o-t-t.
Q. Thank you.

MR. NOURSE: And, your Honor, I would like to mark Dr. McDermott's rebuttal testimony as AEP Ohio Exhibit No. 32.

EXAMINER SEE: The exhibit is so marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

MR. NOURSE: Handing the reporter a copy.

Q. Okay. Dr. McDermott, was this testimony prepared by you or under your direction?
A. Yes, it was.

Q. And do you have any changes, additions, or corrections to make to your written testimony this morning?

A. No, I do not.

Q. And if I ask you the same questions today under oath, would your answers be the same?

A. Yes.

MR. NOURSE: Thank you, your Honor. I move for the admission of AEP Ohio Exhibit No. 32 subject to cross-examination.

EXAMINER SEE: Mr. Petricoff.

MR. PETRICOFF: Yes, your Honor, at this time should we make our motions to strike?

EXAMINER SEE: Yes.

MR. PETRICOFF: Your Honor, I move to strike page 17, first sentence that starts on line 11 through line 14. This is where the witness basically repeats the advice he has from counsel, but he's putting it as testimony for the truth of its -- of the statement. Therefore, I move it should be struck.

MR. NOURSE: I'm sorry, it was the sentence line --

MR. PETRICOFF: At the sentence that begins "I have been advised by counsel that the

Commission has responsibility for reliability" and go on from there.

MR. NOURSE: Through line 14, okay.

MR. PETRICOFF: Through line 14, that's correct.

EXAMINER SEE: And that's the only section?

MR. PETRICOFF: That's the only one, your Honor.

EXAMINER SEE: Okay. Mr. Nourse, do you want to respond?

MR. NOURSE: Yes, your Honor. I think, first of all, it is clearly identified as being advice of counsel. He's not testifying to any legal matters, and I think it's a short, concise, contextual statement to -- as part of a complete answer that -- that is his testimony; so I think it's appropriate.

MR. PETRICOFF: And, your Honor, if I could, we don't believe that it -- that it is a completely accurate statement which is why we are moving to strike. And, obviously, the issue can and probably will be briefed.

EXAMINER SEE: Okay. And the motion to strike is denied.

Mr. O'Brien?
MR. O'BRIEN: No questions, your Honor.
EXAMINER SEE: Mr. Petricoff?
MR. PETRICOFF: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Petricoff:

Q. Good morning, Dr. McDermott.

A. Good morning.

Q. If you would, I would like you to turn to your testimony, Appendix B, Figure 1.

A. I'm there.

Q. Okay. And I want to make sure I understand the information that's being depicted on this Figure 1, on this Figure 1 graph. First of all, let me ask, do you have the color version with you?

A. I have a color version, yes.

Q. Okay. Your counsel was kind enough to give us that, and it does make it easier to answer these -- these questions. To begin with, let's look at the -- the zone -- the real time zone -- I'm sorry, the AEP Zone Real Time. Are the data points that are depicted in there in red, are those the hourly rates on the PJM realtime market?

A. I believe the load weighted hourly.

Q. Load weighted.

A. Right.

Q. So there -- for every year roughly 8,760 data points that are -- that are compressed in here.

A. Yes. It's kind of compressed.

Q. Okay. And then, likewise, when we look at the green ones on the day-ahead market, those are the data points, would be one data point for each day for each year that's in the graph?

A. That's correct.

Q. And so is it fair to say that the purpose of -- of this figure is to show that a megawatt-hour during this nine-year period has been as high as, in the realtime market, $700, and as low as, I'll just sort of take a guess, around $20 a megawatt-hour?

A. Yes. It's to show the volatility.

Q. Did you prepare a chart that showed, on a weighted average basis, what the prices were year to year?

A. No.

Q. Okay. Now, basically -- so basically what customers buy and sell on the PJM realtime market?

A. That's what this is depicting.

Q. Okay. Let me try it -- let me rephrase the question.

Isn't it true that basically load-serving entities are the only buyers and sellers on the PJM realtime market?

A. Yes.

Q. All right. And so a customer -- an industrial customer may have a contract with a competitive retail electric supplier who would be buying on the market, but a retail customer wouldn't be buying on the -- on the PJM realtime market?

A. That's correct; unless they had a realtime pricing mechanism that was in place for those residential customers.

Q. Okay. And let's talk about residential customers. Isn't it true that during this time period that you have depicted here, that the residential customers, who were buying from standard service offer, would have been paying a price that was established by the Commission under cost-of-service principles?

A. That's my understanding.

Q. So these prices that we see here would not have affected a standard service offer customer during the time periods that are shown on Exhibit 1 -- I'm sorry, Figure 1?

A. That's correct. And, again, I was just showing these to support the notion that the market prices are volatile.

Q. Similarly, would most -- do most commercial and residential customers who are buying from a competitive retail electric supplier buy on a fixed-price basis?

A. If that's the contract they have signed up for, yes. There have been others that buy indexed. Depends on what's offered and what they buy.

Q. But from your experience in the industry, isn't it only a few very large customers who would buy on an index that would be tied to the PJM realtime or day-ahead market?

A. Typically, I think that's an accurate statement.

Q. Okay. And for those type of customers, are they sophisticated enough to buy hedges or put in call options?

A. They can, yes.

Q. And that would be a method in which they could control price volatility.

A. That's one method, yes.

Q. Is another method just buying a

fixed-price contract?
A. Yes.
Q. Now, if you could, let's take a look at -- at Figure 2 which is the next -- the next chart down, and I think we have identified that the -- that the PJM prices are the PJM AEP Zone Real Time -- these would be the peak figures.
A. Correct.
Q. The highest hourly or the highest day figure for the time period shown.
A. Correct.
Q. Could you explain to me how the pricing was set for the Henry Hub gas prices.
A. That was just the daily Henry Hub prices that were showing there.
Q. Okay. Is it the close -- daily closing price?
A. I believe it's the closing price, yes.
Q. And the Henry Hub is a trading station on a New York Mercantile Exchange?
A. I believe so, yeah.
Q. Now, so far we have been talking about -- about price volatility. I want to make sure we have got the same -- the same definition. Is it fair -- is it a fair summary of price volatility to

describe -- is it fair to define price volatility as the change in the unit price for power, a megawatt-hour or kilowatt-hour, over a set period of time? That would be the measure of volatility.

A. Right. And you can capture that by looking at variants or standard deviation, yes.

Q. And is it true that -- that not all price volatility -- isn't it true that some price volatility would be acceptable to end-use customers?

A. I think every customer has his own or her own desire for that volatility, yes.

Q. Okay. Well, going back to your definition of volatility which is a change in price over time, if, in fact, the change in price over time was downward, that is, power was just getting cheaper per kilowatt-hour, would most residential customers be concerned about the volatility?

A. Well, I mean, volatility is looking at the -- at the total types of prices you are going to face, and so if you happen to be in a short-run trend where prices are going down, that's, in some sense, to their benefit. But they are also worried about those time periods where the prices would consistently be rising.

Q. Well, in fact, isn't that the focus of the concern for customers is a price spike, not a price drop?

A. That's what most customers are concerned about, yes.

Q. And so if the Commission was going to design a method or device for price stability, it should be focused on price rises, not necessarily price drops?

A. Well, I don't know how you could design a very symmetric mechanism like that necessarily. A hedge, like we are looking at here, is an offer by someone in the marketplace who is willing to forego the uptick in prices to get a stable price, and the buyer, on the other side, is willing to avoid those up prices but pay the strike price, so to speak, even though market prices have gone below that cost.

Q. Let me refer you to page 10, lines 6 and 7 of your testimony.

A. I'm there.

Q. Okay. There you say the proper amount of hedging is related to the risk tolerance of the entities purchasing the hedge. Have I read that correctly?

A. Yes, you have.

Q. Okay. And so from our discussion here, isn't it fair to say that the -- that the risk tolerance is fairly high if the price is dropping and fairly low if we are having a price spike?

A. Well, the way you are defining risk tolerance is -- is changing by the context that you are putting the customer in. I think generally what someone looking to buy a hedge is looking at is the overall long-term situation so that they want to forego paying those high prices but are willing to pay a certain price to avoid that, so it's like an insurance contract.

Q. Okay. And if we were doing an economic study, we could go to each one of these customers of AEP and basically determine -- basically plot their indifference curve at what time they would be willing to pay how much to fix a price or to set a ceiling on a price?

A. That's a possibility, yes.

Q. In the course of preparing your testimony, did you do any study like that to look to see where the -- where the price tolerance either as a strike price or as an amount that a customer would be willing to pay to set a stable price?

A. No, I did not.

Q. I used the word "strike price" in my last question. When I said "strike price" to you, how did you define it? How did you interpret it, I should say.

A. Well, there are -- in any financial contract like that, there would be a price that's -- that's the base price that you are going to pay in that situation. And so if the price is too -- you know, you're trying to avoid prices that are too high.

Q. And in the market today, I could go into the -- into the NYMEX electric market and set a strike price at $65 a megawatt-hour and then pay a fee to have a counterparty basically take that risk that the price would go over the strike price.

A. That's correct.

Q. What is the strike price on rider PPA?

A. It's the cost of the OVEC units is my understanding.

Q. And what will be the cost of the OVEC unit or the strike price for PJM year 2015?

A. I don't know.

Q. Isn't that at this point it's unknowable?

A. Yeah.

Q. And we will only know at the end of the year when the costs are tabulated?

A. Well, again, this is -- you know, you know that there is certain evidence of price volatility and if you look at the costs of this particular option. The Commission makes the policy decision that they think that's a good deal.

Q. Before, when we were discussing -- looking at the indifference curve for each customer, wouldn't a way to achieve the same goal be to allow customers to either opt in or opt out of the rider PPA? You could take the insurance, if you want, or not take the insurance, if you want?

A. Well, if you do that, then it has the potential of affecting the competitive marketplace. I mean, if it's a nonbypassable charge, it's competitively neutral.

Q. No. But let's say you can opt in whether you are shopping or not. It makes no difference. It's just a service. It's an option service run by AEP. You can shop and take it, you can take standard service and take it, we are just going to supply that -- that stability but it's voluntary.

A. That's one option.

Q. Is the problem with that option that such an option would take away the price stability for AEP Ohio? I'm sorry, the revenue, the revenue stability

for AEP Ohio.
A. Well, again, see, the purpose of a hedge is to benefit both sides of the -- of the transaction. I'm, as a seller, willing to give up those high prices in the marketplace for a steady fixed price. So to the extent that nobody signed up for it, then there, you know, would be no revenue coming in for that.
Q. Let's go back and maybe refine my hypothetical. Let's say that only half the OVEC volume had customers willing to sign up for the stability rider, for the rider PPA. Wouldn't AEP Ohio still have the revenue from selling the power into the market?
A. Yes.
Q. They would be able to keep that.
A. Yes.
Q. So the main feature that AEP Ohio gets from the rider PPA is that they get certainty on what the revenue flow will be from the OVEC generation.
A. That's what any supplier would get from that side of the transaction, yes.
Q. And so since they could sell the power into the market and take the risk of -- of the market, the rider PPA basically gives AEP price

certainty, that is, it transfers the risk of the price to the customers; is that correct?

A. It transfers the risk of the price being lower than the costs to the customers, but it also gives the customers the advantages of, you know, of avoiding the price spikes that would occur in the market.

Q. But it may not be at -- at a strike price that the customer wants.

A. That's always a possibility.

Q. And is it possible that the customer could go out and find other financial instruments such as the options we've discussed in order to seek their stability, their price stability?

A. Well, what this option is providing is a -- it's like having a blended portfolio. The customers of AEP Ohio will get this hedge, and then they can choose to be either on the SSO or to buy from a third-party supplier. So they now have a portfolio. Some of their risks are hedged by that -- that hedging instrument, the PPA rider. And then they can go into the market and buy whichever one they want or stay with the -- with the auction results.

Q. Is it essential that AEP Ohio's own

generation be used to establish the strike price under the rider PPA?

A. Well, it's essential from their perspective. They are the ones making this offer and they couldn't use someone else's costs.

Q. But -- fair point. But if the only goal was to give price stability to the customers, couldn't the Commission do an auction or an RFP where it basically said, any generator, we want you to take 437 -- 437 megawatts at the strike price that you've bid to use as -- and then basically they would have the mechanism described in the rider PPA.

A. That's certainly an option the Commission has.

Q. Okay. And if, in fact, that strike price came as a price that's lower than the OVEC cost of generation, then basically we would be setting a price stability level that would be less expensive for the customers.

A. Well, I don't know if I can say that because it all depended on how the prices have evolved in the future. That's what makes the hedge what its value is.

Q. Likewise, we can't tell what the price of the OVEC is because that also is going to be dependent on factors that come in the future.

A. That's correct.

Q. But in that hypothetical I just gave you, we would know at the time that the bid prices came in and were accepted what the strike price would be.

A. Yes, you would.

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

Thank you very much, Doctor.

THE WITNESS: Thank you.

EXAMINER SEE: Mr. Clark?

MR. CLARK: No questions, your Honor.

EXAMINER SEE: Mr. McDermott?

MR. McDERMOTT: No questions, your Honor.

EXAMINER SEE: Ms. Bojko?

MS. BOJKO: Yes, your Honor. Thank you.

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CROSS-EXAMINATION

By Ms. Bojko:

Q. Good morning, sir.

A. Good morning.

Q. Are you testifying today on behalf of NERA as the independent auction manager of the CBP process proposed by AEP in this case?

A. No.

Q. So you are testifying today on behalf of AEP as an independent contractor that has nothing to do with one of your colleagues' previous testimony regarding the CBP auction; is that correct?

A. That's correct.

Q. So, sir, it was my understanding that NERA was hired to assist AEP in the design of the CBP and administer the first auction under the CBP and that was Dr. LaCasse's testimony; is that your understanding?

A. That's my understanding.

Q. Sir, is NERA controlling or operating or will they control or operate the proposed PPA rider?

A. No, not to my -- no.

Q. And is NERA responsible for the financial hedge of the rider?

A. Not to my knowledge, no.

Q. Has NERA offered testimony in support of any other Ohio utilities' PPA riders?

A. Not that I am aware of particularly.

Q. And isn't it true, sir, that Ohio does not have any other Ohio utilities that have a PPA rider?

A. That's my understanding at the moment.

Q. And as you note on page 4 of your

testimony, you agree that the PPA rider is not an auction mechanism; is that correct?

A. That is correct.

Q. And that the PPA rider will not impact and has nothing to do with the actual auction, the design of the auction, or the products being bid under that auction; is that correct?

A. That's correct.

Q. Let's turn to page 3 of your testimony, sir.

A. I'm there.

Q. Is it your understanding that the PPA, as proposed by AEP, is only for the term of the electric security plan proposed by the -- by the company which is three years?

A. Right, that's what it would be operative under the set-up as it is now. But my understanding is the company is offering it as a longer-term option.

Q. But as proposed, the rider is only in place for the duration of the ESP; is that correct?

A. As this is set up, yes.

Q. And, sir, is it your understanding that the PPA rider could only possibly last two years if the company invokes its right to terminate the ESP early as proposed in the application?

A. That's their option, I believe, yes.

Q. And, sir, the hedge that you speak to is not a physical asset assigned to the Ohio customers, is it?

A. No. It's a physical asset that's selling the power into the market.

Q. But the power is not physically assigned to Ohio customers; is that correct?

A. That is correct.

Q. And no component of energy is not assigned to Ohio customers. Capacity is not assigned to customers. And demand response are not assigned to Ohio customers; is that correct?

A. That's correct.

Q. And, sir, on page 4 of your testimony on line 2, you discuss that the customers would access any benefits of market revenue, but it's also your understanding that if the costs of the generating units is higher than market, customers would have to, in turn, pay for the cost; is that correct?

A. That's correct.

Q. And, sir, I think you stated this later in your testimony, is it your understanding that the current proposal is for 5 percent of the total load

in the AEP service territory; is that correct?
A. That's correct.
Q. And if you turn to page 8 of your testimony on line 18.
A. I'm there.
Q. You discuss on line 18 to the extent that the product is designed -- and just for clarity sake, the product that you are referencing there is not a CBP product, it's the PPA rider; is that correct?
A. Correct.
Q. And, sir, on page 9 you discuss other utilities, but you agree that buying long-term positions in power plants is typically done by regulated utilities. Is that your understanding?
A. Well, regulated utilities, yeah, they take a position in capacity, yes.
Q. And under those scenarios, the utility actually supplies the customers with the physical generation or products from that power plant; is that --
A. Under the traditional regulation process, yes.
Q. And, sir, if the costs are always greater than the market price in that there is no physical generation going to the customer, you agree that it

is not providing stability, any rate stability or physical reliability; is that correct?
A. Well, if we thought that was the case, you know, there wouldn't be any effective hedge. Everybody expects and I believe Mr. Allen has given testimony about what the future prices would look like.
Q. Right. And your testimony is purely relying on Mr. Allen's prediction of that; is that correct?
A. That's correct.
Q. Okay. So now go back to my hypothetical. Say that the costs are always greater than market and that there's no physical generation going to the customers or any by-products of that physical generation. This product, as you call it, the PPA rider, is not providing any rate stability or physical reliability under that circumstance; is that correct?
A. Well, I don't think I would characterize it that way. It's like an insurance product. I mean, we pay for car insurance, and we don't have an accident. We paid car insurance. What you're doing with a hedge is, you know, hedging your risks that prices could go up and so you pay for that hedge.

Q. So you're not here today to tell us that if there's no physical generation going to the customers, that it would actually be a -- a reliability issue; by approving this PPA, that it would help reliability by approving this PPA.

A. The focus of this PPA is about price stability.

Q. Okay. And you would agree with me that if, under your insurance policy that you just stated, if -- if there is always costs and no benefit, then the benefits of doing this kind of hedge are minimal, if any.

A. Well, again, you engage in this kind of hedge because you believe that the prices are volatile and that's why you would do it.

Q. And you didn't do any independent analysis about that belief that you just referred to; is that right?

A. No, ma'am, I did not.

Q. And on page 11 of your testimony, line 7.

A. I'm there.

Q. We are talking about default service customers and procurements covering shorter-term periods than the PPA, shorter-term periods. Did you mean shorter than the three years proposed under the

ESP or shorter than two years for potential termination of the ESP?

A. What I was referring to there is the long-term nature of their proposal, that the PPA could last beyond the three years.

Q. Okay. But, as we have it today, it only is three years; is that correct?

A. I understand that but that's --

Q. So "shorter" to you didn't mean shorter than two or three years.

A. Right.

Q. Okay. And on page 12 of your testimony, if you could turn there.

A. I'm there.

Q. For clarity, you are talking about physical contracts. And I just want to make sure I understand, you are not talking about physical delivery of generation, are you?

A. No. This is -- this is a contract that is backed by a physical asset.

Q. Okay. And you're not suggesting that Ohio customers, through the OVEC or through any future PPA, that those customers -- that there would be a requirement that they actually receive the power or have those resources dedicated to them.

A. No.

Q. And under your proposal, or this hedge that you are discussing, who would own the generation? AEP Ohio?

A. AEP Ohio owns a certain percentage. I think it's almost 20 percent of the OVEC units.

Q. Okay. And is that your understanding for the future PPAs, that AEP Ohio, the distribution company, would own percentages of those power plants?

A. That I wouldn't -- would only know when they happen.

Q. Well, under your scenario, is AEP a deregulated company that doesn't own any generating assets, or are they a regulated company that owns generating assets?

A. Well, AEP has a separate generating company.

Q. So that's what I am trying to ask.

A. Oh.

Q. Under your -- under your analysis and your theories that you are stating today, would AEP Ohio, the regulated entity, own these generating assets, or would AEP's affiliate own these generating assets?

A. Affiliate.

Q. And, sir, is it your understanding that any generator, one that's not affiliated with a distribution utility, would be able to come to a regulatory body and get cost recovery for that generating cost from ratepayers?
A. Not under this scenario, no.
Q. Okay. So a marketer or supplier that owns generation would not be able to hedge their risk of generator costs escalating by charging ratepayers for those costs under -- similar to the situation before us?
A. Unless they came and offered that -- that, you know, situation to the Commission in some other case, but I'm not suggesting that they have the ability to do that.
Q. Okay. So you don't know of any Ohio law that would permit such a marketer or supplier that owns generation to do such -- to make such a request, I guess.
A. I think they can make a request. The Commission can consider it and decide as they feel.
Q. But I guess I'm asking if you know of any specific Ohio law that would authorize such requests or collection from ratepayers.
A. Offhand, no.

Q. And would your answer be the same for marketers that do not own generation, could they come to the Commission and ask the Commission to have ratepayers recover costs or create a hedge for recovering their fixed-price contract?

A. Well, they are offering that contract to customers in a competitive marketplace.

Q. So they couldn't come to the Commission and seek any kind of cost recovery for a hedge that doesn't pan out the way that they believe the hedge would come?

A. No. They are taking that risk in the marketplace.

Q. So as I understand your proposal here, an affiliate of a distribution utility would be able to collect the costs from ratepayers through an application such that we have before us today, but other generators would not be able to seek that same ratepayer recovery.

A. I think anybody can seek what they like to seek, but whether or not the Commission would find it appropriate is -- is the Commission's decision.

Q. And you don't know of any law that would authorize it; is that right?

A. Not offhand, no.

Q. And your counsel hasn't advised you of any such law, right?

A. No.

Q. I would like to turn to page 16 of your testimony now. 16 you talk about other utilities in restructured states. Do you see that?

A. Yes, I do.

Q. Is it true that some of the contracts you reference on this section were signed to meet the renewable portfolio standard and not to provide hedges?

A. The majority -- in fact, all of them are wind-related contracts, but in many of the proceedings the commissions also were ruling on the hedge value of buying those long-term contracts.

Q. But the Commission did not create a PPA such rider, or give these utilities recovery of such rider on the basis of a hedge; is that correct?

A. Well, what they created was basically nonbypassable charges for customers.

Q. Right. For different reasons though. Let -- right? Let's take -- let's look at the different contracts that you have referenced. Let's start with footnote No. 5. In this contract you provide a quote, but the quote is not complete; is that correct? There is more to that quote.

A. That's correct.

Q. Okay. So isn't it true this contract would actually be for the purchase of energy, capacity, and a specified quantity of renewable energy credits, and other environmental attributes produced by this wind farm; is that true?

A. That's my recollection, yes.

Q. Okay. And isn't it true that the PPA offered a lower price for renewable energy credits and that's one justification that the Commission approved it?

A. I believe so, but I would have to reexamine the order.

Q. Sir, isn't it true under this proceeding -- or given this proceeding, there was actually a law enacted that specifically allowed the recovery of this wind PPA from ratepayers on a nonbypassable basis? Isn't that true?

A. Again, I would have to look at the situation again, but I think that's true.

Q. And now, going back to the quote you provided in footnote 5, isn't it true that the rest of the quote actually states that the PPA resolved certain concerns about the viability of the Bluewater project, based on pending land-based wind contracts that Delmarva had recently executed?

A. That I would have to see that in the order. I don't have --

Q. Well, you provided partial quotes so I think it's only fair to put the whole quote in the record.

A. That's fine.

MS. BOJKO: Your Honor, at this time, I guess for ease, can we have marked OMA Exhibit --

MR. SERIO: I think it's 6.

MS. BOJKO: 6?

MR. DARR: That's what I have too.

MS. BOJKO: Okay. OMA Exhibit 6. Thank you.

May I approach, your Honor?

EXAMINER SEE: Yes, you may.

(EXHIBIT MARKED FOR IDENTIFICATION.)

A. Thank you.

MS. BOJKO: Your Honor, I only intended to ask for administrative notice of this so I didn't provide exhibit copies. We'll get them.

Q. (By Ms. Bojko) Do you see on page 3, sir, of the -- just for the report here, you are looking at what's been marked as OMA Exhibit 6, and that is an Order No. 7440, PSC Docket 06-241; is that correct?

A. That's correct.

Q. And this is in front of the Public Service Commission of the State of Delaware; is that accurate?

A. That's correct.

Q. Okay. And so you can see the quote that you started on page 3, and it says that the PPA also resolved concerns about the viability of the Bluewater project?

A. That's -- that's what it says, yes.

Q. Okay. Now, let's turn to the footnote 4, the order referenced in footnote 4. Do you have a copy of this order in front of you, sir?

A. No, I do not.

Q. Sir, isn't it true that the purpose of this Connecticut order that you referenced was to procure incremental capacity to reduce congestion costs?

A. I believe that's one of the main concerns in the order, yes.

Q. And, sir, wasn't that PPA that you discuss, wasn't that done by a competitive RFP process?

A. I believe so.
Q. Do you know if AEP's PPA is proposed to be done by an RFP process?
A. No, it's not.
Q. Sir, do you also know that this interim decision by the -- by the Commission was done pursuant to state statute that specifically required a reduction in the federal-mandated congestion charges?
A. I remember reading that was one of the issues that was being addressed, yes.
Q. Do you know if Ohio law has a similar statute to reduce congestion charges?
A. Not to my knowledge.
Q. Sir, do you know that the Connecticut law that this order was based upon requires specific reduction options?
A. I don't know that I read all the law. Did you say the law had it?
Q. That's correct.
A. Yeah. Offhand, I didn't know that, no.
Q. Well, did you know the order specifically references those reduction options required by the Connecticut law?
MR. NOURSE: Your Honor, I just object to

the counsel's testimony. There is no foundation for that statement. If she wants to show the order, the statutes, or something. She's just making statements.

MS. BOJKO: I'm not. I am asking if he knew. He based his conclusions on this order and cited to it, and I'm trying to figure out what he based his conclusions on and what he knew when he based those conclusions on an order.

MR. NOURSE: I understand the purpose of the cross-examination, but she's stating that did you know that the order specifically says X. And that's a statement without foundation.

EXAMINER SEE: If you would like to rephrase your question, Ms. Bojko.

MS. BOJKO: Sure.

Q. (By Ms. Bojko) Sir, presumably you read an order before you cited to it; is that a fair assumption?

A. Yes, I read a lot of orders. And I read a lot of orders. And I don't remember all the details from each and every order.

Q. Okay. So that's why I am trying to see what you've cited to and what you reference. So you have no recollection of whether this order discussed

a Connecticut law or didn't discuss Connecticut law.
A. I have a recollection it discussed the Connecticut law. It has to be passed under Connecticut laws, yes.
Q. Okay. And that Connecticut law, I believe you said previously, was about federal-mandated congestion reductions; is that correct?
A. That's correct.
Q. And do you know whether the law actually stated criteria for the Commission to consider when proving a PPA to reduce congestion charges?
A. I recall something about it, but I don't remember all of the standards.
MS. BOJKO: Your Honor, I will have marked as OMA Exhibit 7 the order that Mr. Nourse just referenced, State of Connecticut order -- it's an interim decision, excuse me, dated September 13, 2006, Docket 05-07-14PAH02. May I have it marked?
EXAMINER SEE: Yes, you may.
(EXHIBIT MARKED FOR IDENTIFICATION.)
MS. BOJKO: May I approach, your Honor?
EXAMINER SEE: Yes.
Q. Is this the order you referenced in footnote No. 4?

A. Yes, it is.

Q. Could you please turn to page 3 of that order.

MR. BERGER: Your Honor, I do have copies of this order in case you would like them to be shared with your Honors and other parties.

EXAMINER SEE: We have a copy.

MS. BOJKO: Thank you. That would be great if you -- I think Mr. Berger was suggesting to pass it out to the other parties.

Thank you. I would appreciate that.

Q. Sir, do you have that order in front of you?

A. Yes, I do.

Q. Are you on page 3?

A. I am there now.

Q. Okay. Sir, at the top of page 3, before the letter C, the first -- the second full paragraph, do you see -- or, actually, it's the first two paragraphs that it cites to 12(c) of the act, which is Connecticut law regarding the options for reducing congestion charges?

A. Yes.

Q. And if you look at the last paragraph in that section, starting with the word "Finally," do you see that it states that the utilities commission can approve a contract if it determines that it will result in the lowest reasonable cost of such products and services, (1); (2), increase reliability; and (3), minimize the federal-mandated congestion charges to the state over the life of the contract?

A. That's what it states there. And I think that's appropriate because the point of raising these examples is just simply to show that commissions, whether under guidance of a specific law or not, have been able to use these types of contracts and nonbypassable charges to achieve certain policy objectives.

Q. Okay. And the policy objective in this case was to reduce congestion charges.

A. Yes.

Q. Okay. And so under this law, in order to reduce congestion charges, the requirement was that it be competitively bid; is that right?

A. That's my understanding.

Q. Okay. And it also was required to increase reliability.

A. That's -- yes.

Q. And it was also required to increase -- minimize the congestion charges.

A. Correct.

Q. Okay. And I believe you stated you don't believe that Ohio has a congestion reduction law; is that correct?

A. I do not know.

Q. Okay. So you wouldn't know if -- if the PPA that was discussed in the AEP proceeding is -- it's your understanding -- strike that.

It's your understanding that there is no law or no requirement that the PPA AEP is proposing, that it be competitively bid and be the lowest reasonable cost?

A. That's correct. It's being offered by the company for the reasons that it states; to stabilize the prices for all customers.

Q. Okay. And so you also don't believe there is a requirement that it would achieve or increase reliability.

A. No.

Q. And it's not -- it's your understanding that the PPA would not reduce congestion charges.

A. I mean, it doesn't have to in Ohio. In Ohio, all it would have to do is stabilize prices for customers.

Q. And you believe that that's the

requirement in Ohio law, that if you are going to ask for a PPA, you have to stabilize prices?

A. No, no. I don't think it's a requirement, no.

Q. And under this order, is it true that the winning bidder has to enter into a 15-year contract for that PPA?

A. That's something like my recollection of the term of the contract.

Q. And isn't it true that the winning contract would be for generation, demand response, and other demand response resources?

A. Correct.

Q. And it also contains physical performance over the term of the contract?

A. Correct.

Q. And it's your understanding that AEP's request for its PPA, OVEC or otherwise, did not include any of those types of requirements in its contract.

A. To my knowledge.

Q. To your knowledge, no.

A. No.

Q. Thank you.

Sir, when did you draft this testimony?

A. It's been over the last four or five weeks.

Q. So -- well, that's --

A. Well --

Q. Go ahead.

A. Four or five weeks before it was submitted to you.

Q. So you began drafting your rebuttal testimony prior to the conclusion of the evidentiary piece of the hearing, is that correct, the direct piece?

A. I believe so. I was given the direct testimony of the -- of the company and the other people involved.

Q. Do you -- when was footnote 7 drafted?

A. I don't --

Q. Would that have been in that same period of time, or was this a cut-and-paste from a different document?

A. I don't know, frankly.

Q. Did you review the Massachusetts Department of Public Utilities order that you reference prior to submitting your testimony?

A. Yeah, I looked at it, yes.

Q. Did you already have a copy or did you --

did you have to go click on the link and obtain the copy?

A. Well, I had an assistant do that.

Q. Would you be surprised if this link was no longer effective?

A. Not particularly, no. Again, it's an example of a commission using this type of policy mechanism to achieve a certain goal.

Q. And under that Massachusetts Public Utilities' decision that you provide a link to, but no -- well, is this a case?

A. I just can't recall offhand.

Q. But this is approval of a wind contract; is that correct?

A. Correct, the Cape Wind.

Q. And do you know whether this contract was a capacity contract that was being approved?

A. My recollection it's designed to reduce fuel volatility.

Q. Okay. So we don't know if this is an order approving a wind contract or not?

A. It's a wind contract, yes.

Q. Okay. We just don't know what kind of contract it is.

A. Offhand, I don't have that.

Q. Let's move to page 17 of your testimony.

A. I'm there.

Q. And page 17 of your testimony there was reference to lines 1 through 20. Do you see that?

A. 1 through 20 in my testimony.

Q. Right. There was a reference -- a motion to strike reference to this earlier today.

A. Oh, yes, yes, I'm sorry.

MR. NOURSE: Your Honor, I just object for the record. I believe the motion to strike was 11 through 14.

EXAMINER SEE: Correct.

MS. BOJKO: Oh, I apologize.

Q. Okay. Well, 11 to 14, you -- you make a statement that says you were advised by counsel; is that correct?

A. That's correct.

Q. And the reason why I went to line 20 is because on line 17 you make another statement and that's also based on your advice of counsel; is that correct?

A. That is correct.

Q. And so, is it fair to say, that with these two statements that you have no personal knowledge of these statements?

A. Well, I have personal knowledge of the statements that are here. It's explaining that under advice of counsel that these facts exist.

Q. Okay. But you don't have any personal knowledge of those facts. You were advised by counsel that those facts exist; is that correct?

A. That's -- that's correct.

Q. So that would be based on counsel's interpretation of whether those facts exist.

A. I assume so, yes.

Q. And just for clarity, I think we made this point throughout today, but you are not an attorney, are you, sir?

A. No, I am not.

Q. Okay. And you're not here to actually offer testimony about demand response mandates or economic development issues, are you, sir?

A. No.

Q. And you haven't read Ohio's economic development statute, have you?

A. No.

Q. And have you read Ohio's energy efficiency or peak demand reduction statute?

A. I've glanced at them, but I have not committed them to memory or anything of that nature.

Q. Okay. But you are not here to testify about those --

A. No, ma'am.

Q. -- issues here today?

A. No.

Q. On the bottom of page 17, line 22, you talk about power plants sited in Ohio. Is it your understanding that AEP's proposal is limited to Ohio Power plants?

A. Well, the OVEC plant, I don't believe, is in Ohio.

Q. Okay. So I guess I'm -- I'm reading your line 22 that says "The PPA at issue in this proposal is with power plants sited in Ohio...." So that's not necessarily accurate?

A. I was thinking of -- I'm sorry. I was thinking about Ohio Power, and I must have written it that way thinking Ohio.

Q. Okay. So just so I'm clear, you don't believe that the PPA is based on Ohio's sited power plants and that AEP could seek recovery of only Ohio sited power plants?

A. In this particular proposal, yes -- no. You're correct.

Q. Well, not in this particular proposal.

You're not suggesting that the future PPA beyond OVEC would be required to be only Ohio Power -- only Ohio sited power plants.

A. It could be if the -- if somebody wanted to do that.

Q. Right. But that's not a requirement of the proposal.

A. No, it's not a requirement. If you were doing it for economic development reasons or other reasons like that, you might -- the Commission might think of that as an important aspect.

Q. Right. But OVEC, as you pointed out, is not; is that correct?

A. That's correct.

Q. And we don't know of what proposed power plants may or may not be requesting in the future PPA; is that correct?

A. That's correct.

Q. Sir, have you reviewed all Ohio power plants to see if they would provide a beneficial hedge?

A. No.

Q. So you haven't looked at whether Ohio power plants need to be environmentally retrofitted for your determination of price assurances.

A. No.

Q. And if there were environmentally needed even beyond Ohio power plants, if there were any kind of environmental retrofittings needed, those would not offer the price assurances that you reference on page 18, lines 8 and 9; is that right?

A. I'm sure if there were needs of that nature, that the company would come to the Commission and discuss that before it was made.

Q. Well, but the OVEC isn't -- it doesn't exclude costs associated with environmental attributes, does it? In fact, doesn't the OVEC contract include escalating provisions, escalating costs for environmental retrofits?

A. Yes.

Q. And you would assume that other such contracts with other power plants would include similar language; isn't that correct?

A. That's something that could be negotiated.

Q. And I think, as you discuss with Mr. Petricoff, there's no strike price or fixed price that the OVEC contract or any PPA contract cannot exceed, is that correct, the cost of which cannot exceed?

A. There is no cap, right.

Q. There's no cap.

I want to go back one more time -- let's go back to page 16. You talk about the Massachusetts wind contract.

A. Uh-huh.

Q. Is it your understanding that that wind contract was entered into pursuant to a statutory mandate for the development of renewable energy generation in the state?

A. I believe that's one of the motivations behind it.

Q. And it's your understanding that the OVEC is not a renewable facility; is that right?

A. That is correct.

Q. So it's fair to say that the PPA for the OVEC is not -- is not being requested in light of some state statutory renewable portfolio standard mandate?

A. That's correct. I -- again, the reason that I chose these to report was just that it's another set of examples of how commissions have used similar types of policy to achieve a certain goal that they have.

Q. Well, but you keep using the word

"policy," and at least the one, two, three now that I have talked to you about, they were all based on state statutes; isn't that correct?

A. That is correct.

Q. And it's your understanding that the PPA and the future PPA would not be limited to any kind of renewable resources.

A. That's correct.

MS. BOJKO: Thank you, your Honor. I have no further questions.

Thank you, sir, for your time.

THE WITNESS: Thank you.

EXAMINER SEE: Mr. Sineneng?

MR. SINENENG: No questions, your Honor.

EXAMINER SEE: Ms. Shadrick?

MS. SHADRICK: No questions.

EXAMINER SEE: Mr. Kurtz?

MR. KURTZ: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Kurtz:

Q. Good morning, Dr. McDermott.

A. Good morning.

Q. Do you know the length of time that the proposed PPA is set for? How long -- how long it is?

A. The three years that it's in this particular.

Q. Okay.

With respect to your testimony of other states and other commissions and longer-term hedges, what has been the typical length of time for those hedges?

A. Well, they vary. But they are usually, you know, 10, 15 years because -- as being pointed out here, for example, in Delaware, part of the reason for this was to give certainty of cash flows to the wind supplier and so that -- and that was consistent with the law that the Commission was enacting.

Q. For the type of cost-based hedge that is being proposed by AEP, how would you determine or go about determining the optimal length for consumers?

A. I don't know that I can come up with an optimal length of the contract. What you're looking at is establishing a means to offset some of the market price increases that can occur over time. Some customers might want that to be indefinite. Others might think it's good for five years, ten years. Again, this gets back to the point that was made earlier that every customer has different tolerances for this type of thing.

Q. Is three years too short in your opinion?

A. Three years is a short timeframe, and I think it could be a lot longer than that, yes.

Q. With the type of cost-based hedge that AEP is proposing, is it important that the utility control its costs, fuel, variable O&M, fixed O&M at the OVEC facilities to give consumers the maximum benefit?

A. Yes, yes.

Q. Is it important that the utility maximize the utilities out of the power plant in order to maximize the benefits for consumers?

A. Yes.

Q. Do you think that if the Commission were to require that AEP maintain an ownership stake in the OVEC facility to give it skin in the game so that it would have a corporate incentive to both control costs and maximize revenues, would that be a good thing?

A. That's an option, yes, that the Commission can always consider.

Q. As a former commissioner, do you think giving the utility the same incentive, putting the utilities and the ratepayers in the same boat, so to speak, would that be a good policy?

A. It's always a good policy. And I think that in this case, you know, the trouble that everybody has gone to to establish this type of hedge puts -- puts a burden on the company to make sure it performs because, otherwise, you know, any future options it might offer will be looked on with more skepticisms.

Q. A couple more questions.

Figure 2 to your testimony.

A. Yes.

Q. I only have a black and white copy. What is the least volatile of these commodities that you have listed?

A. The Henry Hub.

Q. And what is the most volatile?

A. The PJM prices.

Q. PJM electric price?

A. Yes.

Q. As a customer, I could buy a fixed price for either of those two commodities for a one- or two- or three-year term, could I not?

A. Yes.

Q. What would -- which of those two commodities, the least volatile or the most volatile, would have the highest risk premium built into the fixed-price contract?

A. Well, the more volatile would.

Q. So I can fix the price, but it comes at a cost.

A. Yes.

MR. KURTZ: Thank you, your Honor.

EXAMINER SEE: Mr. Darr?

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CROSS-EXAMINATION

By Mr. Darr:

Q. Good morning, Dr. McDermott.

A. Good morning.

Q. If I understand your testimony correctly, you are not testifying today as to whether or not the purchased power agreement rider would operate as presented by AEP Ohio; is that correct?

Let me ask it another way because I can see the confusion on your face.

In terms of the mechanics of the rider, you are not testifying as to the appropriateness or the accuracy of the estimates of the effect of that rider, correct?

A. No, sir. I'm -- I'm just talking about the policy tool that you have here.

Q. In fact, you say that repeatedly in your testimony at pages 4 and 10 where you indicate it's up to the Commission to decide the scope and the term of the rider, correct?

A. Correct.

Q. And to the extent that you are recommending that the Commission adopt the PPAR, it is based on the working assumptions that were given to you by AEP Ohio and, in particular, by Mr. Allen and your review of his testimony; is that also correct?

A. That's correct.

Q. And we've touched on this a bit briefly before, as a former commissioner, I would think that you would agree that the Commission must limit authorizations to those that are permitted by Ohio law, correct?

A. Yes.

Q. And it's fair to say you do not address the specific requirements of Chapter 4928 of the Ohio Revised Code as that they may be applicable to the authorization of the PPAR; is that also correct?

A. That's correct.

Q. You indicated briefly in your testimony, in response to a question by Ms. Bojko, that you read a number of decisions of various state commissions in your role as a -- as an expert in this area. Are you familiar with the Commission's decision involving the recovery of plant closure costs for the AEP Ohio portion of Sporn Unit 5?

A. I have not read that, no, sir.

Q. So it's fair to say you did not consider that decision in your conclusions today with regard to the policies that might support or not support the PPAR; is that fair?

A. That's correct.

Q. And you indicated that you did a limited review of Chapter 4928. Did you look specifically at 4928.38 with regard to the recovery of transition revenue?

A. Without it in front of me, I can't recall it exactly, but I read through.

Q. You read through the whole chapter?

A. Skipped it.

Q. That's fair.

With regard to the testimony that you are providing today, are you providing any testimony as to whether or not the effect of the rider would result in transition revenue or the recovery of transition revenue?

A. No. I'm just speaking directly to the recovery of the OVEC.

Q. Just so we agree on certain starting principles, you understand that the non -- a nonbypassable charge applies to all customers, whether they are shopping or nonshopping or involved in government aggregation programs, correct?

A. Correct.

Q. I want to follow up on a couple of things you started to discuss with Ms. Bojko with regard to the state decisions you identify on page 16 of your testimony. Now, with regard to the Massachusetts decision in regard to Cape Wind, are you familiar with the fact it was adopted pursuant to the Green Communities Act, a state statute under Massachusetts law?

A. That's my recollection of the -- one of the drivers behind what Massachusetts has been doing.

Q. And are you aware of the fact that the Massachusetts Commission, in its decision approving the Cape -- Cape Wind contract, excuse me, indicated that the going-in price would be 18.7 cents per kilowatt-hour with an annual escalator over the 15 years of the contract of 3.5 percent?

MR. NOURSE: Your Honor, I object to the

form of the question, lack of foundation. Mr. Darr is asking is the witness aware of facts that the decision assumes X, Y, and Z, without a foundation. He is not asking whether the witness knows the assumption or anything like that. So I think it's improper.

MR. DARR: Your Honor, the witness has identified and supported and cited in his testimony Massachusetts Department of Public Utilities with regard to adoption of the Cape Wind facility. I am asking him whether or not he is aware of certain facts contained in that decision. He's already indicated he's reviewed numerous decisions.

MR. NOURSE: But it's a stated fact only by counsel, not through a document or through the witness. And that's the --

MR. DARR: I will withdraw the question and start again, your Honor.

EXAMINER SEE: Okay.

MR. DARR: I would like to have marked as IEU Exhibit, I believe we are up to 12.

EXAMINER SEE: IEU Exhibit 12.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Do you have what's been marked as IEU 12 in front of you, sir?

A. Yes, I do.

Q. Do you recognize this as a press release by the Massachusetts Department of Public Utilities?

A. Yes.

Q. And it relates to the 15-year approval of a contract -- a contract for a 15-year contract, excuse me, for the Cape Wind facility for National Grid; is that correct?

A. That is correct.

Q. If you trail down to the --

A. Third paragraph.

Q. -- third paragraph, am I correct that the Massachusetts Department of Utilities reported that the contract going-in value was 18.7 cents?

A. That is correct.

Q. Per kilowatt-hour?

A. That's what's reported here.

Q. And it's also reported there would be a 3.5 percent increase in that over the life of the contract, correct?

A. Correct.

Q. The Massachusetts Department of Public Utilities also stated that if the project was unable to tap into certain federal subsidies, then the price could go up, correct?

A. That's correct.

Q. It also provides for a 75 percent sharing of savings if the price went down.

A. That's correct.

Q. The contract approval also contained a downward ratchet if the return on equity of the owner exceeded 10.75 percent, correct?

A. That's correct.

Q. And the project assumed a 76 percent capacity factor for the project, correct?

A. That's correct.

Q. That would be a touch higher than the capacity factor for a wind project approved for the PJM system; is that fair to say?

A. I think so.

Q. Which is typically in the teens?

A. Depends on where the wind farms are. They can vary from the teens up into the 30s and 40s.

Q. But, in any case, substantially below what was approved for Cape Wind.

A. Yes.

Q. And, in fact, National Grid was purchasing the output of that project for its own use, correct?

A. That's my understanding, yes.

Q. Now, I would like to turn to the Delmarva project approved in, I believe, Delaware.

A. Yes, that's Delaware, yeah.

Q. Now, you have in front of you what's been previously marked as OMA, I believe it's Exhibit 6, the order 7440.

A. Correct.

Q. Now, this order actually requests -- or required a finding of long-term benefits to customers as a result of the purchased power agreement, correct?

A. Yes.

Q. And it also provided for ongoing Commission review of costs to determine whether or not those costs were incurred in bad faith, waste, abuse of discretion, or violation of law, correct?

A. That is correct.

Q. Turning now to the Connecticut decision, which I believe you have a copy of, OMA Exhibit 7, in front of you.

A. I do.

Q. Now, OMA 7 specifically related only to the request for proposals; is that correct? And if you turn to page 19, I think that's where you'll find it.

A. Was there a particular line?

Q. Actually, let's go back a couple of pages. Go back to page 15.

A. I'm there.

Q. Okay. And this decision basically approved a request for proposal, correct?

A. Yes.

Q. It did not specifically identify the resources that were going to be -- that were going to be purchased under the RFP at this stage of the process.

A. At this stage, right.

Q. The RFP was an all-source procurement process and that's outlined in paragraph 1 of OMA Exhibit 7, page 15, correct? C.1.?

A. I don't see a C.

Q. On page 15, third paragraph, it's headed "C. RFP Meets EIA Goals." Do you see that? Maybe we are not working off the same document.

A. I don't think we are because that -- this one talks about mitigating rising energy costs.

Q. Okay. Let me bring the one that I have so that we're -- let me see --

MR. DARR: May I approach, please?

EXAMINER SEE: Yes.

MR. NOURSE: C.1. is on page 23 of OMA Exhibit 7.

MR. DARR: Yeah. We were working off two different versions; one off Westlaw and one off the Commission website.

Q. (By Mr. Darr) Yes, if you turn to page 18, I believe, of the version you have.

A. That refers to timing of the RFP process.

MR. DARR: May I approach and read over his shoulder? I am trying to work off of a different document. Okay.

Q. Okay. Let's try it this way. The version you have, I believe it's on page 23, I apologize.

A. It's not a problem. "RFP Meets EIA Goals."

Q. Okay. We are suddenly all on the same page. Good. If we look down at paragraph C.1., it indicates this is an all-source procurement process. Do you understand this to mean that it could be the generation -- distributed generation or demand response?

A. That's my understanding, yes.

Q. The primary goal, as I have outlined, in paragraph 2 of the RFP, was to provide the lowest cost to ratepayers.

A. That's correct.

Q. Now, are you familiar with the products that were secured under this RFP?

A. I would have to refresh my memory.

MR. DARR: May I approach, your Honor?

EXAMINER SEE: Yes.

MR. DARR: I would like to have a document marked as IEU Exhibit 13.

(EXHIBIT MARKED FOR IDENTIFICATION.)

A. Thank you.

Q. Do you have in front of you what's been marked as IEU Exhibit 13?

A. Yes, I do.

Q. Would you describe that for us, please.

A. It's a news release from the Department of Public Utility Control from April 23, 2007.

Q. And could you take a look at this and see if this -- this assists you in refreshing your recollection as to the types of products they purchased under the RFP?

A. Yes.

Q. And does it refresh your recollection?

A. Yes, it does.

Q. And what types of products were purchased under the RFP?

A. Well, the portfolio consisted of 620 megawatt gas-fired combined cycle baseload plant in Middleton offered by Kleen Energy; 66-megawatt oil-fired peaking facilities located in the heart of congested Southwestern Connecticut, Stamford, offered by Waterside Power; 96-megawatt gas-fired peaking facility also located in Waterbury by Waterbury Power; and 5-megawatt statewide energy efficiency project offered by Ameresco.

Q. And the Department of Public Utilities for Connecticut also had to make a determination of whether or not these transactions would be for the benefit of ratepayers, correct?

A. That is correct.

Q. And am I correct that the Commission determined that the benefit to ratepayers was in the range of $500 million and might exceed $1.6 billion in total benefits?

A. That's what's reported here, yes.

Q. Do you know whether or not those benefits have been realized in lower congestion costs?

A. Offhand, I haven't investigated that, no.

Q. Page 13 of your testimony, line 18 and carrying over to page 14, line 1, you indicate that the proposed PPAR is no different from the benefit or subsidy that might be involved in a fixed-price contract. Do you see that?

A. You said page 13, bottom?

Q. Yes.

A. Yes.

Q. You would agree with me, I hope it's consistent with what you said earlier in response to a question by Mr. Petricoff, that a fixed-price contract operates as a hedge, correct?

A. Correct.

Q. And the customer may benefit or lose relative to its ability to take advantage of spot market prices.

A. Correct.

Q. Under a fixed-price contract, would you agree that the customer has assigned the risk to the seller of those market movements?

A. Well, they -- they've assigned the risk in this case of if the price moves upwards, then the customer doesn't have to pay that. But if the market price moves south of the fixed contract price, then the customer is basically still paying the fixed price.

Q. But the upward price --

A. Has been transferred.

Q. A CRES customer with a fixed-price contract then would increase its exposure to changes in prices to the extent that those are picked up by the PPAR, would it not?

A. I'm sorry, could you say that again?

Q. Sure. Is it fair to say a CRES customer with a fixed-price contract would increase his exposure to prices in market prices that are -- that are picked up in the PPAR if the Commission approved the request for AEP Ohio?

A. So if I get this correct, your CRES customer has a fixed-price contract and you're suggesting they are picking up additional exposure?

Q. Yes. That's what I'm asking.

A. Well, it's just -- yes, yes.

Q. And to the extent that an SSO customer or default customer is receiving a price set on an annual basis by the auction process described by your colleague, that price risk is assigned both on a volumetric and on a price basis to the auction bidder, correct?

A. Correct.

Q. And with regard to the SSO customer, the inclusion of the PPAR, as with the CRES customer, would increase that customer's exposure to market risk, would it not?

A. Oh, now that I've -- no, I don't think so. It gives you -- it just gives you another hedge. There is going to be part of your portfolio that is now going to be based on the PPA which if market prices go up, then the customers will get credits on their bills. And that's to their benefit.

Q. And if the price goes down?

A. And if the price goes down, then they will pay a cost.

Q. So it creates some variability in the total bill of both the CRES customer and the default service customer over -- over the term.

A. Equally, and again, it's a competitively-neutral mechanism.

Q. That's not my question, sir.

A. Okay.

Q. There is exposure to risk, both upward and downward, caused by the PPAR that's in addition to whatever risk is embedded in the CRES customer contract or in the auction result; isn't that correct?

A. There's an element of risk in that, yes.

Q. And I just want to make sure we

understand each other. With regard to the situation where there's a credit back to the customer, the customer is being -- his position -- her position, his position, is being approved by the amount that AEP recovers through its sale of its interest in OVEC which exceeds the cost that it incurs under the contract with OVEC, correct?

A. Correct.

Q. And, conversely, to the extent that the customer is paying a charge, it is, in effect, reimbursing AEP Ohio for a part of the cost of OVEC that it is not recovering in the market.

A. Correct.

Q. I want to take one more look at Table 1 on page 7 of your testimony. Now, in response to a question that Mr. Kurtz asked you, you indicated that the most volatile of the various commodities there was the capacity auction price. And would it be fair to say, based on the percentages that you calculated, that the least --

A. I'm sorry. Did -- you're on Figure 1 or Table 1?

Q. Table 1.

A. I'm sorry.

Q. Okay. Let's all -- I'll start my

question again when you're ready.

A. All right. Yes.

Q. Let me start at a slightly different place. The volatility here is measured as a percentage which is calculated based on the standard deviation divided by 100, correct?

A. Yes.

Q. The standard deviation assumes a normal distribution of the data, correct?

A. Correct.

Q. There are some tests to determine the normal distribution, to determine whether a distribution is normal, called a "normality test," correct?

A. Yes.

Q. I reviewed your workpapers. Did you include in your workpapers any demonstration of the -- whether or not these were normally distributed data sent?

A. No.

Q. And if we look at the volatility calculations themselves, the amount of volatility, as a percentage, indicates increasing volatility; is that correct?

A. Correct.

Q. So the least volatile of the commodities that you identify here are the AEP zone real time average peak price and the AEP zone day-ahead peak price, correct?

A. Correct.

Q. Besides fuel, which I -- which is mentioned in your table, did you look at the volatility of any other factors that might affect price?

A. No, sir.

Q. So, for example, weather, that wasn't an issue that you looked at?

A. No, not specifically, no.

Q. How about the frequency of outages?

A. No.

Q. Did you identify the effect of the economy on the volatility of prices either generally or in -- with specific respect to OVEC?

A. No.

Q. And did you consider the regulatory requirements that might be applied to a particular unit as it might affect regulatory -- excuse me, as it might affect volatility?

A. No, sir.

Q. So is it fair to say that you didn't

address the effect of the D.C. Circuit's decision in order force -- concerning order force -- excuse me, 745, on the potential volatility or lack of volatility?

A. You're referring to the DR?

Q. Yes.

A. Yes. No, I did not, no.

Q. You are aware that the -- both the FERC and PJM are in the process of seeking additional review of that decision?

A. Yes, I am.

Q. And you are aware the court itself has stayed that decision?

A. Yes.

Q. Are you aware of the fact that FirstEnergy Corporation has filed a complaint with the FERC seeking to -- orders with regard to the lawfulness of the demand-response portion of the PJM market?

A. I think I've seen a blurb in one of the news.

Q. You don't have any specific understanding of that?

A. No, sir.

Q. Now, page 12 of your testimony.

A. I'm there.

Q. You indicate that the Commission and stakeholders need to be comfortable that the operation of the plants is cost effective. Do you see that?

A. Yes, I do.

Q. Are you agreeing with Mr. Choueiki that the Commission disallow costs found to be imprudent? And I am speaking now of the Ohio Commission.

A. So you are asking me whether or not -- under what situation that would happen.

Q. If the Commission approved the PPAR, would you also agree that it should be -- that the Commission should also have in place a mechanism to judge the prudency of the costs incurred by either AEP Ohio or OVEC itself, as suggested by Mr. Choueiki?

A. I think the Commission always has the authority to review these types of things. Now, my understanding, though, is that this would be like a FERC contract.

Q. So what would be the scope of the Commission -- now I am speaking of the Public Utilities Commission of Ohio's review of these costs so that customers are comfortable with them?

A. Well, they would review it as they have been reviewing these costs all along.

Q. And have you studied, in any length, how the Commission has reviewed those costs and how they are --

A. Not particularly, no.

Q. At page 12 you also -- at lines 13 and 15, you also identify the customer investments could be stranded. I am trying to understand what you meant by that. What do you mean by the discussion that "customer investments could become stranded"?

A. Well, customers make decisions based on traditional rates that have been in place which are rather stable; and so, if they were forced to face more volatile prices, then the choices that they made based on decisions based on stable prices could end up being negative for them, right.

Q. Okay. And what do you mean by a "stranded investment"? Help me understand that.

A. In the sense that it now becomes uneconomic for the customer.

Q. What becomes uneconomic?

A. The equipment they may have bought or the investment that they might have made.

Q. So they wouldn't be able to recover their

costs in the market for the prior investment that they made; is that fair?
A. In effect.
Q. Now, at page 14, starting at line 1, going through line 16, you indicate that the PPAR would, in effect, be competitively neutral in the PJM market; is that correct?
A. That's correct.
Q. And as a result of it being competitively neutral, you would not expect approval of the PPAR to effect price negatively -- positively or negatively in either the capacity or energy market; is that fair?
A. That the PPA itself would affect those markets?
Q. The approval of the PPA.
A. Yeah, I wouldn't think.
Q. So it's not your position that the PPA would reduce the price of generation relative to a world in which there was not a PPA; is that fair?
A. That's correct.
Q. And that's because, effectively, OVEC is going to be in the market one way or the other?
A. Correct.
Q. By the same token, am I correct that it's

your view that there is not -- there is surprisingly little economic theory on the actual mechanism of costs reduction through entry?

MR. NOURSE: I'm sorry, could I have that question reread or restate it.

MR. DARR: Do it either way. Let me restate it.

Q. Is it fair to say that it's your view that there is surprisingly little economic theory on the actual mechanism of cost reduction through entry?

A. Cost reduction for generation market?

Q. Let's do it in terms of generation market.

A. Well, I'm not sure I'm following your question.

Q. Let's see if I can make this a little more straightforward then. 2002, you published an article in "The Electricity Journal" titled "Is There a Rational Path to Salvaging Competition," correct?

A. Right.

MR. DARR: I would like to have marked as IEU Exhibit 14.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Do you have in front of you what's been of marked as IEU Exhibit 14?

A. I do.
Q. Can you identify that for us, please?
A. It's a paper that I coauthored with Dr. Carl Peterson entitled "Is there a Rational Path to Salvaging Competition," that was published in The Electricity Journal.
Q. And that would be in March of 2002?
A. March of 2002, that's correct.
Q. Have you supplemented this article in any way since 2002?
A. I've written other articles, but not on this specific subject.
Q. And turning your attention to numbered page 17.
A. I'm there.
Q. It's your view that there's little economic theory on the actual mechanism of cost reduction through entry, correct?
A. Where are you?
Q. Beginning of -- starting at the bottom of the first column on page 17, going on to the second column.
A. That's correct.
Q. Is that still your view?
A. Entry, in itself, doesn't guarantee lower

costs. What competition does is guarantees prices the tend to the long-term marginal cost.

Q. And, in fact, you go on to state in the article that "The true hope for electric restructuring is that, in the long run, competitive entry will provide for correct incentives for efficient investment and that prices will reflect the true resource costs of providing service," correct?

A. Correct.

Q. You also indicate in this article, markets adapt over time, correct?

A. That's correct.

Q. Price signals must be allowed to impact consumer and producer behavior; is that also correct?

A. Correct.

Q. So is it fair to say that events such as the polar vortex caused the adaptation of markets?

A. That will be one of the factors.

Q. Would you also agree that reference to only spot markets isn't fair in judging the effectiveness of markets?

A. Well, there's many different products being bought and sold.

Q. In fact, spot markets only represent one contracting form; whereas, other markets represent

promises for future delivery, correct?
A. That's correct.
Q. And future delivery markets are important because they mitigate the risk that at the time of delivery conditions in the spot market will cause prices to rise considerably.
A. Yeah. Where are you reading from?
Q. You might try page 18. I am just asking if that's your view.
A. Could you state that again?
Q. Sure. Future delivery markets are important because they mitigate the risk at the time of delivery conditions in the spot market will -- will cause prices to rise considerably.
A. Yes.
Q. Now, with regard to the adaptations, are you familiar with the work that's being done by PJM right now in response to the polar vortex?
A. I have limited knowledge of it, yes.
MR. DARR: I would like to have marked as IEU 14.
EXAMINER SEE: 15.
MR. DARR: 15, my apologies.
(EXHIBIT MARKED FOR IDENTIFICATION.)
Q. Do you have in front of you what's been

marked as IEU Exhibit 15?

A. I do.

Q. Would you identify that for us, please.

A. It is -- it looks like a presentation by members of the PJM Interconnect, "Winter 2014, Lessons Learned and Recommendations."

Q. And are you aware that PJM is undergoing a review to determine whether or not there are mechanisms to address the volatility of uplift charges?

A. That's my understanding. I mean, again, like I said in the paper, every time you experience something like this you're going to try to find other ways in which to address problems and see whether or not markets have failed.

Q. Right. And going to what would be page 4 of this, you agree that PJM is in the process of looking at the specific issue of the volatility of uplift charges, correct?

A. Yes.

Q. And they are doing a number of other things to address the availability of generation units, transmission fuel, a whole host of things, correct?

A. Correct.

Q. And that's consistent with your understanding, is it not?

A. Yes.

Q. Now, I know you are not testifying as to the actual mechanics of the PPAR, but are you familiar with the fact that the estimate provided by Mr. Allen on the stand indicated that the PPAR would produce a 7-cent per megawatt-hour benefit to the typical residential customer using a thousand kilowatt hours a month?

A. I'm aware of that, yes.

Q. So, effectively, the benefit, over the life of the ESP, would be less than a dollar a year?

A. I think that is, subject to check, yes.

Q. The last time I checked, 7 times 12 is 94 cents.

A. Yeah.

Q. Okay. 84 cents.

A. 84 cents.

Q. And they ask why you are not an accountant.

Now, you indicate, in your discussion on page 18, that the PPAR would benefit customers financially and help support the competitive market.

A. That's 18 of my testimony?

Q. Yes.
A. I'm there.
Q. Okay. You do indicate that in your testimony, correct?
A. Yes.
Q. Are we to assume that a residential customer, in deciding whether or not to buy a car or a house, will base its decision on the 94 cents it will save from the PPAR?
A. No. Of course not.
Q. Now, with regard to generators, you've indicated that, I believe it's correct, that OVEC is compensated at cost instead of taking price signals from PJM, correct?
A. Correct.
Q. And agree that FERC and PJM have rules in place for pricing wholesale energy and capacity markets which are basically the PJM rules, correct?
A. Correct.
Q. And those are based on a market -- or contain a market-based mechanism for an energy market; is that correct?
A. Correct.
Q. And it also contains a market-based mechanism for a capacity market, correct?

A. Correct.

Q. Now, the investment assumption you indicate in your testimony should be based on more than a three-year outlook; is that correct?

A. Correct.

Q. In fact, I think at page 18 of your testimony, you offer that continuation beyond three years in the investment profile is important. I may have phrased that poorly, but maybe you can help me.

A. Which line are you at?

Q. It's generally -- you discussed it on page 18.

A. So could you restate your question?

Q. Sure. Let me try it again. In terms of investments outlook, you indicate it's important to look beyond just three years.

A. Correct.

Q. In fact, you're critical of a three-year forward pricing because it doesn't allow that forward look; is that fair?

A. Fair.

Q. If prices are out of equillibrium, then what you describe as medium prices don't provide adequate incentives for the construction of new generation.

A. That's correct.

Q. And if I understand it from your table on page 9, prices currently are out of equilibrium, correct?

A. Yes. That's the capacity prices.

Q. You're also aware that AEP is proposing a three-year term with an option to terminate one year early, as you discussed with Ms. Bojko; is that correct?

A. That's correct.

Q. So can we conclude from your analysis that the ESP would not provide investors in new generation any sense of security to invest for new generation; is that fair?

A. It provides less, yes.

Q. I want to return to the idea that you present on page 10, lines 7 and 8, that it's the Commission's job to decide how important rate stabilization is to customers. Now, this is not the first time you have written or discussed contrasting mechanisms in the markets; is that correct?

A. That's correct.

Q. In fact, although it's not listed in your résumé, you performed a study for Compete Coalition and a number of other what we in Ohio would call

"CRES providers" in March of 2008; is that fair?

A. That's fair.

MR. DARR: I would like to have a document marked as IEU Exhibit 16.

EXAMINER SEE: Yes.

(EXHIBIT MARKED FOR IDENTIFICATION.)

A. Thank you.

Q. Do you have in front of you what's been marked as IEU Exhibit No. 16?

A. I do.

Q. Could you identify this for us, please?

A. This is the executive summary of a report that was written for the Compete Coalition, dated March 2008, entitled "Innovation in Retail Electricity Markets: The Overlooked Benefit."

Q. Is it fair to say that your research leads you to believe that the evidence for more advanced retail markets shows the customers do not necessarily want the "plain vanilla" electric service that has been provided by traditional regulatory process?

A. I think customers want a lot of different varieties of service.

Q. So the answer to my question is "yes."

A. Yes.

Q. And would it also be fair to say that you concluded that the regulatory process is one in which the desires of customers can get lost.

MR. NOURSE: Is there a reference?

Q. Sure. Try page -- the first page of the executive summary, second paragraph.

A. That's correct.

Q. And you would also agree that markets as an alternative to regulation forces -- focuses on satisfying the varying characteristics of the needs and desires of customers.

A. That's correct.

Q. And you would agree that customers are not uniform as you said here earlier, correct?

A. Correct.

Q. In particular, they have varying degrees of risk tolerance, interest in convenience, flexibilities in use, desire -- and desire different levels and types of service, correct?

A. That's correct.

Q. Your research concluded retail markets in electricity appear to be delivering on the promise of new, varied, and innovative services, correct?

A. Correct.

MR. NOURSE: Could you give a reference?

MR. DARR: Sure. It's on page 2.

Q. And, specifically, you identify new pricing options based on forward, spot, and other financial markets, correct?

A. That's correct.

Q. And it's fair to say that you concluded that a variety of pricing options being provided -- excuse me, that fuel-based pricing and other hedging products were being developed, correct?

A. Correct.

Q. You further found that some of these were only available to large customers, fair?

A. That's fair.

Q. But you also found evidence that mass market customers are also benefiting from innovation of products around service offerings in some jurisdictions, correct?

A. That's correct.

Q. And evidence from other companies suggested that mass markets can be served in innovative and effective ways.

A. That's correct.

Q. And if we turn to the end of your report, it contains a table denominated as ES-1 that contains some of those retail product offerings, correct?

A. That's correct.

Q. This includes price hedging which might include fixed contracts, partial fixed with bandwidth constraints, and day-ahead contracts, correct?

A. That's correct.

Q. And it also contained other hedging such as budget control and power portfolio planning, correct?

A. Correct.

Q. And on budget control, what we are talking about there is primarily a product that allows you to spread the price of the product over the year --

A. Right.

Q. -- on an average basis.

A. Right. Like a budget billing for a residential customer.

Q. You further conclude that "The continued erosion of regulatory barriers and the support of market institutions toward the goal of fully functional markets should be the objective of regulatory changes, not the retreat from market institutions," correct?

A. Correct.

Q. And you also conclude that those

jurisdictions that continue to support and promote competitive retail electric markets will benefit from the innovation and ingenuity of other suppliers as they compete to supply customers with the products and services that are best suited to those customers, correct?

A. That's correct.

MR. DARR: Dr. McDermott, thank you very much.

EXAMINER SEE: Ms. Mooney, did you have any questions?

MS. MOONEY: I have no further questions. Thank you.

EXAMINER SEE: Mr. Yurick?

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

EXAMINER SEE: Mr. Berger?

MR. BERGER: Thank you, your Honor.

MR. NOURSE: Your Honor, could I inquire? The witness has been on the stand for two hours. It might be a good time to take a health break in between cross-examination, unless it's going to be really short.

MR. BERGER: No such luck.

EXAMINER SEE: Then, okay. Let's take a

five-minute recess. We are off the record.

(Recess taken.)

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

Mr. Berger.

MR. BERGER: Thank you, your Honor.

- - -

CROSS-EXAMINATION

By Mr. Berger:

Q. Good morning, Dr. McDermott. How are you?

A. Very good. Yourself?

Q. I'm well. Just wanted to make sure I understood some of the assumptions you had. One of the assumptions was that you relied on Mr. Allen's testimony in terms of the calculation of the OVEC costs; is that correct?

A. Yes.

Q. You didn't review any of his assumptions or --

A. No.

Q. -- any of his calculations; is that correct?

A. That's correct.

Q. You did not look at the energy forecasts that he used.

A. No.

Q. So you have -- you don't have an opinion upon the reasonableness of the information that he relied upon.

A. No.

Q. And you didn't look at his coal price forecasts at all?

A. No.

Q. And you did not look at the forecasted OVEC generation quantities that he utilized --

A. No.

Q. -- compared to the rest.

And when you testified that the PPA rider would provide some degree of price stability, was that based upon any analysis that you performed separately from Mr. Allen or was that solely based upon your opinion --

A. Solely based on Mr. Allen's calculations.

Q. Okay. So when you agreed earlier with Mr. Darr regarding the level of price stability in the dollar per residential customer -- or the 84 cents per residential customer per year, that's the number that you were relying on in terms of the level of price stability or --

A. That's the offset that would occur.

Q. Okay. Thank you.

On page 12 of your testimony at line 12, you refer to prices "which have historically had relatively low volatility." Are you talking about energy prices there? Capacity prices? What prices are you saying had low volatility on that page?

A. I'm sorry. Can you say what line again?

Q. Line 12.

A. And can you restate the question, please?

Q. Yes. You say there at line 12 that limited -- limiting -- well, start at line 10, "...limiting long-term volatility helps protect customer-side investments to the extent those capital investment choices based on the expectation that prices which have historically had relatively low volatility, will continue accordingly into the future." And I am just wondering which prices you are talking about.

A. Those were the regulated prices that customers made those decisions under.

Q. So you're talking about prices that existed previous to the implementation of Senate Bill 3 and Senate Bill --

A. Yes.

Q. -- 221 in Ohio?
A. Yes.
Q. So you are talking about pre-1999 prices?
A. Well, I am talking about the fact that regulated prices have been more stable because they're cost-based rates. Now, they may have been high and some people may not have liked that, but they tended not to be so volatile.
And then customers make choices, based on that, to have certain kinds of equipment in their factories or equipment in their homes and then if you expose them to price volatility, they had made those decisions based on a particular expectation, and then when that expectation is no longer holding, they may find that, you know, they invested in things that aren't as economic as they once were.
Q. Okay. And when you talk about, on the following line, "incentives inherent in current capacity markets," what incentives are you talking about there? Would you just elaborate on what incentive -- incentives you're talking about?
A. Well, they are all the incentives that are facing people that would be building capacity, and as we've seen right now from the earlier table that I have that capacity markets are not up to CONE,

they are only fractions of a CONE, and so, as a result, the incentives are not to invest in additional plants.

Q. But we're saying that those incentives lead to much higher price volatility.

A. Right. Because you don't -- if I think about being on a supply curve and what we have now are customers being exposed to the demand in the marketplace, so if those demands move up or down very little in some period of time, you get extreme volatility in your rates. And that volatility is not -- the average price, the CONE price, is not being achieved.

If you had volatility that was high and sustained over time and the average price rose to CONE, what would happen? The power plant would get built. And then what would happen? It would dampen the volatility and would change the market, and that's not happening because what you have is volatility and no average rise in the capacity price to induce somebody to enter the market.

Q. Now, this relates back to page 7 of your testimony where you talk about the opinion that the PJM capacity market applicable to AEP's Ohio service territory is not on equilibrium.

A. That's correct.
Q. Are you referring to a specific capacity market zone?
A. No. Just in general. The table we have for -- you know, identifies in Table 2 that regardless of what delivery area you're in, that the actual market price, clearing price, has been, you know, less than 66 percent of the CONE in any of the market areas, and so there's no incentive to build additional capacity.
Q. Well, that's the RPM capacity clearing price; is that correct?
A. Right.
Q. That doesn't reflect the offset for -- for energy and ancillary services that has to be incorporated into the analysis of net CONE, correct?
A. Right.
Q. Okay. So you're just comparing it to net CONE even though you're not considering energy and ancillary services in making that assessment, correct?
A. Correct.
Q. Okay. And what -- what do you mean -- do I understand you mean long-run equilibrium being a price that's equivalent or similar to net CONE? Is

that your definition of long-run equilibrium?

A. Hypothetically, the net CONE is a construct that's attempting -- this is a regulatory -- this is an administered market. We're worried about giving companies money to make sure there's reliability on the system so that they'll -- they'll continue to operate. So it's a regulatory construct.

Q. But in terms of net CONE which is just a calculation PJM performs.

A. Right.

Q. The -- have you done any analysis -- have you done any analysis, other than looking at net CONE, to come up with your conclusion that the market is not in long-run equilibrium?

A. No, sir.

Q. And when you testified that the market had -- that this equilibrium in the PJM capacity market has not occurred to date, are you talking about since 2007 or is there a specific timeframe that you are talking about?

A. Well, you know, these mechanisms, many of them went into operation just after the decline in the economy and so it's been difficult for those prices to actually get up to the CONE numbers for a considerable time. They may have reached it for short periods, but, again, they haven't done it on that sustained basis that would induce people to want to build additional capacity.

Q. But people are building additional capacity --

A. They are.

Q. -- in the PJM market.

A. Yes.

Q. And when a market is not in equilibrium, as you state it, does that mean it either has excess resources or a shortage of resources?

A. Well, if the evidence pointing here is it has an excess.

Q. Okay. And when you say "here," you mean in the PJM market.

A. Right.

Q. And specifically in AEP Ohio's service territory.

A. Well, in the calculations that I show on Table 2 for all those areas.

Q. For all the areas in Table 2.

A. Yes.

Q. Okay. And you testified when the market capacity is out of equilibrium, prices could stay well below the long-run equilibrium price for extended periods.

A. Correct.

Q. And why is that the case in your opinion?

A. Well, it's a soft market. There's -- the decline in the economy since the 2007-2008 timeframe has dropped demand so you have excess capacity, and since that's the ruling situation, that makes the capacity prices softer.

Q. Well, will -- it still will reach equilibrium at some point in the future.

A. At some point in the future.

Q. But you don't have an opinion as to when that will be, do you?

A. No, sir.

Q. And you have no restriction on that, but, economically, from an economic theory standpoint, it's going to reach equilibrium. No matter whether it's not there today, whether it's not there tomorrow, it's going to reach equilibrium at some point.

A. Yes. Either what will happen is very low-cost demand response resources can come into the market and change the actual nature of the CONE, the construction costs can go down for new types of technologies, a lot of things will actually change what your long-run equilibrium would be. But one hopes we get there. But in the -- it's in the long run. This is the problem that that long run doesn't help people finance construction or decide to keep a unit open that is not earning enough money.

Q. But people are, in fact, building new units, and they are relying on their belief that the difference between RPM capacity price and net CONE will be made up for in the long term based upon energy and ancillary services, wouldn't you agree with that?

A. Just like people built a lot of gas-fired power plants in the 1990s and went bankrupt. It happens. Yes, they are building it on the basis of their expectations.

Q. Do you have any analysis that these power producers are going into bankruptcy based upon their expectations currently?

A. No.

Q. And going back to page 12 where you say, on lines 17 to 18, "customers will ultimately have to bear these costs" referring to I think you have used the term stranded investment costs associated with some of these excess capacities; is that what you are saying?

A. No. What I'm -- those are the customers' investments, not a utility or generating asset. It's the customers -- see, this all ties into those earlier sentences you were talking about.

Q. Right.

A. That when customers have made commitments to certain technologies or investments based upon stable prices, if prices become volatile, those investments may become uneconomic. They have to bear them. They are theirs.

Q. You're saying in the traditional regulatory model, customers had to bear the cost of stranded investment; is that what you are saying here?

A. No.

Q. Okay. Well, then, I am not understanding.

A. Let me try again. You buy a particular -- I'll just try to make it a simple example -- a furnace, and you bought it based on your expectations of what energy costs would have been, and if, all of a sudden, energy costs become volatile, that furnace might not have been your best choice, right? It may be that you will decide, because prices will become volatile, that you will scrap that one before its actual terminal age and buy a new one as a result of that. You bear the cost of that investment and that loss. From your perspective, as a residential customer, you had a stranded cost, but you have nobody to charge it to but yourself.

Q. Okay. But a residential customer in the current electricity market, either buying through the SSO or from a CRES supplier, they're not concerned about stranded investment at this -- at this point in time. They are only concerned about the price they are paying --

A. Well --

Q. -- to their supplier or to the utility?

A. And why are they concerned about that is the point. They bought certain equipment. They have a certain house that they purchased. They have certain features in the house that may have been based on a stable price that they thought they were going to get for their electricity.

Q. Okay. And I think you already testified earlier with Mr. Darr that a dollar is not going to be driving -- a difference of a dollar from year to year is not going to be driving the -- their decision whether to purchase particular equipment or not.

A. It's just one of the factors.

Q. Okay. And are you aware of the type of new capacity resources that have become available in PJM in the last few years?

A. I mean, they're people building a lot of different things. I don't keep track of all the individual plants that are being built.

Q. Then you are not aware that it's mostly gas-fired --

A. Oh, yeah, yes, that's the choice, you know.

Q. Are you aware of whether there's new demand-response resources in PJM?

A. I'm sure there has been and growing. What the effect of this federal court case will be is another wrinkle in that, but, yes, it has been growing in PJM.

Q. Are you aware of whether the level of imports has also been growing in PJM?

A. Yes. Because that's helped mitigate some of the price increases that could have occurred.

Q. And why do these resources continue to grow in PJM if you'll already have excess capacity in PJM?

A. Well, demand response if it was getting paid under the particular rules that were in place in many cases is a low cost investment. It's not like a power plant. So you don't have the same kinds of costs associated with putting in demand response as you would if you were building a 500-megawatt gas-fired plant.

Q. But the company building the 500-megawatt combined-cycle plant in PJM is believing --

A. Is believing.

Q. -- that they are going to be able to recoupe their investment?

A. That's what they have told their bankers.

Q. Okay. Just to be clear, I think you indicated earlier you haven't performed -- performed any of your own study or analysis of long-run equilibrium price in any regional transmission area, organization?

A. Correct.

Q. Including PJM. So you're just accepting net CONE as that price.

A. Yes.

Q. Okay. And can you just briefly describe to me how net CONE is calculated to your understanding.

A. It's the cost of -- based on the EPRI tag numbers for the gas-fired power plants.

Q. Is it net of -- of the revenues?

A. Of -- and the energy and the -- pardon me. I am getting tired. But the ancillary service.

Q. Okay. And do you know whether it's based on a combustible turbine or combined-cycle plant according to the PJM calculation?

A. I think it was combustible turbine. It's the cheapest one because you are looking at the end-industry costs.

Q. Okay. And do you know whether any combustible turbines have been built in PJM in recent years?

A. I believe they have. Again, I said I didn't track all the constructions going on.

Q. So you don't -- do you know whether primarily -- the vast majority of construction is combined cycle now?

A. I think they are mostly becoming combined cycle because that's a larger plant that they are looking to supply a larger amount of power.

Q. And they are looking to capitalize on that increased efficiency in a larger facility; is that correct?

A. Correct.

Q. And would you agree with me CONE price is actually a levelized value and not an annual value?

A. I believe, yes.

Q. Okay. Do you know how that levelization is performed?

A. Again, I haven't looked at all the exact calculations. I just took these numbers out of the PJM.

Q. Okay. And do you know over what period of time the levelization is performed?

A. I just -- like I say, again, I have to go back and refresh my memory on how they do it all.

Q. Do you know if CONE is a real or nominal value?

A. The -- I would have to check again. I think it's real.

Q. So you would -- so you are saying that it's inflation adjusted. Would CONE be larger under the real value rather than under a nominal value?

A. Yes, if there is significant inflation occurring. I'm sorry. The opposite, sorry. Can you say that again?

Q. Would it be larger under a real or a nominal calculation?

A. If it's adjusted for inflation, and

inflation has been taken out for real terms, then nominal should be larger than real.

Q. Do you know what the -- in terms of calculating the energy and ancillary services piece of net CONE, do you know whether that's based on historic calculation or an estimate?

A. Again, I would have to go back and look at that. I mean, the CONE numbers I took out of the report were just that. For -- for this piece of testimony I didn't go back and review all the mechanisms. I just took their numbers as were stated in the PJM reports.

Q. So it wouldn't surprise you if they -- if PJM used a three-year historic average, for example.

A. It wouldn't surprise me because they are making estimates.

Q. But you would agree that's supposed to represent developers' expectations --

A. Yes. Yes.

Q. But developers' expectations can be substantially different than a historic perspective that might be brought to bear based upon historic revenues.

A. That's the beauty of markets is everybody will have their own expectations.

Q. But you're -- but your value for your long-term -- long-run equilibrium is based on that piece that includes the historic --

A. Yes.

Q. -- revenues.

Would you agree with me that it's your opinion that capacity prices have been consistently low and also have been volatile over recent years --

A. Yes.

Q. -- in the region applicable to AEP Ohio?

A. Yes.

Q. Now -- now, if a customer chooses to stay on the SSO, I think you earlier testified they basically have a three-year hedge associated with the capacity auctions to the extent that the capacity auction includes a three-year price.

A. It -- the SSO?

Q. Yes, the SSO option.

A. To the extent that it does, yes. And it's got one-, two-, and three-year terms, at least that's the proposal.

Q. And Choice -- customers who are participating in the competitive market with a CRES supplier, have you seen -- have you seen prices where a customer could fix a rate for -- for four or five or six, seven years in some cases? Have you seen offers like that?

A. No. In fact, that's the benefit that this particular proposal provides is that it is a long-term proposal. I realize that there's only a three-year term, you know, associated with the ESP, but the intent is that it's a longer term. And in the marketplace you don't tend to see longer-term contracts. The prices get high.

Q. Okay. Are you aware that there have been seven-year offers in the AEP Ohio marketplace in the past?

A. I haven't seen the evidence of that, no.

Q. Okay. Did you inquire of the company of the longest-term offers that have been seen in the marketplace?

A. I asked and I may have overlooked that. Did people actually buy them?

Q. Do you know what the longest-term offers that are currently available are --

A. Offhand, no.

Q. -- from a CRES supplier?

A. I have heard it in the testimony. I think it was Mr. Campbell saying at least one year and maybe two, but, from reading the testimony, that was all I was able to.

Q. You would agree with me that if AEP had not proposed -- if AEP does not have its OVEC proposal approved, its PPA rider approved, that it can sell its power into the PJM market and bear the risk itself of whether its revenues exceed or don't exceed its costs of operation?

A. Certainly that's an option.

Q. Do you know the -- with respect to your Figure 1, do you know what the average day-ahead price for electricity over the period covered by Figure 1 is?

A. No, not offhand.

Q. Would you accept, subject to check, that it's $50.01 per megawatt-hour?

A. That's fine, yes.

Q. And do you know how many days a day-ahead price exceeded $200 per megawatt-hour over -- over the timeframe you utilized?

A. Offhand, I didn't look at all those particular incidents, no.

Q. Would you accept over the, I think it's 2,183 days that you used --

A. That sounds right.

Q. -- that there were five days when it

exceeded 200-megawatt -- I mean --

A. $200.

Q. -- $200 per megawatt-hour?

A. Yes.

Q. And there were 61 days in that timeframe when it exceeded $100 per megawatt hours?

A. Subject to check.

Q. And would you agree that, so that the price over $100 per megawatt-hour occurred only 2.8 percent of the time -- of the days in your analysis in 2,183 days?

A. Subject to check.

Q. And doesn't that seem volatile to you? Does that fit within your definition of volatility?

A. Yes.

Q. Your definition of volatility, I think you earlier indicated, was simply a change of price over time.

A. Right. And the fact of the matter is prices do, you know, fluctuate over time. And that's what we've shown in our tables.

Q. Okay. So -- so in terms of -- is there a difference that -- you've talked about low volatility and high volatility. How would you represent the difference between low volatility and high volatility as you use those figures -- those terms?

A. Again, it's just like in the table we have. It's -- it's, you know, the volatility is really the percentage there and so we're giving you some ideas that actually the PJM AEP zone realtime peak price has a volatility of 21.7 percent when you compare that to, say, the capacity auctions that were at 103.7.

Obviously, the capacity auction is much more volatile than the peak prices that -- and I think those are probably the kind of peak prices you're citing from our work, they are less volatile than the capacity prices. That's on Table 1 on page 7.

Q. But you only get one capacity price each year, correct? Capacity prices are determined three years in advance for a single delivery-year period, correct?

A. Right, yes.

Q. Are you familiar with Jim -- Jim Wilson's testimony in this proceeding?

A. I have seen a copy, but I'm...

Q. Are you aware that Mr. Wilson testified that customers would not receive a financial benefit over the term of the ESP in this case, but, actually, would be financially disadvantaged to the extent of approximately $116 million over the timeframe of the ESP?

A. I believe that -- you have characterized his opinion correctly.

Q. And would you also -- are you also aware that IEU Witness Murray also testified that customers would be financially disadvantaged over the term of the ESP?

A. Yes. That's their opinion, yes.

Q. Are you aware that the -- there is no guarantee offered as part of the PPA rider that customers will, in fact, receive a financial benefit and they may actually experience a substantial disadvantage?

A. That's a possibility.

Q. Are you aware of which electric distribution utility today has the highest residential electric prices in the state of Ohio?

A. No.

Q. So you're not aware that it's AEP Ohio?

A. I was waiting for you to get there, yeah.

Q. And with respect to whether there may be substantial volatility in -- in the operation costs associated with OVEC, are you familiar with substantial variances that have occurred in the past in the price of coal?

A. I did not review any of those numbers, no.

Q. So you're not aware that in 2008, prices for next-quarter NYMEX coal went from $58 per ton to over $140 per ton in just six months?

MR. NOURSE: Your Honor, I just object. Mr. -- Mr. Berger is asking the witness if he's aware of things and, if he's not, he proceeds to state things in the record here. And I think if the witness is not aware of those things, he should just move on.

MR. BERGMANN: I am trying to jog his memory, your Honor, whether he remembered a specific increase, dramatic increase, in the price of coal that happened in 2008.

A. I thought the question was about at OVEC.

Q. No. That would include the cost that OVEC has to pay for coal, but, yes.

A. And, again, I was not aware -- I did not study those numbers for OVEC.

Q. Are you familiar with general price increases in the price of coal?

A. Yes. Coal prices have fluctuated.

Q. Are you aware of more than an increase in the cost -- in the price of coal that was greater than 100 percent in 2008?

A. For what time period?

Q. It went over a six-month period. It increased by over 100 percent. I don't know the exact timeframe.

A. Well, we can pick, you know, any timeframe and calculate a large increase, as you see from my own calculations, the volatility of Powder River Basin Coal has only been at 30.8. So it's more than the PJM AEP zone realtime prices, but it's not of the magnitude you're saying; but, in any particular period, it could have been that.

MR. BERGER: Just a minute, your Honor.

Q. Dr. McDermott, on page 16 of your testimony, you referenced a decision in Maine, Docket No. 2012-00504, footnote 6. Do you see that?

A. Yes.

MR. BERGER: Your Honor, at this time I would like to distribute a copy of that order in the Maine Public Utilities Commission. Can we have that marked as OCC Exhibit 19, your Honor?

EXAMINER SEE: Yes.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. And have you read this decision before --
A. Yes.
Q. -- Dr. McDermott? And you would agree with me that this purchased power agreement has to do with -- with new generation for -- for wind production?
A. Correct.
Q. And would you agree with me there were 14 RFP respondents for this new capacity?
A. That's what I recall is something in that range.
Q. Would you agree with me that the goal of the Public Utilities Commission stated was to lower energy costs?
A. Yes.
Q. And they also -- and the Commission also indicated that one of the goals was to enhance reliability and reduce GHG emissions?
A. Yes.
Q. Would you agree with me that this purchased power agreement was similar to the other ones presented by the other -- that were discussed on page --
A. 16.
Q. -- 16 of your testimony --

A. Yes.
Q. -- for the other states mentioned?
A. Yes.
Q. And that they have numerous goals associated with the acquisition of this particular purchased power agreement?
A. Right. And that's again why I used these -- the -- excuse me, the Commission in Ohio has the option to adopt this with its own policy goals if it should decide it wants to have stability.
Q. Okay. And would you agree with me that with respect to all the states that you referenced, those purchased power agreements all were for the physical acquisition of capacity; is that correct?
A. They were for bringing new wind power into the market so, yes, physical.
Q. And the proposal in this case is not for the physical acquisition of capacity, nor is that capacity necessary in the PJM market; would you agree with that?
A. It's not necessary in the PJM?
Q. Well, let me ask you first whether it's associated with the physical acquisition of capacity.
A. No. It's -- it's a plant that already exists.

Q. And the rider is not associated with the actual sale of that capacity for use by AEP Ohio customers.

A. Right. The customers don't see the electrons; they just see the cash.

Q. And that differs from the other states that you -- the other agreements in the other states that you mentioned, doesn't it?

A. Yes.

Q. Okay. And each of these other states there was a competitive request for proposal?

A. I believe in all of them, yes.

Q. Could AEP have gone out and done a similar purchased power agreement for -- for purchased -- to fund this particular program for its PPA rider?

A. I suppose it could have, but it chose to do it the way it did.

Q. It chose to use existing -- an existing capacity resource.

A. Yes.

Q. Is it possible that had it gone out and put this out for bid, that it could have obtained a better bid?

A. I -- that I don't know. I couldn't say offhand that it would have or not.

Q. Do you know whether AEP performed any specific analysis of whether it could have received a better price or lower volatility associated with other -- with sales of other facilities?

A. I'm only aware of the analysis that was presented by Mr. Allen in this case.

Q. And are you familiar with the timeframe for the adjustment of the PPA rider?

A. What do you mean by that?

Q. Well, you are aware that the PPA rider is based upon a forecasted estimate of the net cost.

A. Right.

Q. And that every year, after the actual costs of OVEC are determined and the actual market revenues from OVEC are determined, that, for the following year, there's a true-up.

A. Right. That's what Mr. Allen testified about in the case earlier.

Q. Okay. And are you aware that, therefore, there will be an adjustment up or down -- there will be a forecasted price for the second year, plus or minus an increase or decrease, to true-up for the previous period?

A. That's my understanding.

Q. And do you understand that that true-up occurs annually, once annually?

A. Right.

Q. Okay. And are you -- are you aware that -- I mean, would you agree that it's possible that the true-up will actually cause prices to go in the same direction -- will cause an adjustment that goes in the same direction as market prices?

For example, in the second year, market prices may be low and you may have this adjustment that makes them lower. It may not necessarily go opposite to the market.

MR. NOURSE: Your Honor, I just object as being beyond the scope of his testimony. This witness has indicated he's not involved with the quantification of the values in the PPA rider or the mechanics, and I was waiting for a connection to his testimony and didn't hear any.

MR. BERGER: Well, on page 4, your Honor, he states that, on line 10, that market prices change -- "Moreover, as market prices change over time, the PPA Rider's forecasted element is expected to run counter to the change in market prices. This would provide a bill credit or charge which helps to offset changes in market prices." And I am examining whether that -- that bill credit or charge, which occurs in the following year, will, in fact, run counter to the forecasted price.

A. And I don't know.

Q. Well, is it possible it could go in the same direction?

A. It is possible.

Q. And I think you earlier testified in response to questions from Mr. Darr that the proposed PPA rider presents a risk to customers that they will pay more than they would if there were no PPA rider; is that correct?

A. I'm sorry. Say that again.

Q. The proposed PPA rider presents a risk to customers that they will, in fact, pay more than they would if there were no PPA rider?

A. See, I'm not comfortable fully with that because the nature of the PPA is a separate hedging instrument. And, in some sense, the customer is facing a blended portfolio under this proposal. That hedge deals with some of the risks that the customer has, the SSO, if they choose that, will deal with other risks, and so will purchasing from a CRES. So they have a blended product. I don't know that by subdividing the risks you actually increase the risks. I don't think that's necessarily the case.

Q. Well, but all I am asking you -- I think it was already established that the price the customers will pay for OVEC -- the price they pay may actually be higher than market price. The cost of OVEC may be -- may be higher than the price -- the market prices.

A. And, again, that's what the nature of a hedge is all about. There are going to be times where the market price may be below what you're paying and there are times where it's going to be higher and it's the combination of the two. You just can't pick out the one end side of it and say, well, that's a harm.

It's like I said earlier. You pay insurance for an automobile or your house. If it doesn't burn down and I don't wreck it, you've paid out money for the avoidance of the big expenditure that would have come. And the real issue here associated with the PPA rider is to avoid the high price shocks that could occur in the marketplace. That's what we are trying to mitigate.

Q. The high price shock being the potential of --

A. Energy market prices to rise.

Q. And that would only occur if the market prices were higher than the OVEC costs that you are talking about.

A. Under -- under that situation, then the customer gets a credit.

Q. On page 5 of your testimony, at lines 5 to 9, you discuss your understanding of AEP's plans to include PPAs in addition to OVEC and that these PPAs would be structured similar to OVEC. Are you familiar with that?

A. Yes, I am.

Q. Do you know what generating units would be included in the other PPAs?

A. No.

Q. Could these additional PPAs include other generating plants that AEP or AEP affiliates might own? Is that your understanding?

A. I just know that they may include them in the future if the Commission so desired. The Commission has an option to review that when it's offered. It's not an automatic thing. Under this PPA, the way the PPA is structured, it's the OVEC assets. And then, if there should be some offer made in the future, it would be a vehicle through which it would occur. What that would be, you would have to talk to the company about.

Q. Would you agree with me that from a customer standpoint, it would be best to include the most-efficient units in the PPA?

A. Sure, you would want that.

Q. Do you know -- but you don't know which units are being considered.

A. I do not, no.

Q. Are you aware of whether the OVEC units are among the most-efficient units in AEP Ohio's fleet of generation?

A. No. I am just aware of their special nature of the condition that they were operated under with the contract with the Federal Government and such.

Q. So if they are not among the most efficient, that wouldn't be to the customers' best benefit if AEP had other units that were more efficient; it would be more to the customers' benefit to use those other units?

A. I think this is a structure that has been proposed by the company to deal with the particular assets at OVEC and how they deal with future plants; again, you would have to talk to them.

Q. Is it possible -- strike that.

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

MR. PARRAM: No questions, your Honor.

EXAMINER SEE: Any redirect, Mr. Nourse?

MR. NOURSE: Could we have a short break?

EXAMINER SEE: Yes.

MR. NOURSE: Thank you.

EXAMINER SEE: Let's go off the record.

(Recess taken.)

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

Mr. Nourse.

MR. NOURSE: Thank you, your Honor.

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REDIRECT EXAMINATION

By Mr. Nourse:

Q. Dr. McDermott, I believe you had questions earlier, from Mr. Darr, about a study, I will call it the "Compete Coalition study." Do you recall that?

A. Yes.

Q. And I believe one statement was made that the study was not referenced in your summary résumé that's attached to your testimony as Appendix A; is that correct?

A. That's correct.
Q. Now, does Appendix A, at the end, say that the full CV is available upon request?
A. Yes.
Q. And are you aware whether any counsel in this case requested the full CV be made available?
A. There was at least one.
Q. Okay. And does the full CV reference the Compete Coalition study?
A. Yes.
MR. NOURSE: Okay. Thank you.
That's all I have, your Honor.
EXAMINER SEE: Mr. Petricoff?
MR. PETRICOFF: No questions, your Honor.
EXAMINER SEE: Ms. Mooney?
MS. MOONEY: No questions.
EXAMINER SEE: Mr. McDermott?
MR. McDERMOTT: No questions, your Honor.
EXAMINER SEE: Ms. Bojko?
MS. BOJKO: No questions, your Honor.
EXAMINER SEE: Mr. Sineneng?
MR. SINENENG: No questions, your Honor.
EXAMINER SEE: Ms. Shadrick?
MS. SHADRICK: No questions.
EXAMINER SEE: Mr. Kurtz?

MR. KURTZ: No questions, your Honor.

EXAMINER SEE: Mr. Darr?

MR. DARR: No questions.

EXAMINER SEE: Mr. Yurick?

MR. YURICK: No questions, your Honor.

EXAMINER SEE: Mr. Berger?

MR. BERGER: No questions, your Honor. Thank you.

EXAMINER SEE: Mr. Parram?

MR. PARRAM: No questions, your Honor. Thank you.

EXAMINER SEE: Mr. Nourse has already moved for the admission of AEP Exhibit 32. Are there any objections?

MS. BOJKO: Yes, your Honor. At this time, based on the cross-examination, I would renew Mr. Howard Petricoff's motion to strike. So object pursuant to page 17, lines 11, and I would expand that through line 20.

The witness, on the stand, admitted that he had no knowledge of specific statutes. He hadn't reviewed any specific statutes dealing with the issues referenced on those lines before making his statements. He also agreed that he wasn't testifying to the accuracy of these statements and that they were based purely on counsel's interpretation of any pertinent statutes and that he was not interpreting them himself.

So, clearly, they are unreliable statements that are from counsel that are legal arguments, and it should be held for brief, not for this witness.

MR. NOURSE: Your Honor, first of all, I don't think that's accurate. Relative to the statements of what he said on the record can speak for itself. I don't think his answer applied -- the answers Ms. Bojko described applied to the entire answer.

And with respect to the counsel statements, again, they are clearly -- they are clearly indicated. He confirmed that they were counsel's statements and provided them for context.

You know, I am a little disappointed that Ms. Bojko thinks they are unreliable because they came from counsel. We can discuss that later. But I believe the legal issues that are in there are appropriate for briefing and are provided for context.

MS. BOJKO: Your Honor, if I may reply. There is no context. That's kind of the motion to strike. The witness clearly stated he wasn't testifying to these particular issues. They are gratuitous statements thrown in there at the end. I do disagree with counsel's interpretation.

So I, again, do not believe that they were contextual in nature, and they were thrown in there by counsel for the purpose of raising the issues on rebuttal, and they're not pertinent to his testimony. They are beyond the scope of his testimony, frankly, and he admitted that on the stand that he was not here to testify to those particular issues. And I did ask him about both advices of counsel in my cross-examination.

MR. NOURSE: Well, your Honor, if I might, taking these statements as a general argument, but, to get specific, the statements about reliability, there was a fair amount of cross-examination about reliability. There was quite a bit of examination about the energy efficiency and demand response matters. And so I think there is a lot of context, and it leads into and is part of this discussion about the other state commission decisions that Dr. McDermott had pointed out, incorporated into his testimony, had extensive cross-examination about.

So it's certainly -- the legal statements are certainly not intended to be evidence for the truth of the matter asserted. They are context for his testimony.

EXAMINER SEE: The objection is overruled. AEP Exhibit 32 is admitted -- I'm sorry. Are there any others?

AEP Ohio Exhibit 32 is admitted into the record.

(EXHIBIT ADMITTED INTO THE RECORD.)

EXAMINER SEE: Ms. Bojko.

MS. BOJKO: Thank you, your Honor. At this time I would ask the Bench to take administrative notice of the two Delaware Public Utilities Commission decisions, Exhibit 6, OMA Exhibit 6, and the Connecticut Public Utility Decision, OMA Exhibit 7.

MR. NOURSE: No objection.

EXAMINER SEE: OMA Exhibits 6 and 7 are admitted into the record.

MS. BOJKO: Also, your Honor, just for reference, I did e-mail copies of the exact exhibits that were used today to the court reporter and to all the parties including yourselves.

EXAMINER SEE: Including the Bench, okay.

Mr. Darr.

MR. DARR: Thank you, your Honor. Along the same lines as what's been suggested by Ms. Bojko, I would ask for administrative notice of the Massachusetts press release, the Connecticut press release, and move for admission of IEU Exhibits 14, 15, and 16. So administrative notice as to 12 and 13 and admission of 14 through 16.

MR. NOURSE: No objection.

EXAMINER SEE: Okay. So let me make sure I have it correct. You are moving for admission of 14, 15, and 16?

MR. DARR: Yes, ma'am.

EXAMINER SEE: And then administrative notice of 12 and 13.

MR. DARR: Correct. Those were taken directly off the websites of the two commissions.

EXAMINER SEE: And Exhibits 12 through 16 will be admitted into the record.

(EXHIBITS ADMITTED INTO EVIDENCE.)

EXAMINER SEE: Finally, Mr. Berger.

MR. BERGER: Thank you, your Honor. We would move for admission of OCC Exhibit 19.

EXAMINER SEE: Are there any objections?

MR. NOURSE: No objections, your Honor.

EXAMINER SEE: OCC Exhibit 19 is admitted into the record.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER SEE: Thank you, Mr. McDermott.

THE WITNESS: Thank you.

EXAMINER SEE: We'll resume today at 1 o'clock. We are off the record.

(Thereupon, at 12:23 p.m., a lunch recess was taken until 1:00 p.m.)

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Monday Afternoon Session,
June 30, 2014.

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

Mr. Nourse or Mr. Conway, next witness, please.

MR. NOURSE: Thank you, your Honor. The company calls William Allen.

EXAMINER PARROT: Let's swear you in again.

(Witness sworn.)

EXAMINER PARROT: Please have a seat.

- - -

WILLIAM A. ALLEN

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

DIRECT EXAMINATION

By Mr. Nourse:

Q. Good afternoon, Mr. Allen.

A. Good afternoon.

Q. Did you prepare rebuttal testimony in this case?

A. Yes, I did.

Q. Okay. And this was the document that was docketed on June 20?

A. Yes, it is.

Q. Okay. And you are the same William A. Allen that testified earlier in this proceeding, correct?

A. Yes.

MR. NOURSE: Okay. And, your Honor, I would like to mark rebuttal testimony of William A. Allen as AEP Ohio Exhibit 33.

EXAMINER PARROT: So marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

MR. NOURSE: Thank you.

Q. Mr. Allen, do you have any corrections, additions, or changes to AEP Ohio Exhibit 33?

A. Yes, I do. I have a couple of typographical corrections. The first one on page 3, line 9, the sentence reading -- that starts with the word -- letter "a" -- or "a" should be removed such that the sentence reads "If this laddering averages a high near term capacity price with lower future capacity prices." So just the word "a" needs deleted out of that sentence.

Q. Okay.

A. And then on page 5, line 14, the phrase "the customers" shows up twice in that sentence. The first occurrence should be deleted.

Q. Okay.

A. On page 7, line 21, a comma should be inserted between the words "dispatch" and "revenues."

On page 8, line 10, the word "used" should be deleted such that the line reads "market prices in his analysis."

On page 9, line 15, the word "as" should be replaced with the word "an."

And then, finally, on page 12, line 6, the word "lead" should be replaced with the word "led." And that's it.

Q. Thank you, Mr. Allen.

With those corrections, if I were to ask you the questions contained in Exhibit 33 today, would your answers be the same?

A. Yes, they would.

MR. NOURSE: Thank you, your Honor. I would move for admission of Exhibit 33, subject to cross-examination.

EXAMINER PARROT: Mr. Petricoff?

MR. PETRICOFF: Yes, your Honor. Thank you.

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CROSS-EXAMINATION

By Mr. Petricoff:

Q. Good afternoon, Mr. Allen.

A. Good afternoon.

Q. Welcome back. If you would, turn to in your testimony Exhibit WAA-R2.

A. I'm there.

Q. Okay. I want to ask you some questions about this Exhibit A. First, is it fair to say that the purpose of this exhibit is to demonstrate the mechanics of how a change in your relative market price -- the differential between the OVEC price of power and the market price of power translates into a credit or debt under the rider PPA?

A. No, it's not. The intent of this exhibit is to show how the PPA rider changes due to simply a change in the market price. So what it demonstrates is that a $5 change in the market price, all other things being equal for the OVEC units, would result in the PPA rider changing by 35 cents.

Likewise, for a 3,000 megawatt PPA, a $5 a megawatt-hour change in the market prices, all other things being equal, would change the PPA rider in the opposite direction by $2.39.

Q. This is not a forecast saying that's what will happen. This is just a demonstration of the mechanics of what -- what a $5 change in the relative market price means.

A. That's correct. It's a sensitivity analysis.

Q. Okay. And if you could, I would like to go through, make sure I know where all the numbers came from in the sensitivity analysis.

A. Sure.

Q. The first, on the capacity, under OVEC, we have 437. I assume those are megawatts?

A. Yes.

Q. All right. And that's the name plate of the -- of the Kyger Creek and the Mason Indiana -- Madison, Indiana, plant?

A. It's the capacity. It may not be the name plate, but it is the maximum output of the units.

Q. And then in the next column on the expanded, where did the 3,000 come from?

A. The 3,000 is just used for example purposes.

Q. So illustrative purposes only.

A. That's correct.

Q. And then the capacity factor, you have 75 percent capacity factor. Explain what you meant by capacity factor and where the 75 came from.

A. Sure. For the capacity factor for OVEC, the 75 percent relates to the historical average OVEC capacity factor for the years prior to the market downturn that we saw in 2011, '12, and '13, so that really represents the capacity factor that OVEC can operationally achieve. So that's where that value comes from.

Q. So is the capacity factor here then based on historic -- what you expect would be the ceiling, that is, without unplanned outages you would expect to see 75 percent?

A. 75 percent would include planned and unplanned outages. So that's a reasonable estimate of OVEC's going-forward capacity. It could be higher than that. It could be 80 percent, but I wouldn't expect -- expect it to differ significantly other than as a result of changes in market price.

Q. And what was it in 2012?

A. I don't have that number in front of me today.

Q. We'll move on. 8,760 -- actually, let me go back on that. If, in fact, the market was soft, then we may have a number that's smaller than 75 percent.

A. If the average energy prices or if the energy prices in certain hours were below OVEC's available cost of production, the unit would dispatch less and its capacity factor would be lower.

Q. Anyway, wouldn't dispatch because you wouldn't basically run the unit for less than your available cost.

A. Other than for start-up and things like that, you generally don't operate a unit when its cost is above market.

Q. Do you recall what the capacity factor was for 2013?

A. I do not.

Q. Moving down. The 8,760, those are the number of clock hours in a year?

A. That's correct.

Q. Leap year we add 4 -- we add 24?

A. 24, that's correct.

Q. And then the megawatt production, I assume that's just taking the percentage times the hours times the megawatts?

A. That's correct. So megawatts times its capacity factor times the number of hours in a year.

Q. Now, we will get to the next one. The market price, where did the $5 come from?

A. That was just used for illustrative purposes so that you could calculate what the change in the PPA rider is, and a dollar per megawatt basis, but what I show in my testimony on page 3, lines 2, and 23, following over to page 4, lines 1 and 2, what it shows is that the -- just using OVEC, for any change in market price, there's a 7 percent mitigation due to OVEC.

And if you expand it to a 3,000-megawatt PPA, the mitigation of any price change in the market would be 48 percent of that change. So it's irrespective the magnitude of the market price change.

Q. Okay. So, in other words, if, in fact, it was $5 the other direction instead of being $5 here, it was minus $5, then we would expect that instead of being 35 cents a megawatt hour for OVEC, minus, it would be plus 35 -- 35 cents a megawatt-hour.

A. That's correct.

Q. Now, to get that $5 -- get that $5 price, isn't it true that the relative market price is as -- is an important factor -- scratch that. Let me try that again.

The relative market price that is

represented here on line 5 is the difference between the revenues that AEP Ohio would get by selling the power into the day-ahead and realtime market versus the cost of producing that power?

A. That's not what this is representing. What this is representing is if I assumed in one case that market prices were $32 a megawatt-hour and they rose to $37 a megawatt-hour, the customers would see a price mitigating effect of 35 cents. Under the OVEC proposal or expanded PPA, it would be a $2.39 impact.

Q. That would be if you are holding your costs constant.

A. That's correct.

Q. Mr. Allen, do you have a copy of IEU 6 with you?

A. Exhibit --

Q. IEU Exhibit 6.

A. I do not.

MR. PETRICOFF: Your Honor, may I approach? I will bring one to the --

EXAMINER PARROT: You may.

MR. PETRICOFF: -- to the client -- I'm sorry, to the witness and his counsel.

Q. Okay. Mr. Allen, if you would, turning to page 2 of IEU Exhibit 6, and it says -- first of all, IEU Exhibit 6 is the annual report of 2012 for OVEC?

A. Yes. What you have handed me is an excerpt.

Q. Right, that is correct. I just gave you an excerpt of the ones we are going to talk about. And the full IEU 6 we have -- we have the full document and that's in the record. But that's the annual report for 2012 from OVEC, correct?

A. That's correct.

Q. Is there a 20 -- annual report for 2013 that's been issued yet?

A. Not that I'm aware of.

Q. So this is the latest annual report.

A. Yes. There is financial data, and I think we've talked about it in my direct testimony, for 2013 that is available.

Q. Right.

A. Just not the financial report.

Q. Right. And that was the report that was done by -- let's see, Deloitte Touche, I think, was the accounting firm.

A. Well, it would have been performed by OVEC. Deloitte & Touche would have just signed off on it.

Q. Right. Okay. Let's go back to what we have identified here as the latest -- latest annual report. Turning to page 2, it says OVEC's power cost to the sponsoring companies was $62.86 per megawatt-hour. Do you see that?

A. I do.

Q. Okay. And that $62.86, that includes a return on the sponsor's investment in the generating capacity?

A. Largely it reflects the recovery of the costs. As you may recall, OVEC has a very thin equity layer, I think about $10 million, for the entire entity.

Q. Okay.

MR. PETRICOFF: Your Honor, may I approach the witness? I'll see counsel first.

EXAMINER PARROT: You may.

Q. Earlier we spoke about the 2013 financial report.

A. Yes.

Q. Let me show you this. I am going to give you it in two pieces. There's the beginning with the sign off from the -- from Deloitte. And, once again, I just have a section and then here is the language that I would like to just take a moment to look at and to refresh your memory. And then I'll ask you the question again, when we do the cost -- the calculation of the cost at OVEC under the -- the partnership agreement that's filed at FERC, isn't it true that a return on equity is included in the cost?

A. That's correct. And as I indicated in my response, the equity in OVEC is $10 million and that's shown on page 4 of that document, compared to the total capitalization of over $1.3 billion. So it's essentially a return of the cost -- I'm sorry, recovery of the costs of OVEC. The return component is a very small outline.

Q. But, nevertheless, the sponsors are going to get a return on their equity invested as part of the cost calculation.

A. That's correct.

Q. I guess we'll go one -- one more step here. So if, in fact, AEP Ohio gets all of the cost of the OVEC generation back to it by sales and by the rider PPA, it will earn a return on that investment.

A. One thing we have to recognize as we discuss this is that the ownership in OVEC, the equity proportion, is not the same as the power participation ratio in OVEC. The ownership of the equity in OVEC for AEP is largely held by the parent company. And the only piece that resides on Ohio Power's books today is the historical CSP ownership share that existed prior to the acquisition of CSP by AEP in the -- the 1980s.

Q. So if I am, then, in my question to say AEP Ohio or its parent, or affiliate will get a return on the investment that's on their books for the OVEC power, then the statement would be correct that they would then be earning -- they would be guaranteed their return if they can get the full OVEC price?

A. No. The return that AEP as well as Ohio Power earned on the OVEC ownership share exists independent of the PPA rider.

Q. But if -- well, let's go back because we're -- maybe I am making this too difficult.

If the power is sold and the price for the power -- the revenue gotten for the power is greater than the -- is the same, so if the price -- the revenue is -- that comes in for the OVEC units is the same as the OVEC price, then AEP, its parent or affiliate, will earn a return on their investment in the OVEC generation.

A. No. I think you've confused how the OVEC model works. OVEC, as an entity, sells power to AEP Ohio. That sale, in and of itself, as well as the sale to the other sponsoring companies, is what creates the earnings for AEP Ohio's share of OVEC, its ownership share in the equity, as well as AEP's, the parent, share. What AEP Ohio does with the power after that has no impact on the earnings that exist at OVEC and ultimately are flowed through to the sponsoring companies.

Q. I want to focus down on the risk. Right now, if AEP Ohio -- if AEP Ohio sells into the market and it doesn't recover the cost that it must pay OVEC for the power, it has a loss, correct?

A. If AEP Ohio sells its power for less than what it costs to purchase that power, it will suffer a loss, that's correct.

Q. And under rider PPA they will not suffer that loss because if, in fact, the sale of the power into the market is not sufficient to meet the cost of the OVEC power, it will be made up by the customers paying the rider PPA?

A. Yes. And the opposite is true as well, if there were a margin on those sales, that would be returned to customers.

Q. Let's go back now and continue looking on page 2 of the -- of the annual report. It says the total sponsoring company power costs were 650 million in 2012 compared with 722 million in 2011. Do you see that?

A. I do see that.

Q. Okay. So, basically, between 2011 and 2012, OVEC was able to reduce its costs some $70 million?

A. The reduction in costs between 2011 and 2012 is largely a result of the reduced output of the units, as you can see at the bottom of column 1 on page 2, where it says that OVEC delivered 10.34 million megawatt-hours in 2012, while in 2011, they delivered 14.2 million megawatt-hours. So there is a significant change in fuel expense in those two years as a result of the increased output of the units or, when you go from '11 to '12, it's a decreased output of the units.

Q. Right. And because of that decreased output, the price, the OVEC price to Ohio Power increased from $50.86 to $62.86, $12 a megawatt-hour.

A. That's a function of the fixed nature of many of the costs of OVEC. So as you divide fixed costs over a smaller kilowatt-hour base, the rate in the dollar per megawatt-hour basis increases.

Q. Okay. So it's fair to say then merely reducing OVEC's costs does not mean that the OVEC price will go down.

A. I don't know if I would agree with that. Reducing OVEC's O&M costs for things such as labor, maintenance, and the like does have a direct result in reducing the OVEC costs. Reducing the output of the units does not reduce the cost to the units, but a reduction in traditional O&M does lower the cost of the output of the units.

Q. But there are fixed costs as well as traditional O&M.

A. There are fixed costs for these units.

Q. And you would agree with me that some O&M costs cannot be diminished just because of diminished output.

A. There's some O&M costs that are more fixed in nature and more available in nature, that's true.

Q. These power plants are union power plants, correct? So if you had a decrease in sales, you couldn't just go lay off workers.

A. I don't know whether you could or you couldn't. There's a certain staffing that's necessary to maintain and operate the units in a safe and reliable fashion.

Q. So -- and labor is a maintenance -- is a -- I'm sorry. Labor is a labor cost and part of maintenance and operation, an O&M cost.

A. It's partly O&M and some of it goes to capital as well.

Q. Okay. Now, in the reduction that you've forecasted in your -- I guess I'll call it exhibit -- AEP Exhibit 8, forecast of costs, you indicate there is going to be reduction in costs going forward for -- for OVEC and that has changed your forecast going forward as to what the amount of -- what the projection of the PPA would be; is that correct?

A. That's a factor that needs to be considered in the value of the PPA, and I did present that in an exhibit on the stand, yes.

Q. Okay.

A. And just to be clear, that's OVEC's forecast of costs that they presented to all of the sponsoring companies as owners of OVEC.

Q. And there's no warranty or guarantee OVEC is going to make that projection.

A. My expectation is that when OVEC presents a forecast of costs to the sponsoring companies, that OVEC is comfortable with those costs. One thing you have to remember is the board of OVEC is comprised of those same sponsoring companies. So OVEC is in a position where it's in their best interests, as owners of OVEC, the board members, to make sure the data that they provide to their own utilities is as accurate as possible.

Q. Is AEP confident enough in the OVEC estimate that we would get the credit for that whether it actually does occur or not? Would you be willing to do that?

A. No, no. What we have done is presented our forecast of the expected costs of OVEC, those costs that we believe are the most accurate today.

Q. Let me -- let me move on a bit here. So going back here to our exhibit with the OVEC, we are at 35 -- we are at 35 cents a megawatt-hour. If I want to convert that to kilowatt-hours because I am a residential customer, I just multiply the 35 cents by a thousand. So it would be .000, three 0s, 35 per kilowatt-hour would be the savings?

A. Yes, that's correct. You just move the decimal three places.

Q. Right.

MR. NOURSE: Your Honor, for clarification, can we just clarify the last answer, whether it was in dollars or cents? I think the original question was in cents.

Q. Oh, okay. Let's --

MR. PETRICOFF: Thank you, counsel.

Q. Let's clear that up right now. We're -- we're talking about $.35 per megawatt-hour and $.00035 per kilowatt-hour. Okay.

MR. PETRICOFF: Let the record reflect that the witness is shaking his head.

A. So if you are doing cents per kilowatt-hour, which I never do, but if you do, 0.035 cents per kilowatt-hour.

Q. And I tell you the reason you don't do it is because it is so hard to talk about 35 thousandths of a cent.

A. No. And Ohio is one of the unique states that does, at least in my reference, talks about cents per kilowatt-hour. But, really, when we talk about dollars per megawatt-hour or millions per kilowatt-hour, that's a much more comfortable position, especially as a former fuel buyer, we always talk in millions per kilowatt-hour.

But, generally, for -- they use a thousand kilowatt hours in a month or one megawatt-hour in a month. So if the market price changes by $5 for that customer in a month, the PPA rider just for OVEC would have the impact of reducing that $5 increase by 35 cents.

And, likewise, on the expanded PPA, what would be a $5 increase in price on a customer bill would be reduced by $2.39 such that the customer would see an increase of only $2.61. So that's why I do dollars per megawatt-hour. I think it's a little easier to follow.

Q. Okay. And all of that would be -- would be the same but we -- it would be a 35-cent additional cost if, in fact, it was a $5 increase instead of a $5 decrease.

A. If you change the sign for the market price, the sign changes on the other PPA rider as well.

Q. Okay. Let's go forward. Does AEP Ohio offer a calculator on its website where a residential customer can go and see what the cost of power would be if they want to go and shop?

A. We have a calculator that would show them what the price to compare would be. You can derive that from the information on that calculator.

Q. Okay. And do you know now for the Columbus and Southern zone the amount of the energy cost price to compare, if you will, for the energy cost?

A. Not off the top of my head, no.

MR. PETRICOFF: Your Honor, may I -- may I approach the witness?

EXAMINER PARROT: You may.

MR. PETRICOFF: Maybe I would like to get this marked as RESA Exhibit 4.

EXAMINER PARROT: So marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Okay. Mr. Allen, is that the calculator that's up on the website?

A. It appears to be the -- it appears to be the calculator for the Columbus Southern rate zone of Ohio Power.

Q. And so for the customers in Columbus Southern right now, the -- the price to compare for the energy portion of their bill would be 9.64?

A. Yes, that's correct, or $96 a megawatt-hour.

Q. And by comparison, the savings that we were talking about for the -- for the PPA at $5, a difference in the market price was 35 cents a megawatt-hour as opposed to 96.4?

A. I don't think that's how customers

typically view it based on my experience in the regulatory environment. What customers usually look at is the change in their bill. And so it would be a $5 change in their bill would be reduced just for OVEC by 35 cents.

Q. I'm just -- the question was just a comparison that basically -- well, never mind.

MR. NOURSE: Mr. Petricoff, would you mind using your mic? It's a long way down the table there.

MR. PETRICOFF: I'm sorry.

Q. Okay. Let's see if we can get a comparison that is -- that is closer to what you think that customers look at. You indicated that -- on line 4 -- I'm sorry, on page 4, lines 11 to 14, that you look through --

A. I'm sorry. What was that reference again?

Q. Page 4, line 18, that you had looked at the -- the Commission's Apples to Apples comparison, price comparison?

A. I did.

Q. Okay. And would you agree with me that in the -- in the Commission's Apples to Apples website someone who gets online can -- can actually query it for different types of contracts both by length and by price or by supplier?

A. You can query it or there's a -- kind of a snapshot they put in the PDF of what the offers are and that's what I looked at actually.

Q. Okay. And did you -- well, actually, let's just mark this as an exhibit.

MR. PETRICOFF: Your Honor, I would like to have this exhibit marked as -- we will make this Constellation Exhibit No. 2.

MR. NOURSE: You were doing RESA exhibits. So you are doing Constellation?

MR. PETRICOFF: This one I am going to make it Constellation exhibit.

EXAMINER PARROT: All right. So marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Okay. When you were looking at the -- at the website, did you see the -- did you look at the three-year offers?

A. I looked at all of the offers as of, I think it was June 13 is the date that I indicate.

Q. Okay. Well, I show you now what -- what has been marked as Constellation Exhibit No. -- No. 2. And would you agree that Constellation has an offer -- a three-year offer on the website for 8 cents -- 8 -- 8.09 cents per kilowatt-hour? It would be the second item down.

A. Yes. So what this shows me is that when I had done -- yeah, there's three offers, I had indicated in my exhibit that there were four offers, between 4 and 36 months. That's consistent with what I looked at.

Q. Right. And you would agree with me that if a customer who is on the SSO, standard service offer, residential customer, in the Columbus and Southern zone would -- would sign up with -- with Constellation, they would see a decrease of 1.6 cents per kilowatt-hour in their -- for their cost of power?

A. I think based on the summer rates for CSP, which aren't the rates that exist throughout the year, that customer would see a decrease of 1.55 cents a kilowatt-hour.

Q. If they are in the second tier of the winter rate. For their usage, that's in the second tier of the winter rate.

A. This is for their -- you gave me -- the price to compare is a summer rate.

Q. Okay. Let's go back and we'll take this in steps so that everyone can understand this record.

For June, they would save 1.6 cents per kilowatt-hour if they move from -- if a residential customer moved from standard service to this offer from Constellation.

A. For the month of June they would see a reduction of point -- 1.55 cents per kilowatt-hour.

Q. Right.

A. That's not to say that's the savings they would see over the entire 36-month term though.

Q. Well, that's correct. But let's just talk about -- about price stability. At that point their price then would be stable. It would be at -- it would be at 8 cents for the next 36 months.

A. It could possibly be stable. We would have to look at the terms of that contract and, as we are all aware, many of those contracts that indicate fixed do have some reopener positions that allow the CRES to change that price based upon changes in the PJM market.

Q. And were you here when Mr. Campbell took the stand and was asked that question?

A. I was.

Q. And didn't he indicate that price was fixed and that they did not change it for the polar vortex and would not change it?

A. What he indicated, as I recall, is that they would not change it for the polar vortex. I don't know that he spoke for any future event.

And I was also here at the time where FirstEnergy Solutions indicated that it would be a business decision. And I know personally that they are changing those rates and that the fixed rates that they have are not fixed and, in fact, they do vary.

Q. You say "they." Who is "they"?

A. FirstEnergy Solutions, as I indicated.

Q. But that wouldn't apply to Constellation, that rumor that you heard or personal knowledge that you have that there may be a rate increase sometime coming for FirstEnergy Solutions.

A. It's not a rumor. It was based upon a specific discussion with FirstEnergy Solutions based upon the specific account that I am responsible for, and they indicated they would be passing through that change. What Constellation will or will not do, I can't speak to.

Q. Okay. Now, let's go back and we talked about -- about June. We were talking about the differentials in rates. Columbus and Southern has a winter-tiered rate, correct?

A. You're starting to get beyond my complete understanding. I don't follow all of the tariffs of all of our operating companies, but I know that they have two different rates during the year, a summer and a winter rate.

Q. Right. And, to your knowledge, does the winter rate only apply for sales over 800-kilowatt hours a month?

A. That's correct. It's a lower rate in the winter.

Q. Right. But it's only for that -- that usage over 800-kilowatt hours.

A. That's correct. And for many of our customers that usage can be quite significant. And so, to compare an 8.09 cent offer to the summer-only rate would overstate the benefit a customer could see if they switched to a rate like this.

Q. Or we could say it's exactly what they are going to get, assuming they don't use more than 800-kilowatt hours.

A. I don't know that both blocks are the same in the winter -- or, that the first block is the same as the summer first block. I just don't recall.

Q. Isn't it true there is only one block in the summer, and in the winter there's two blocks that start at 800?

A. In the winter there are two blocks. The split is 800-kilowatt hours. I don't know what the rate is for the first tier and the second tier. I just can't answer that for you.

Q. So the answer is you can't do this calculation on what the relative cost is because you don't know the AEP Ohio residential rate.

A. For the winter block, that's correct.

Q. Now, let's go back because we started off on looking for comparison. So we know that for -- for the summer rate, the savings is going to be 1.6 cents a month, and if we had a $5 change, by comparison, I just want to compare this up, if we had a $5 change in the market price, the benefit that would flow through the -- that would flow through the rider PPA would be how much per kilowatt-hour? Would it be 35 thousandths of a cent?

A. If you had a $5 a megawatt change, it would be a 35-cent change under the OVEC proposal, but a much larger impact, the $2.39 impact we talked about, if you were to expand it for 3,000 megawatts.

Q. But that was 35 cents per megawatt-hour, right?

A. Which is a typical monthly usage for a residential customer, yes.

Q. I want -- I got a price here in kilowatts. I want to get a price in kilowatts and compare it with. Can you tell me what the price per kilowatt -- what the savings per kilowatt-hour would be for that customer?

A. So if we go to the -- and this is the confusion because what we show on the price to compare is dollars -- I'm sorry, on the Apples to Apples chart is dollars per kilowatt-hour and what we are showing on the AEP Ohio calculation is in cents per kilowatt-hour.

But if you look at .0809 dollars per kilowatt-hour and you increase that by .005, the savings that the customer would see is .00035. Much easier than doing dollars per megawatt hour.

Q. So we are back to the beginning. So it's basically $.00035?

A. So the easier way to look at it, any change you assume in the market price, it's a 7 percent reduction due to the PPA rider.

Q. I am just trying to get back to where I was 20 minutes ago. In fact, if I just want to take what the kilowatt savings was, I could take the 35 cents and divide it by a thousand, that is, put a decimal and three zeros, and I would be at what the savings would be per kilowatt-hour from the rider PPA, assuming a $5 market change.

A. Yeah. And what I am saying, customers don't buy a kilowatt-hour of energy. They buy a thousand kilowatt-hours or megawatt-hours. So we can confuse the record by trying to get into cents per kilowatt-hours and dollar per megawatt-hour, but I think it's a lot easier if we stick with dollars per megawatt-hour. It is going to be much easier.

MR. PETRICOFF: Your Honor, I move to strike the last part of the sentence after he agreed to the calculation. It was extraneous.

MR. NOURSE: Well, your Honor, I think Mr. Allen is just explaining why Mr. Petricoff wants to go back and forth between these two formats and explaining his preference and he's trying to help create a clear record.

EXAMINER PARROT: The motion to strike is denied. Move along, please.

MR. PETRICOFF: Okay.

Q. Actually, I just have one more question for you, Mr. Allen. What is the main -- what is the main purpose of the rider PPA?

A. The benefit of the PPA rider is price stability for customers over the long term.

Q. And is it -- is it a main tenet of the rider PPA that AEP Ohio should be -- well, let's see. Let me strike that.

When the Commission makes its decision on a PPA, and it makes modifications, should its only consideration be what the impact will be on the retail customers?

A. No. The Commission's task is much greater than that. The Commission's task is to find a balance between the interests of the company, the company's customers, and the other stakeholders in the process. And so, in doing such, the Commission should look towards price stability; and also ensuring that any actions that the Commission takes to get that price stability doesn't have a financially detrimental impact on the company.

Q. The company now can sell the OVEC generation in the market and get -- and get the market price, correct?

A. That's correct, and the company is doing it today.

Q. Right. And the company forecasts that over the ESP 3 period that actually the price that it pays -- the price -- the revenue we see for selling that power will be less than the cost it has to pay OVEC for that power.

A. Yes, that's correct. And that goes along with some of the discussion you had earlier about what is the strike price of this contract. And when you look at that value where we said it was a 7-cent-per-kilowatt or 7-cent-per-megawatt-hour benefit to customers, what that small benefit tells you is that the OVEC strike price is essentially in line with the current market price forecast that we have today.

MR. PETRICOFF: Your Honor, I move to strike. My question had no strike price, in quotes, contained in it.

MR. NOURSE: Your Honor, I believe the question was about the price, the revenue we receive for selling the power being less than the cost it has to pay. I believe Mr. Allen's answer answers the question in the context of the PPA rider and his additional explanation.

EXAMINER PARROT: Motion to strike is denied.

MR. PETRICOFF: Okay.

Q. So if the company's projections are correct on what the revenue it will be -- it will get from selling the OVEC power into the market and the cost of the OVEC power, then the company will not be harmed financially if the Commission does not grant the rider PPA?

A. No. I don't know that that's a true statement. When you look at financial harm, you have to look at, first, whether there is a gain or loss in pure dollars. And based on the analysis that the company has presented, over that three-year period the OVEC units are about at market.

But there is a financial harm in the increased risk that the company sees that if markets go down, the company could see losses, and if markets go up, the company could see additional gain. So that volatility is additional risk for the company that does have a negative financial impact on the company.

Q. And part of the reason presenting the rider PPA is to reduce the risk to the company.

A. Yes, it is. Financial risk to the company manifests itself in higher debt costs for the company because rating companies view the risk as more risky and, as such, they have higher bond costs, and higher bond costs flow to the retail customers through traditional ratemaking. So when we look at risks of the company, mitigating that risk benefits both the company and its customers.

MR. PETRICOFF: Your Honor, I have no further questions.

Thank you very much, Mr. Allen.

EXAMINER PARROT: Ms. Mooney?

MS. MOONEY: Yes, your Honor.

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CROSS-EXAMINATION

By Ms. Mooney:

Q. Just to follow up on that last question and answer. At this point the company is projecting that the OVEC costs will decrease; is that correct?

A. The company does believe that the OVEC costs will decrease as a result of the actions that OVEC is currently undertaking, yes.

Q. So that would mitigate the risk to the company?

A. The risk still exists for the company. The total dollar impact on the company would be reduced as a result.

Q. Okay. I just want to ask you questions on the first two -- second and third pages of your testimony about the standard service offer and especially on, when you begin the answer on line 17 of page 2, that the staggering and laddering only impacts the SSO price.

A. Yes.

Q. It doesn't impact the price paid by shopping customers. My first question about that is: What does the company, Ohio Power, care about the difference between the SSO price and the price paid by shopping customers? What is your interest in that?

A. Sure. And I think Company Witness Vegas described this in his direct testimony, but the financial success of our customers has an impact on the company. The more successful our customers are, the more successful we are as a company. So we have a clear interest in our customers receiving, through the SSO and from CRES offerings, prices that allow them to stay viable in the market and to continue to operate.

Q. Are you referring to residential customers -- I represent Ohio Partners for Affordable Energy, and we represent low-income customers and small commercial customers, but, so do we have the same interest in what you just referred to?

A. Sure. To the extent our customers can't afford to pay their bills, the companies -- company has less usage or we have increased uncollectibles, that's bad for us. But also, our residential customers benefit from the success of our commercial and industrial customers. So it's all tied together.

Q. So does the utility have a concern between the S -- whether residential customers choose to stay with the SSO or choose to enter into a bilateral contract with a CRES provider?

A. As we move into ESP 3, the company is indifferent to whether customers choose the SSO or a CRES offering.

Q. And would you agree with me the SSO is a choice, it is an option that customers can choose to stay on the SSO or to get on the SSO after they've finished a bilateral contract with a CRES provider?

A. Yes, absolutely. And, in fact, just recently I switched from being served by a CRES provider to being served by the SSO, because the SSO price was lower than any CRES offering that existed.

Q. Well, good you for you, Mr. Allen.

Okay. And if a customer chooses the SSO, like yourself, you would be relying on the staggering and the laddering of the construction of the SSO; is that correct?

A. The staggering and laddering impact the

SSO price, yes.

Q. Okay. And in spite of the fact that some customers choose the SSO, would you also agree with me that the bilateral contracts from CRES providers provide alternate choice that a customer might also choose?

A. Yes.

Q. And the CRES provider could offer a long-term contract, say, seven-year contract? This is something that a CRES provider could offer that the SSO does not offer, correct?

A. A CRES could make those offerings, but, as you see in my testimony, they are not making those offerings today.

Q. But they could make that offering.

A. They could make a lot of offers. If they aren't making them, the customer can't avail themselves of those.

Q. But a CRES provider could offer a variable price contract that could vary with month to month or by the year; this would be another alternative that a CRES provider could offer, correct?

A. It is an option, and they do make those offerings today.

Q. And the SSO price changes every year; is that correct?

A. Yes. It's an annual change.

MS. MOONEY: Okay. That's all the questions I have. Thanks.

EXAMINER PARROT: Ms. Bojko?

MS. BOJKO: Thank you, your Honor.

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CROSS-EXAMINATION

By Ms. Bojko:

Q. Good afternoon, Mr. Allen.

A. Good afternoon.

Q. Let's stick with the Apples to Apples. I believe you said Exhibit WAA-R4 came from the Apples to Apples; is that right?

A. Yes, it did.

Q. Okay. And I believe, in questions from Mr. Petricoff, you recognize that there are CRES providers out there providing offers that just might not be on this list; is that correct?

A. That's not what Mr. Petricoff and I were discussing. What we were discussing is that this is a snapshot of the offers that existed on the Apples to Apples chart on June 10, 2013, and June 13, 2014. There is a live version of the Apples to Apples that changes -- can change on a daily basis whenever CRESs make those changes, but this is a snapshot of what existed at two points in time.

Q. Okay. Well, that's -- in response to Ms. Mooney you just said they are not making those offerings and not all offers are reflective on your one exhibit; is that right?

A. What I looked at are the offers that CRESs are making customers aware of through the Apples to Apples portal.

Q. Right. So you can't sit here today and tell me that you know for sure which CRES providers are offering which prices as -- excuse me, which products for a specific term and at which time; is that correct?

A. What I am stating is that the information that is publicly available is that which I have shown on my chart.

Q. And publicly available, you don't believe that marketers' information might be publicly available?

A. Not in the way that I was able to find.

Q. Did you search the marketers' websites?

A. I searched several, yes.

Q. So you were not able to find any offers, but, yet, offers exist, or you didn't include them because they weren't on the Apples to Apples?

A. For the suppliers that were on the Apples to Apples, I went to several of their websites to see what offers were out there and what the terms and conditions associated with those offers were.

Q. Okay. And so if the marketers weren't listed on the Apples to Apples at the point in time you checked Apples to Apples, you did not subsequently go to those marketers' websites and see whether they had an offer or didn't have an offer.

A. That's correct.

Q. Okay. And also, to Mr. Petricoff, you mentioned price stability, and you said over the long term. Is long term, to you, beyond three years? Less than three years? Ten years?

A. My view would be, you know, long term would be, you know, three years and beyond.

Q. So long term equals three years?

A. That's -- that's on the longer term, yes, when you are looking at energy markets.

Q. No. I didn't ask you about energy markets. You used the term "long term" when you were talking about price stability, and I asked you if long term was three years in price stability.

A. And when we were talking about price stability, I am talking in the energy markets. And so I would say that most of -- the energy markets are hourly energy markets. And so as you start moving out further and further, when you start with an hourly product, when you get to three years and beyond, you are starting to talk long term in that sense. There is not even a capacity market that exists beyond three years. So clearly, from a CRES perspective or a generator perspective, three years and beyond is very long term.

Q. I -- again, I am not talking about generators. I am talking about price stability which I believe you were referencing customers in the -- were you talking about price stability with reference to customers?

A. Price stability for customers and generators, sure. They are the same in my view.

Q. Okay.

A. Different sides of the same coin.

Q. Okay. So it's your testimony today that you believe price stability equals three years for customers and generators.

A. I think you're starting to mix things up. We were talking before about long term, price stability and the time I identified as long term. Price stability exists in both the short run and the long term -- short term and long term.

Customers can go out and look for stable price offers from CRESs that may have some contract terms they may or may not like that exist for less than a year, one to two years, and very limited options once you get past two years, and so that's long term for a customer.

And what the PPA offers is, as you start getting out further, additional price stability that customers can't obtain through the CRES offers that exist today.

Q. And that's what I am trying to ask you. I think that you are confusing my questions. I am asking if the price stability equals three years. You just said after when getting into longer PPAs. I am trying to ask you if you believe that equals three years.

A. Price stability isn't based on a term. Price stability is valuable for customers over an hour, over a day, over a month, over a year, over a period of ten years. Price stability doesn't just become important at a specific point in time in the future. Price stability is always a value to customers.

Q. Okay. Mr. Allen, you used the word "long term" with "stability" and I am trying to ask you if your definition of long term in that context was three years or beyond three years, and I have heard two different answers to that question. So I am trying to ask you what you believe "long term" means, how you used it.

A. And, as I indicated, long term begins at about three years and beyond.

Q. Okay. And you also talked with Mr. Petricoff about a balance, and you expected the Commission to balance certain things. Do you recall that?

A. I do.

Q. And you recall -- all you said was the Commission balanced financial -- or the detrimental impact on the company; is that correct?

A. I don't recall the exact words I used. I can describe what I was talking about if you would like me to.

Q. No. I am asking you do you believe that this balance also includes the detrimental impact of any proposal on ratepayers?

A. The Commission is tasked with looking at a balance for both customers, the company, and the additional stakeholders in these proceedings. That's the balance that the Commission must look to.

Q. And would that balance include a detrimental impact that a proposal could have on ratepayers?

A. The Commission looks to ensure that these proposals provide balance to both parties. So in the case of a rate increase for something like the distribution investment rider, some individuals may view that as a detriment to customers because it's a rate increase for customers, but what the Commission has to balance, does that cost the ratepayers pay, is that offset by the additional benefit that those customers receive? And so the balance has to look at the totality of the situation.

Q. And that would include a detrimental impact on ratepayers; is that correct?

A. As part of the balance, the Commission has to look at ratepayer impacts, both the benefits they receive from proposal as well as the cost that they incur related to that proposal.

Q. And that would include detrimental impacts on ratepayers; is that correct?

A. With the caveats I have provided

previously, one element is the financial impact on customers.

Q. Well, sir, you didn't have caveats when you said the Commission shall look at the detrimental impact on the company. So should the Commission also then look at the positive impact on the company as well?

A. The Commission weighs both when they look at the company as well; benefits to the company as well as costs and risks imposed upon the company.

Q. Okay. So you believe that just as they look at the detriments on the company, they should also look at detriments on the customer.

A. The -- I haven't used the term "detriments" related to customers so that's your word, but what I would say is the Commission looks at a balance between costs and benefits to customers as well as costs and benefits to the company and the risks to the company and customers as well.

Q. Okay. That's the point. You didn't use detriment to customers but used detriment to the company. So I am asking you if there's a difference or if you think this balance also includes the detriment to customers.

A. With regard to the PPA rider, I don't think there is a detriment to customers.

Q. That's not what I asked, sir. In the balancing that you suggested and you offered in discussions to Mr. Petricoff, you said the Commission shall look at the detriment to the company. And I am asking if the Commission should also look at the detriment to customers, to ratepayers.

A. The Commission could look to determine if they believe there is a detriment to customers. I don't believe there is one.

Q. And you don't believe there is one. We'll skip to that here because your -- now that belief that you don't believe there is one is based on the theory that OVEC costs will be lower than market and will result in a benefit to customers; is that correct?

A. No, that's not correct. The benefit customers receive is the price stability that I have been discussing. What the OVEC benefit that I present of $8 million over the ESP term shows is that this is a hedge that's not underwater or significantly in the money. What it actually says it's a hedge that's in the money by $8 million for customers. So there is a benefit there.

But the real benefit to customers is the price stability that we've talked about, as well as the ability to expand the PPA further if the Commission thinks that's appropriate --

Q. Okay.

A. -- and beneficial to customers.

Q. And this $8 million benefit you are talking about is based on the scenario, the analysis that you did while you were sitting in the hearing room the first couple of days of hearings and not based on your prefiled testimony; is that correct?

A. I don't know if that's correct. It's based upon the analysis the company presented to the parties throughout the discovery process and simple compilation of that data so that it could be easily observed by the Commission as part of the record in this case.

Q. Uh-huh. But that compilation wasn't actually compiled or put forth in your direct testimony; is that correct?

A. It wasn't in my direct testimony. It was --

Q. Thank you.

A. -- presented through cross-examination.

Q. And for -- and that compilation -- strike that.

So going back to -- in your estimate that you calculated during cross-examination that you just talked about, if that is of cost to ratepayers for the life of it, you would agree that it is no longer a benefit to customers, wouldn't you?

A. No, I wouldn't. What I have described is the benefit is the price stability. And as we look at a -- the longer-term aspects of the OVEC contract, the benefits are more significant in the outer years.

So what we have shown there is a near-term customer benefit and there is a long-term customer benefit in total dollars, plus there is a price-stabilizing effect that goes along with it. So it is really two benefits in one for customers.

Q. And so if it is a cost to customers, you are still saying that is a benefit. If it's a cost over the term of the ESP and if it's a cost to customers for ten years, you still say that that is a price-stability benefit. That's your testimony here today.

A. The PPA rider, by its design, has a price-stabilizing effect. That's clear. I have stated that in my testimony numerous times. That's a benefit to customers. If there were a slight cost to get that benefit, it's still a benefit to customers, just like we've talked about with insurance examples. Customers and individuals pay for stability and security. That's what we are offering here. The added benefit, though, is along with the stability. It's financially beneficial to customers based on the data we have provided to customers from a pure dollars and cents on top of the stability benefit.

Q. Okay. So the answer to my question is "yes"?

A. You would have to reread the question. My answer to your question was what I just provided.

MS. BOJKO: Could I have my question reread, please.

(Record read.)

MR. NOURSE: And, your Honor, I think the question was answered. Mr. Allen indicated if there was a slight cost, it's just like insurance, and there's -- the benefit is worth it. So I don't think there is any further question pending.

MS. BOJKO: Actually, that's not what the witness said, and I am glad counsel is testifying for his witness, but that's not what he said.

MR. NOURSE: I am reading the transcript. So thank you.

MS. BOJKO: That's not what he said.

EXAMINER PARROT: You don't have an objection pending, Ms. Bojko. Are you objecting? You are looking at me like you are waiting on something so...

MS. BOJKO: Well, I asked to have my question reread and counsel interrupted.

EXAMINER PARROT: We've done that. So I am looking for you to proceed.

MS. BOJKO: Oh, no, I asked him if the answer to my question is "yes," and he asked to have the question read. So he hasn't answered my question yet. I think opposing counsel objected to him answering my question.

MR. NOURSE: No, your Honor. She obviously wants a "yes" or "no" question. So I was defending the answer he already gave, and I didn't think there was any additional question pending.

EXAMINER PARROT: And I am agreeing with that. So are you --

MS. BOJKO: I don't think he answered my question. So I guess I'll ask the question again, and I thought we just did that through the court reporter. Do you want me to restate it?

EXAMINER PARROT: I am agreeing with Mr. Nourse. I believe he has answered the question.

So if you want to try to put it a different way, you may do that.

MS. BOJKO: Okay. Thank you. I don't have the value --

EXAMINER PARROT: He answered the question. He didn't give you a direct "yes" or "no," but he answered the question.

MS. BOJKO: Well, could I have his answer reread because I didn't hear the answer that --

EXAMINER PARROT: Yes.

MS. BOJKO: -- he provided.

(Record read.)

Q. (By Ms. Bojko) Okay. I didn't -- I didn't understand your question to be what I think your counsel thinks. So let me just try to rephrase it.

So you're saying even if it's a cost of a significant period of time, it is a benefit because it is akin to a cost of an insurance policy; is that what I just understood you to say?

A. What I indicated is that the benefit of this rider mechanism is the benefit. The stability of the rider is the benefit. If there were a financial cost associated with procuring that benefit, it's outweighed by the stabilizing benefit.

But what we've shown in analysis we presented is that, in fact, there isn't even a cost for customers to get this price stabilizing benefit.

Q. And have you done the analysis that if -- you said that you used the term outweighs the benefit, okay. So have you done an analysis to determine the cost to a customer over a ten-year period, if it is negative, to see if it actually does outweigh the cost of an $8 million benefit?

A. The data we've presented in this case shows that it's a financial benefit to customers plus has price-stabilizing effects. So there is no calculation to say that the OVEC rider has a cost to customers. Pure dollars if you were to sum up the dollars in the rider over the term of the ESP or beyond, the company has shown that's a credit to customers. So it has that benefit plus it stabilizes prices.

Q. And, again, the credit to customers that you keep referring to is based on your one analysis, but there are several others that are presented in this case; is that correct? Including ones presented by yourself in direct testimony.

A. No. The company responded in discovery to provide all of the analysis that existed. The parties did not ask in discovery for the best analysis that the company had. What the company presented -- what I presented on cross-examination was based upon the data the company responded to in discovery, the best analysis possible was the combination of Attachment 2 plus a more current view of OVEC costs, and that produced the $8 million benefit.

Q. And just as you stated, the parties asked for all analyses, but you didn't provide the $8 million analysis; is that right?

A. That analysis --

Q. In discovery?

A. -- completed when the company responded to discovery and, as I understand it, in discovery the company is not required to produce a work product so we presented the data to the parties. The parties were able to review that data, look at the most current data that was available, and make their own conclusions, and what we presented was how you should evaluate that data.

Q. Okay. And let's go to page 3 of your testimony. On page 3 of your testimony, as I understand, beginning on line 11, you're stating here that if the SSO is higher, then that will drive shopping decisions because competitors can come in and offer a lower price; is that correct?

A. Whether the SSO is above the then-existing market prices or below the then-existing market prices, that drives customer decisions clearly. If the SSO is above market, CRESs are going to have headroom to attract customers.

If the SSO is below the then-current market price, customers are going to be -- are going to, based on prices, move back to the SSO, or CRESs just won't make offers because they can't make appealing offers.

Q. And you just referenced your situation. Are you an AEP customer?

A. I am not.

Q. Do you know what the current AEP SSO rate is?

A. I think Mr. Petricoff provided a price to compare, just for the Columbus Southern zone, of 9.6 cents a kilowatt-hour, $96 a megawatt-hour.

Q. So your -- when you just gave a hypothetical and said your experience is that you couldn't get a lower competitive rate so you switched back to the SSO, it wasn't with regard to AEP's current rate; is that correct?

A. That's correct. What I was looking at is a fully auction-based SSO product versus CRES offerings. As I think we are all aware, AEP's SSO is not fully auction based at this point in time.

Q. And isn't it true that your -- your analysis that you just did was also not based on AEP's future SSO rate.

A. Which analysis are you referring to?

Q. Your experience of you could get a price that was -- you could not obtain a competitive price lower than what the SSO was in -- in the territory wherever you live.

A. It's not an analysis. What it is is an example that there are times when the SSO price could be below the price that CRESs are willing to make offers.

Q. And I am asking you is is if you were referring to AEP's existing SSO offer, which you responded no, and then I asked if it was in reference to AEP's June 2015, the price that will be established under this ESP.

A. We don't know what that price will be, but there is a possibility the same kind of situations could occur in the future in the AEP zone that I discussed.

Q. I didn't ask you what would happen in the future. I asked if your analysis of whether you could obtain a competitive rate below the SSO was based on AEP's SSO established by this ESP.

A. The underlying characteristics of AEP's SSO are the same as the FirstEnergy's SSO is today and what their market construct is. So the same situation could occur in 2015 in the AEP zone. We can't know that until we get there and we see what the SSO is in 2015 and what the CRES offerings are at the same point in time.

Q. So the answer is no, you did not compare your current rate or any competitive choices under the future ESP established by the AEP case because you do not yet know what that AEP ESP SSO price will be?

MR. NOURSE: Your Honor, I object. I think he has already answered the question. Again, it is not a "yes" or "no" question, like, apparently, Ms. Bojko would like to hear, but it's a full explanation of his response to her question.

MS. BOJKO: Your Honor, he keeps modifying his response. He has not answered whether he compared it to a future AEP rate. He brought up FirstEnergy, which I didn't even know he was a

FirstEnergy customer until 2 seconds ago.

EXAMINER PARROT: All right. Let's try it one more time, Mr. Allen.

THE WITNESS: Can I have the question reread? Thanks.

(Record read.)

A. A comparison of the future CRES offerings to a -- that are unknown at this time to the SSO offerings that -- the SSO price that will exist at a future time, I think those are both unknown. A comparison can't be done until the future. But the example I gave would hold under such a scenario.

Q. Okay. I take it you are a FirstEnergy customer; is that correct?

A. To be clear, I'm an Ohio Edison distribution customer, not a FirstEnergy Solutions customer. Ohio Edison.

Q. Ohio Edison is a FirstEnergy Corp. operating utility; is that right?

A. That's correct. I was just distinguishing between FirstEnergy Solutions and Ohio Edison.

Q. Okay. FirstEnergy Corp. owns the distribution utilities. FirstEnergy Solutions is the marketing affiliate; is that accurate?

A. That's my understanding, yes.
Q. And you are now a FirstEnergy operating company, Ohio Edison, standard service offer customer because you switched back to the standard service offer; is that correct?
A. Yes, that's correct.
Q. And you reference, on page 5, Upper Arlington's government aggregation program. Do you see that?
A. Yes.
Q. Okay. You're not a resident clearly. We learn now you are not a resident of Upper Arlington; is that correct?
A. That's correct.
Q. And why did you choose Upper Arlington? There are many government -- let's back up.
Are there many governmental aggregation programs in the state of Ohio?
A. There are many governmental aggregation programs. There are more in the FirstEnergy utility territory. There is a more limited number in AEP Ohio's service territory.
Q. But Upper Arlington isn't the only program; is that right?
A. That's correct.

Q. And why did you choose Upper Arlington for your example here today?

A. Because it's a current aggregation that's coming up for renewal and they had the two prices available so it's a very current piece of data.

Q. And there are no other current aggregations coming up for renewal in AEP's service territory?

A. There may be.

Q. You didn't look? You don't know?

A. I didn't look beyond this. What I was providing here was some context that even under governmental aggregation, customers have the risk of significant price volatility.

Q. So someone gave you the Upper Arlington? You don't live in AEP's service territory. I am trying to figure out why you chose this aggregation program over all others.

A. Well, in my current role, I'm responsible for reviewing regulatory activity in many of AEP's service territories including Ohio, and so I was aware that the Upper Arlington aggregation was coming up, and I actually pulled the data personally from the Upper Arlington website.

Q. Okay. But you are not similarly aware of any other aggregation programs currently coming up.

A. I'm not.

Q. And in your analysis of the one example that you pulled, the rate being offered is still substantially lower than the current standard service offer; is that correct?

A. It is below the SSO offer for the summer in the AEP Ohio service territory, but you also have to recognize one element of that offer is that it's a nine-month offer so it only reflects a winter season and no summer season, so you have got two shoulder periods. So my expectation would be a 12-month offer would probably be higher than this offer you've seen.

Q. So are you -- sitting here today, are you telling me the price to compare on AEP's bill of 9.6 is not somehow correlated to the 7.84 number?

A. There are two different numbers. The 9.64 cents is the summer CSP rate. For customers using more than 800-kilowatt hours in the winter, the rate would be less than 9.64 as the price to compare for those months. So, if my recollection is correct, there are only four summer months in Columbus Southern. So the other eight months would have a lower price to compare.

Q. Okay. What is that price to compare?

A. I don't know as we sit here today.

Q. Okay. So --

A. The point of my testimony isn't to demonstrate whether it is above or below the price to compare. It was just looking at the relative change from one point in time to another.

Q. Well, when does someone have to sign up or not sign up for this aggregation?

A. Well, first of all, it is an opt-out aggregation; so unless the customer takes action, they'll be automatically signed up.

Q. Fair enough. Thank you for that correction.

When does a customer have to choose whether to not participate in this program?

A. It looks like from page 1 of 9, on Exhibit WAA-R5, that the opt-out date is July 7 based upon a mailing date of June 16.

Q. Okay.

A. So about three weeks.

Q. So between June 16 and July 7, when a customer has to make this decision to opt out or not opt out, which price to compare are they going to see?

A. It -- if they use the company's

comparison for June, they would see the 9.64 cents per kilowatt-hour. I know in the market investigation that was done, there was some push to have that -- the price to compare be a 12-month price to compare. I don't know if AEP Ohio is already doing that.

So there's two places you can see your price to compare. You can use the company's bill calculation spreadsheet, or you can look at the bills that you actually receive at home.

Q. Well, if they looked at the bills they actually receive at home, wouldn't that price to compare be 9.6 cents as well?

A. I don't know.

Q. Because you are not an AEP customer?

A. Because I'm not an AEP customer and because I don't -- I'm not responsible for that calculation for the company in my role.

Q. Okay. But you know there is a different rate and you referenced me to a different rate a few minutes ago when you were talking about the term of the Upper Arlington, but you -- you don't know exactly what customers will or will not see.

A. What I indicated is that the 9.64 cents is only applicable to the summer months. There will be a different rate for the winter -- for the non-summer months. What that rate is, I don't know. It should be less than 9.64 cents based upon the blocking, especially for customers that have higher usage.

Q. But you don't know -- you don't know what customers are going to see when they have to make this decision; is that right? You don't know whether they will see the 9.6 or some other rate that you don't know of.

A. I don't know what information that customer is going to look at. The customer could take and look at different periods of the year on our bill calculation spreadsheet averages. They can do a lot of things. What they do, I don't know.

Q. You think the residential consumer -- I thought it was touted and it may be said in most aggregation programs that it might be a requirement of the Commission that they actually have to send out publication of the price to compare. Is that your understanding?

MR. NOURSE: Your Honor, I just object. We are going pretty far afield of the testimony and the purpose that Mr. Allen has explained for his exhibits and I don't understand how this line of questioning adds to this record.

EXAMINER PARROT: Response?

MS. BOJKO: Well, I don't know how his testimony adds to this record, and if the witness is going to pick out, unilaterally select aggregation programs and select numbers to throw into this record, I think we have a right to explore those numbers and what those numbers really mean and the witness's knowledge of the programs that he is relying on for his testimony.

The witness is relying on the Upper Arlington, but he doesn't attach any of the Upper Arlington program documentations. All he attaches is one letter and then FirstEnergy documentations -- FirstEnergy Solutions' documentation.

MR. NOURSE: Your Honor, again, his knowledge of what individual customers will decide based on the information is completely beside the point, and certainly the price that Upper Arlington indicates in its letter attached to his testimony presumably is the price they believe that a customer should look at, but I think that whole line of questioning goes way beyond his purpose here and is completely a side point.

EXAMINER PARROT: I am going to allow the question that's pending.

Do you need us to reread it?

THE WITNESS: Yes, please.

(Record read.)

A. I don't know if in those documents they need to show the price to compare.

Q. You don't know whether the Commission rules require that?

A. I don't.

Q. And when I brought up the price to compare, it was you, Mr. Allen, that told me 7.84 doesn't necessarily compare to 9.6; isn't that true?

A. Yes.

Q. But you don't know what number it does compare to.

A. That's right. For each customer it would be a different value.

Q. And it's also your understanding that the price to compare the customers would see or the price on their bills would not necessarily be the price that's pertinent to this aggregation; is that right?

A. First of all, my understanding is the Commission does not present the price to compare on their website. The company has a bill calculation spreadsheet that can show the price to compare so there's -- that's a source of information for the customer is that bill calculation spreadsheet as well as their own bills, or they could review our tariffs.

Q. And isn't it true that many contracted customers, the customers with a CRES provider, isn't it true many contracted customers would return to the standard service offer merely by the terms of its contract expiring?

A. No, that's not my understanding and it's not my personal experience either.

Q. Well, let's not talk about your personal experience because it's not in AEP's service territory.

A. I don't think it has any different meaning. The CRES contracts across Ohio, as I reviewed them, have comparable terms and conditions in all the service territories.

Q. So are you saying that a CRES provider never returns its customers to standard service offer?

A. They could. Some contracts allow that. Other contracts have them roll over to a new term contract at a new price if the customer doesn't take affirmative action, or the customer may be rolled over to a variable month-to-month rate. There's a whole host of different provisions that exist at the termination of those contracts based upon the contracts I have reviewed.

Q. Okay. And that's what I was asking. Some customers could be returned to standard service offer.

A. They could.

Q. I thought you said "no" to that, so sorry about that. And when they return, they would get whatever standard service offer price is in effect during that return period; is that right?

A. If they return to standard service offer, they would receive that price, yes.

Q. Okay. And that could be higher than what the CRES contract that they were currently taking service for that expired; is that right?

A. It could be higher or lower, yes.

Q. Okay. And it could also be higher than any current competitive offers out there at the time; is that correct?

A. Or lower, yes.

Q. So if a cus -- even if a customer does not affirmatively act to go back to the standard service offer, he could be put back to a higher standard service offer; is that right?

A. Yes, he could.

Q. And that's true for movers too; is that correct?

A. Based upon the tariffs, customers that take new service, which is what a customer that moves is, they take standard service offer service initially and then have the opportunity to change to a CRES after a period of time.

Q. So, by their inaction, they are put on the standard service offer; is that correct?

A. Not by their inaction, by the tariff rules. A customer that moves to a new residence must be on standard service offer for one billing cycle.

Q. Right. By their inaction with regard to customer choice, they are automatically put on standard service offer.

A. Not by their inaction. They can't take any action to not be served under the SSO in their first billing month. So it's not inaction. It's a -- it's a requirement.

Q. Because I beg to differ, if you call the company and try to get immediately put on a competitive rate or try to continue your old competitive rate, it is not allowed. You are put on standard service offer; is that correct?

A. That's correct. That's why it's not inaction by the customer. The customer must be on standard service offer for their first billing cycle at a new residence.

Q. Okay. But on line 14 you say "Unless the customer --

A. I'm sorry, which page?

Q. 5 still.

A. Okay. Go ahead.

Q. You say "Unless the customer takes proactive action," and that's not necessarily correct. The customer can be put back on a standard service in different scenarios by not taking any action at all; isn't that true?

A. So reading that sentence starting on line 14 is related to the prior statement that outlines the scenario. And the scenario is a customer that has a rollover provision in their contract, that customer that has a rollover provision, unless they take proactive action, then a new and potentially higher rate can unilaterally be charged by the CRES provider.

Q. And my question to you is couldn't that also happen -- and I thought you said "yes," so I was moving on. But couldn't that also happen with the standard service offer? That it could be a new and potentially higher rate if a customer is put back on a standard service offer?

A. If a CRES contract describes at the termination of that contract that the customer goes to the SSO, then unless the customer chooses another CRES provider, they will be returned to the SSO at the end of that contract and then they'll experience whatever price the SSO has at that point in time.

Q. Which could potentially be higher.

A. Yes, it could.

Q. And that scenario is the same with the discussion we just had with regard to the movers; is that correct?

A. Moving customers don't have an existing CRES contract. They are a new customer.

Q. And you're saying that even though -- that's because that's how the company deems a new versus a customer that moves in the territory? Is that the distinction you are making to me?

A. Regardless of whether a customer moves within the service territory or is a brand new customer, they are served under the SSO for their first month that they are a customer.

MS. BOJKO: I have nothing further.

Thank you, Mr. Allen. You answered all my other questions through other witnesses [verbatim].

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

MR. MCDERMOTT: No questions, your Honor?

EXAMINER PARROT: Ms. Shadrick?

MS. SHADRICK: No questions.

EXAMINER PARROT: Mr. Sineneng?

MR. SINENENG: No questions, your Honor.

EXAMINER PARROT: Mr. Kurtz?

MR. KURTZ: No questions, your Honor.

EXAMINER PARROT: Mr. Darr?

MR. DARR: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Darr:

Q. Mr. Allen, do you know what the price to compare is today for Ohio Edison Company? If not, I can show it to you.

A. That would be helpful. I just looked at it recently for my house, but I don't...

MR. DARR: May I approach?

EXAMINER PARROT: You may.

Q. This is the one listed on the website for Bath, Ohio. It just happens to be where my mom is.

A. Okay.

Q. And based on that, am I correct that the current price to compare would be 7.84 cents or thereabouts?

A. That's what's indicated on the FirstEnergy Solutions' website. To get a price to compare, I actually called the utility, asked them what my price to compare was currently to get the exact number.

Q. Okay. And now, if we turn to your WAA-R4, an exhibit to your testimony, rebuttal testimony.

A. I'm there.

Q. We see that there are, for Ohio Edison, four offers currently available under the price to compare listed on the FES website, correct?

A. I'm sorry, what was the price to compare you were referring to on your --

Q. .0874 would be the dollar equivalent.

MR. NOURSE: Could I have that reread?

Q. I can ask my question again if that would help.

MR. NOURSE: I think you may have transposed some numbers from what you said earlier.

MR. DARR: Okay.

Q. I am looking at Exhibit WAA-R4 attached to Mr. Allen's testimony. The price to compare is, according to the FES website that we just looked at, .0874 cents per kWh -- or dollars per kWh, and there are, on Exhibit R4, by my count, four offers available under the price to compare.

A. Yeah, I'm certain that the price to compare in the Ohio Edison service territory is not 8.74. And is Bath in the Ohio Edison service territory. Or is it in the CEI service territory?

Q. I can state with some confidence that it is in the Ohio Edison service territory. Any other questions you have, Mr. Allen?

A. There are four offers below the value of .874 you indicated, but my understanding of the price to compare that I just received directly from the company, not from a marketer, which I noted said "up to" on that rate. So a low-usage customer could have a very high rate. But, based upon discussions personally with the company, none of the offers listed here were below the price to compare.

Q. Well, let me ask my question again because apparently you want to answer a different question. Based on the information that we just looked at where it said the price to compare was up to .0874 --

A. Can I see that number again?

Q. Sure.

A. Okay. So it's .784. I think you transposed some numbers. The --

Q. .0784, right?

A. That's correct. So there are offers below that on this sheet. What I would caution is that the appropriate place to calculate a price to compare, and it was one of the two ways I did it, was to look at the company's tariff and calculate a price to compare and then confirm with the company. So I can't verify that the value you've shown me is accurate.

Q. Okay. But -- and let's make sure the record is clear because I did transpose a number. There are three offers listed here which are below what FES lists as the current price to compare, correct?

A. There are, yes.

Q. Now, with regard to your testimony, I don't think we have any disagreement that the staggering and laddering in the SSO addresses some of the price volatility in setting the price over normal periods such as years, correct?

A. No. I think those -- both of those are tools that provide increased price stability.

Q. So the answer to my question is "yes," it has some inherent effect in reducing -- reducing the volatility of the SSO price.

A. Yes, that's correct. It does.

Q. Now, Duke and FES and, to a limited extent, DP&L already have auctions which ladder and stagger the SSO price, correct?

A. Yes, they do.

Q. Now, in your testimony at page 3, lines 9 through 11, you indicate CRES providers may not offer a competitive long-term price due to the laddering because of changes in capacity prices on a going-forward basis; is that accurate?

A. That's correct.

Q. And it's also accurate that, over the last three years, we've seen an increase in the cost of capacity, correct?

A. Over the last three years we've seen both increases and decreases in the cost of capacity. So we saw for the current planning year, '14-'15, that the capacity price increased over the '13-'14 planning year; and then in the '15-'16 planning year, I think it was about stable; and then in the '16-'17 planning year, we saw a reduction down to about $60 a megawatt day; and then in the '17-'18 planning year, we see an increase up to approximately $120 a megawatt-day.

Q. And over that period, if I understand it correctly, and recognizing that there are going to be changes in the capacity price, we still have, by your count, 268 CRES offers as taken from the PUCO Apples to Apples chart, correct? And I find that on WAA-R3.

A. Yes, that's correct.

Q. And of those offers, 109 are associated with the FirstEnergy Service territory, correct? Excuse me, 108.

A. 108, yes.

Q. Boy, my math skills today have been somewhat suspect. I apologize.

And, in comparison, we find there are 66 offers in the Duke service territory?

A. We do.

Q. And a full 43 service offers in the DP&L service territory?

A. There's 43 in DP&L, yes.

Q. And the one service territory that hasn't begun to ladder its offers is AEP, correct? At this point you are only looking at the energy side.

A. That's correct. Well, there's a capacity price that's fixed. CRESs are offering both capacity and energy, but we've only auctioned energy for the SSO. But, to put it in context for the three Ohio Edison -- FirstEnergy Service territories, those are the same offers across all three territories. So it's really 36 offers for customers residing in the FirstEnergy territories.

Q. But you chose to use an aggregated number when you went to state totals, didn't you?

A. I did. I added up all the utility service term risks.

Q. As if they were three separate offers.

A. Yes, because they are separate service territories.

Q. Now, you've indicated that the risk to shopping customers seeing significant price volatility is exacerbated by the fact that many CRES contracts for residential customers include a rollover provision. I believe you say this at page 5, 11 through 14, lines 11 through 14, of your testimony; is that correct?

A. Yes.

Q. And it's fair to say that your understanding of CRES operations is not based on any direct work experience, correct? As a CRES provider?

A. Not as a CRES provider, but, in my role, I have reviewed CRES contracts to see what kind of rollover provisions they do include.

Q. Is that over and above what you have been doing at the house?

A. It is.

Q. You do not work for a CRES provider, correct?

A. Not directly, but I do, on occasion, provide regulatory support services for AEP Retail.

Q. How often do you work with AEP Retail?

A. Very infrequently. I think the last time was probably two years ago dealing with issues in Michigan.

Q. And it's fair to say, I think you indicated this earlier, that a customer could elect not to accept a rollover, correct?

A. A customer could take proactive action to not allow their contract to roll over or to choose a contract that didn't include a rollover provision.

Q. Now, going back to your testimony at page 4, line 11, continuing on to page 5, line 16, you indicate a concern about there being long-term stable offers and then indicating that there are a relatively few number of three-year offers. Am I summarizing that correctly?

A. Yes. I'm showing that shorter-term offers are more prevalent than longer-term offers and, as you get out further, there are fewer offers.

Q. And, economically, that would make some sense, correct?

A. Not necessarily, no.

Q. You mean you would expect companies to devise more complicated, riskier offers, and offer more of those than the short-term offers where they could define the risks more clearly?

A. If the correct pricing is available for longer-term contracts with the right protections, suppliers could make those offers, but what we've seen is the customers just -- or, the competitors are not making those types of offers in the market today.

Q. Well, you identify 18 of those offers are 24 or more months in your table as contained in WAA-R3, correct?

A. I'm sorry, what was that number again?

Q. 24. Excuse me, 18, 18 offers?

A. Yes, I see that for 24 months to 36 there is 14 offers, and then only 4 offers for beyond 36 months.

Q. And it's fair to say you don't identify any limitations on the number of customers that could choose to sign up for those offers, correct?

A. That's correct.

Q. And there are four available in the AEP service territory of 24 to 36 months, correct?

A. Yes, that's correct.

Q. Now, on a related point, with regard to the availability of these kinds of offers, you've indicated -- "you" meaning AEP Ohio has -- have indicated that the need for a purchase of receivables program would increase accounts receivables certainty and that would then lead to increased offers and complexity of offers, correct?

A. I'm sorry, where are you referring in my testimony?

Q. I'm not -- I am referring to the testimony of several other witnesses, including Mr. Vegas, who indicated that if the company was authorized to provide a purchase of receivables, the number and complexity of offers available to customers would increase. Am I summarizing that correctly?

A. I generally recall that testimony.

Q. Are there any other factors that might affect CRES participation besides purchase of receivables and the pricing volatility that you have just discussed in your testimony?

A. There are a lot of issues that would impact the number of CRESs that were willing to provide offers within a service territory. Some of them could include the percentage of customers served under governmental aggregations currently; in effect, that would limit the number of customers they could compete for on the residential and small commercial class.

The size of the service territory, in general, could impact that, how many customers could they be competing for in total, so they could spread their fixed costs over a greater number of customers. There's a whole host of factors that would be considered.

Q. And that would include other actions taken by AEP Ohio with regards to the CRES providers either as a community or individually, correct?

A. The interactions with CRES with the EDU, whether it be AEP Ohio or another EDU, would impact the quality of the business environment that CRESs would be operating in and would make some more appealing and some less appealing.

Q. Sure. Would you think that it would positively affect the business environment of the AEP Ohio service territory that AEP Ohio, in the summer of 2013, threatened to refuse to work with such un-creditworthy customers as FirstEnergy Solutions as it did when it filed its complaint in Case No. 13-4727-EL-UNC? Do you think that was a positive effect?

A. Can you repeat that question?

Q. Sure. Do you think it had a positive effect on CRES providers coming into the AEP territory when AEP threatened to refuse to work with FES when it filed its complaint in Case No. 13-1427?

A. I think, from a CRES perspective, AEP treating all CRESs on a level playing field would be appealing to those CRESs. They would -- some of the other CRESs would not have taken it very well if AEP treated FirstEnergy Solutions in a manner that was more beneficial than the manner in which they treated the other CRES providers. So the company was enforcing its tariff and treating FirstEnergy consistent with that tariff.

Q. And how do you think that affected customers of FES? Do you think they were positively affected?

A. I think those customers, if they were aware of the issue, would have been possibly concerned that the CRES that they were doing business with wasn't as creditworthy as some of the other CRESs that existed in the market, and doing business with such a CRES would put greater risks on that customer.

Q. Ultimately, you settled the case, didn't you?

A. We did in a way that was nondiscriminatory to all the CRESs in Ohio which was the important aspect of that case.

Q. Moving on to WAA-R2.

A. I'm there.

Q. Actually we covered this -- you have already covered this. So we will move on to something else.

Now, with regard to the PPAR, you state in your testimony on page 4, lines 7 and 8, that the PPAR provides a unique -- is unique in its ability to provide price stability to all customers. Now, you then go on to say that it does this by increasing or decreasing the total customer bill by the amount of the PPAR. That's the gist of it, correct?

A. Yes.

Q. Is the fact that the total price -- well, let me put it this way: Would you agree that the PPAR's mitigating effect may adversely influence switching?

A. No.

Q. You would agree that it would change the total generation, transmission, and distribution price the customer would see, correct?

A. It would, and that change would be equal on the -- for an SSO customer or a shopping customer.

Q. And that amount would alter the total bill including the market-based component of that bill represented by the generation, correct?

A. It wouldn't impact the market-based component. It would impact the total bill. It's a nonbypassable rider.

Q. So it would give the customer a different price signal than what the rates as otherwise established without the PPAR, correct?

A. I think we have to distinguish two sets of price signals. If the price signal we're talking about is the price signal about whether the SSO or CRES offer are more appealing, it wouldn't change that price signal.

If it was changing a price signal about

the cost of energy in total and whether conservation efforts were needed on the part of the customer or if the customer needed to change other issues in their budget to compensate for those costs, it would have that impact.

Q. In effect, though, whether we are talking about a CRES customer or an SSO customer or a CRES customer who is operating under an aggregation system, effectively what they would see is a decrease in their total bill, correct? Assuming that the 35 cents or whatever it is is rolled through to the customer.

A. For both, SSO customers and CRES customers would see that same benefit.

Q. Now, in the case of a -- let me withdraw that.

I want to turn to one additional item. You indicated disagreement on page 7, lines 10 through 11, with Mr. Murray's rationale as to the cost of the PPAR, correct?

A. Yes, I do.

Q. And you indicate in your testimony that it fails to account for the updated OVEC cost data, correct?

A. That's correct.

Q. And what you're concerned about is the $10 million or so that's budgeted as savings that you've included in your cost runs that are set out in IEU Exhibit 1, KMM-5, which is also known as the Attachment 1, correct?
A. That's one element. The other element is the use of that forecast versus the Attachment 2 forecast that we have been talking about.
Q. Right. And we've already determined that there are three forecasts out there. Mr. Vegas has already indicated that any one of them is reasonable. You've chosen to adjust your numbers based on the second of the three forecasts, correct?
A. I can't testify to what Mr. Vegas said, but what I can testify to is that Attachment 2 is the one we believe is the most accurate when you make the one adjustment that we discussed.
Q. And if we look at Attachment 2, embedded in it is the $52 million charge that we've already identified as the result of the Attachment 1 calculation, correct?
A. No. Attachment 1 and 2 are two completely different forecasts.
Q. That's not what I was asking, Mr. Allen. If we look at Attachment 1 -- maybe I misphrased my

question. If we look at Attachment 1 which is also known as KMM-5 to IEU Exhibit 1, there is a $52 million charge associated with that using those -- that three-year run, correct?

A. That's what's shown on that calculation, correct.

Q. And the importance of that, not only with regards to the PPAR, but it also affects the ESP versus MRO test, correct?

A. I don't think it impacts the ESP versus MRO test because I don't think it's the correct analysis to use.

Q. Going back to my question. It's important because it has an impact, where you come out on that number affects the ESP versus MRO test, correct?

A. The PPA rider, the costs and benefits are important when you look at the ESP versus MRO test. But you need to look at the correct forecast when you are starting with that analysis.

Q. Again, depending on what you end up concluding the number is, it's important because in the ESP versus MRO test that's provided in your testimony, the PPAR is not available in an MRO and it is available or you've argued that it's available in an ESP, correct?

A. Well, I think your conclusion that the -- that the PPA isn't available under --

Q. That's not what I said, sir.

A. -- under an MRO is not accurate. The PPA may be available under an MRO construct.

Q. You misunderstood my question again, sir.

I asked you whether or not the PPAR would be available in a construct of an MRO.

A. And my answer is that the PPAR could potentially be included in an MRO, yes.

Q. Turning to page 5 of Exhibit 7 of your -- which is your direct testimony, am I correct -- do you have that in front of you?

A. I don't.

MR. DARR: May I approach?

EXAMINER PARROT: You may.

MR. DARR: Do you have it?

MR. NOURSE: Yeah. Thank you.

Q. Am I reading this correctly, Mr. Allen, "the increased rate stability provided by a PPA rider would not exist under an MRO"?

A. That's correct. That's what it states.

MR. DARR: Thank you. I have nothing further.

EXAMINER PARROT: Mr. Yurick?

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

EXAMINER PARROT: Mr. Berger, do you have quite a bit for this witness?

MR. BERGMANN: Yeah, about 40 minutes maybe.

EXAMINER PARROT: All right. Let's take a five-minute break. We will pick up in 5 minutes. Thank you.

(Recess taken.)

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

Mr. Berger.

MR. BERGER: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Berger:

Q. Good afternoon, Mr. Allen.

A. Good afternoon.

Q. Turning to your Exhibit WAA-R2 again, I know we had a number of questions on this, and I think you indicated that the $5 you are indicating on line 5 can be either an increase or a decrease. It's just an example. It's just an illustration. Have you evaluated how often in the past year the AD Henry Hub average day-ahead prices have changed by that much more --

A. I haven't done an analysis, but, on a daily basis, those prices change by $5 on a very frequent basis.

Q. Okay. The price -- the price change you're talking about here would be the combined capacity and energy prices; is that correct?

A. Yes, that's what I am looking at here.

Q. Okay. And I think you earlier indicated that you've also assumed, for purposes of this exhibit, that costs of -- OVEC costs have not changed or extended PPA rider costs have not changed.

A. That's right. This assumes all other inputs stay constant.

Q. Okay. And in terms of the impact on the average residential customer bill, I think you indicated earlier -- well, it indicates here about a 35-cent-per-megawatt-hour effect; is that correct?

A. Based on just OVEC and the PPA rider, that's correct.

Q. Based on OVEC. And extending that for a full year's usage for a customer using a megawatt -- one megawatt-hour in a month, that would amount to about $4.20 or something of that nature; is that right?

A. Right. So the customer would see a $60 a year increase in the market price, the 5 times 12, and then they would see an offset of $4.20.

Q. Okay. Now, with respect to the analysis from -- from IEU 2-1 which, as you know, Mr. Wilson based his analysis on your IEU 2-1 Attachment 1 analysis, the hourly dispatch for that analysis was provided to OCC in discovery as OCC INT 11-275; do you recall that? That was one of Mr. Wilson's workpapers.

A. The number sounds right for that discovery. I know we did provide it.

Q. Okay. And do you know what program was used for that dispatch?

A. PLEXOS is my understanding.

Let me correct that. For the -- for 2016 and beyond, it was PLEXOS. And for the first seven -- or the period of June 2015 through December 2015, it would have used GenTrader, a different forecasting model.

Q. Okay. But for January '16 and onward, it used PLEXOS?

A. That's correct.

Q. Okay. In the dispatch reflected on that analysis, does it reflect dispatch in all hours when market prices exceed OVEC variable costs?

A. Yes. That model should have dispatched OVEC in any hour where OVEC's variable costs were less than market price.

Q. Okay. And does -- does that analysis reflect planned maintenance outages?

A. It did not have a reduction in output for planned outages. That's reflected in the overall dispatch of the units.

Q. So it did not reflect planned maintenance outages?

A. It did not have an explicit reduction for planned outages.

Q. But when you just said that it's reflected in the dispatch of the units, I'm not sure what you meant by that. If you could clarify that.

A. The overall dispatch of the units shows a number of hours of dispatch that are consistent with having some maintenance outages during the shoulder months when market prices would be below OVEC's cost of production.

Q. But there was not an explicit or express effort to adjust the dispatch model for planned maintenance outages. You're just saying that coincidentally it happens to be in those shoulder months, plants may not be operating and may provide an opportunity for planned maintenance?

A. That's correct. That model which, as I indicated, is not the model that I believe is the most accurate model to use in this proceeding, modeled OVEC as a contract, and to the extent that OVEC's variable costs were below market, it dispatched the unit. It dealt with it as a contract not as a set of units.

Q. You would agree with me that planned outages are required from time to time in order to maintain the units?

A. Yes, they are.

Q. Okay. And not reflecting those would be -- is really inconsistent with that general proposition of how model -- of how modeling is supposed to work and that those kinds of events should be expressly indicated as part of the model, correct?

A. If I were to run the model myself, that's something that I would like to see in the model, and that type of data was included in the analysis presented in Attachments 2 and 3. That did include explicit outages.

Q. Would you agree with me that Attachment 1 also did not include forced outages; is that right?

A. That's correct.

Q. Would you agree that the projected -- the forecasted output of the units in both Attachment 1 and 2 is similar?

A. I would have to look at the two analyses to see what those outputs were.

Q. And normally would you -- would you normally reflect some level of forced outages also in performing the dispatch model?

A. You would, and that type of information would have been included in Attachments 2 and 3.

Q. Now, in Attachment 1, you indicated that whenever market price exceeds variable costs, the units would be dispatched, correct?

A. In that model, yes.

Q. In that model. Do I understand correctly that in performing that model, however, the variable costs of the two units, Kyger Creek and Clifton Creek, were averaged in determining whether they should be dispatched?

A. Yes, that's correct. And that assumption would under-dispatch the units and reduce the net margins that that model would produce. So it's a conservative assumption, one that I wouldn't have included, but that was included in that analysis.

Q. Would you agree with me that the two plants were dispatched separately, though, or not?

A. They were dispatched together based on an average. That's what I indicated was a contract analysis. So they looked at the average cost of the OVEC contract and dispatched against that variable price. They didn't look at the separate variable prices.

Q. So if the two units have different variable prices, there are circumstances under which the market price would not be sufficient to justify dispatch of one unit, but it would be sufficient to justify dispatch of the other unit?

A. Yes, that's correct. And so what would happen when you do that is that the low-cost unit would dispatch more than what we indicated in the analysis we presented, and it would result in a higher dispatching total. So it was a conservative assumption. It understated the margins that were produced in Attachment 1.

Q. Would you agree with me that in the -- that in some hours the lower-cost plant was dispatched -- strike that.

You would agree with me that in the Attachment 1 dispatch model, the PLEXOS model, that there were occasions -- that there are occasions when the higher-cost plant was dispatched when, had it been separately dispatched, it would not have been dispatched? It was only dispatched because the company used an average of the variable costs of the two units when it did the dispatch.

A. That's correct. And that's conservative. So what would happen if you were to separate those units and look at the margins received from both of those units in that scenario you just provided where the one unit is above market and the other is below market, we're showing profits for the unit that's below market, but we're actually showing the unit that's above market, dispatching at a loss, which wouldn't happen.

So that's another example where that assumption understates the margins because you are actually dispatching at a loss which you wouldn't really do. And you wouldn't dispatch that way in a model where you separated them either.

Q. Well, this is not a modeling approach that you would think is appropriate to average the variable costs, but the company did that in Attachment 1, correct?

A. The company did that in Attachment 1, and, as I've indicated, that's not an analysis that I think is the most representative of the true costs and benefits of the OVEC units over the term. It was provided in response to the discovery because it was responsive. But it wasn't an analysis that I believe is the best analysis or includes all the right assumptions that I would have included.

Q. It's the only attachment that explicitly provided an estimate of the ESP-period dispatch, correct?

A. I don't think so. I think the other data was sufficient to look at the ESP period, and we demonstrated that.

Q. I asked you whether it did explicitly. It was the only one that explicitly provided an estimate for the ESP period.

A. It's the only one that presented monthly data.

Q. Yes.

A. But there were other analyses available to the parties.

Q. Which you presented on the first day of your testimony, correct?

A. No. We presented it in discovery to the parties. It was in the same discovery response as Attachment 1 and then there was additional data provided later on, the updated OVEC costs as far as the O&M cost.

Q. The first time you provided an estimate for Attachment 2 reflecting your calculations was when you testified in the hearing.

A. That's the first time that I compiled it for the parties, yes.

Q. That you compiled it for anybody, correct?

A. Yes, but the data was available for the parties to take advantage of prior to that.

Q. So you would agree with me that the dispatching based on the average variable costs assumes that the higher-cost plant is dispatched in hours when the market price exceeds the average variable cost of that plant; you would agree with that, correct?

A. No. I think you misstated your question. Maybe we can reread it --

Q. Yeah, okay.

A. -- and see if you got it right.

Q. You would agree with me that the analysis reflected in Attachment 1 assumes that the higher-cost plant is dispatched in hours when the market price falls short of the variable cost of that plant.

A. That's correct, which results in an understated set of margins for the OVEC facility. That unit is dispatching at a loss which would reduce the margins.

Q. So what you're saying is it's also reflecting additional costs associated with that dispatch?

A. Sure. Because the cost side is the blended cost of the two units. So it reflects the total costs of running the entire plant. But if you were to disaggregate those two units, you would see that the lower-cost unit was operating at a profit and the higher-cost unit was operating at a loss. What you would do if you were just aggregating, you would say the higher-cost unit wouldn't have dispatched, that loss wouldn't exist, and as such, the margins in total would be higher than what we presented in that analysis.

Q. Do you know in how many hours this -- this occurred where the variable cost -- where the higher-cost plant dispatched for an average -- where the market price was lower than that?

A. I do not know.

Q. Okay. Now, when you -- I think you earlier testified that IEU Exhibit 8 reflects the most recent forecast of OVEC costs; is that correct?

A. It represents the most current estimate of OVEC costs that were available at the time we provided discovery in the case.

Q. And, since then, has there been an update to the estimate of the OVEC costs?

A. There has been and it's consistent with the data presented in that attachment we were just referring to.

Q. Has that been provided to any of the parties?

A. It has not.

Q. When was that update provided or received by AEP Ohio?

A. My recollection is it was provided in May.

Q. And other than -- other than the inclusion of the LEAN improvements in the five-year budget estimate, has AEP Ohio -- has OVEC made any commitment that those LEAN improvements will be realized?

A. Well, I think OVEC has made some commitments to reducing costs. Remember, it's beyond LEAN. We're talking about LEAN and other cost-saving initiatives and they have committed to make those changes through things like the severance program that they have already instituted. So they have already taken some concrete actions in addition to moving forward with the LEAN program.

Q. In implementing the PPA rider, would AEP Ohio be willing to commit to reflect those LEAN improvements regardless of whether -- reflect all of those improvements regardless of whether they actually occurred?

A. No. That's not the company's proposal in this case. And just like if the savings exceed those estimated, the company is intending to flow through the actual costs of the OVEC entitlement through the PPA rider and net those against the revenues.

Q. Do you believe that rather than using the PPA rider, is it possible that the same type of product that the company is -- the same type of hedging product the company is seeking to acquire or offer to customers through the PPA rider could be offered on a competitive bid basis to customers by going out into the market and seeking such a product?

A. I don't know.

Q. Are you familiar with offers that have been made to customers in the past for four- and seven-year fixed products by CRES suppliers on AEP's system?

A. My understanding is that offers have existed in the past. Those offers don't exist today. And from a customer perspective, the fact that an offer existed sometime in the past is of little value today if that offer is not currently out there. And so what we have to look at is the reality where we sit today, and those long-term offers just don't exist.

Q. But it's quite possible that you'll see those long-term offers again in the future, depending on how market prices move?

A. You know, I don't know if it's possible or not. Those offers, my understanding, were only offered by one entity, you know, FirstEnergy Solutions was offering a seven-year product. I don't know that there were any other seven-year products available. My understanding is there weren't.

So, you know, FirstEnergy Solutions decides not to make those offers in the future because they don't have that kind of risk tolerance, and then I don't know what evidence is out there that such an offer would be made in the future.

Q. Do you know when the last time a seven-year product was offered by FirstEnergy Solutions?

A. I don't.

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

EXAMINER PARROT: Mr. Parram?

MR. PARRAM: Yes, your Honor. Thank you.

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CROSS-EXAMINATION

By Mr. Parram:

Q. Good afternoon, Mr. Allen.

A. Good afternoon.

Q. Following up on an answer you just provided to counsel for OCC. When you are talking specifically about seven-year contracts, you are referring specifically to contract offers to residential customers, correct?

A. That's correct.

Q. And when you did your analysis regarding offers being provided to customers which you've laid out in Exhibit WAA-R3, your analysis was specifically focused on residential CRES offers, correct?

A. That's what I presented in Exhibit R3. I did also take a look at offers on the Apples to Apples comparison for commercial customers. They showed similar results. In general there were fewer offers available in total, but the same results were apparent that the vast majority of the offers were for up to 12 months. There were a fewer number in that 12- to 24-month category, and very few beyond that period.

Q. And on the Apples to Apples chart for large commercial and large industrial customers, it doesn't detail what exactly the offers are that are out there for those particular customers, does it?

A. That's correct. For the larger customers that's going to be a one-off contract with a supplier. What I looked at were the offers that were publicly available which would have been for the smaller commercial accounts.

Q. So, theoretically, there may be large commercial and industrial customers that are in 7-year, 10-year contracts with CRES providers?

A. They may be. Nobody has presented any evidence in this case that those exist.

Q. And you don't know based upon your

research.

A. That's correct.

Q. And AEP Ohio's application in this case proposes an SSO auction that ladders the auction products, correct?

A. Yes.

Q. And if the PPA rider is granted, it will not affect the laddering of the SSO auction as proposed by AEP Ohio, correct?

A. That's correct. The company's proposal would work well with the laddering and staggering of auctions that currently exist and would have no impact on those.

Q. And along the same line, if the PPA rider is denied by the Commission, it would not affect the laddering of the SSO auction?

A. That's correct. It's competitively neutral to the SSO.

Q. If you could turn to page 3 of your rebuttal testimony. If you go to line 6, starting with the sentence "In addition." Are you there?

A. I'm there.

Q. "In addition, the use of this auction design method can have unintended consequences that should be carefully considered." And when you were referring to this "auction design method," you are referring to the laddering of the auction products, correct?

A. Primarily the laddering, yes. The staggering of the auctions can also have an impact, but what I was specifically referring to was the laddering approach.

Q. Okay. And the "unintended consequences" that you are referring to there, you discuss in the next couple sentences your concern regarding CRES providers being able to offer competitive one-year products; is that correct?

A. That's correct.

Q. But the -- whether or not the PPA rider is granted by the Commission will have no effect on this unintended consequence you are talking about, correct?

A. That's correct. What I was trying to describe there is that the PPA rider is competitively neutral, has no impact on shopping versus SSO; whereas, things like the blending and laddering could have an impact on those, but they still may be beneficial in total.

Q. Earlier, in response to some questions by Mr. Darr, you talked about the -- the results of the base residual auction for a number of different plan years. I think you discussed 2015, 2016. Do you recall that discussion?

A. Yes, I do.

Q. And you are generally aware of the capacity prices for annual resources for years 2015 and 2016; is that correct?

A. Generally.

Q. And the RTO price for annual resources is $136 per megawatt-day for 2015 and 2016; is that correct?

A. That sounds correct, yes.

Q. And but the annual price for -- in the ATSI region is substantially higher than 136 for 2015 and 2016, correct?

A. Yes. It's my understanding that when you blend it with the imported resources, it's approximately $300 a megawatt-day; generators in ATSI get, I think, close to 360.

Q. Subject to check, would you agree that the price for annual resources for an ATSI region for 2015 and 2016 is $357 per megawatt-day?

A. That's the price generators in ATSI receive. The price customers pay is less than that because they blend it with the amount of imports that can come into the ATSI zone which are priced at the RTO clearing price. So I think when you blended those, the price customers see is closer to $300 a megawatt-day.

Q. And on -- back to page 3 of your testimony, you talk about the -- on line 9, you say "If this laddering averages a high near term capacity price with the lower future capacity prices, CRES providers may not be able to offer competitive one year products that include that high capacity price." Do you see where I am at?

A. I do.

Q. And when you prepared your Exhibit WAA-R3, you considered and looked at some of the offers that CRES providers were offering, specifically in the Ohio Edison, Cleveland Electric Illuminating, and Toledo Edison; is that correct?

A. I did. I looked at some of those offers in connection with preparing this and then in conjunction with personal evaluation, yes.

MR. PARRAM: May I approach the witness, your Honor?

EXAMINER PARROT: You may.

MR. PARRAM: Your Honor, I would like to have marked for purposes of identification Staff

Exhibit 19, Staff Exhibit 20, and Staff Exhibit 21 which are printouts of the Apples to Apples Comparison Chart for the three FirstEnergy operating companies from the Commission website.

EXAMINER PARROT: Okay.

(EXHIBITS MARKED FOR IDENTIFICATION.)

EXAMINER PARROT: To make sure that the record is clear, if you could more specifically identify each one as you distribute them.

MR. PARRAM: Sure.

Q. Okay. Mr. Allen, do you have Staff Exhibit 19 in front of you?

EXAMINER PARROT: Okay. Before we get into this, just so the record is clear, Staff Exhibit 19 is the one that you are -- that's Toledo Edison; is that correct? I just want to make sure we mark our copies consistent with how you have marked --

MR. PARRAM: That's what I was about to do with the witness, your Honor. Thank you.

EXAMINER PARROT: All right.

Q. Make sure I have my order correct. Staff Exhibit 19, Mr. Allen, is the Apples to Apples Comparison Chart for the Cleveland Illuminating Company?

A. Yes, I see that.

Q. And Staff Exhibit 20 is the Apples to Apples Comparison Chart for Ohio Edison, correct?

A. It is, yes.

Q. Okay. Staff Exhibit 21 is the Apples to Apples Comparison Chart for Toledo Edison; is that correct?

A. That's correct. And, just for clarity of the record, all of those are based on June 27, 2014, data. So it's a slightly different vintage than the data I included in my testimony.

Q. And I decided to come up with a little bit more updated data just so we are closer to the actual testimony for today.

A. Sure.

Q. This is from Friday, June 27. And -- but the general format of the Apples to Apples Comparison Chart is what you saw when you did your research for preparing the exhibits to your testimony; is that correct?

A. It's generally what I looked at. It was a little different format. If you noticed, there is a little link on here for the EDU chart archive where the Commission basically downloads a snapshot to a PDF that's a little easier to look at. It's about once a week, I think, they put that out. Yeah, this is generally consistent with the type of data I was looking at.

Q. And so, starting with Staff Exhibit 19 which is The Illuminating Company, I would like to -- on your copy that I provided you, I've highlighted some areas to make this a little bit easier to walk through. On page 2 of Staff Exhibit 19, starting at the top of that page, there is a CRES provider, Source Power & Gas LLC, that is providing a fixed-price contract for 24 months; is that correct?

A. Yes.

Q. And then also on that page, DP&L Energy, if you go down, four rows down, is providing a 24-month fixed-price contract; is that correct?

A. Yes, that's correct.

Q. Right under that, Integrys has a fixed-priced contract for 24 months; is that correct?

A. That's correct.

Q. And then if you go on to page 3, Direct Energy has a fixed-price contract for an 18-month period; is that correct?

A. Yes.

Q. And that would take us into 2015-2016 PJM annual -- the -- 2015-2016 planning year; is that correct?

A. Yes.
Q. And if you go down, DP&L Energy also has a fixed-price contract, but this contract is for 35 months. Do you see that there?
A. Yes, I do. And it shows an almost $20 a megawatt-hour, $19 a megawatt-hour in price to get that extra term.
Q. And if you go on to page 4, the first two CRES providers listed have -- Censtar Energy has a 24-month fixed-price arrangement, and then Constellation has a fixed-price arrangement for 18 months. Do you see that?
A. I do.
Q. And, at the very bottom, FirstEnergy Solutions has a 35-month. Do you see that there?
A. I do.
Q. And just to speed things up, for Staff Exhibit 20 and Staff Exhibit 21, there are a number of different CRES providers that have either an 18-month up to 35-month contract offerings for the Ohio Edison territory and the Toledo Edison territory; is that correct?
A. Yes. And the one additional observation I would like to make is when you look at the current data, which is only two weeks after what I presented

previously in my testimony, there are no offers in either one of those service territories or any of the three that go beyond the 36-month period. So I think those longer-term contracts are disappearing quickly.

Q. And specifically for Staff Exhibit 20, if you look at page 3.

A. I'm there.

Q. And you go down, fourth row, you have DP&L Energy offering a fixed-price contract for 35 months. Do you see that there?

A. I do.

Q. That's essentially a three-year contract?

A. It is, yes.

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

EXAMINER PARROT: Any redirect?

MR. NOURSE: Could we have a very brief conference, your Honor?

EXAMINER PARROT: You may.

(Discussion off the record.)

EXAMINER PARROT: Mr. Nourse.

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

EXAMINER PARROT: Thank you very much, Mr. Allen.

I believe Mr. Nourse has already moved for the admission of AEP Ohio Exhibit 33. Are there any objections?

MR. BERGER: Your Honor, I would move to strike that portion of the testimony on carrying costs and regulatory assets starting on page 13, line 18, through to page 14, line 17. The Company's Witness Renee Hawkins testified on this very subject, said virtually the exact same things. This is a cumulative testimony. I have a copy of her testimony here if you would like to see it, pages 10 to 11.

Mr. Allen's testimony really says nothing new or different; although, it purports to be in response to a -- to Staff Witness Lipthratt's testimony. It is, nonetheless, cumulative in nature. And simply because it's cast as rebuttal testimony doesn't make it -- provide anything new or different that would justify it being offered at this time.

Would you like me to provide you with a copy of her testimony? You have it there? Thank you.

EXAMINER PARROT: Mr. Nourse.

MR. NOURSE: Your Honor, I think, first of all, the motion to strike is untimely. The time to do that is at the outset, prior to cross-examination. But I would also add that this rebuttal testimony does add some additional points beyond what Ms. Hawkins addressed here in her testimony.

Mr. Allen is certainly qualified to do so and was prepared to discuss and defend those observations, but he did add that, you know, basically the concept is we can't use the same debt to finance two different things, and if you -- if you did make an adjustment there, that it would have to be reflected in the next rate case. So those are fair rebuttal points to clean up the record on that issue.

EXAMINER PARROT: Anything else with respect to this exhibit?

All right. With that, Mr. Berger, I am going to deny your motion to strike and admit into the record AEP Ohio Exhibit 33.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER PARROT: Mr. Petricoff.

MR. PETRICOFF: Yes, your Honor. I would like to -- I have two documents I would like to move for admission. The first is RESA Exhibit No. 4.

EXAMINER PARROT: Are there any objections to the admission of RESA Exhibit 4?

MR. NOURSE: No.

EXAMINER PARROT: Hearing none, it is admitted.

(EXHIBIT ADMITTED INTO EVIDENCE.)

MR. PETRICOFF: And the second one is Constellation Exhibit No. 2.

EXAMINER PARROT: And are there any objection to the admission of Constellation Exhibit 2?

MR. NOURSE: No objection.

EXAMINER PARROT: All right. Hearing none, it will also be admitted.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER PARROT: Staff?

MR. PARRAM: Yes, your Honor. Staff would move for the admission of Staff Exhibits 19, 20, and 21.

EXAMINER PARROT: Are there any objections to the admission of Staff Exhibits 19 through 21?

MR. NOURSE: No, your Honor.

EXAMINER PARROT: All right. Hearing none, those are also admitted into the record.

(EXHIBITS ADMITTED INTO EVIDENCE.)

EXAMINER PARROT: All right. At this

point, let's go off the record.

(Discussion off the record.)

EXAMINER PARROT: While we were off the record, the parties have proposed various briefing schedules. The Bench has taken those under consideration. We have decided that initial briefs will be due on Wednesday, July 23. Reply briefs will be due on Friday, August 15.

The company has agreed to arrange for expedited processing of the transcript from today.

Is there anything else to come before us?

MR. NOURSE: Your Honor, I just wanted to mention on the -- thanks to Mr. Darr's prompting, actually, the -- I think there is one day of transcript that we have a partial confidential transcript. So we would also commit to reviewing that and trying to work with the reporter to get a more open public version by Wednesday as well.

EXAMINER PARROT: All right. Thank you. Anything else?

All right. Hearing none, this matter will be submitted to the Commission for its consideration subject to the parties' briefs. Thank you.

(Thereupon, the hearing was concluded at 4:18 p.m.)

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CERTIFICATE

I do hereby certify that the foregoing is a true and correct transcript of the proceedings taken by me in this matter on Monday, June 30, 2014, and carefully compared with my original stenographic notes.

____
Karen Sue Gibson, Registered
Merit Reporter.

(KSG-5886)

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