

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

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

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

- - -

PROCEEDINGS

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

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VOLUME XIII-REBUTTAL

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

- - -

1 APPEARANCES:

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

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

11 On behalf of the Applicants.

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

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

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

On behalf of FirstEnergy Solutions Corp.

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

On behalf of Ohio Manufacturers
Association.

1 APPEARANCES: (Continued)

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

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

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

15 On behalf of Ohio Partners for Affordable
16 Energy.

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

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

25 On behalf of Duke Energy Ohio.

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

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

On behalf of Ohio Hospital Association.

1 APPEARANCES: (Continued)

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

8 On behalf of the Ohio Energy Group.

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

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

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

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

24 Whitt Sturtevant LLP
25 By Mr. Mark A. Whitt
26 Mr. Andrew J. Campbell
27 Mr. Gregory L. Williams
28 88 East Broad Street, Suite 1590
29 Columbus, Ohio 43215

30 On behalf of the Interstate Gas Supply,
31 Inc.

32 The Dayton Power and Light Company
33 By Ms. Judi L. Sobecki
34 1065 Woodman Drive
35 Dayton, Ohio 45432

36 On behalf of The Dayton Power and Light
37 Company.

38

1 APPEARANCES: (Continued)

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

6 On behalf of Ohio Environmental Defense
7 Fund.

8 Ohio Environmental Council
9 By Mr. Trent Dougherty
10 1207 Grandview Avenue, Suite 201
11 Columbus, Ohio 43215-3449

12 On behalf of Ohio Environmental Council.

13 Taft Stettinius & Hollister, LLP
14 By Mr. Mark S. Yurick
15 Mr. Zachary D. Kravitz
16 65 East State Street, Suite 1000
17 Columbus, Ohio 43215

18 On behalf of Kroger Company.

19 Direct Energy
20 By Mr. Joseph M. Clark
21 21 East State Street, 19th floor
22 Columbus, Ohio 43215

23 On behalf of Direct Energy Services, LLC
24 and Direct Energy Business, LLC.

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

On behalf of Environmental Law & Policy
Center.

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

On behalf of Paulding Wind Farm II LLC.

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APPEARANCES: (Continued)

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

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

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

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

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

On behalf of Appalachian Peace and
Justice Network.

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

On behalf of Border Energy Electric
Services, Inc.

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

On behalf of the Staff of the Public
Utilities Commission.

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APPEARANCES: (Continued)

EnerNOC, Inc.
By Mr. Gregory J. Poulos
471 East Broad Street, Suite 1520
New Albany, Ohio 43215

On behalf of the EnerNOC, Inc.

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1 Monday Morning Session,
2 June 30, 2014.

3 - - -

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

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

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

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

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

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

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

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

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

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

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

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

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

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

16 Mr. Nourse.

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

19 (Witness sworn.)

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

22 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.

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

4 A. No, I do not.

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

7 A. Yes.

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

11 EXAMINER SEE: Mr. Petricoff.

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

14 EXAMINER SEE: Yes.

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

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

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

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

3 MR. NOURSE: Through line 14, okay.

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

6 EXAMINER SEE: And that's the only
7 section?

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

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

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

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

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

1 Mr. O'Brien?

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

3 EXAMINER SEE: Mr. Petricoff?

4 MR. PETRICOFF: Thank you, your Honor.

5 - - -

6 CROSS-EXAMINATION

7 By Mr. Petricoff:

8 Q. Good morning, Dr. McDermott.

9 A. Good morning.

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

12 A. I'm there.

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

17 A. I have a color version, yes.

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

25 A. I believe the load weighted hourly.

1 Q. Load weighted.

2 A. Right.

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

5 A. Yes. It's kind of compressed.

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

10 A. That's correct.

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

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

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

20 A. No.

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

24 A. That's what this is depicting.

25 Q. Okay. Let me try it -- let me rephrase

1 the question.

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

5 A. Yes.

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

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

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

21 A. That's my understanding.

22 Q. So these prices that we see here would
23 not have affected a standard service offer customer
24 during the time periods that are shown on Exhibit
25 1 -- I'm sorry, Figure 1?

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

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

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

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

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

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

21 A. They can, yes.

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

24 A. That's one method, yes.

25 Q. Is another method just buying a

1 fixed-price contract?

2 A. Yes.

3 Q. Now, if you could, let's take a look
4 at -- at Figure 2 which is the next -- the next chart
5 down, and I think we have identified that the -- that
6 the PJM prices are the PJM AEP Zone Real Time --
7 these would be the peak figures.

8 A. Correct.

9 Q. The highest hourly or the highest day
10 figure for the time period shown.

11 A. Correct.

12 Q. Could you explain to me how the pricing
13 was set for the Henry Hub gas prices.

14 A. That was just the daily Henry Hub prices
15 that were showing there.

16 Q. Okay. Is it the close -- daily closing
17 price?

18 A. I believe it's the closing price, yes.

19 Q. And the Henry Hub is a trading station on
20 a New York Mercantile Exchange?

21 A. I believe so, yeah.

22 Q. Now, so far we have been talking about --
23 about price volatility. I want to make sure we have
24 got the same -- the same definition. Is it fair --
25 is it a fair summary of price volatility to

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

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

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

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

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

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

25 Q. Well, in fact, isn't that the focus of

1 the concern for customers is a price spike, not a
2 price drop?

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

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

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

17 Q. Let me refer you to page 10, lines 6 and
18 7 of your testimony.

19 A. I'm there.

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

24 A. Yes, you have.

25 Q. Okay. And so from our discussion here,

1 isn't it fair to say that the -- that the risk
2 tolerance is fairly high if the price is dropping and
3 fairly low if we are having a price spike?

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

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

18 A. That's a possibility, yes.

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

24 A. No, I did not.

25 Q. I used the word "strike price" in my last

1 question. When I said "strike price" to you, how did
2 you define it? How did you interpret it, I should
3 say.

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

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

15 A. That's correct.

16 Q. What is the strike price on rider PPA?

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

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

21 A. I don't know.

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

23 A. Yeah.

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

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

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

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

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

22 A. That's one option.

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

1 for AEP Ohio.

2 A. Well, again, see, the purpose of a hedge
3 is to benefit both sides of the -- of the
4 transaction. I'm, as a seller, willing to give up
5 those high prices in the marketplace for a steady
6 fixed price. So to the extent that nobody signed up
7 for it, then there, you know, would be no revenue
8 coming in for that.

9 Q. Let's go back and maybe refine my
10 hypothetical. Let's say that only half the OVEC
11 volume had customers willing to sign up for the
12 stability rider, for the rider PPA. Wouldn't AEP
13 Ohio still have the revenue from selling the power
14 into the market?

15 A. Yes.

16 Q. They would be able to keep that.

17 A. Yes.

18 Q. So the main feature that AEP Ohio gets
19 from the rider PPA is that they get certainty on what
20 the revenue flow will be from the OVEC generation.

21 A. That's what any supplier would get from
22 that side of the transaction, yes.

23 Q. And so since they could sell the power
24 into the market and take the risk of -- of the
25 market, the rider PPA basically gives AEP price

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

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

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

10 A. That's always a possibility.

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

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

25 Q. Is it essential that AEP Ohio's own

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

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

6 Q. But -- fair point. But if the only goal
7 was to give price stability to the customers,
8 couldn't the Commission do an auction or an RFP where
9 it basically said, any generator, we want you to take
10 437 -- 437 megawatts at the strike price that you've
11 bid to use as -- and then basically they would have
12 the mechanism described in the rider PPA.

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

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

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

24 Q. Likewise, we can't tell what the price of
25 the OVEC is because that also is going to be

1 dependent on factors that come in the future.

2 A. That's correct.

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

6 A. Yes, you would.

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

9 Thank you very much, Doctor.

10 THE WITNESS: Thank you.

11 EXAMINER SEE: Mr. Clark?

12 MR. CLARK: No questions, your Honor.

13 EXAMINER SEE: Mr. McDermott?

14 MR. McDERMOTT: No questions, your Honor.

15 EXAMINER SEE: Ms. Bojko?

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

17 - - -

18 CROSS-EXAMINATION

19 By Ms. Bojko:

20 Q. Good morning, sir.

21 A. Good morning.

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

25 A. No.

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

5 A. That's correct.

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

11 A. That's my understanding.

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

14 A. No, not to my -- no.

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

17 A. Not to my knowledge, no.

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

20 A. Not that I am aware of particularly.

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

24 A. That's my understanding at the moment.

25 Q. And as you note on page 4 of your

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

3 A. That is correct.

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

8 A. That's correct.

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

11 A. I'm there.

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

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

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

22 A. As this is set up, yes.

23 Q. And, sir, is it your understanding that
24 the PPA rider could only possibly last two years if
25 the company invokes its right to terminate the ESP

1 early as proposed in the application?

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

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

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

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

10 A. That is correct.

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

15 A. That's correct.

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

22 A. That's correct.

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

1 in the AEP service territory; is that correct?

2 A. That's correct.

3 Q. And if you turn to page 8 of your
4 testimony on line 18.

5 A. I'm there.

6 Q. You discuss on line 18 to the extent that
7 the product is designed -- and just for clarity sake,
8 the product that you are referencing there is not a
9 CBP product, it's the PPA rider; is that correct?

10 A. Correct.

11 Q. And, sir, on page 9 you discuss other
12 utilities, but you agree that buying long-term
13 positions in power plants is typically done by
14 regulated utilities. Is that your understanding?

15 A. Well, regulated utilities, yeah, they
16 take a position in capacity, yes.

17 Q. And under those scenarios, the utility
18 actually supplies the customers with the physical
19 generation or products from that power plant; is
20 that --

21 A. Under the traditional regulation process,
22 yes.

23 Q. And, sir, if the costs are always greater
24 than the market price in that there is no physical
25 generation going to the customer, you agree that it

1 is not providing stability, any rate stability or
2 physical reliability; is that correct?

3 A. Well, if we thought that was the case,
4 you know, there wouldn't be any effective hedge.
5 Everybody expects and I believe Mr. Allen has given
6 testimony about what the future prices would look
7 like.

8 Q. Right. And your testimony is purely
9 relying on Mr. Allen's prediction of that; is that
10 correct?

11 A. That's correct.

12 Q. Okay. So now go back to my hypothetical.
13 Say that the costs are always greater than market and
14 that there's no physical generation going to the
15 customers or any by-products of that physical
16 generation. This product, as you call it, the PPA
17 rider, is not providing any rate stability or
18 physical reliability under that circumstance; is that
19 correct?

20 A. Well, I don't think I would characterize
21 it that way. It's like an insurance product. I
22 mean, we pay for car insurance, and we don't have an
23 accident. We paid car insurance. What you're doing
24 with a hedge is, you know, hedging your risks that
25 prices could go up and so you pay for that hedge.

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

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

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

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

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

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

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

21 A. I'm there.

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

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

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

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

8 A. I understand that but that's --

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

11 A. Right.

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

14 A. I'm there.

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

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

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

1 A. No.

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

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

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

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

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

16 A. Well, AEP has a separate generating
17 company.

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

19 A. Oh.

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

25 A. Affiliate.

1 Q. And, sir, is it your understanding that
2 any generator, one that's not affiliated with a
3 distribution utility, would be able to come to a
4 regulatory body and get cost recovery for that
5 generating cost from ratepayers?

6 A. Not under this scenario, no.

7 Q. Okay. So a marketer or supplier that
8 owns generation would not be able to hedge their risk
9 of generator costs escalating by charging ratepayers
10 for those costs under -- similar to the situation
11 before us?

12 A. Unless they came and offered that --
13 that, you know, situation to the Commission in some
14 other case, but I'm not suggesting that they have the
15 ability to do that.

16 Q. Okay. So you don't know of any Ohio law
17 that would permit such a marketer or supplier that
18 owns generation to do such -- to make such a request,
19 I guess.

20 A. I think they can make a request. The
21 Commission can consider it and decide as they feel.

22 Q. But I guess I'm asking if you know of any
23 specific Ohio law that would authorize such requests
24 or collection from ratepayers.

25 A. Offhand, no.

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

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

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

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

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

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

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

25 A. Not offhand, no.

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

3 A. No.

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

7 A. Yes, I do.

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

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

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

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

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

1 that correct? There is more to that quote.

2 A. That's correct.

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

8 A. That's my recollection, yes.

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

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

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

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

22 Q. And now, going back to the quote you
23 provided in footnote 5, isn't it true that the rest
24 of the quote actually states that the PPA resolved
25 certain concerns about the viability of the Bluewater

1 project, based on pending land-based wind contracts
2 that Delmarva had recently executed?

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

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

8 A. That's fine.

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

11 MR. SERIO: I think it's 6.

12 MS. BOJKO: 6?

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

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

16 May I approach, your Honor?

17 EXAMINER SEE: Yes, you may.

18 (EXHIBIT MARKED FOR IDENTIFICATION.)

19 A. Thank you.

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

23 Q. (By Ms. Bojko) Do you see on page 3, sir,
24 of the -- just for the report here, you are looking
25 at what's been marked as OMA Exhibit 6, and that is

1 an Order No. 7440, PSC Docket 06-241; is that
2 correct?

3 A. That's correct.

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

7 A. That's correct.

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

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

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

16 A. No, I do not.

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

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

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

1 A. I believe so.

2 Q. Do you know if AEP's PPA is proposed to
3 be done by an RFP process?

4 A. No, it's not.

5 Q. Sir, do you also know that this interim
6 decision by the -- by the Commission was done
7 pursuant to state statute that specifically required
8 a reduction in the federal-mandated congestion
9 charges?

10 A. I remember reading that was one of the
11 issues that was being addressed, yes.

12 Q. Do you know if Ohio law has a similar
13 statute to reduce congestion charges?

14 A. Not to my knowledge.

15 Q. Sir, do you know that the Connecticut law
16 that this order was based upon requires specific
17 reduction options?

18 A. I don't know that I read all the law.
19 Did you say the law had it?

20 Q. That's correct.

21 A. Yeah. Offhand, I didn't know that, no.

22 Q. Well, did you know the order specifically
23 references those reduction options required by the
24 Connecticut law?

25 MR. NOURSE: Your Honor, I just object to

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

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

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

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

16 MS. BOJKO: Sure.

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

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

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

1 a Connecticut law or didn't discuss Connecticut law.

2 A. I have a recollection it discussed the
3 Connecticut law. It has to be passed under
4 Connecticut laws, yes.

5 Q. Okay. And that Connecticut law, I
6 believe you said previously, was about
7 federal-mandated congestion reductions; is that
8 correct?

9 A. That's correct.

10 Q. And do you know whether the law actually
11 stated criteria for the Commission to consider when
12 proving a PPA to reduce congestion charges?

13 A. I recall something about it, but I don't
14 remember all of the standards.

15 MS. BOJKO: Your Honor, I will have
16 marked as OMA Exhibit 7 the order that Mr. Nourse
17 just referenced, State of Connecticut order -- it's
18 an interim decision, excuse me, dated September 13,
19 2006, Docket 05-07-14PAH02. May I have it marked?

20 EXAMINER SEE: Yes, you may.

21 (EXHIBIT MARKED FOR IDENTIFICATION.)

22 MS. BOJKO: May I approach, your Honor?

23 EXAMINER SEE: Yes.

24 Q. Is this the order you referenced in
25 footnote No. 4?

1 A. Yes, it is.

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

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

7 EXAMINER SEE: We have a copy.

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

11 Thank you. I would appreciate that.

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

14 A. Yes, I do.

15 Q. Are you on page 3?

16 A. I am there now.

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

23 A. Yes.

24 Q. And if you look at the last paragraph in
25 that section, starting with the word "Finally," do

1 you see that it states that the utilities commission
2 can approve a contract if it determines that it will
3 result in the lowest reasonable cost of such products
4 and services, (1); (2), increase reliability; and
5 (3), minimize the federal-mandated congestion charges
6 to the state over the life of the contract?

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

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

16 A. Yes.

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

20 A. That's my understanding.

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

23 A. That's -- yes.

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

1 A. Correct.

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

5 A. I do not know.

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

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

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

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

19 A. No.

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

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

25 Q. And you believe that that's the

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

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

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

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

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

13 A. Correct.

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

16 A. Correct.

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

21 A. To my knowledge.

22 Q. To your knowledge, no.

23 A. No.

24 Q. Thank you.

25 Sir, when did you draft this testimony?

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

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

4 A. Well --

5 Q. Go ahead.

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

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

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

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

16 A. I don't --

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

20 A. I don't know, frankly.

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

24 A. Yeah, I looked at it, yes.

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

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

3 A. Well, I had an assistant do that.

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

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

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

12 A. I just can't recall offhand.

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

15 A. Correct, the Cape Wind.

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

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

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

22 A. It's a wind contract, yes.

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

25 A. Offhand, I don't have that.

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

2 A. I'm there.

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

5 A. 1 through 20 in my testimony.

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

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

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

12 EXAMINER SEE: Correct.

13 MS. BOJKO: Oh, I apologize.

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

17 A. That's correct.

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

22 A. That is correct.

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

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

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

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

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

10 A. I assume so, yes.

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

14 A. No, I am not.

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

18 A. No.

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

21 A. No.

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

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

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

3 A. No, ma'am.

4 Q. -- issues here today?

5 A. No.

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

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

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

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

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

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

25 Q. Well, not in this particular proposal.

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

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

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

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

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

14 A. That's correct.

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

18 A. That's correct.

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

22 A. No.

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

1 A. No.

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

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

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

15 A. Yes.

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

19 A. That's something that could be
20 negotiated.

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

1 A. There is no cap, right.

2 Q. There's no cap.

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

6 A. Uh-huh.

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

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

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

15 A. That is correct.

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

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

25 Q. Well, but you keep using the word

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

4 A. That is correct.

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

8 A. That's correct.

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

11 Thank you, sir, for your time.

12 THE WITNESS: Thank you.

13 EXAMINER SEE: Mr. Sineneng?

14 MR. SINENENG: No questions, your Honor.

15 EXAMINER SEE: Ms. Shadrick?

16 MS. SHADRICK: No questions.

17 EXAMINER SEE: Mr. Kurtz?

18 MR. KURTZ: Thank you, your Honor.

19 - - -

20 CROSS-EXAMINATION

21 By Mr. Kurtz:

22 Q. Good morning, Dr. McDermott.

23 A. Good morning.

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

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

3 Q. Okay.

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

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

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

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

1 tolerances for this type of thing.

2 Q. Is three years too short in your opinion?

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

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

10 A. Yes, yes.

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

14 A. Yes.

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

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

23 Q. As a former commissioner, do you think
24 giving the utility the same incentive, putting the
25 utilities and the ratepayers in the same boat, so to

1 speak, would that be a good policy?

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

9 Q. A couple more questions.

10 Figure 2 to your testimony.

11 A. Yes.

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

15 A. The Henry Hub.

16 Q. And what is the most volatile?

17 A. The PJM prices.

18 Q. PJM electric price?

19 A. Yes.

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

23 A. Yes.

24 Q. What would -- which of those two
25 commodities, the least volatile or the most volatile,

1 would have the highest risk premium built into the
2 fixed-price contract?

3 A. Well, the more volatile would.

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

6 A. Yes.

7 MR. KURTZ: Thank you, your Honor.

8 EXAMINER SEE: Mr. Darr?

9 - - -

10 CROSS-EXAMINATION

11 By Mr. Darr:

12 Q. Good morning, Dr. McDermott.

13 A. Good morning.

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

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

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

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

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

5 A. Correct.

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

12 A. That's correct.

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

18 A. Yes.

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

23 A. That's correct.

24 Q. You indicated briefly in your testimony,
25 in response to a question by Ms. Bojko, that you read

1 a number of decisions of various state commissions in
2 your role as a -- as an expert in this area. Are you
3 familiar with the Commission's decision involving the
4 recovery of plant closure costs for the AEP Ohio
5 portion of Sporn Unit 5?

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

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

11 A. That's correct.

12 Q. And you indicated that you did a limited
13 review of Chapter 4928. Did you look specifically at
14 4928.38 with regard to the recovery of transition
15 revenue?

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

18 Q. You read through the whole chapter?

19 A. Skipped it.

20 Q. That's fair.

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

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

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

8 A. Correct.

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

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

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

25 MR. NOURSE: Your Honor, I object to the

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

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

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

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

19 EXAMINER SEE: Okay.

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

22 EXAMINER SEE: IEU Exhibit 12.

23 (EXHIBIT MARKED FOR IDENTIFICATION.)

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

1 A. Yes, I do.

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

4 A. Yes.

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

9 A. That is correct.

10 Q. If you trail down to the --

11 A. Third paragraph.

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

15 A. That is correct.

16 Q. Per kilowatt-hour?

17 A. That's what's reported here.

18 Q. And it's also reported there would be a
19 3.5 percent increase in that over the life of the
20 contract, correct?

21 A. Correct.

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

1 A. That's correct.

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

4 A. That's correct.

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

8 A. That's correct.

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

11 A. That's correct.

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

15 A. I think so.

16 Q. Which is typically in the teens?

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

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

21 A. Yes.

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

25 A. That's my understanding, yes.

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

3 A. Yes, that's Delaware, yeah.

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

7 A. Correct.

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

12 A. Yes.

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

17 A. That is correct.

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

21 A. I do.

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

1 A. Was there a particular line?

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

4 A. I'm there.

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

7 A. Yes.

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

12 A. At this stage, right.

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

16 A. I don't see a C.

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

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

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

24 MR. DARR: May I approach, please?

25 EXAMINER SEE: Yes.

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

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

6 Q. (By Mr. Darr) Yes, if you turn to page
7 18, I believe, of the version you have.

8 A. That refers to timing of the RFP process.

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

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

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

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

23 A. That's my understanding, yes.

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

1 cost to ratepayers.

2 A. That's correct.

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

5 A. I would have to refresh my memory.

6 MR. DARR: May I approach, your Honor?

7 EXAMINER SEE: Yes.

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

10 (EXHIBIT MARKED FOR IDENTIFICATION.)

11 A. Thank you.

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

14 A. Yes, I do.

15 Q. Would you describe that for us, please.

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

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

22 A. Yes.

23 Q. And does it refresh your recollection?

24 A. Yes, it does.

25 Q. And what types of products were purchased

1 under the RFP?

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

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

15 A. That is correct.

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

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

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

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

24 Q. Page 13 of your testimony, line 18 and
25 carrying over to page 14, line 1, you indicate that

1 the proposed PPAR is no different from the benefit or
2 subsidy that might be involved in a fixed-price
3 contract. Do you see that?

4 A. You said page 13, bottom?

5 Q. Yes.

6 A. Yes.

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

11 A. Correct.

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

15 A. Correct.

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

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

25 Q. But the upward price --

1 A. Has been transferred.

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

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

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

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

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

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

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

23 A. Correct.

24 Q. And with regard to the SSO customer, the
25 inclusion of the PPAR, as with the CRES customer,

1 would increase that customer's exposure to market
2 risk, would it not?

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

9 Q. And if the price goes down?

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

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

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

17 Q. That's not my question, sir.

18 A. Okay.

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

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

25 Q. And I just want to make sure we

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

8 A. Correct.

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

13 A. Correct.

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

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

23 Q. Table 1.

24 A. I'm sorry.

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

1 question again when you're ready.

2 A. All right. Yes.

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

7 A. Yes.

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

10 A. Correct.

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

15 A. Yes.

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

20 A. No.

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

25 A. Correct.

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

5 A. Correct.

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

10 A. No, sir.

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

13 A. No, not specifically, no.

14 Q. How about the frequency of outages?

15 A. No.

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

19 A. No.

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

24 A. No, sir.

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

1 address the effect of the D.C. Circuit's decision in
2 order force -- concerning order force -- excuse me,
3 745, on the potential volatility or lack of
4 volatility?

5 A. You're referring to the DR?

6 Q. Yes.

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

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

11 A. Yes, I am.

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

14 A. Yes.

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

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

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

24 A. No, sir.

25 Q. Now, page 12 of your testimony.

1 A. I'm there.

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

6 A. Yes, I do.

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

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

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

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

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

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

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

6 A. Not particularly, no.

7 Q. At page 12 you also -- at lines 13 and
8 15, you also identify the customer investments could
9 be stranded. I am trying to understand what you
10 meant by that. What do you mean by the discussion
11 that "customer investments could become stranded"?

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

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

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

22 Q. What becomes uneconomic?

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

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

1 costs in the market for the prior investment that
2 they made; is that fair?

3 A. In effect.

4 Q. Now, at page 14, starting at line 1,
5 going through line 16, you indicate that the PPAR
6 would, in effect, be competitively neutral in the PJM
7 market; is that correct?

8 A. That's correct.

9 Q. And as a result of it being competitively
10 neutral, you would not expect approval of the PPAR to
11 effect price negatively -- positively or negatively
12 in either the capacity or energy market; is that
13 fair?

14 A. That the PPA itself would affect those
15 markets?

16 Q. The approval of the PPA.

17 A. Yeah, I wouldn't think.

18 Q. So it's not your position that the PPA
19 would reduce the price of generation relative to a
20 world in which there was not a PPA; is that fair?

21 A. That's correct.

22 Q. And that's because, effectively, OVEC is
23 going to be in the market one way or the other?

24 A. Correct.

25 Q. By the same token, am I correct that it's

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

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

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

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

11 A. Cost reduction for generation market?

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

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

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

20 A. Right.

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

23 (EXHIBIT MARKED FOR IDENTIFICATION.)

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

1 A. I do.

2 Q. Can you identify that for us, please?

3 A. It's a paper that I coauthored with
4 Dr. Carl Peterson entitled "Is there a Rational Path
5 to Salvaging Competition," that was published in The
6 Electricity Journal.

7 Q. And that would be in March of 2002?

8 A. March of 2002, that's correct.

9 Q. Have you supplemented this article in any
10 way since 2002?

11 A. I've written other articles, but not on
12 this specific subject.

13 Q. And turning your attention to numbered
14 page 17.

15 A. I'm there.

16 Q. It's your view that there's little
17 economic theory on the actual mechanism of cost
18 reduction through entry, correct?

19 A. Where are you?

20 Q. Beginning of -- starting at the bottom of
21 the first column on page 17, going on to the second
22 column.

23 A. That's correct.

24 Q. Is that still your view?

25 A. Entry, in itself, doesn't guarantee lower

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

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

9 A. Correct.

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

12 A. That's correct.

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

15 A. Correct.

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

18 A. That will be one of the factors.

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

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

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

1 promises for future delivery, correct?

2 A. That's correct.

3 Q. And future delivery markets are important
4 because they mitigate the risk that at the time of
5 delivery conditions in the spot market will cause
6 prices to rise considerably.

7 A. Yeah. Where are you reading from?

8 Q. You might try page 18. I am just asking
9 if that's your view.

10 A. Could you state that again?

11 Q. Sure. Future delivery markets are
12 important because they mitigate the risk at the time
13 of delivery conditions in the spot market will --
14 will cause prices to rise considerably.

15 A. Yes.

16 Q. Now, with regard to the adaptations, are
17 you familiar with the work that's being done by PJM
18 right now in response to the polar vortex?

19 A. I have limited knowledge of it, yes.

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

22 EXAMINER SEE: 15.

23 MR. DARR: 15, my apologies.

24 (EXHIBIT MARKED FOR IDENTIFICATION.)

25 Q. Do you have in front of you what's been

1 marked as IEU Exhibit 15?

2 A. I do.

3 Q. Would you identify that for us, please.

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

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

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

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

20 A. Yes.

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

25 A. Correct.

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

3 A. Yes.

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

11 A. I'm aware of that, yes.

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

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

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

17 A. Yeah.

18 Q. Okay. 84 cents.

19 A. 84 cents.

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

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

25 A. That's 18 of my testimony?

1 Q. Yes.

2 A. I'm there.

3 Q. Okay. You do indicate that in your
4 testimony, correct?

5 A. Yes.

6 Q. Are we to assume that a residential
7 customer, in deciding whether or not to buy a car or
8 a house, will base its decision on the 94 cents it
9 will save from the PPAR?

10 A. No. Of course not.

11 Q. Now, with regard to generators, you've
12 indicated that, I believe it's correct, that OVEC is
13 compensated at cost instead of taking price signals
14 from PJM, correct?

15 A. Correct.

16 Q. And agree that FERC and PJM have rules in
17 place for pricing wholesale energy and capacity
18 markets which are basically the PJM rules, correct?

19 A. Correct.

20 Q. And those are based on a market -- or
21 contain a market-based mechanism for an energy
22 market; is that correct?

23 A. Correct.

24 Q. And it also contains a market-based
25 mechanism for a capacity market, correct?

1 A. Correct.

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

5 A. Correct.

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

10 A. Which line are you at?

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

13 A. So could you restate your question?

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

17 A. Correct.

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

21 A. Fair.

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

1 A. That's correct.

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

5 A. Yes. That's the capacity prices.

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

10 A. That's correct.

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

15 A. It provides less, yes.

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

22 A. That's correct.

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

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

2 A. That's fair.

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

5 EXAMINER SEE: Yes.

6 (EXHIBIT MARKED FOR IDENTIFICATION.)

7 A. Thank you.

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

10 A. I do.

11 Q. Could you identify this for us, please?

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

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

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

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

25 A. Yes.

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

4 MR. NOURSE: Is there a reference?

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

7 A. That's correct.

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

12 A. That's correct.

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

15 A. Correct.

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

20 A. That's correct.

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

24 A. Correct.

25 MR. NOURSE: Could you give a reference?

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

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

5 A. That's correct.

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

10 A. Correct.

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

13 A. That's fair.

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

18 A. That's correct.

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

22 A. That's correct.

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

1 A. That's correct.

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

5 A. That's correct.

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

9 A. Correct.

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

14 A. Right.

15 Q. -- on an average basis.

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

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

24 A. Correct.

25 Q. And you also conclude that those

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

7 A. That's correct.

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

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

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

14 EXAMINER SEE: Mr. Yurick?

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

17 EXAMINER SEE: Mr. Berger?

18 MR. BERGER: Thank you, your Honor.

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

24 MR. BERGER: No such luck.

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

1 five-minute recess. We are off the record.

2 (Recess taken.)

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

5 Mr. Berger.

6 MR. BERGER: Thank you, your Honor.

7 - - -

8 CROSS-EXAMINATION

9 By Mr. Berger:

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

12 A. Very good. Yourself?

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

18 A. Yes.

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

21 A. No.

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

24 A. That's correct.

25 Q. You did not look at the energy forecasts

1 that he used.

2 A. No.

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

6 A. No.

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

9 A. No.

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

12 A. No.

13 Q. -- compared to the rest.

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

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

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

1 A. That's the offset that would occur.

2 Q. Okay. Thank you.

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

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

9 Q. Line 12.

10 A. And can you restate the question, please?

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

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

22 Q. So you're talking about prices that
23 existed previous to the implementation of Senate Bill
24 3 and Senate Bill --

25 A. Yes.

1 Q. -- 221 in Ohio?

2 A. Yes.

3 Q. So you are talking about pre-1999 prices?

4 A. Well, I am talking about the fact that
5 regulated prices have been more stable because
6 they're cost-based rates. Now, they may have been
7 high and some people may not have liked that, but
8 they tended not to be so volatile.

9 And then customers make choices, based on
10 that, to have certain kinds of equipment in their
11 factories or equipment in their homes and then if you
12 expose them to price volatility, they had made those
13 decisions based on a particular expectation, and then
14 when that expectation is no longer holding, they may
15 find that, you know, they invested in things that
16 aren't as economic as they once were.

17 Q. Okay. And when you talk about, on the
18 following line, "incentives inherent in current
19 capacity markets," what incentives are you talking
20 about there? Would you just elaborate on what
21 incentive -- incentives you're talking about?

22 A. Well, they are all the incentives that
23 are facing people that would be building capacity,
24 and as we've seen right now from the earlier table
25 that I have that capacity markets are not up to CONE,

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

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

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

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

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

1 A. That's correct.

2 Q. Are you referring to a specific capacity
3 market zone?

4 A. No. Just in general. The table we have
5 for -- you know, identifies in Table 2 that
6 regardless of what delivery area you're in, that the
7 actual market price, clearing price, has been, you
8 know, less than 66 percent of the CONE in any of the
9 market areas, and so there's no incentive to build
10 additional capacity.

11 Q. Well, that's the RPM capacity clearing
12 price; is that correct?

13 A. Right.

14 Q. That doesn't reflect the offset for --
15 for energy and ancillary services that has to be
16 incorporated into the analysis of net CONE, correct?

17 A. Right.

18 Q. Okay. So you're just comparing it to net
19 CONE even though you're not considering energy and
20 ancillary services in making that assessment,
21 correct?

22 A. Correct.

23 Q. Okay. And what -- what do you mean -- do
24 I understand you mean long-run equilibrium being a
25 price that's equivalent or similar to net CONE? Is

1 that your definition of long-run equilibrium?

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

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

10 A. Right.

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

15 A. No, sir.

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

21 A. Well, you know, these mechanisms, many of
22 them went into operation just after the decline in
23 the economy and so it's been difficult for those
24 prices to actually get up to the CONE numbers for a
25 considerable time. They may have reached it for

1 short periods, but, again, they haven't done it on
2 that sustained basis that would induce people to want
3 to build additional capacity.

4 Q. But people are building additional
5 capacity --

6 A. They are.

7 Q. -- in the PJM market.

8 A. Yes.

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

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

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

16 A. Right.

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

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

21 Q. For all the areas in Table 2.

22 A. Yes.

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

1 extended periods.

2 A. Correct.

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

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

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

11 A. At some point in the future.

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

14 A. No, sir.

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

21 A. Yes. Either what will happen is very
22 low-cost demand response resources can come into the
23 market and change the actual nature of the CONE, the
24 construction costs can go down for new types of
25 technologies, a lot of things will actually change

1 what your long-run equilibrium would be. But one
2 hopes we get there. But in the -- it's in the long
3 run. This is the problem that that long run doesn't
4 help people finance construction or decide to keep a
5 unit open that is not earning enough money.

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

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

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

19 A. No.

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

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

5 Q. Right.

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

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

15 A. No.

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

18 A. Let me try again. You buy a
19 particular -- I'll just try to make it a simple
20 example -- a furnace, and you bought it based on your
21 expectations of what energy costs would have been,
22 and if, all of a sudden, energy costs become
23 volatile, that furnace might not have been your best
24 choice, right? It may be that you will decide,
25 because prices will become volatile, that you will

1 scrap that one before its actual terminal age and buy
2 a new one as a result of that. You bear the cost of
3 that investment and that loss. From your
4 perspective, as a residential customer, you had a
5 stranded cost, but you have nobody to charge it to
6 but yourself.

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

13 A. Well --

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

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

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

1 A. It's just one of the factors.

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

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

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

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

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

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

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

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

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

25 A. Well, demand response if it was getting

1 paid under the particular rules that were in place in
2 many cases is a low cost investment. It's not like a
3 power plant. So you don't have the same kinds of
4 costs associated with putting in demand response as
5 you would if you were building a 500-megawatt
6 gas-fired plant.

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

9 A. Is believing.

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

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

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

18 A. Correct.

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

21 A. Yes.

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

25 A. It's the cost of -- based on the EPRI tag

1 numbers for the gas-fired power plants.

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

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

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

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

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

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

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

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

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

25 A. Correct.

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

3 A. I believe, yes.

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

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

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

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

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

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

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

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

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

25 A. If it's adjusted for inflation, and

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

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

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

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

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

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

19 A. Yes. Yes.

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

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

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

4 A. Yes.

5 Q. -- revenues.

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

9 A. Yes.

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

11 A. Yes.

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

17 A. It -- the SSO?

18 Q. Yes, the SSO option.

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

22 Q. And Choice -- customers who are
23 participating in the competitive market with a CRES
24 supplier, have you seen -- have you seen prices where
25 a customer could fix a rate for -- for four or five

1 or six, seven years in some cases? Have you seen
2 offers like that?

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

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

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

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

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

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

21 A. Offhand, no.

22 Q. -- from a CRES supplier?

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

1 was all I was able to.

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

8 A. Certainly that's an option.

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

13 A. No, not offhand.

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

16 A. That's fine, yes.

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

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

22 Q. Would you accept over the, I think it's
23 2,183 days that you used --

24 A. That sounds right.

25 Q. -- that there were five days when it

1 exceeded 200-megawatt -- I mean --

2 A. \$200.

3 Q. -- \$200 per megawatt-hour?

4 A. Yes.

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

7 A. Subject to check.

8 Q. And would you agree that, so that the
9 price over \$100 per megawatt-hour occurred only
10 2.8 percent of the time -- of the days in your
11 analysis in 2,183 days?

12 A. Subject to check.

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

15 A. Yes.

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

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

22 Q. Okay. So -- so in terms of -- is there a
23 difference that -- you've talked about low volatility
24 and high volatility. How would you represent the
25 difference between low volatility and high volatility

1 as you use those figures -- those terms?

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

9 Obviously, the capacity auction is much
10 more volatile than the peak prices that -- and I
11 think those are probably the kind of peak prices
12 you're citing from our work, they are less volatile
13 than the capacity prices. That's on Table 1 on page
14 7.

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

19 A. Right, yes.

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

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

23 Q. Are you aware that Mr. Wilson testified
24 that customers would not receive a financial benefit
25 over the term of the ESP in this case, but, actually,

1 would be financially disadvantaged to the extent of
2 approximately \$116 million over the timeframe of the
3 ESP?

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

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

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

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

16 A. That's a possibility.

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

20 A. No.

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

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

23 Q. And with respect to whether there may be
24 substantial volatility in -- in the operation costs
25 associated with OVEC, are you familiar with

1 substantial variances that have occurred in the past
2 in the price of coal?

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

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

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

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

18 A. I thought the question was about at OVEC.

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

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

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

25 A. Yes. Coal prices have fluctuated.

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

4 A. For what time period?

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

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

15 MR. BERGER: Just a minute, your Honor.

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

19 A. Yes.

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

24 EXAMINER SEE: Yes.

25 (EXHIBIT MARKED FOR IDENTIFICATION.)

1 Q. And have you read this decision before --

2 A. Yes.

3 Q. -- Dr. McDermott? And you would agree
4 with me that this purchased power agreement has to do
5 with -- with new generation for -- for wind
6 production?

7 A. Correct.

8 Q. And would you agree with me there were 14
9 RFP respondents for this new capacity?

10 A. That's what I recall is something in that
11 range.

12 Q. Would you agree with me that the goal of
13 the Public Utilities Commission stated was to lower
14 energy costs?

15 A. Yes.

16 Q. And they also -- and the Commission also
17 indicated that one of the goals was to enhance
18 reliability and reduce GHG emissions?

19 A. Yes.

20 Q. Would you agree with me that this
21 purchased power agreement was similar to the other
22 ones presented by the other -- that were discussed on
23 page --

24 A. 16.

25 Q. -- 16 of your testimony --

1 A. Yes.

2 Q. -- for the other states mentioned?

3 A. Yes.

4 Q. And that they have numerous goals
5 associated with the acquisition of this particular
6 purchased power agreement?

7 A. Right. And that's again why I used
8 these -- the -- excuse me, the Commission in Ohio has
9 the option to adopt this with its own policy goals if
10 it should decide it wants to have stability.

11 Q. Okay. And would you agree with me that
12 with respect to all the states that you referenced,
13 those purchased power agreements all were for the
14 physical acquisition of capacity; is that correct?

15 A. They were for bringing new wind power
16 into the market so, yes, physical.

17 Q. And the proposal in this case is not for
18 the physical acquisition of capacity, nor is that
19 capacity necessary in the PJM market; would you agree
20 with that?

21 A. It's not necessary in the PJM?

22 Q. Well, let me ask you first whether it's
23 associated with the physical acquisition of capacity.

24 A. No. It's -- it's a plant that already
25 exists.

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

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

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

9 A. Yes.

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

12 A. I believe in all of them, yes.

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

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

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

21 A. Yes.

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

25 A. I -- that I don't know. I couldn't say

1 offhand that it would have or not.

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

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

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

10 A. What do you mean by that?

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

13 A. Right.

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

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

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

25 A. That's my understanding.

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

3 A. Right.

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

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

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

19 MR. BERGER: Well, on page 4, your Honor,
20 he states that, on line 10, that market prices
21 change -- "Moreover, as market prices change over
22 time, the PPA Rider's forecasted element is expected
23 to run counter to the change in market prices. This
24 would provide a bill credit or charge which helps to
25 offset changes in market prices." And I am examining

1 whether that -- that bill credit or charge, which
2 occurs in the following year, will, in fact, run
3 counter to the forecasted price.

4 A. And I don't know.

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

7 A. It is possible.

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

13 A. I'm sorry. Say that again.

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

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

1 risks. I don't think that's necessarily the case.

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

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

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

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

25 A. Energy market prices to rise.

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

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

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

11 A. Yes, I am.

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

14 A. No.

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

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

1 talk to the company about.

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

5 A. Sure, you would want that.

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

8 A. I do not, no.

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

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

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

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

25 Q. Is it possible -- strike that.

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

3 MR. PARRAM: No questions, your Honor.

4 EXAMINER SEE: Any redirect, Mr. Nourse?

5 MR. NOURSE: Could we have a short break?

6 EXAMINER SEE: Yes.

7 MR. NOURSE: Thank you.

8 EXAMINER SEE: Let's go off the record.

9 (Recess taken.)

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

12 Mr. Nourse.

13 MR. NOURSE: Thank you, your Honor.

14 - - -

15 REDIRECT EXAMINATION

16 By Mr. Nourse:

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

21 A. Yes.

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

1 A. That's correct.

2 Q. Now, does Appendix A, at the end, say
3 that the full CV is available upon request?

4 A. Yes.

5 Q. And are you aware whether any counsel in
6 this case requested the full CV be made available?

7 A. There was at least one.

8 Q. Okay. And does the full CV reference the
9 Compete Coalition study?

10 A. Yes.

11 MR. NOURSE: Okay. Thank you.

12 That's all I have, your Honor.

13 EXAMINER SEE: Mr. Petricoff?

14 MR. PETRICOFF: No questions, your Honor.

15 EXAMINER SEE: Ms. Mooney?

16 MS. MOONEY: No questions.

17 EXAMINER SEE: Mr. McDermott?

18 MR. McDERMOTT: No questions, your Honor.

19 EXAMINER SEE: Ms. Bojko?

20 MS. BOJKO: No questions, your Honor.

21 EXAMINER SEE: Mr. Sineneng?

22 MR. SINENENG: No questions, your Honor.

23 EXAMINER SEE: Ms. Shadrack?

24 MS. SHADRICK: No questions.

25 EXAMINER SEE: Mr. Kurtz?

1 MR. KURTZ: No questions, your Honor.

2 EXAMINER SEE: Mr. Darr?

3 MR. DARR: No questions.

4 EXAMINER SEE: Mr. Yurick?

5 MR. YURICK: No questions, your Honor.

6 EXAMINER SEE: Mr. Berger?

7 MR. BERGER: No questions, your Honor.

8 Thank you.

9 EXAMINER SEE: Mr. Parram?

10 MR. PARRAM: No questions, your Honor.

11 Thank you.

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

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

20 The witness, on the stand, admitted that
21 he had no knowledge of specific statutes. He hadn't
22 reviewed any specific statutes dealing with the
23 issues referenced on those lines before making his
24 statements. He also agreed that he wasn't testifying
25 to the accuracy of these statements and that they

1 were based purely on counsel's interpretation of any
2 pertinent statutes and that he was not interpreting
3 them himself.

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

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

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

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

24 MS. BOJKO: Your Honor, if I may reply.
25 There is no context. That's kind of the motion to

1 strike. The witness clearly stated he wasn't
2 testifying to these particular issues. They are
3 gratuitous statements thrown in there at the end. I
4 do disagree with counsel's interpretation.

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

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

25 So it's certainly -- the legal statements

1 are certainly not intended to be evidence for the
2 truth of the matter asserted. They are context for
3 his testimony.

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

7 AEP Ohio Exhibit 32 is admitted into the
8 record.

9 (EXHIBIT ADMITTED INTO THE RECORD.)

10 EXAMINER SEE: Ms. Bojko.

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

17 MR. NOURSE: No objection.

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

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

24 EXAMINER SEE: Including the Bench, okay.

25 Mr. Darr.

1 MR. DARR: Thank you, your Honor. Along
2 the same lines as what's been suggested by Ms. Bojko,
3 I would ask for administrative notice of the
4 Massachusetts press release, the Connecticut press
5 release, and move for admission of IEU Exhibits 14,
6 15, and 16. So administrative notice as to 12 and 13
7 and admission of 14 through 16.

8 MR. NOURSE: No objection.

9 EXAMINER SEE: Okay. So let me make sure
10 I have it correct. You are moving for admission of
11 14, 15, and 16?

12 MR. DARR: Yes, ma'am.

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

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

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

19 (EXHIBITS ADMITTED INTO EVIDENCE.)

20 EXAMINER SEE: Finally, Mr. Berger.

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

23 EXAMINER SEE: Are there any objections?

24 MR. NOURSE: No objections, your Honor.

25 EXAMINER SEE: OCC Exhibit 19 is admitted

1 into the record.

2 (EXHIBIT ADMITTED INTO EVIDENCE.)

3 EXAMINER SEE: Thank you, Mr. McDermott.

4 THE WITNESS: Thank you.

5 EXAMINER SEE: We'll resume today at

6 1 o'clock. We are off the record.

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

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1 Monday Afternoon Session,
2 June 30, 2014.

3 - - -

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

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

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

10 EXAMINER PARROT: Let's swear you in
11 again.

12 (Witness sworn.)

13 EXAMINER PARROT: Please have a seat.

14 - - -

15 WILLIAM A. ALLEN

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

18 DIRECT EXAMINATION

19 By Mr. Nourse:

20 Q. Good afternoon, Mr. Allen.

21 A. Good afternoon.

22 Q. Did you prepare rebuttal testimony in
23 this case?

24 A. Yes, I did.

25 Q. Okay. And this was the document that was

1 docketed on June 20?

2 A. Yes, it is.

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

6 A. Yes.

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

10 EXAMINER PARROT: So marked.

11 (EXHIBIT MARKED FOR IDENTIFICATION.)

12 MR. NOURSE: Thank you.

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

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

23 Q. Okay.

24 A. And then on page 5, line 14, the phrase
25 "the customers" shows up twice in that sentence. The

1 first occurrence should be deleted.

2 Q. Okay.

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

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

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

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

13 Q. Thank you, Mr. Allen.

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

17 A. Yes, they would.

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

21 EXAMINER PARROT: Mr. Petricoff?

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

24 - - -

25 CROSS-EXAMINATION

1 By Mr. Petricoff:

2 Q. Good afternoon, Mr. Allen.

3 A. Good afternoon.

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

6 A. I'm there.

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

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

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

24 Q. This is not a forecast saying that's what
25 will happen. This is just a demonstration of the

1 mechanics of what -- what a \$5 change in the relative
2 market price means.

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

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

8 A. Sure.

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

11 A. Yes.

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

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

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

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

22 Q. So illustrative purposes only.

23 A. That's correct.

24 Q. And then the capacity factor, you have
25 75 percent capacity factor. Explain what you meant

1 by capacity factor and where the 75 came from.

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

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

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

19 Q. And what was it in 2012?

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

22 Q. We'll move on. 8,760 -- actually, let me
23 go back on that. If, in fact, the market was soft,
24 then we may have a number that's smaller than
25 75 percent.

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

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

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

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

13 A. I do not.

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

16 A. That's correct.

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

18 A. 24, that's correct.

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

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

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

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

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

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

20 A. That's correct.

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

25 The relative market price that is

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

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

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

14 A. That's correct.

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

17 A. Exhibit --

18 Q. IEU Exhibit 6.

19 A. I do not.

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

22 EXAMINER PARROT: You may.

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

25 Q. Okay. Mr. Allen, if you would, turning

1 to page 2 of IEU Exhibit 6, and it says -- first of
2 all, IEU Exhibit 6 is the annual report of 2012 for
3 OVEC?

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

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

11 A. That's correct.

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

14 A. Not that I'm aware of.

15 Q. So this is the latest annual report.

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

19 Q. Right.

20 A. Just not the financial report.

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

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

1 on it.

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

7 A. I do.

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

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

15 Q. Okay.

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

18 EXAMINER PARROT: You may.

19 Q. Earlier we spoke about the 2013 financial
20 report.

21 A. Yes.

22 Q. Let me show you this. I am going to give
23 you it in two pieces. There's the beginning with the
24 sign off from the -- from Deloitte. And, once again,
25 I just have a section and then here is the language

1 that I would like to just take a moment to look at
2 and to refresh your memory. And then I'll ask you
3 the question again, when we do the cost -- the
4 calculation of the cost at OVEC under the -- the
5 partnership agreement that's filed at FERC, isn't it
6 true that a return on equity is included in the cost?

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

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

17 A. That's correct.

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

22 A. One thing we have to recognize as we
23 discuss this is that the ownership in OVEC, the
24 equity proportion, is not the same as the power
25 participation ratio in OVEC. The ownership of the

1 equity in OVEC for AEP is largely held by the parent
2 company. And the only piece that resides on Ohio
3 Power's books today is the historical CSP ownership
4 share that existed prior to the acquisition of CSP by
5 AEP in the -- the 1980s.

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

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

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

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

25 A. No. I think you've confused how the OVEC

1 model works. OVEC, as an entity, sells power to AEP
2 Ohio. That sale, in and of itself, as well as the
3 sale to the other sponsoring companies, is what
4 creates the earnings for AEP Ohio's share of OVEC,
5 its ownership share in the equity, as well as AEP's,
6 the parent, share. What AEP Ohio does with the power
7 after that has no impact on the earnings that exist
8 at OVEC and ultimately are flowed through to the
9 sponsoring companies.

10 Q. I want to focus down on the risk. Right
11 now, if AEP Ohio -- if AEP Ohio sells into the market
12 and it doesn't recover the cost that it must pay OVEC
13 for the power, it has a loss, correct?

14 A. If AEP Ohio sells its power for less than
15 what it costs to purchase that power, it will suffer
16 a loss, that's correct.

17 Q. And under rider PPA they will not suffer
18 that loss because if, in fact, the sale of the power
19 into the market is not sufficient to meet the cost of
20 the OVEC power, it will be made up by the customers
21 paying the rider PPA?

22 A. Yes. And the opposite is true as well,
23 if there were a margin on those sales, that would be
24 returned to customers.

25 Q. Let's go back now and continue looking on

1 page 2 of the -- of the annual report. It says the
2 total sponsoring company power costs were 650 million
3 in 2012 compared with 722 million in 2011. Do you
4 see that?

5 A. I do see that.

6 Q. Okay. So, basically, between 2011 and
7 2012, OVEC was able to reduce its costs some
8 \$70 million?

9 A. The reduction in costs between 2011 and
10 2012 is largely a result of the reduced output of the
11 units, as you can see at the bottom of column 1 on
12 page 2, where it says that OVEC delivered 10.34
13 million megawatt-hours in 2012, while in 2011, they
14 delivered 14.2 million megawatt-hours. So there is a
15 significant change in fuel expense in those two years
16 as a result of the increased output of the units or,
17 when you go from '11 to '12, it's a decreased output
18 of the units.

19 Q. Right. And because of that decreased
20 output, the price, the OVEC price to Ohio Power
21 increased from \$50.86 to \$62.86, \$12 a megawatt-hour.

22 A. That's a function of the fixed nature of
23 many of the costs of OVEC. So as you divide fixed
24 costs over a smaller kilowatt-hour base, the rate in
25 the dollar per megawatt-hour basis increases.

1 Q. Okay. So it's fair to say then merely
2 reducing OVEC's costs does not mean that the OVEC
3 price will go down.

4 A. I don't know if I would agree with that.
5 Reducing OVEC's O&M costs for things such as labor,
6 maintenance, and the like does have a direct result
7 in reducing the OVEC costs. Reducing the output of
8 the units does not reduce the cost to the units, but
9 a reduction in traditional O&M does lower the cost of
10 the output of the units.

11 Q. But there are fixed costs as well as
12 traditional O&M.

13 A. There are fixed costs for these units.

14 Q. And you would agree with me that some O&M
15 costs cannot be diminished just because of diminished
16 output.

17 A. There's some O&M costs that are more
18 fixed in nature and more available in nature, that's
19 true.

20 Q. These power plants are union power
21 plants, correct? So if you had a decrease in sales,
22 you couldn't just go lay off workers.

23 A. I don't know whether you could or you
24 couldn't. There's a certain staffing that's
25 necessary to maintain and operate the units in a safe

1 and reliable fashion.

2 Q. So -- and labor is a maintenance -- is
3 a -- I'm sorry. Labor is a labor cost and part of
4 maintenance and operation, an O&M cost.

5 A. It's partly O&M and some of it goes to
6 capital as well.

7 Q. Okay. Now, in the reduction that you've
8 forecasted in your -- I guess I'll call it exhibit --
9 AEP Exhibit 8, forecast of costs, you indicate there
10 is going to be reduction in costs going forward
11 for -- for OVEC and that has changed your forecast
12 going forward as to what the amount of -- what the
13 projection of the PPA would be; is that correct?

14 A. That's a factor that needs to be
15 considered in the value of the PPA, and I did present
16 that in an exhibit on the stand, yes.

17 Q. Okay.

18 A. And just to be clear, that's OVEC's
19 forecast of costs that they presented to all of the
20 sponsoring companies as owners of OVEC.

21 Q. And there's no warranty or guarantee OVEC
22 is going to make that projection.

23 A. My expectation is that when OVEC presents
24 a forecast of costs to the sponsoring companies, that
25 OVEC is comfortable with those costs. One thing you

1 have to remember is the board of OVEC is comprised of
2 those same sponsoring companies. So OVEC is in a
3 position where it's in their best interests, as
4 owners of OVEC, the board members, to make sure the
5 data that they provide to their own utilities is as
6 accurate as possible.

7 Q. Is AEP confident enough in the OVEC
8 estimate that we would get the credit for that
9 whether it actually does occur or not? Would you be
10 willing to do that?

11 A. No, no. What we have done is presented
12 our forecast of the expected costs of OVEC, those
13 costs that we believe are the most accurate today.

14 Q. Let me -- let me move on a bit here. So
15 going back here to our exhibit with the OVEC, we are
16 at 35 -- we are at 35 cents a megawatt-hour. If I
17 want to convert that to kilowatt-hours because I am a
18 residential customer, I just multiply the 35 cents by
19 a thousand. So it would be .000, three 0s, 35 per
20 kilowatt-hour would be the savings?

21 A. Yes, that's correct. You just move the
22 decimal three places.

23 Q. Right.

24 MR. NOURSE: Your Honor, for
25 clarification, can we just clarify the last answer,

1 whether it was in dollars or cents? I think the
2 original question was in cents.

3 Q. Oh, okay. Let's --

4 MR. PETRICOFF: Thank you, counsel.

5 Q. Let's clear that up right now. We're --
6 we're talking about \$.35 per megawatt-hour and
7 \$.00035 per kilowatt-hour. Okay.

8 MR. PETRICOFF: Let the record reflect
9 that the witness is shaking his head.

10 A. So if you are doing cents per
11 kilowatt-hour, which I never do, but if you do, 0.035
12 cents per kilowatt-hour.

13 Q. And I tell you the reason you don't do it
14 is because it is so hard to talk about 35 thousandths
15 of a cent.

16 A. No. And Ohio is one of the unique states
17 that does, at least in my reference, talks about
18 cents per kilowatt-hour. But, really, when we talk
19 about dollars per megawatt-hour or millions per
20 kilowatt-hour, that's a much more comfortable
21 position, especially as a former fuel buyer, we
22 always talk in millions per kilowatt-hour.

23 But, generally, for -- they use a
24 thousand kilowatt hours in a month or one
25 megawatt-hour in a month. So if the market price

1 changes by \$5 for that customer in a month, the PPA
2 rider just for OVEC would have the impact of reducing
3 that \$5 increase by 35 cents.

4 And, likewise, on the expanded PPA, what
5 would be a \$5 increase in price on a customer bill
6 would be reduced by \$2.39 such that the customer
7 would see an increase of only \$2.61. So that's why I
8 do dollars per megawatt-hour. I think it's a little
9 easier to follow.

10 Q. Okay. And all of that would be -- would
11 be the same but we -- it would be a 35-cent
12 additional cost if, in fact, it was a \$5 increase
13 instead of a \$5 decrease.

14 A. If you change the sign for the market
15 price, the sign changes on the other PPA rider as
16 well.

17 Q. Okay. Let's go forward. Does AEP Ohio
18 offer a calculator on its website where a residential
19 customer can go and see what the cost of power would
20 be if they want to go and shop?

21 A. We have a calculator that would show them
22 what the price to compare would be. You can derive
23 that from the information on that calculator.

24 Q. Okay. And do you know now for the
25 Columbus and Southern zone the amount of the energy

1 cost price to compare, if you will, for the energy
2 cost?

3 A. Not off the top of my head, no.

4 MR. PETRICOFF: Your Honor, may I -- may
5 I approach the witness?

6 EXAMINER PARROT: You may.

7 MR. PETRICOFF: Maybe I would like to get
8 this marked as RESA Exhibit 4.

9 EXAMINER PARROT: So marked.

10 (EXHIBIT MARKED FOR IDENTIFICATION.)

11 Q. Okay. Mr. Allen, is that the calculator
12 that's up on the website?

13 A. It appears to be the -- it appears to be
14 the calculator for the Columbus Southern rate zone of
15 Ohio Power.

16 Q. And so for the customers in Columbus
17 Southern right now, the -- the price to compare for
18 the energy portion of their bill would be 9.64?

19 A. Yes, that's correct, or \$96 a
20 megawatt-hour.

21 Q. And by comparison, the savings that we
22 were talking about for the -- for the PPA at \$5, a
23 difference in the market price was 35 cents a
24 megawatt-hour as opposed to 96.4?

25 A. I don't think that's how customers

1 typically view it based on my experience in the
2 regulatory environment. What customers usually look
3 at is the change in their bill. And so it would be a
4 \$5 change in their bill would be reduced just for
5 OVEC by 35 cents.

6 Q. I'm just -- the question was just a
7 comparison that basically -- well, never mind.

8 MR. NOURSE: Mr. Petricoff, would you
9 mind using your mic? It's a long way down the table
10 there.

11 MR. PETRICOFF: I'm sorry.

12 Q. Okay. Let's see if we can get a
13 comparison that is -- that is closer to what you
14 think that customers look at. You indicated that --
15 on line 4 -- I'm sorry, on page 4, lines 11 to 14,
16 that you look through --

17 A. I'm sorry. What was that reference
18 again?

19 Q. Page 4, line 18, that you had looked at
20 the -- the Commission's Apples to Apples comparison,
21 price comparison?

22 A. I did.

23 Q. Okay. And would you agree with me that
24 in the -- in the Commission's Apples to Apples
25 website someone who gets online can -- can actually

1 query it for different types of contracts both by
2 length and by price or by supplier?

3 A. You can query it or there's a -- kind of
4 a snapshot they put in the PDF of what the offers are
5 and that's what I looked at actually.

6 Q. Okay. And did you -- well, actually,
7 let's just mark this as an exhibit.

8 MR. PETRICOFF: Your Honor, I would like
9 to have this exhibit marked as -- we will make this
10 Constellation Exhibit No. 2.

11 MR. NOURSE: You were doing RESA
12 exhibits. So you are doing Constellation?

13 MR. PETRICOFF: This one I am going to
14 make it Constellation exhibit.

15 EXAMINER PARROT: All right. So marked.

16 (EXHIBIT MARKED FOR IDENTIFICATION.)

17 Q. Okay. When you were looking at the -- at
18 the website, did you see the -- did you look at the
19 three-year offers?

20 A. I looked at all of the offers as of, I
21 think it was June 13 is the date that I indicate.

22 Q. Okay. Well, I show you now what -- what
23 has been marked as Constellation Exhibit No. -- No.
24 2. And would you agree that Constellation has an
25 offer -- a three-year offer on the website for 8

1 cents -- 8 -- 8.09 cents per kilowatt-hour? It would
2 be the second item down.

3 A. Yes. So what this shows me is that when
4 I had done -- yeah, there's three offers, I had
5 indicated in my exhibit that there were four offers,
6 between 4 and 36 months. That's consistent with what
7 I looked at.

8 Q. Right. And you would agree with me that
9 if a customer who is on the SSO, standard service
10 offer, residential customer, in the Columbus and
11 Southern zone would -- would sign up with -- with
12 Constellation, they would see a decrease of 1.6 cents
13 per kilowatt-hour in their -- for their cost of
14 power?

15 A. I think based on the summer rates for
16 CSP, which aren't the rates that exist throughout the
17 year, that customer would see a decrease of 1.55
18 cents a kilowatt-hour.

19 Q. If they are in the second tier of the
20 winter rate. For their usage, that's in the second
21 tier of the winter rate.

22 A. This is for their -- you gave me -- the
23 price to compare is a summer rate.

24 Q. Okay. Let's go back and we'll take this
25 in steps so that everyone can understand this record.

1 For June, they would save 1.6 cents per
2 kilowatt-hour if they move from -- if a residential
3 customer moved from standard service to this offer
4 from Constellation.

5 A. For the month of June they would see a
6 reduction of point -- 1.55 cents per kilowatt-hour.

7 Q. Right.

8 A. That's not to say that's the savings they
9 would see over the entire 36-month term though.

10 Q. Well, that's correct. But let's just
11 talk about -- about price stability. At that point
12 their price then would be stable. It would be at --
13 it would be at 8 cents for the next 36 months.

14 A. It could possibly be stable. We would
15 have to look at the terms of that contract and, as we
16 are all aware, many of those contracts that indicate
17 fixed do have some reopener positions that allow the
18 CRES to change that price based upon changes in the
19 PJM market.

20 Q. And were you here when Mr. Campbell took
21 the stand and was asked that question?

22 A. I was.

23 Q. And didn't he indicate that price was
24 fixed and that they did not change it for the polar
25 vortex and would not change it?

1 A. What he indicated, as I recall, is that
2 they would not change it for the polar vortex. I
3 don't know that he spoke for any future event.

4 And I was also here at the time where
5 FirstEnergy Solutions indicated that it would be a
6 business decision. And I know personally that they
7 are changing those rates and that the fixed rates
8 that they have are not fixed and, in fact, they do
9 vary.

10 Q. You say "they." Who is "they"?

11 A. FirstEnergy Solutions, as I indicated.

12 Q. But that wouldn't apply to Constellation,
13 that rumor that you heard or personal knowledge that
14 you have that there may be a rate increase sometime
15 coming for FirstEnergy Solutions.

16 A. It's not a rumor. It was based upon a
17 specific discussion with FirstEnergy Solutions based
18 upon the specific account that I am responsible for,
19 and they indicated they would be passing through that
20 change. What Constellation will or will not do, I
21 can't speak to.

22 Q. Okay. Now, let's go back and we talked
23 about -- about June. We were talking about the
24 differentials in rates. Columbus and Southern has a
25 winter-tiered rate, correct?

1 A. You're starting to get beyond my complete
2 understanding. I don't follow all of the tariffs of
3 all of our operating companies, but I know that they
4 have two different rates during the year, a summer
5 and a winter rate.

6 Q. Right. And, to your knowledge, does the
7 winter rate only apply for sales over 800-kilowatt
8 hours a month?

9 A. That's correct. It's a lower rate in the
10 winter.

11 Q. Right. But it's only for that -- that
12 usage over 800-kilowatt hours.

13 A. That's correct. And for many of our
14 customers that usage can be quite significant. And
15 so, to compare an 8.09 cent offer to the summer-only
16 rate would overstate the benefit a customer could see
17 if they switched to a rate like this.

18 Q. Or we could say it's exactly what they
19 are going to get, assuming they don't use more than
20 800-kilowatt hours.

21 A. I don't know that both blocks are the
22 same in the winter -- or, that the first block is the
23 same as the summer first block. I just don't recall.

24 Q. Isn't it true there is only one block in
25 the summer, and in the winter there's two blocks that

1 start at 800?

2 A. In the winter there are two blocks. The
3 split is 800-kilowatt hours. I don't know what the
4 rate is for the first tier and the second tier. I
5 just can't answer that for you.

6 Q. So the answer is you can't do this
7 calculation on what the relative cost is because you
8 don't know the AEP Ohio residential rate.

9 A. For the winter block, that's correct.

10 Q. Now, let's go back because we started off
11 on looking for comparison. So we know that for --
12 for the summer rate, the savings is going to be 1.6
13 cents a month, and if we had a \$5 change, by
14 comparison, I just want to compare this up, if we had
15 a \$5 change in the market price, the benefit that
16 would flow through the -- that would flow through the
17 rider PPA would be how much per kilowatt-hour? Would
18 it be 35 thousandths of a cent?

19 A. If you had a \$5 a megawatt change, it
20 would be a 35-cent change under the OVEC proposal,
21 but a much larger impact, the \$2.39 impact we talked
22 about, if you were to expand it for 3,000 megawatts.

23 Q. But that was 35 cents per megawatt-hour,
24 right?

25 A. Which is a typical monthly usage for a

1 residential customer, yes.

2 Q. I want -- I got a price here in
3 kilowatts. I want to get a price in kilowatts and
4 compare it with. Can you tell me what the price per
5 kilowatt -- what the savings per kilowatt-hour would
6 be for that customer?

7 A. So if we go to the -- and this is the
8 confusion because what we show on the price to
9 compare is dollars -- I'm sorry, on the Apples to
10 Apples chart is dollars per kilowatt-hour and what we
11 are showing on the AEP Ohio calculation is in cents
12 per kilowatt-hour.

13 But if you look at .0809 dollars per
14 kilowatt-hour and you increase that by .005, the
15 savings that the customer would see is .00035. Much
16 easier than doing dollars per megawatt hour.

17 Q. So we are back to the beginning. So it's
18 basically \$.00035?

19 A. So the easier way to look at it, any
20 change you assume in the market price, it's a
21 7 percent reduction due to the PPA rider.

22 Q. I am just trying to get back to where I
23 was 20 minutes ago. In fact, if I just want to take
24 what the kilowatt savings was, I could take the 35
25 cents and divide it by a thousand, that is, put a

1 decimal and three zeros, and I would be at what the
2 savings would be per kilowatt-hour from the rider
3 PPA, assuming a \$5 market change.

4 A. Yeah. And what I am saying, customers
5 don't buy a kilowatt-hour of energy. They buy a
6 thousand kilowatt-hours or megawatt-hours. So we can
7 confuse the record by trying to get into cents per
8 kilowatt-hours and dollar per megawatt-hour, but I
9 think it's a lot easier if we stick with dollars per
10 megawatt-hour. It is going to be much easier.

11 MR. PETRICOFF: Your Honor, I move to
12 strike the last part of the sentence after he agreed
13 to the calculation. It was extraneous.

14 MR. NOURSE: Well, your Honor, I think
15 Mr. Allen is just explaining why Mr. Petricoff wants
16 to go back and forth between these two formats and
17 explaining his preference and he's trying to help
18 create a clear record.

19 EXAMINER PARROT: The motion to strike is
20 denied. Move along, please.

21 MR. PETRICOFF: Okay.

22 Q. Actually, I just have one more question
23 for you, Mr. Allen. What is the main -- what is the
24 main purpose of the rider PPA?

25 A. The benefit of the PPA rider is price

1 stability for customers over the long term.

2 Q. And is it -- is it a main tenet of the
3 rider PPA that AEP Ohio should be -- well, let's see.
4 Let me strike that.

5 When the Commission makes its decision on
6 a PPA, and it makes modifications, should its only
7 consideration be what the impact will be on the
8 retail customers?

9 A. No. The Commission's task is much
10 greater than that. The Commission's task is to find
11 a balance between the interests of the company, the
12 company's customers, and the other stakeholders in
13 the process. And so, in doing such, the Commission
14 should look towards price stability; and also
15 ensuring that any actions that the Commission takes
16 to get that price stability doesn't have a
17 financially detrimental impact on the company.

18 Q. The company now can sell the OVEC
19 generation in the market and get -- and get the
20 market price, correct?

21 A. That's correct, and the company is doing
22 it today.

23 Q. Right. And the company forecasts that
24 over the ESP 3 period that actually the price that it
25 pays -- the price -- the revenue we see for selling

1 that power will be less than the cost it has to pay
2 OVEC for that power.

3 A. Yes, that's correct. And that goes along
4 with some of the discussion you had earlier about
5 what is the strike price of this contract. And when
6 you look at that value where we said it was a
7 7-cent-per-kilowatt or 7-cent-per-megawatt-hour
8 benefit to customers, what that small benefit tells
9 you is that the OVEC strike price is essentially in
10 line with the current market price forecast that we
11 have today.

12 MR. PETRICOFF: Your Honor, I move to
13 strike. My question had no strike price, in quotes,
14 contained in it.

15 MR. NOURSE: Your Honor, I believe the
16 question was about the price, the revenue we receive
17 for selling the power being less than the cost it has
18 to pay. I believe Mr. Allen's answer answers the
19 question in the context of the PPA rider and his
20 additional explanation.

21 EXAMINER PARROT: Motion to strike is
22 denied.

23 MR. PETRICOFF: Okay.

24 Q. So if the company's projections are
25 correct on what the revenue it will be -- it will get

1 from selling the OVEC power into the market and the
2 cost of the OVEC power, then the company will not be
3 harmed financially if the Commission does not grant
4 the rider PPA?

5 A. No. I don't know that that's a true
6 statement. When you look at financial harm, you have
7 to look at, first, whether there is a gain or loss in
8 pure dollars. And based on the analysis that the
9 company has presented, over that three-year period
10 the OVEC units are about at market.

11 But there is a financial harm in the
12 increased risk that the company sees that if markets
13 go down, the company could see losses, and if markets
14 go up, the company could see additional gain. So
15 that volatility is additional risk for the company
16 that does have a negative financial impact on the
17 company.

18 Q. And part of the reason presenting the
19 rider PPA is to reduce the risk to the company.

20 A. Yes, it is. Financial risk to the
21 company manifests itself in higher debt costs for the
22 company because rating companies view the risk as
23 more risky and, as such, they have higher bond costs,
24 and higher bond costs flow to the retail customers
25 through traditional ratemaking. So when we look at

1 risks of the company, mitigating that risk benefits
2 both the company and its customers.

3 MR. PETRICOFF: Your Honor, I have no
4 further questions.

5 Thank you very much, Mr. Allen.

6 EXAMINER PARROT: Ms. Mooney?

7 MS. MOONEY: Yes, your Honor.

8 - - -

9 CROSS-EXAMINATION

10 By Ms. Mooney:

11 Q. Just to follow up on that last question
12 and answer. At this point the company is projecting
13 that the OVEC costs will decrease; is that correct?

14 A. The company does believe that the OVEC
15 costs will decrease as a result of the actions that
16 OVEC is currently undertaking, yes.

17 Q. So that would mitigate the risk to the
18 company?

19 A. The risk still exists for the company.
20 The total dollar impact on the company would be
21 reduced as a result.

22 Q. Okay. I just want to ask you questions
23 on the first two -- second and third pages of your
24 testimony about the standard service offer and
25 especially on, when you begin the answer on line 17

1 of page 2, that the staggering and laddering only
2 impacts the SSO price.

3 A. Yes.

4 Q. It doesn't impact the price paid by
5 shopping customers. My first question about that is:
6 What does the company, Ohio Power, care about the
7 difference between the SSO price and the price paid
8 by shopping customers? What is your interest in
9 that?

10 A. Sure. And I think Company Witness Vegas
11 described this in his direct testimony, but the
12 financial success of our customers has an impact on
13 the company. The more successful our customers are,
14 the more successful we are as a company. So we have
15 a clear interest in our customers receiving, through
16 the SSO and from CRES offerings, prices that allow
17 them to stay viable in the market and to continue to
18 operate.

19 Q. Are you referring to residential
20 customers -- I represent Ohio Partners for Affordable
21 Energy, and we represent low-income customers and
22 small commercial customers, but, so do we have the
23 same interest in what you just referred to?

24 A. Sure. To the extent our customers can't
25 afford to pay their bills, the companies -- company

1 has less usage or we have increased uncollectibles,
2 that's bad for us. But also, our residential
3 customers benefit from the success of our commercial
4 and industrial customers. So it's all tied together.

5 Q. So does the utility have a concern
6 between the S -- whether residential customers choose
7 to stay with the SSO or choose to enter into a
8 bilateral contract with a CRES provider?

9 A. As we move into ESP 3, the company is
10 indifferent to whether customers choose the SSO or a
11 CRES offering.

12 Q. And would you agree with me the SSO is a
13 choice, it is an option that customers can choose to
14 stay on the SSO or to get on the SSO after they've
15 finished a bilateral contract with a CRES provider?

16 A. Yes, absolutely. And, in fact, just
17 recently I switched from being served by a CRES
18 provider to being served by the SSO, because the SSO
19 price was lower than any CRES offering that existed.

20 Q. Well, good you for you, Mr. Allen.

21 Okay. And if a customer chooses the SSO,
22 like yourself, you would be relying on the staggering
23 and the laddering of the construction of the SSO; is
24 that correct?

25 A. The staggering and laddering impact the

1 SSO price, yes.

2 Q. Okay. And in spite of the fact that some
3 customers choose the SSO, would you also agree with
4 me that the bilateral contracts from CRES providers
5 provide alternate choice that a customer might also
6 choose?

7 A. Yes.

8 Q. And the CRES provider could offer a
9 long-term contract, say, seven-year contract? This
10 is something that a CRES provider could offer that
11 the SSO does not offer, correct?

12 A. A CRES could make those offerings, but,
13 as you see in my testimony, they are not making those
14 offerings today.

15 Q. But they could make that offering.

16 A. They could make a lot of offers. If they
17 aren't making them, the customer can't avail
18 themselves of those.

19 Q. But a CRES provider could offer a
20 variable price contract that could vary with month to
21 month or by the year; this would be another
22 alternative that a CRES provider could offer,
23 correct?

24 A. It is an option, and they do make those
25 offerings today.

1 Q. And the SSO price changes every year; is
2 that correct?

3 A. Yes. It's an annual change.

4 MS. MOONEY: Okay. That's all the
5 questions I have. Thanks.

6 EXAMINER PARROT: Ms. Bojko?

7 MS. BOJKO: Thank you, your Honor.

8 - - -

9 CROSS-EXAMINATION

10 By Ms. Bojko:

11 Q. Good afternoon, Mr. Allen.

12 A. Good afternoon.

13 Q. Let's stick with the Apples to Apples. I
14 believe you said Exhibit WAA-R4 came from the Apples
15 to Apples; is that right?

16 A. Yes, it did.

17 Q. Okay. And I believe, in questions from
18 Mr. Petricoff, you recognize that there are CRES
19 providers out there providing offers that just might
20 not be on this list; is that correct?

21 A. That's not what Mr. Petricoff and I were
22 discussing. What we were discussing is that this is
23 a snapshot of the offers that existed on the Apples
24 to Apples chart on June 10, 2013, and June 13, 2014.
25 There is a live version of the Apples to Apples that

1 changes -- can change on a daily basis whenever CRESs
2 make those changes, but this is a snapshot of what
3 existed at two points in time.

4 Q. Okay. Well, that's -- in response to
5 Ms. Mooney you just said they are not making those
6 offerings and not all offers are reflective on your
7 one exhibit; is that right?

8 A. What I looked at are the offers that
9 CRESs are making customers aware of through the
10 Apples to Apples portal.

11 Q. Right. So you can't sit here today and
12 tell me that you know for sure which CRES providers
13 are offering which prices as -- excuse me, which
14 products for a specific term and at which time; is
15 that correct?

16 A. What I am stating is that the information
17 that is publicly available is that which I have shown
18 on my chart.

19 Q. And publicly available, you don't believe
20 that marketers' information might be publicly
21 available?

22 A. Not in the way that I was able to find.

23 Q. Did you search the marketers' websites?

24 A. I searched several, yes.

25 Q. So you were not able to find any offers,

1 but, yet, offers exist, or you didn't include them
2 because they weren't on the Apples to Apples?

3 A. For the suppliers that were on the Apples
4 to Apples, I went to several of their websites to see
5 what offers were out there and what the terms and
6 conditions associated with those offers were.

7 Q. Okay. And so if the marketers weren't
8 listed on the Apples to Apples at the point in time
9 you checked Apples to Apples, you did not
10 subsequently go to those marketers' websites and see
11 whether they had an offer or didn't have an offer.

12 A. That's correct.

13 Q. Okay. And also, to Mr. Petricoff, you
14 mentioned price stability, and you said over the long
15 term. Is long term, to you, beyond three years?
16 Less than three years? Ten years?

17 A. My view would be, you know, long term
18 would be, you know, three years and beyond.

19 Q. So long term equals three years?

20 A. That's -- that's on the longer term, yes,
21 when you are looking at energy markets.

22 Q. No. I didn't ask you about energy
23 markets. You used the term "long term" when you were
24 talking about price stability, and I asked you if
25 long term was three years in price stability.

1 A. And when we were talking about price
2 stability, I am talking in the energy markets. And
3 so I would say that most of -- the energy markets are
4 hourly energy markets. And so as you start moving
5 out further and further, when you start with an
6 hourly product, when you get to three years and
7 beyond, you are starting to talk long term in that
8 sense. There is not even a capacity market that
9 exists beyond three years. So clearly, from a CRES
10 perspective or a generator perspective, three years
11 and beyond is very long term.

12 Q. I -- again, I am not talking about
13 generators. I am talking about price stability which
14 I believe you were referencing customers in the --
15 were you talking about price stability with reference
16 to customers?

17 A. Price stability for customers and
18 generators, sure. They are the same in my view.

19 Q. Okay.

20 A. Different sides of the same coin.

21 Q. Okay. So it's your testimony today that
22 you believe price stability equals three years for
23 customers and generators.

24 A. I think you're starting to mix things up.
25 We were talking before about long term, price

1 stability and the time I identified as long term.
2 Price stability exists in both the short run and the
3 long term -- short term and long term.

4 Customers can go out and look for stable
5 price offers from CRESs that may have some contract
6 terms they may or may not like that exist for less
7 than a year, one to two years, and very limited
8 options once you get past two years, and so that's
9 long term for a customer.

10 And what the PPA offers is, as you start
11 getting out further, additional price stability that
12 customers can't obtain through the CRES offers that
13 exist today.

14 Q. And that's what I am trying to ask you.
15 I think that you are confusing my questions. I am
16 asking if the price stability equals three years.
17 You just said after when getting into longer PPAs. I
18 am trying to ask you if you believe that equals three
19 years.

20 A. Price stability isn't based on a term.
21 Price stability is valuable for customers over an
22 hour, over a day, over a month, over a year, over a
23 period of ten years. Price stability doesn't just
24 become important at a specific point in time in the
25 future. Price stability is always a value to

1 customers.

2 Q. Okay. Mr. Allen, you used the word "long
3 term" with "stability" and I am trying to ask you if
4 your definition of long term in that context was
5 three years or beyond three years, and I have heard
6 two different answers to that question. So I am
7 trying to ask you what you believe "long term" means,
8 how you used it.

9 A. And, as I indicated, long term begins at
10 about three years and beyond.

11 Q. Okay. And you also talked with
12 Mr. Petricoff about a balance, and you expected the
13 Commission to balance certain things. Do you recall
14 that?

15 A. I do.

16 Q. And you recall -- all you said was the
17 Commission balanced financial -- or the detrimental
18 impact on the company; is that correct?

19 A. I don't recall the exact words I used. I
20 can describe what I was talking about if you would
21 like me to.

22 Q. No. I am asking you do you believe that
23 this balance also includes the detrimental impact of
24 any proposal on ratepayers?

25 A. The Commission is tasked with looking at

1 a balance for both customers, the company, and the
2 additional stakeholders in these proceedings. That's
3 the balance that the Commission must look to.

4 Q. And would that balance include a
5 detrimental impact that a proposal could have on
6 ratepayers?

7 A. The Commission looks to ensure that these
8 proposals provide balance to both parties. So in the
9 case of a rate increase for something like the
10 distribution investment rider, some individuals may
11 view that as a detriment to customers because it's a
12 rate increase for customers, but what the Commission
13 has to balance, does that cost the ratepayers pay, is
14 that offset by the additional benefit that those
15 customers receive? And so the balance has to look at
16 the totality of the situation.

17 Q. And that would include a detrimental
18 impact on ratepayers; is that correct?

19 A. As part of the balance, the Commission
20 has to look at ratepayer impacts, both the benefits
21 they receive from proposal as well as the cost that
22 they incur related to that proposal.

23 Q. And that would include detrimental
24 impacts on ratepayers; is that correct?

25 A. With the caveats I have provided

1 previously, one element is the financial impact on
2 customers.

3 Q. Well, sir, you didn't have caveats when
4 you said the Commission shall look at the detrimental
5 impact on the company. So should the Commission also
6 then look at the positive impact on the company as
7 well?

8 A. The Commission weighs both when they look
9 at the company as well; benefits to the company as
10 well as costs and risks imposed upon the company.

11 Q. Okay. So you believe that just as they
12 look at the detriments on the company, they should
13 also look at detriments on the customer.

14 A. The -- I haven't used the term
15 "detriments" related to customers so that's your
16 word, but what I would say is the Commission looks at
17 a balance between costs and benefits to customers as
18 well as costs and benefits to the company and the
19 risks to the company and customers as well.

20 Q. Okay. That's the point. You didn't use
21 detriment to customers but used detriment to the
22 company. So I am asking you if there's a difference
23 or if you think this balance also includes the
24 detriment to customers.

25 A. With regard to the PPA rider, I don't

1 think there is a detriment to customers.

2 Q. That's not what I asked, sir. In the
3 balancing that you suggested and you offered in
4 discussions to Mr. Petricoff, you said the Commission
5 shall look at the detriment to the company. And I am
6 asking if the Commission should also look at the
7 detriment to customers, to ratepayers.

8 A. The Commission could look to determine if
9 they believe there is a detriment to customers. I
10 don't believe there is one.

11 Q. And you don't believe there is one.
12 We'll skip to that here because your -- now that
13 belief that you don't believe there is one is based
14 on the theory that OVEC costs will be lower than
15 market and will result in a benefit to customers; is
16 that correct?

17 A. No, that's not correct. The benefit
18 customers receive is the price stability that I have
19 been discussing. What the OVEC benefit that I
20 present of \$8 million over the ESP term shows is that
21 this is a hedge that's not underwater or
22 significantly in the money. What it actually says
23 it's a hedge that's in the money by \$8 million for
24 customers. So there is a benefit there.

25 But the real benefit to customers is the

1 price stability that we've talked about, as well as
2 the ability to expand the PPA further if the
3 Commission thinks that's appropriate --

4 Q. Okay.

5 A. -- and beneficial to customers.

6 Q. And this \$8 million benefit you are
7 talking about is based on the scenario, the analysis
8 that you did while you were sitting in the hearing
9 room the first couple of days of hearings and not
10 based on your prefiled testimony; is that correct?

11 A. I don't know if that's correct. It's
12 based upon the analysis the company presented to the
13 parties throughout the discovery process and simple
14 compilation of that data so that it could be easily
15 observed by the Commission as part of the record in
16 this case.

17 Q. Uh-huh. But that compilation wasn't
18 actually compiled or put forth in your direct
19 testimony; is that correct?

20 A. It wasn't in my direct testimony. It
21 was --

22 Q. Thank you.

23 A. -- presented through cross-examination.

24 Q. And for -- and that compilation -- strike
25 that.

1 So going back to -- in your estimate that
2 you calculated during cross-examination that you just
3 talked about, if that is of cost to ratepayers for
4 the life of it, you would agree that it is no longer
5 a benefit to customers, wouldn't you?

6 A. No, I wouldn't. What I have described is
7 the benefit is the price stability. And as we look
8 at a -- the longer-term aspects of the OVEC contract,
9 the benefits are more significant in the outer years.

10 So what we have shown there is a
11 near-term customer benefit and there is a long-term
12 customer benefit in total dollars, plus there is a
13 price-stabilizing effect that goes along with it. So
14 it is really two benefits in one for customers.

15 Q. And so if it is a cost to customers, you
16 are still saying that is a benefit. If it's a cost
17 over the term of the ESP and if it's a cost to
18 customers for ten years, you still say that that is a
19 price-stability benefit. That's your testimony here
20 today.

21 A. The PPA rider, by its design, has a
22 price-stabilizing effect. That's clear. I have
23 stated that in my testimony numerous times. That's a
24 benefit to customers. If there were a slight cost to
25 get that benefit, it's still a benefit to customers,

1 just like we've talked about with insurance examples.
2 Customers and individuals pay for stability and
3 security. That's what we are offering here. The
4 added benefit, though, is along with the stability.
5 It's financially beneficial to customers based on the
6 data we have provided to customers from a pure
7 dollars and cents on top of the stability benefit.

8 Q. Okay. So the answer to my question is
9 "yes"?

10 A. You would have to reread the question.
11 My answer to your question was what I just provided.

12 MS. BOJKO: Could I have my question
13 reread, please.

14 (Record read.)

15 MR. NOURSE: And, your Honor, I think the
16 question was answered. Mr. Allen indicated if there
17 was a slight cost, it's just like insurance, and
18 there's -- the benefit is worth it. So I don't think
19 there is any further question pending.

20 MS. BOJKO: Actually, that's not what the
21 witness said, and I am glad counsel is testifying for
22 his witness, but that's not what he said.

23 MR. NOURSE: I am reading the transcript.
24 So thank you.

25 MS. BOJKO: That's not what he said.

1 EXAMINER PARROT: You don't have an
2 objection pending, Ms. Bojko. Are you objecting?
3 You are looking at me like you are waiting on
4 something so...

5 MS. BOJKO: Well, I asked to have my
6 question reread and counsel interrupted.

7 EXAMINER PARROT: We've done that. So I
8 am looking for you to proceed.

9 MS. BOJKO: Oh, no, I asked him if the
10 answer to my question is "yes," and he asked to have
11 the question read. So he hasn't answered my question
12 yet. I think opposing counsel objected to him
13 answering my question.

14 MR. NOURSE: No, your Honor. She
15 obviously wants a "yes" or "no" question. So I was
16 defending the answer he already gave, and I didn't
17 think there was any additional question pending.

18 EXAMINER PARROT: And I am agreeing with
19 that. So are you --

20 MS. BOJKO: I don't think he answered my
21 question. So I guess I'll ask the question again,
22 and I thought we just did that through the court
23 reporter. Do you want me to restate it?

24 EXAMINER PARROT: I am agreeing with
25 Mr. Nourse. I believe he has answered the question.

1 So if you want to try to put it a different way, you
2 may do that.

3 MS. BOJKO: Okay. Thank you. I don't
4 have the value --

5 EXAMINER PARROT: He answered the
6 question. He didn't give you a direct "yes" or "no,"
7 but he answered the question.

8 MS. BOJKO: Well, could I have his answer
9 reread because I didn't hear the answer that --

10 EXAMINER PARROT: Yes.

11 MS. BOJKO: -- he provided.

12 (Record read.)

13 Q. (By Ms. Bojko) Okay. I didn't -- I
14 didn't understand your question to be what I think
15 your counsel thinks. So let me just try to rephrase
16 it.

17 So you're saying even if it's a cost of a
18 significant period of time, it is a benefit because
19 it is akin to a cost of an insurance policy; is that
20 what I just understood you to say?

21 A. What I indicated is that the benefit of
22 this rider mechanism is the benefit. The stability
23 of the rider is the benefit. If there were a
24 financial cost associated with procuring that
25 benefit, it's outweighed by the stabilizing benefit.

1 But what we've shown in analysis we presented is
2 that, in fact, there isn't even a cost for customers
3 to get this price stabilizing benefit.

4 Q. And have you done the analysis that if --
5 you said that you used the term outweighs the
6 benefit, okay. So have you done an analysis to
7 determine the cost to a customer over a ten-year
8 period, if it is negative, to see if it actually does
9 outweigh the cost of an \$8 million benefit?

10 A. The data we've presented in this case
11 shows that it's a financial benefit to customers plus
12 has price-stabilizing effects. So there is no
13 calculation to say that the OVEC rider has a cost to
14 customers. Pure dollars if you were to sum up the
15 dollars in the rider over the term of the ESP or
16 beyond, the company has shown that's a credit to
17 customers. So it has that benefit plus it stabilizes
18 prices.

19 Q. And, again, the credit to customers that
20 you keep referring to is based on your one analysis,
21 but there are several others that are presented in
22 this case; is that correct? Including ones presented
23 by yourself in direct testimony.

24 A. No. The company responded in discovery
25 to provide all of the analysis that existed. The

1 parties did not ask in discovery for the best
2 analysis that the company had. What the company
3 presented -- what I presented on cross-examination
4 was based upon the data the company responded to in
5 discovery, the best analysis possible was the
6 combination of Attachment 2 plus a more current view
7 of OVEC costs, and that produced the \$8 million
8 benefit.

9 Q. And just as you stated, the parties asked
10 for all analyses, but you didn't provide the \$8
11 million analysis; is that right?

12 A. That analysis --

13 Q. In discovery?

14 A. -- completed when the company responded
15 to discovery and, as I understand it, in discovery
16 the company is not required to produce a work product
17 so we presented the data to the parties. The parties
18 were able to review that data, look at the most
19 current data that was available, and make their own
20 conclusions, and what we presented was how you should
21 evaluate that data.

22 Q. Okay. And let's go to page 3 of your
23 testimony. On page 3 of your testimony, as I
24 understand, beginning on line 11, you're stating here
25 that if the SSO is higher, then that will drive

1 shopping decisions because competitors can come in
2 and offer a lower price; is that correct?

3 A. Whether the SSO is above the
4 then-existing market prices or below the
5 then-existing market prices, that drives customer
6 decisions clearly. If the SSO is above market, CRESS
7 are going to have headroom to attract customers.

8 If the SSO is below the then-current
9 market price, customers are going to be -- are going
10 to, based on prices, move back to the SSO, or CRESS
11 just won't make offers because they can't make
12 appealing offers.

13 Q. And you just referenced your situation.
14 Are you an AEP customer?

15 A. I am not.

16 Q. Do you know what the current AEP SSO rate
17 is?

18 A. I think Mr. Petricoff provided a price to
19 compare, just for the Columbus Southern zone, of 9.6
20 cents a kilowatt-hour, \$96 a megawatt-hour.

21 Q. So your -- when you just gave a
22 hypothetical and said your experience is that you
23 couldn't get a lower competitive rate so you switched
24 back to the SSO, it wasn't with regard to AEP's
25 current rate; is that correct?

1 A. That's correct. What I was looking at is
2 a fully auction-based SSO product versus CRES
3 offerings. As I think we are all aware, AEP's SSO is
4 not fully auction based at this point in time.

5 Q. And isn't it true that your -- your
6 analysis that you just did was also not based on
7 AEP's future SSO rate.

8 A. Which analysis are you referring to?

9 Q. Your experience of you could get a price
10 that was -- you could not obtain a competitive price
11 lower than what the SSO was in -- in the territory
12 wherever you live.

13 A. It's not an analysis. What it is is an
14 example that there are times when the SSO price could
15 be below the price that CRESs are willing to make
16 offers.

17 Q. And I am asking you is is if you were
18 referring to AEP's existing SSO offer, which you
19 responded no, and then I asked if it was in reference
20 to AEP's June 2015, the price that will be
21 established under this ESP.

22 A. We don't know what that price will be,
23 but there is a possibility the same kind of
24 situations could occur in the future in the AEP zone
25 that I discussed.

1 Q. I didn't ask you what would happen in the
2 future. I asked if your analysis of whether you
3 could obtain a competitive rate below the SSO was
4 based on AEP's SSO established by this ESP.

5 A. The underlying characteristics of AEP's
6 SSO are the same as the FirstEnergy's SSO is today
7 and what their market construct is. So the same
8 situation could occur in 2015 in the AEP zone. We
9 can't know that until we get there and we see what
10 the SSO is in 2015 and what the CRES offerings are at
11 the same point in time.

12 Q. So the answer is no, you did not compare
13 your current rate or any competitive choices under
14 the future ESP established by the AEP case because
15 you do not yet know what that AEP ESP SSO price will
16 be?

17 MR. NOURSE: Your Honor, I object. I
18 think he has already answered the question. Again,
19 it is not a "yes" or "no" question, like, apparently,
20 Ms. Bojko would like to hear, but it's a full
21 explanation of his response to her question.

22 MS. BOJKO: Your Honor, he keeps
23 modifying his response. He has not answered whether
24 he compared it to a future AEP rate. He brought up
25 FirstEnergy, which I didn't even know he was a

1 FirstEnergy customer until 2 seconds ago.

2 EXAMINER PARROT: All right. Let's try
3 it one more time, Mr. Allen.

4 THE WITNESS: Can I have the question
5 reread? Thanks.

6 (Record read.)

7 A. A comparison of the future CRES offerings
8 to a -- that are unknown at this time to the SSO
9 offerings that -- the SSO price that will exist at a
10 future time, I think those are both unknown. A
11 comparison can't be done until the future. But the
12 example I gave would hold under such a scenario.

13 Q. Okay. I take it you are a FirstEnergy
14 customer; is that correct?

15 A. To be clear, I'm an Ohio Edison
16 distribution customer, not a FirstEnergy Solutions
17 customer. Ohio Edison.

18 Q. Ohio Edison is a FirstEnergy Corp.
19 operating utility; is that right?

20 A. That's correct. I was just
21 distinguishing between FirstEnergy Solutions and Ohio
22 Edison.

23 Q. Okay. FirstEnergy Corp. owns the
24 distribution utilities. FirstEnergy Solutions is the
25 marketing affiliate; is that accurate?

1 A. That's my understanding, yes.

2 Q. And you are now a FirstEnergy operating
3 company, Ohio Edison, standard service offer customer
4 because you switched back to the standard service
5 offer; is that correct?

6 A. Yes, that's correct.

7 Q. And you reference, on page 5, Upper
8 Arlington's government aggregation program. Do you
9 see that?

10 A. Yes.

11 Q. Okay. You're not a resident clearly. We
12 learn now you are not a resident of Upper Arlington;
13 is that correct?

14 A. That's correct.

15 Q. And why did you choose Upper Arlington?
16 There are many government -- let's back up.

17 Are there many governmental aggregation
18 programs in the state of Ohio?

19 A. There are many governmental aggregation
20 programs. There are more in the FirstEnergy utility
21 territory. There is a more limited number in AEP
22 Ohio's service territory.

23 Q. But Upper Arlington isn't the only
24 program; is that right?

25 A. That's correct.

1 Q. And why did you choose Upper Arlington
2 for your example here today?

3 A. Because it's a current aggregation that's
4 coming up for renewal and they had the two prices
5 available so it's a very current piece of data.

6 Q. And there are no other current
7 aggregations coming up for renewal in AEP's service
8 territory?

9 A. There may be.

10 Q. You didn't look? You don't know?

11 A. I didn't look beyond this. What I was
12 providing here was some context that even under
13 governmental aggregation, customers have the risk of
14 significant price volatility.

15 Q. So someone gave you the Upper Arlington?
16 You don't live in AEP's service territory. I am
17 trying to figure out why you chose this aggregation
18 program over all others.

19 A. Well, in my current role, I'm responsible
20 for reviewing regulatory activity in many of AEP's
21 service territories including Ohio, and so I was
22 aware that the Upper Arlington aggregation was coming
23 up, and I actually pulled the data personally from
24 the Upper Arlington website.

25 Q. Okay. But you are not similarly aware of

1 any other aggregation programs currently coming up.

2 A. I'm not.

3 Q. And in your analysis of the one example
4 that you pulled, the rate being offered is still
5 substantially lower than the current standard service
6 offer; is that correct?

7 A. It is below the SSO offer for the summer
8 in the AEP Ohio service territory, but you also have
9 to recognize one element of that offer is that it's a
10 nine-month offer so it only reflects a winter season
11 and no summer season, so you have got two shoulder
12 periods. So my expectation would be a 12-month offer
13 would probably be higher than this offer you've seen.

14 Q. So are you -- sitting here today, are you
15 telling me the price to compare on AEP's bill of 9.6
16 is not somehow correlated to the 7.84 number?

17 A. There are two different numbers. The
18 9.64 cents is the summer CSP rate. For customers
19 using more than 800-kilowatt hours in the winter, the
20 rate would be less than 9.64 as the price to compare
21 for those months. So, if my recollection is correct,
22 there are only four summer months in Columbus
23 Southern. So the other eight months would have a
24 lower price to compare.

25 Q. Okay. What is that price to compare?

1 A. I don't know as we sit here today.

2 Q. Okay. So --

3 A. The point of my testimony isn't to
4 demonstrate whether it is above or below the price to
5 compare. It was just looking at the relative change
6 from one point in time to another.

7 Q. Well, when does someone have to sign up
8 or not sign up for this aggregation?

9 A. Well, first of all, it is an opt-out
10 aggregation; so unless the customer takes action,
11 they'll be automatically signed up.

12 Q. Fair enough. Thank you for that
13 correction.

14 When does a customer have to choose
15 whether to not participate in this program?

16 A. It looks like from page 1 of 9, on
17 Exhibit WAA-R5, that the opt-out date is July 7 based
18 upon a mailing date of June 16.

19 Q. Okay.

20 A. So about three weeks.

21 Q. So between June 16 and July 7, when a
22 customer has to make this decision to opt out or not
23 opt out, which price to compare are they going to
24 see?

25 A. It -- if they use the company's

1 comparison for June, they would see the 9.64 cents
2 per kilowatt-hour. I know in the market
3 investigation that was done, there was some push to
4 have that -- the price to compare be a 12-month price
5 to compare. I don't know if AEP Ohio is already
6 doing that.

7 So there's two places you can see your
8 price to compare. You can use the company's bill
9 calculation spreadsheet, or you can look at the bills
10 that you actually receive at home.

11 Q. Well, if they looked at the bills they
12 actually receive at home, wouldn't that price to
13 compare be 9.6 cents as well?

14 A. I don't know.

15 Q. Because you are not an AEP customer?

16 A. Because I'm not an AEP customer and
17 because I don't -- I'm not responsible for that
18 calculation for the company in my role.

19 Q. Okay. But you know there is a different
20 rate and you referenced me to a different rate a few
21 minutes ago when you were talking about the term of
22 the Upper Arlington, but you -- you don't know
23 exactly what customers will or will not see.

24 A. What I indicated is that the 9.64 cents
25 is only applicable to the summer months. There will

1 be a different rate for the winter -- for the
2 non-summer months. What that rate is, I don't know.
3 It should be less than 9.64 cents based upon the
4 blocking, especially for customers that have higher
5 usage.

6 Q. But you don't know -- you don't know what
7 customers are going to see when they have to make
8 this decision; is that right? You don't know whether
9 they will see the 9.6 or some other rate that you
10 don't know of.

11 A. I don't know what information that
12 customer is going to look at. The customer could
13 take and look at different periods of the year on our
14 bill calculation spreadsheet averages. They can do a
15 lot of things. What they do, I don't know.

16 Q. You think the residential consumer -- I
17 thought it was touted and it may be said in most
18 aggregation programs that it might be a requirement
19 of the Commission that they actually have to send out
20 publication of the price to compare. Is that your
21 understanding?

22 MR. NOURSE: Your Honor, I just object.
23 We are going pretty far afield of the testimony and
24 the purpose that Mr. Allen has explained for his
25 exhibits and I don't understand how this line of

1 questioning adds to this record.

2 EXAMINER PARROT: Response?

3 MS. BOJKO: Well, I don't know how his
4 testimony adds to this record, and if the witness is
5 going to pick out, unilaterally select aggregation
6 programs and select numbers to throw into this
7 record, I think we have a right to explore those
8 numbers and what those numbers really mean and the
9 witness's knowledge of the programs that he is
10 relying on for his testimony.

11 The witness is relying on the Upper
12 Arlington, but he doesn't attach any of the Upper
13 Arlington program documentations. All he attaches is
14 one letter and then FirstEnergy documentations --
15 FirstEnergy Solutions' documentation.

16 MR. NOURSE: Your Honor, again, his
17 knowledge of what individual customers will decide
18 based on the information is completely beside the
19 point, and certainly the price that Upper Arlington
20 indicates in its letter attached to his testimony
21 presumably is the price they believe that a customer
22 should look at, but I think that whole line of
23 questioning goes way beyond his purpose here and is
24 completely a side point.

25 EXAMINER PARROT: I am going to allow the

1 question that's pending.

2 Do you need us to reread it?

3 THE WITNESS: Yes, please.

4 (Record read.)

5 A. I don't know if in those documents they
6 need to show the price to compare.

7 Q. You don't know whether the Commission
8 rules require that?

9 A. I don't.

10 Q. And when I brought up the price to
11 compare, it was you, Mr. Allen, that told me 7.84
12 doesn't necessarily compare to 9.6; isn't that true?

13 A. Yes.

14 Q. But you don't know what number it does
15 compare to.

16 A. That's right. For each customer it would
17 be a different value.

18 Q. And it's also your understanding that the
19 price to compare the customers would see or the price
20 on their bills would not necessarily be the price
21 that's pertinent to this aggregation; is that right?

22 A. First of all, my understanding is the
23 Commission does not present the price to compare on
24 their website. The company has a bill calculation
25 spreadsheet that can show the price to compare so

1 there's -- that's a source of information for the
2 customer is that bill calculation spreadsheet as well
3 as their own bills, or they could review our tariffs.

4 Q. And isn't it true that many contracted
5 customers, the customers with a CRES provider, isn't
6 it true many contracted customers would return to the
7 standard service offer merely by the terms of its
8 contract expiring?

9 A. No, that's not my understanding and it's
10 not my personal experience either.

11 Q. Well, let's not talk about your personal
12 experience because it's not in AEP's service
13 territory.

14 A. I don't think it has any different
15 meaning. The CRES contracts across Ohio, as I
16 reviewed them, have comparable terms and conditions
17 in all the service territories.

18 Q. So are you saying that a CRES provider
19 never returns its customers to standard service
20 offer?

21 A. They could. Some contracts allow that.
22 Other contracts have them roll over to a new term
23 contract at a new price if the customer doesn't take
24 affirmative action, or the customer may be rolled
25 over to a variable month-to-month rate. There's a

1 whole host of different provisions that exist at the
2 termination of those contracts based upon the
3 contracts I have reviewed.

4 Q. Okay. And that's what I was asking.
5 Some customers could be returned to standard service
6 offer.

7 A. They could.

8 Q. I thought you said "no" to that, so sorry
9 about that. And when they return, they would get
10 whatever standard service offer price is in effect
11 during that return period; is that right?

12 A. If they return to standard service offer,
13 they would receive that price, yes.

14 Q. Okay. And that could be higher than what
15 the CRES contract that they were currently taking
16 service for that expired; is that right?

17 A. It could be higher or lower, yes.

18 Q. Okay. And it could also be higher than
19 any current competitive offers out there at the time;
20 is that correct?

21 A. Or lower, yes.

22 Q. So if a cus -- even if a customer does
23 not affirmatively act to go back to the standard
24 service offer, he could be put back to a higher
25 standard service offer; is that right?

1 A. Yes, he could.

2 Q. And that's true for movers too; is that
3 correct?

4 A. Based upon the tariffs, customers that
5 take new service, which is what a customer that moves
6 is, they take standard service offer service
7 initially and then have the opportunity to change to
8 a CRES after a period of time.

9 Q. So, by their inaction, they are put on
10 the standard service offer; is that correct?

11 A. Not by their inaction, by the tariff
12 rules. A customer that moves to a new residence must
13 be on standard service offer for one billing cycle.

14 Q. Right. By their inaction with regard to
15 customer choice, they are automatically put on
16 standard service offer.

17 A. Not by their inaction. They can't take
18 any action to not be served under the SSO in their
19 first billing month. So it's not inaction. It's
20 a -- it's a requirement.

21 Q. Because I beg to differ, if you call the
22 company and try to get immediately put on a
23 competitive rate or try to continue your old
24 competitive rate, it is not allowed. You are put on
25 standard service offer; is that correct?

1 A. That's correct. That's why it's not
2 inaction by the customer. The customer must be on
3 standard service offer for their first billing cycle
4 at a new residence.

5 Q. Okay. But on line 14 you say "Unless the
6 customer --

7 A. I'm sorry, which page?

8 Q. 5 still.

9 A. Okay. Go ahead.

10 Q. You say "Unless the customer takes
11 proactive action," and that's not necessarily
12 correct. The customer can be put back on a standard
13 service in different scenarios by not taking any
14 action at all; isn't that true?

15 A. So reading that sentence starting on line
16 14 is related to the prior statement that outlines
17 the scenario. And the scenario is a customer that
18 has a rollover provision in their contract, that
19 customer that has a rollover provision, unless they
20 take proactive action, then a new and potentially
21 higher rate can unilaterally be charged by the CRES
22 provider.

23 Q. And my question to you is couldn't that
24 also happen -- and I thought you said "yes," so I was
25 moving on. But couldn't that also happen with the

1 standard service offer? That it could be a new and
2 potentially higher rate if a customer is put back on
3 a standard service offer?

4 A. If a CRES contract describes at the
5 termination of that contract that the customer goes
6 to the SSO, then unless the customer chooses another
7 CRES provider, they will be returned to the SSO at
8 the end of that contract and then they'll experience
9 whatever price the SSO has at that point in time.

10 Q. Which could potentially be higher.

11 A. Yes, it could.

12 Q. And that scenario is the same with the
13 discussion we just had with regard to the movers; is
14 that correct?

15 A. Moving customers don't have an existing
16 CRES contract. They are a new customer.

17 Q. And you're saying that even though --
18 that's because that's how the company deems a new
19 versus a customer that moves in the territory? Is
20 that the distinction you are making to me?

21 A. Regardless of whether a customer moves
22 within the service territory or is a brand new
23 customer, they are served under the SSO for their
24 first month that they are a customer.

25 MS. BOJKO: I have nothing further.

1 Thank you, Mr. Allen. You answered all my other
2 questions through other witnesses [verbatim].

3 EXAMINER PARROT: Mr. McDermott, did you
4 have anything?

5 MR. MCDERMOTT: No questions, your Honor?

6 EXAMINER PARROT: Ms. Shadrick?

7 MS. SHADRICK: No questions.

8 EXAMINER PARROT: Mr. Sineneng?

9 MR. SINENENG: No questions, your Honor.

10 EXAMINER PARROT: Mr. Kurtz?

11 MR. KURTZ: No questions, your Honor.

12 EXAMINER PARROT: Mr. Darr?

13 MR. DARR: Thank you, your Honor.

14 - - -

15 CROSS-EXAMINATION

16 By Mr. Darr:

17 Q. Mr. Allen, do you know what the price to
18 compare is today for Ohio Edison Company? If not, I
19 can show it to you.

20 A. That would be helpful. I just looked at
21 it recently for my house, but I don't...

22 MR. DARR: May I approach?

23 EXAMINER PARROT: You may.

24 Q. This is the one listed on the website for
25 Bath, Ohio. It just happens to be where my mom is.

1 A. Okay.

2 Q. And based on that, am I correct that the
3 current price to compare would be 7.84 cents or
4 thereabouts?

5 A. That's what's indicated on the
6 FirstEnergy Solutions' website. To get a price to
7 compare, I actually called the utility, asked them
8 what my price to compare was currently to get the
9 exact number.

10 Q. Okay. And now, if we turn to your
11 WAA-R4, an exhibit to your testimony, rebuttal
12 testimony.

13 A. I'm there.

14 Q. We see that there are, for Ohio Edison,
15 four offers currently available under the price to
16 compare listed on the FES website, correct?

17 A. I'm sorry, what was the price to compare
18 you were referring to on your --

19 Q. .0874 would be the dollar equivalent.

20 MR. NOURSE: Could I have that reread?

21 Q. I can ask my question again if that would
22 help.

23 MR. NOURSE: I think you may have
24 transposed some numbers from what you said earlier.

25 MR. DARR: Okay.

1 Q. I am looking at Exhibit WAA-R4 attached
2 to Mr. Allen's testimony. The price to compare is,
3 according to the FES website that we just looked at,
4 .0874 cents per kWh -- or dollars per kWh, and there
5 are, on Exhibit R4, by my count, four offers
6 available under the price to compare.

7 A. Yeah, I'm certain that the price to
8 compare in the Ohio Edison service territory is not
9 8.74. And is Bath in the Ohio Edison service
10 territory. Or is it in the CEI service territory?

11 Q. I can state with some confidence that it
12 is in the Ohio Edison service territory. Any other
13 questions you have, Mr. Allen?

14 A. There are four offers below the value of
15 .874 you indicated, but my understanding of the price
16 to compare that I just received directly from the
17 company, not from a marketer, which I noted said "up
18 to" on that rate. So a low-usage customer could have
19 a very high rate. But, based upon discussions
20 personally with the company, none of the offers
21 listed here were below the price to compare.

22 Q. Well, let me ask my question again
23 because apparently you want to answer a different
24 question. Based on the information that we just
25 looked at where it said the price to compare was up

1 to .0874 --

2 A. Can I see that number again?

3 Q. Sure.

4 A. Okay. So it's .784. I think you
5 transposed some numbers. The --

6 Q. .0784, right?

7 A. That's correct. So there are offers
8 below that on this sheet. What I would caution is
9 that the appropriate place to calculate a price to
10 compare, and it was one of the two ways I did it, was
11 to look at the company's tariff and calculate a price
12 to compare and then confirm with the company. So I
13 can't verify that the value you've shown me is
14 accurate.

15 Q. Okay. But -- and let's make sure the
16 record is clear because I did transpose a number.
17 There are three offers listed here which are below
18 what FES lists as the current price to compare,
19 correct?

20 A. There are, yes.

21 Q. Now, with regard to your testimony, I
22 don't think we have any disagreement that the
23 staggering and laddering in the SSO addresses some of
24 the price volatility in setting the price over normal
25 periods such as years, correct?

1 A. No. I think those -- both of those are
2 tools that provide increased price stability.

3 Q. So the answer to my question is "yes," it
4 has some inherent effect in reducing -- reducing the
5 volatility of the SSO price.

6 A. Yes, that's correct. It does.

7 Q. Now, Duke and FES and, to a limited
8 extent, DP&L already have auctions which ladder and
9 stagger the SSO price, correct?

10 A. Yes, they do.

11 Q. Now, in your testimony at page 3, lines 9
12 through 11, you indicate CRES providers may not offer
13 a competitive long-term price due to the laddering
14 because of changes in capacity prices on a
15 going-forward basis; is that accurate?

16 A. That's correct.

17 Q. And it's also accurate that, over the
18 last three years, we've seen an increase in the cost
19 of capacity, correct?

20 A. Over the last three years we've seen both
21 increases and decreases in the cost of capacity. So
22 we saw for the current planning year, '14-'15, that
23 the capacity price increased over the '13-'14
24 planning year; and then in the '15-'16 planning year,
25 I think it was about stable; and then in the '16-'17

1 planning year, we saw a reduction down to about \$60 a
2 megawatt day; and then in the '17-'18 planning year,
3 we see an increase up to approximately \$120 a
4 megawatt-day.

5 Q. And over that period, if I understand it
6 correctly, and recognizing that there are going to be
7 changes in the capacity price, we still have, by your
8 count, 268 CRES offers as taken from the PUCO Apples
9 to Apples chart, correct? And I find that on WAA-R3.

10 A. Yes, that's correct.

11 Q. And of those offers, 109 are associated
12 with the FirstEnergy Service territory, correct?

13 Excuse me, 108.

14 A. 108, yes.

15 Q. Boy, my math skills today have been
16 somewhat suspect. I apologize.

17 And, in comparison, we find there are 66
18 offers in the Duke service territory?

19 A. We do.

20 Q. And a full 43 service offers in the DP&L
21 service territory?

22 A. There's 43 in DP&L, yes.

23 Q. And the one service territory that hasn't
24 begun to ladder its offers is AEP, correct? At this
25 point you are only looking at the energy side.

1 A. That's correct. Well, there's a capacity
2 price that's fixed. CREs are offering both capacity
3 and energy, but we've only auctioned energy for the
4 SSO. But, to put it in context for the three Ohio
5 Edison -- FirstEnergy Service territories, those are
6 the same offers across all three territories. So
7 it's really 36 offers for customers residing in the
8 FirstEnergy territories.

9 Q. But you chose to use an aggregated number
10 when you went to state totals, didn't you?

11 A. I did. I added up all the utility
12 service term risks.

13 Q. As if they were three separate offers.

14 A. Yes, because they are separate service
15 territories.

16 Q. Now, you've indicated that the risk to
17 shopping customers seeing significant price
18 volatility is exacerbated by the fact that many CREs
19 contracts for residential customers include a
20 rollover provision. I believe you say this at page
21 5, 11 through 14, lines 11 through 14, of your
22 testimony; is that correct?

23 A. Yes.

24 Q. And it's fair to say that your
25 understanding of CREs operations is not based on any

1 direct work experience, correct? As a CRES provider?

2 A. Not as a CRES provider, but, in my role,
3 I have reviewed CRES contracts to see what kind of
4 rollover provisions they do include.

5 Q. Is that over and above what you have been
6 doing at the house?

7 A. It is.

8 Q. You do not work for a CRES provider,
9 correct?

10 A. Not directly, but I do, on occasion,
11 provide regulatory support services for AEP Retail.

12 Q. How often do you work with AEP Retail?

13 A. Very infrequently. I think the last time
14 was probably two years ago dealing with issues in
15 Michigan.

16 Q. And it's fair to say, I think you
17 indicated this earlier, that a customer could elect
18 not to accept a rollover, correct?

19 A. A customer could take proactive action to
20 not allow their contract to roll over or to choose a
21 contract that didn't include a rollover provision.

22 Q. Now, going back to your testimony at page
23 4, line 11, continuing on to page 5, line 16, you
24 indicate a concern about there being long-term stable
25 offers and then indicating that there are a

1 relatively few number of three-year offers. Am I
2 summarizing that correctly?

3 A. Yes. I'm showing that shorter-term
4 offers are more prevalent than longer-term offers
5 and, as you get out further, there are fewer offers.

6 Q. And, economically, that would make some
7 sense, correct?

8 A. Not necessarily, no.

9 Q. You mean you would expect companies to
10 devise more complicated, riskier offers, and offer
11 more of those than the short-term offers where they
12 could define the risks more clearly?

13 A. If the correct pricing is available for
14 longer-term contracts with the right protections,
15 suppliers could make those offers, but what we've
16 seen is the customers just -- or, the competitors are
17 not making those types of offers in the market today.

18 Q. Well, you identify 18 of those offers are
19 24 or more months in your table as contained in
20 WAA-R3, correct?

21 A. I'm sorry, what was that number again?

22 Q. 24. Excuse me, 18, 18 offers?

23 A. Yes, I see that for 24 months to 36 there
24 is 14 offers, and then only 4 offers for beyond 36
25 months.

1 Q. And it's fair to say you don't identify
2 any limitations on the number of customers that could
3 choose to sign up for those offers, correct?

4 A. That's correct.

5 Q. And there are four available in the AEP
6 service territory of 24 to 36 months, correct?

7 A. Yes, that's correct.

8 Q. Now, on a related point, with regard to
9 the availability of these kinds of offers, you've
10 indicated -- "you" meaning AEP Ohio has -- have
11 indicated that the need for a purchase of receivables
12 program would increase accounts receivables certainty
13 and that would then lead to increased offers and
14 complexity of offers, correct?

15 A. I'm sorry, where are you referring in my
16 testimony?

17 Q. I'm not -- I am referring to the
18 testimony of several other witnesses, including
19 Mr. Vegas, who indicated that if the company was
20 authorized to provide a purchase of receivables, the
21 number and complexity of offers available to
22 customers would increase. Am I summarizing that
23 correctly?

24 A. I generally recall that testimony.

25 Q. Are there any other factors that might

1 affect CRES participation besides purchase of
2 receivables and the pricing volatility that you have
3 just discussed in your testimony?

4 A. There are a lot of issues that would
5 impact the number of CRESs that were willing to
6 provide offers within a service territory. Some of
7 them could include the percentage of customers served
8 under governmental aggregations currently; in effect,
9 that would limit the number of customers they could
10 compete for on the residential and small commercial
11 class.

12 The size of the service territory, in
13 general, could impact that, how many customers could
14 they be competing for in total, so they could spread
15 their fixed costs over a greater number of customers.
16 There's a whole host of factors that would be
17 considered.

18 Q. And that would include other actions
19 taken by AEP Ohio with regards to the CRES providers
20 either as a community or individually, correct?

21 A. The interactions with CRES with the EDU,
22 whether it be AEP Ohio or another EDU, would impact
23 the quality of the business environment that CRESs
24 would be operating in and would make some more
25 appealing and some less appealing.

1 Q. Sure. Would you think that it would
2 positively affect the business environment of the AEP
3 Ohio service territory that AEP Ohio, in the summer
4 of 2013, threatened to refuse to work with such
5 un-creditworthy customers as FirstEnergy Solutions as
6 it did when it filed its complaint in Case No.
7 13-4727-EL-UNC? Do you think that was a positive
8 effect?

9 A. Can you repeat that question?

10 Q. Sure. Do you think it had a positive
11 effect on CRES providers coming into the AEP
12 territory when AEP threatened to refuse to work with
13 FES when it filed its complaint in Case No. 13-1427?

14 A. I think, from a CRES perspective, AEP
15 treating all CRESs on a level playing field would be
16 appealing to those CRESs. They would -- some of the
17 other CRESs would not have taken it very well if AEP
18 treated FirstEnergy Solutions in a manner that was
19 more beneficial than the manner in which they treated
20 the other CRES providers. So the company was
21 enforcing its tariff and treating FirstEnergy
22 consistent with that tariff.

23 Q. And how do you think that affected
24 customers of FES? Do you think they were positively
25 affected?

1 A. I think those customers, if they were
2 aware of the issue, would have been possibly
3 concerned that the CRES that they were doing business
4 with wasn't as creditworthy as some of the other
5 CRESs that existed in the market, and doing business
6 with such a CRES would put greater risks on that
7 customer.

8 Q. Ultimately, you settled the case, didn't
9 you?

10 A. We did in a way that was
11 nondiscriminatory to all the CRESs in Ohio which was
12 the important aspect of that case.

13 Q. Moving on to WAA-R2.

14 A. I'm there.

15 Q. Actually we covered this -- you have
16 already covered this. So we will move on to
17 something else.

18 Now, with regard to the PPAR, you state
19 in your testimony on page 4, lines 7 and 8, that the
20 PPAR provides a unique -- is unique in its ability to
21 provide price stability to all customers. Now, you
22 then go on to say that it does this by increasing or
23 decreasing the total customer bill by the amount of
24 the PPAR. That's the gist of it, correct?

25 A. Yes.

1 Q. Is the fact that the total price -- well,
2 let me put it this way: Would you agree that the
3 PPAR's mitigating effect may adversely influence
4 switching?

5 A. No.

6 Q. You would agree that it would change the
7 total generation, transmission, and distribution
8 price the customer would see, correct?

9 A. It would, and that change would be equal
10 on the -- for an SSO customer or a shopping customer.

11 Q. And that amount would alter the total
12 bill including the market-based component of that
13 bill represented by the generation, correct?

14 A. It wouldn't impact the market-based
15 component. It would impact the total bill. It's a
16 nonbypassable rider.

17 Q. So it would give the customer a different
18 price signal than what the rates as otherwise
19 established without the PPAR, correct?

20 A. I think we have to distinguish two sets
21 of price signals. If the price signal we're talking
22 about is the price signal about whether the SSO or
23 CRES offer are more appealing, it wouldn't change
24 that price signal.

25 If it was changing a price signal about

1 the cost of energy in total and whether conservation
2 efforts were needed on the part of the customer or if
3 the customer needed to change other issues in their
4 budget to compensate for those costs, it would have
5 that impact.

6 Q. In effect, though, whether we are talking
7 about a CRES customer or an SSO customer or a CRES
8 customer who is operating under an aggregation
9 system, effectively what they would see is a decrease
10 in their total bill, correct? Assuming that the 35
11 cents or whatever it is is rolled through to the
12 customer.

13 A. For both, SSO customers and CRES
14 customers would see that same benefit.

15 Q. Now, in the case of a -- let me withdraw
16 that.

17 I want to turn to one additional item.
18 You indicated disagreement on page 7, lines 10
19 through 11, with Mr. Murray's rationale as to the
20 cost of the PPAR, correct?

21 A. Yes, I do.

22 Q. And you indicate in your testimony that
23 it fails to account for the updated OVEC cost data,
24 correct?

25 A. That's correct.

1 Q. And what you're concerned about is the
2 \$10 million or so that's budgeted as savings that
3 you've included in your cost runs that are set out in
4 IEU Exhibit 1, KMM-5, which is also known as the
5 Attachment 1, correct?

6 A. That's one element. The other element is
7 the use of that forecast versus the Attachment 2
8 forecast that we have been talking about.

9 Q. Right. And we've already determined that
10 there are three forecasts out there. Mr. Vegas has
11 already indicated that any one of them is reasonable.
12 You've chosen to adjust your numbers based on the
13 second of the three forecasts, correct?

14 A. I can't testify to what Mr. Vegas said,
15 but what I can testify to is that Attachment 2 is the
16 one we believe is the most accurate when you make the
17 one adjustment that we discussed.

18 Q. And if we look at Attachment 2, embedded
19 in it is the \$52 million charge that we've already
20 identified as the result of the Attachment 1
21 calculation, correct?

22 A. No. Attachment 1 and 2 are two
23 completely different forecasts.

24 Q. That's not what I was asking, Mr. Allen.
25 If we look at Attachment 1 -- maybe I misphrased my

1 question. If we look at Attachment 1 which is also
2 known as KMM-5 to IEU Exhibit 1, there is a
3 \$52 million charge associated with that using
4 those -- that three-year run, correct?

5 A. That's what's shown on that calculation,
6 correct.

7 Q. And the importance of that, not only with
8 regards to the PPAR, but it also affects the ESP
9 versus MRO test, correct?

10 A. I don't think it impacts the ESP versus
11 MRO test because I don't think it's the correct
12 analysis to use.

13 Q. Going back to my question. It's
14 important because it has an impact, where you come
15 out on that number affects the ESP versus MRO test,
16 correct?

17 A. The PPA rider, the costs and benefits are
18 important when you look at the ESP versus MRO test.
19 But you need to look at the correct forecast when you
20 are starting with that analysis.

21 Q. Again, depending on what you end up
22 concluding the number is, it's important because in
23 the ESP versus MRO test that's provided in your
24 testimony, the PPAR is not available in an MRO and it
25 is available or you've argued that it's available in

1 an ESP, correct?

2 A. Well, I think your conclusion that the --
3 that the PPA isn't available under --

4 Q. That's not what I said, sir.

5 A. -- under an MRO is not accurate. The PPA
6 may be available under an MRO construct.

7 Q. You misunderstood my question again, sir.

8 I asked you whether or not the PPAR would
9 be available in a construct of an MRO.

10 A. And my answer is that the PPAR could
11 potentially be included in an MRO, yes.

12 Q. Turning to page 5 of Exhibit 7 of your --
13 which is your direct testimony, am I correct -- do
14 you have that in front of you?

15 A. I don't.

16 MR. DARR: May I approach?

17 EXAMINER PARROT: You may.

18 MR. DARR: Do you have it?

19 MR. NOURSE: Yeah. Thank you.

20 Q. Am I reading this correctly, Mr. Allen,
21 "the increased rate stability provided by a PPA rider
22 would not exist under an MRO"?

23 A. That's correct. That's what it states.

24 MR. DARR: Thank you. I have nothing
25 further.

1 EXAMINER PARROT: Mr. Yurick?

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

4 EXAMINER PARROT: Mr. Berger, do you have
5 quite a bit for this witness?

6 MR. BERGMANN: Yeah, about 40 minutes
7 maybe.

8 EXAMINER PARROT: All right. Let's take
9 a five-minute break. We will pick up in 5 minutes.
10 Thank you.

11 (Recess taken.)

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

14 Mr. Berger.

15 MR. BERGER: Thank you, your Honor.

16 - - -

17 CROSS-EXAMINATION

18 By Mr. Berger:

19 Q. Good afternoon, Mr. Allen.

20 A. Good afternoon.

21 Q. Turning to your Exhibit WAA-R2 again, I
22 know we had a number of questions on this, and I
23 think you indicated that the \$5 you are indicating on
24 line 5 can be either an increase or a decrease. It's
25 just an example. It's just an illustration. Have

1 you evaluated how often in the past year the AD Henry
2 Hub average day-ahead prices have changed by that
3 much more --

4 A. I haven't done an analysis, but, on a
5 daily basis, those prices change by \$5 on a very
6 frequent basis.

7 Q. Okay. The price -- the price change
8 you're talking about here would be the combined
9 capacity and energy prices; is that correct?

10 A. Yes, that's what I am looking at here.

11 Q. Okay. And I think you earlier indicated
12 that you've also assumed, for purposes of this
13 exhibit, that costs of -- OVEC costs have not changed
14 or extended PPA rider costs have not changed.

15 A. That's right. This assumes all other
16 inputs stay constant.

17 Q. Okay. And in terms of the impact on the
18 average residential customer bill, I think you
19 indicated earlier -- well, it indicates here about a
20 35-cent-per-megawatt-hour effect; is that correct?

21 A. Based on just OVEC and the PPA rider,
22 that's correct.

23 Q. Based on OVEC. And extending that for a
24 full year's usage for a customer using a megawatt --
25 one megawatt-hour in a month, that would amount to

1 about \$4.20 or something of that nature; is that
2 right?

3 A. Right. So the customer would see a \$60 a
4 year increase in the market price, the 5 times 12,
5 and then they would see an offset of \$4.20.

6 Q. Okay. Now, with respect to the analysis
7 from -- from IEU 2-1 which, as you know, Mr. Wilson
8 based his analysis on your IEU 2-1 Attachment 1
9 analysis, the hourly dispatch for that analysis was
10 provided to OCC in discovery as OCC INT 11-275; do
11 you recall that? That was one of Mr. Wilson's
12 workpapers.

13 A. The number sounds right for that
14 discovery. I know we did provide it.

15 Q. Okay. And do you know what program was
16 used for that dispatch?

17 A. PLEXOS is my understanding.

18 Let me correct that. For the -- for 2016
19 and beyond, it was PLEXOS. And for the first
20 seven -- or the period of June 2015 through December
21 2015, it would have used GenTrader, a different
22 forecasting model.

23 Q. Okay. But for January '16 and onward, it
24 used PLEXOS?

25 A. That's correct.

1 Q. Okay. In the dispatch reflected on that
2 analysis, does it reflect dispatch in all hours when
3 market prices exceed OVEC variable costs?

4 A. Yes. That model should have dispatched
5 OVEC in any hour where OVEC's variable costs were
6 less than market price.

7 Q. Okay. And does -- does that analysis
8 reflect planned maintenance outages?

9 A. It did not have a reduction in output for
10 planned outages. That's reflected in the overall
11 dispatch of the units.

12 Q. So it did not reflect planned maintenance
13 outages?

14 A. It did not have an explicit reduction for
15 planned outages.

16 Q. But when you just said that it's
17 reflected in the dispatch of the units, I'm not sure
18 what you meant by that. If you could clarify that.

19 A. The overall dispatch of the units shows a
20 number of hours of dispatch that are consistent with
21 having some maintenance outages during the shoulder
22 months when market prices would be below OVEC's cost
23 of production.

24 Q. But there was not an explicit or express
25 effort to adjust the dispatch model for planned

1 maintenance outages. You're just saying that
2 coincidentally it happens to be in those shoulder
3 months, plants may not be operating and may provide
4 an opportunity for planned maintenance?

5 A. That's correct. That model which, as I
6 indicated, is not the model that I believe is the
7 most accurate model to use in this proceeding,
8 modeled OVEC as a contract, and to the extent that
9 OVEC's variable costs were below market, it
10 dispatched the unit. It dealt with it as a contract
11 not as a set of units.

12 Q. You would agree with me that planned
13 outages are required from time to time in order to
14 maintain the units?

15 A. Yes, they are.

16 Q. Okay. And not reflecting those would
17 be -- is really inconsistent with that general
18 proposition of how model -- of how modeling is
19 supposed to work and that those kinds of events
20 should be expressly indicated as part of the model,
21 correct?

22 A. If I were to run the model myself, that's
23 something that I would like to see in the model, and
24 that type of data was included in the analysis
25 presented in Attachments 2 and 3. That did include

1 explicit outages.

2 Q. Would you agree with me that Attachment 1
3 also did not include forced outages; is that right?

4 A. That's correct.

5 Q. Would you agree that the projected -- the
6 forecasted output of the units in both Attachment 1
7 and 2 is similar?

8 A. I would have to look at the two analyses
9 to see what those outputs were.

10 Q. And normally would you -- would you
11 normally reflect some level of forced outages also in
12 performing the dispatch model?

13 A. You would, and that type of information
14 would have been included in Attachments 2 and 3.

15 Q. Now, in Attachment 1, you indicated that
16 whenever market price exceeds variable costs, the
17 units would be dispatched, correct?

18 A. In that model, yes.

19 Q. In that model. Do I understand correctly
20 that in performing that model, however, the variable
21 costs of the two units, Kyger Creek and Clifton
22 Creek, were averaged in determining whether they
23 should be dispatched?

24 A. Yes, that's correct. And that assumption
25 would under-dispatch the units and reduce the net

1 margins that that model would produce. So it's a
2 conservative assumption, one that I wouldn't have
3 included, but that was included in that analysis.

4 Q. Would you agree with me that the two
5 plants were dispatched separately, though, or not?

6 A. They were dispatched together based on an
7 average. That's what I indicated was a contract
8 analysis. So they looked at the average cost of the
9 OVEC contract and dispatched against that variable
10 price. They didn't look at the separate variable
11 prices.

12 Q. So if the two units have different
13 variable prices, there are circumstances under which
14 the market price would not be sufficient to justify
15 dispatch of one unit, but it would be sufficient to
16 justify dispatch of the other unit?

17 A. Yes, that's correct. And so what would
18 happen when you do that is that the low-cost unit
19 would dispatch more than what we indicated in the
20 analysis we presented, and it would result in a
21 higher dispatching total. So it was a conservative
22 assumption. It understated the margins that were
23 produced in Attachment 1.

24 Q. Would you agree with me that in the --
25 that in some hours the lower-cost plant was

1 dispatched -- strike that.

2 You would agree with me that in the
3 Attachment 1 dispatch model, the PLEXOS model, that
4 there were occasions -- that there are occasions when
5 the higher-cost plant was dispatched when, had it
6 been separately dispatched, it would not have been
7 dispatched? It was only dispatched because the
8 company used an average of the variable costs of the
9 two units when it did the dispatch.

10 A. That's correct. And that's conservative.
11 So what would happen if you were to separate those
12 units and look at the margins received from both of
13 those units in that scenario you just provided where
14 the one unit is above market and the other is below
15 market, we're showing profits for the unit that's
16 below market, but we're actually showing the unit
17 that's above market, dispatching at a loss, which
18 wouldn't happen.

19 So that's another example where that
20 assumption understates the margins because you are
21 actually dispatching at a loss which you wouldn't
22 really do. And you wouldn't dispatch that way in a
23 model where you separated them either.

24 Q. Well, this is not a modeling approach
25 that you would think is appropriate to average the

1 variable costs, but the company did that in
2 Attachment 1, correct?

3 A. The company did that in Attachment 1,
4 and, as I've indicated, that's not an analysis that I
5 think is the most representative of the true costs
6 and benefits of the OVEC units over the term. It was
7 provided in response to the discovery because it was
8 responsive. But it wasn't an analysis that I believe
9 is the best analysis or includes all the right
10 assumptions that I would have included.

11 Q. It's the only attachment that explicitly
12 provided an estimate of the ESP-period dispatch,
13 correct?

14 A. I don't think so. I think the other data
15 was sufficient to look at the ESP period, and we
16 demonstrated that.

17 Q. I asked you whether it did explicitly.
18 It was the only one that explicitly provided an
19 estimate for the ESP period.

20 A. It's the only one that presented monthly
21 data.

22 Q. Yes.

23 A. But there were other analyses available
24 to the parties.

25 Q. Which you presented on the first day of

1 your testimony, correct?

2 A. No. We presented it in discovery to the
3 parties. It was in the same discovery response as
4 Attachment 1 and then there was additional data
5 provided later on, the updated OVEC costs as far as
6 the O&M cost.

7 Q. The first time you provided an estimate
8 for Attachment 2 reflecting your calculations was
9 when you testified in the hearing.

10 A. That's the first time that I compiled it
11 for the parties, yes.

12 Q. That you compiled it for anybody,
13 correct?

14 A. Yes, but the data was available for the
15 parties to take advantage of prior to that.

16 Q. So you would agree with me that the
17 dispatching based on the average variable costs
18 assumes that the higher-cost plant is dispatched in
19 hours when the market price exceeds the average
20 variable cost of that plant; you would agree with
21 that, correct?

22 A. No. I think you misstated your question.
23 Maybe we can reread it --

24 Q. Yeah, okay.

25 A. -- and see if you got it right.

1 Q. You would agree with me that the analysis
2 reflected in Attachment 1 assumes that the
3 higher-cost plant is dispatched in hours when the
4 market price falls short of the variable cost of that
5 plant.

6 A. That's correct, which results in an
7 understated set of margins for the OVEC facility.
8 That unit is dispatching at a loss which would reduce
9 the margins.

10 Q. So what you're saying is it's also
11 reflecting additional costs associated with that
12 dispatch?

13 A. Sure. Because the cost side is the
14 blended cost of the two units. So it reflects the
15 total costs of running the entire plant. But if you
16 were to disaggregate those two units, you would see
17 that the lower-cost unit was operating at a profit
18 and the higher-cost unit was operating at a loss.
19 What you would do if you were just aggregating, you
20 would say the higher-cost unit wouldn't have
21 dispatched, that loss wouldn't exist, and as such,
22 the margins in total would be higher than what we
23 presented in that analysis.

24 Q. Do you know in how many hours this --
25 this occurred where the variable cost -- where the

1 higher-cost plant dispatched for an average -- where
2 the market price was lower than that?

3 A. I do not know.

4 Q. Okay. Now, when you -- I think you
5 earlier testified that IEU Exhibit 8 reflects the
6 most recent forecast of OVEC costs; is that correct?

7 A. It represents the most current estimate
8 of OVEC costs that were available at the time we
9 provided discovery in the case.

10 Q. And, since then, has there been an update
11 to the estimate of the OVEC costs?

12 A. There has been and it's consistent with
13 the data presented in that attachment we were just
14 referring to.

15 Q. Has that been provided to any of the
16 parties?

17 A. It has not.

18 Q. When was that update provided or received
19 by AEP Ohio?

20 A. My recollection is it was provided in
21 May.

22 Q. And other than -- other than the
23 inclusion of the LEAN improvements in the five-year
24 budget estimate, has AEP Ohio -- has OVEC made any
25 commitment that those LEAN improvements will be

1 realized?

2 A. Well, I think OVEC has made some
3 commitments to reducing costs. Remember, it's beyond
4 LEAN. We're talking about LEAN and other cost-saving
5 initiatives and they have committed to make those
6 changes through things like the severance program
7 that they have already instituted. So they have
8 already taken some concrete actions in addition to
9 moving forward with the LEAN program.

10 Q. In implementing the PPA rider, would AEP
11 Ohio be willing to commit to reflect those LEAN
12 improvements regardless of whether -- reflect all of
13 those improvements regardless of whether they
14 actually occurred?

15 A. No. That's not the company's proposal in
16 this case. And just like if the savings exceed those
17 estimated, the company is intending to flow through
18 the actual costs of the OVEC entitlement through the
19 PPA rider and net those against the revenues.

20 Q. Do you believe that rather than using the
21 PPA rider, is it possible that the same type of
22 product that the company is -- the same type of
23 hedging product the company is seeking to acquire or
24 offer to customers through the PPA rider could be
25 offered on a competitive bid basis to customers by

1 going out into the market and seeking such a product?

2 A. I don't know.

3 Q. Are you familiar with offers that have
4 been made to customers in the past for four- and
5 seven-year fixed products by CRES suppliers on AEP's
6 system?

7 A. My understanding is that offers have
8 existed in the past. Those offers don't exist today.
9 And from a customer perspective, the fact that an
10 offer existed sometime in the past is of little value
11 today if that offer is not currently out there. And
12 so what we have to look at is the reality where we
13 sit today, and those long-term offers just don't
14 exist.

15 Q. But it's quite possible that you'll see
16 those long-term offers again in the future, depending
17 on how market prices move?

18 A. You know, I don't know if it's possible
19 or not. Those offers, my understanding, were only
20 offered by one entity, you know, FirstEnergy
21 Solutions was offering a seven-year product. I don't
22 know that there were any other seven-year products
23 available. My understanding is there weren't.

24 So, you know, FirstEnergy Solutions
25 decides not to make those offers in the future

1 because they don't have that kind of risk tolerance,
2 and then I don't know what evidence is out there that
3 such an offer would be made in the future.

4 Q. Do you know when the last time a
5 seven-year product was offered by FirstEnergy
6 Solutions?

7 A. I don't.

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

10 EXAMINER PARROT: Mr. Parram?

11 MR. PARRAM: Yes, your Honor. Thank you.

12 - - -

13 CROSS-EXAMINATION

14 By Mr. Parram:

15 Q. Good afternoon, Mr. Allen.

16 A. Good afternoon.

17 Q. Following up on an answer you just
18 provided to counsel for OCC. When you are talking
19 specifically about seven-year contracts, you are
20 referring specifically to contract offers to
21 residential customers, correct?

22 A. That's correct.

23 Q. And when you did your analysis regarding
24 offers being provided to customers which you've laid
25 out in Exhibit WAA-R3, your analysis was specifically

1 focused on residential CRES offers, correct?

2 A. That's what I presented in Exhibit R3. I
3 did also take a look at offers on the Apples to
4 Apples comparison for commercial customers. They
5 showed similar results. In general there were fewer
6 offers available in total, but the same results were
7 apparent that the vast majority of the offers were
8 for up to 12 months. There were a fewer number in
9 that 12- to 24-month category, and very few beyond
10 that period.

11 Q. And on the Apples to Apples chart for
12 large commercial and large industrial customers, it
13 doesn't detail what exactly the offers are that are
14 out there for those particular customers, does it?

15 A. That's correct. For the larger customers
16 that's going to be a one-off contract with a
17 supplier. What I looked at were the offers that were
18 publicly available which would have been for the
19 smaller commercial accounts.

20 Q. So, theoretically, there may be large
21 commercial and industrial customers that are in
22 7-year, 10-year contracts with CRES providers?

23 A. They may be. Nobody has presented any
24 evidence in this case that those exist.

25 Q. And you don't know based upon your

1 research.

2 A. That's correct.

3 Q. And AEP Ohio's application in this case
4 proposes an SSO auction that ladders the auction
5 products, correct?

6 A. Yes.

7 Q. And if the PPA rider is granted, it will
8 not affect the laddering of the SSO auction as
9 proposed by AEP Ohio, correct?

10 A. That's correct. The company's proposal
11 would work well with the laddering and staggering of
12 auctions that currently exist and would have no
13 impact on those.

14 Q. And along the same line, if the PPA rider
15 is denied by the Commission, it would not affect the
16 laddering of the SSO auction?

17 A. That's correct. It's competitively
18 neutral to the SSO.

19 Q. If you could turn to page 3 of your
20 rebuttal testimony. If you go to line 6, starting
21 with the sentence "In addition." Are you there?

22 A. I'm there.

23 Q. "In addition, the use of this auction
24 design method can have unintended consequences that
25 should be carefully considered." And when you were

1 referring to this "auction design method," you are
2 referring to the laddering of the auction products,
3 correct?

4 A. Primarily the laddering, yes. The
5 staggering of the auctions can also have an impact,
6 but what I was specifically referring to was the
7 laddering approach.

8 Q. Okay. And the "unintended consequences"
9 that you are referring to there, you discuss in the
10 next couple sentences your concern regarding CRES
11 providers being able to offer competitive one-year
12 products; is that correct?

13 A. That's correct.

14 Q. But the -- whether or not the PPA rider
15 is granted by the Commission will have no effect on
16 this unintended consequence you are talking about,
17 correct?

18 A. That's correct. What I was trying to
19 describe there is that the PPA rider is competitively
20 neutral, has no impact on shopping versus SSO;
21 whereas, things like the blending and laddering could
22 have an impact on those, but they still may be
23 beneficial in total.

24 Q. Earlier, in response to some questions by
25 Mr. Darr, you talked about the -- the results of the

1 base residual auction for a number of different plan
2 years. I think you discussed 2015, 2016. Do you
3 recall that discussion?

4 A. Yes, I do.

5 Q. And you are generally aware of the
6 capacity prices for annual resources for years 2015
7 and 2016; is that correct?

8 A. Generally.

9 Q. And the RTO price for annual resources is
10 \$136 per megawatt-day for 2015 and 2016; is that
11 correct?

12 A. That sounds correct, yes.

13 Q. And but the annual price for -- in the
14 ATSI region is substantially higher than 136 for 2015
15 and 2016, correct?

16 A. Yes. It's my understanding that when you
17 blend it with the imported resources, it's
18 approximately \$300 a megawatt-day; generators in ATSI
19 get, I think, close to 360.

20 Q. Subject to check, would you agree that
21 the price for annual resources for an ATSI region for
22 2015 and 2016 is \$357 per megawatt-day?

23 A. That's the price generators in ATSI
24 receive. The price customers pay is less than that
25 because they blend it with the amount of imports that

1 can come into the ATSI zone which are priced at the
2 RTO clearing price. So I think when you blended
3 those, the price customers see is closer to \$300 a
4 megawatt-day.

5 Q. And on -- back to page 3 of your
6 testimony, you talk about the -- on line 9, you say
7 "If this laddering averages a high near term capacity
8 price with the lower future capacity prices, CRES
9 providers may not be able to offer competitive one
10 year products that include that high capacity price."
11 Do you see where I am at?

12 A. I do.

13 Q. And when you prepared your Exhibit
14 WAA-R3, you considered and looked at some of the
15 offers that CRES providers were offering,
16 specifically in the Ohio Edison, Cleveland Electric
17 Illuminating, and Toledo Edison; is that correct?

18 A. I did. I looked at some of those offers
19 in connection with preparing this and then in
20 conjunction with personal evaluation, yes.

21 MR. PARRAM: May I approach the witness,
22 your Honor?

23 EXAMINER PARROT: You may.

24 MR. PARRAM: Your Honor, I would like to
25 have marked for purposes of identification Staff

1 Exhibit 19, Staff Exhibit 20, and Staff Exhibit 21
2 which are printouts of the Apples to Apples
3 Comparison Chart for the three FirstEnergy operating
4 companies from the Commission website.

5 EXAMINER PARROT: Okay.

6 (EXHIBITS MARKED FOR IDENTIFICATION.)

7 EXAMINER PARROT: To make sure that the
8 record is clear, if you could more specifically
9 identify each one as you distribute them.

10 MR. PARRAM: Sure.

11 Q. Okay. Mr. Allen, do you have Staff
12 Exhibit 19 in front of you?

13 EXAMINER PARROT: Okay. Before we get
14 into this, just so the record is clear, Staff Exhibit
15 19 is the one that you are -- that's Toledo Edison;
16 is that correct? I just want to make sure we mark
17 our copies consistent with how you have marked --

18 MR. PARRAM: That's what I was about to
19 do with the witness, your Honor. Thank you.

20 EXAMINER PARROT: All right.

21 Q. Make sure I have my order correct. Staff
22 Exhibit 19, Mr. Allen, is the Apples to Apples
23 Comparison Chart for the Cleveland Illuminating
24 Company?

25 A. Yes, I see that.

1 Q. And Staff Exhibit 20 is the Apples to
2 Apples Comparison Chart for Ohio Edison, correct?

3 A. It is, yes.

4 Q. Okay. Staff Exhibit 21 is the Apples to
5 Apples Comparison Chart for Toledo Edison; is that
6 correct?

7 A. That's correct. And, just for clarity of
8 the record, all of those are based on June 27, 2014,
9 data. So it's a slightly different vintage than the
10 data I included in my testimony.

11 Q. And I decided to come up with a little
12 bit more updated data just so we are closer to the
13 actual testimony for today.

14 A. Sure.

15 Q. This is from Friday, June 27. And -- but
16 the general format of the Apples to Apples Comparison
17 Chart is what you saw when you did your research for
18 preparing the exhibits to your testimony; is that
19 correct?

20 A. It's generally what I looked at. It was
21 a little different format. If you noticed, there is
22 a little link on here for the EDU chart archive where
23 the Commission basically downloads a snapshot to a
24 PDF that's a little easier to look at. It's about
25 once a week, I think, they put that out. Yeah, this

1 is generally consistent with the type of data I was
2 looking at.

3 Q. And so, starting with Staff Exhibit 19
4 which is The Illuminating Company, I would like to --
5 on your copy that I provided you, I've highlighted
6 some areas to make this a little bit easier to walk
7 through. On page 2 of Staff Exhibit 19, starting at
8 the top of that page, there is a CRES provider,
9 Source Power & Gas LLC, that is providing a
10 fixed-price contract for 24 months; is that correct?

11 A. Yes.

12 Q. And then also on that page, DP&L Energy,
13 if you go down, four rows down, is providing a
14 24-month fixed-price contract; is that correct?

15 A. Yes, that's correct.

16 Q. Right under that, Integrys has a
17 fixed-priced contract for 24 months; is that correct?

18 A. That's correct.

19 Q. And then if you go on to page 3, Direct
20 Energy has a fixed-price contract for an 18-month
21 period; is that correct?

22 A. Yes.

23 Q. And that would take us into 2015-2016 PJM
24 annual -- the -- 2015-2016 planning year; is that
25 correct?

1 A. Yes.

2 Q. And if you go down, DP&L Energy also has
3 a fixed-price contract, but this contract is for 35
4 months. Do you see that there?

5 A. Yes, I do. And it shows an almost \$20 a
6 megawatt-hour, \$19 a megawatt-hour in price to get
7 that extra term.

8 Q. And if you go on to page 4, the first two
9 CRES providers listed have -- Censtar Energy has a
10 24-month fixed-price arrangement, and then
11 Constellation has a fixed-price arrangement for 18
12 months. Do you see that?

13 A. I do.

14 Q. And, at the very bottom, FirstEnergy
15 Solutions has a 35-month. Do you see that there?

16 A. I do.

17 Q. And just to speed things up, for Staff
18 Exhibit 20 and Staff Exhibit 21, there are a number
19 of different CRES providers that have either an
20 18-month up to 35-month contract offerings for the
21 Ohio Edison territory and the Toledo Edison
22 territory; is that correct?

23 A. Yes. And the one additional observation
24 I would like to make is when you look at the current
25 data, which is only two weeks after what I presented

1 previously in my testimony, there are no offers in
2 either one of those service territories or any of the
3 three that go beyond the 36-month period. So I think
4 those longer-term contracts are disappearing quickly.

5 Q. And specifically for Staff Exhibit 20, if
6 you look at page 3.

7 A. I'm there.

8 Q. And you go down, fourth row, you have
9 DP&L Energy offering a fixed-price contract for 35
10 months. Do you see that there?

11 A. I do.

12 Q. That's essentially a three-year contract?

13 A. It is, yes.

14 MR. PARRAM: That's all I have, your
15 Honor. Thank you.

16 EXAMINER PARROT: Any redirect?

17 MR. NOURSE: Could we have a very brief
18 conference, your Honor?

19 EXAMINER PARROT: You may.

20 (Discussion off the record.)

21 EXAMINER PARROT: Mr. Nourse.

22 MR. NOURSE: Thank you, your Honor. No
23 redirect.

24 EXAMINER PARROT: Thank you very much,
25 Mr. Allen.

1 I believe Mr. Nourse has already moved
2 for the admission of AEP Ohio Exhibit 33. Are there
3 any objections?

4 MR. BERGER: Your Honor, I would move to
5 strike that portion of the testimony on carrying
6 costs and regulatory assets starting on page 13, line
7 18, through to page 14, line 17. The Company's
8 Witness Renee Hawkins testified on this very subject,
9 said virtually the exact same things. This is a
10 cumulative testimony. I have a copy of her testimony
11 here if you would like to see it, pages 10 to 11.

12 Mr. Allen's testimony really says nothing
13 new or different; although, it purports to be in
14 response to a -- to Staff Witness Lipthrott's
15 testimony. It is, nonetheless, cumulative in nature.
16 And simply because it's cast as rebuttal testimony
17 doesn't make it -- provide anything new or different
18 that would justify it being offered at this time.

19 Would you like me to provide you with a
20 copy of her testimony? You have it there? Thank
21 you.

22 EXAMINER PARROT: Mr. Nourse.

23 MR. NOURSE: Your Honor, I think, first
24 of all, the motion to strike is untimely. The time
25 to do that is at the outset, prior to

1 cross-examination. But I would also add that this
2 rebuttal testimony does add some additional points
3 beyond what Ms. Hawkins addressed here in her
4 testimony.

5 Mr. Allen is certainly qualified to do so
6 and was prepared to discuss and defend those
7 observations, but he did add that, you know,
8 basically the concept is we can't use the same debt
9 to finance two different things, and if you -- if you
10 did make an adjustment there, that it would have to
11 be reflected in the next rate case. So those are
12 fair rebuttal points to clean up the record on that
13 issue.

14 EXAMINER PARROT: Anything else with
15 respect to this exhibit?

16 All right. With that, Mr. Berger, I am
17 going to deny your motion to strike and admit into
18 the record AEP Ohio Exhibit 33.

19 (EXHIBIT ADMITTED INTO EVIDENCE.)

20 EXAMINER PARROT: Mr. Petricoff.

21 MR. PETRICOFF: Yes, your Honor. I would
22 like to -- I have two documents I would like to move
23 for admission. The first is RESA Exhibit No. 4.

24 EXAMINER PARROT: Are there any
25 objections to the admission of RESA Exhibit 4?

1 MR. NOURSE: No.

2 EXAMINER PARROT: Hearing none, it is
3 admitted.

4 (EXHIBIT ADMITTED INTO EVIDENCE.)

5 MR. PETRICOFF: And the second one is
6 Constellation Exhibit No. 2.

7 EXAMINER PARROT: And are there any
8 objection to the admission of Constellation Exhibit
9 2?

10 MR. NOURSE: No objection.

11 EXAMINER PARROT: All right. Hearing
12 none, it will also be admitted.

13 (EXHIBIT ADMITTED INTO EVIDENCE.)

14 EXAMINER PARROT: Staff?

15 MR. PARRAM: Yes, your Honor. Staff
16 would move for the admission of Staff Exhibits 19,
17 20, and 21.

18 EXAMINER PARROT: Are there any
19 objections to the admission of Staff Exhibits 19
20 through 21?

21 MR. NOURSE: No, your Honor.

22 EXAMINER PARROT: All right. Hearing
23 none, those are also admitted into the record.

24 (EXHIBITS ADMITTED INTO EVIDENCE.)

25 EXAMINER PARROT: All right. At this

1 point, let's go off the record.

2 (Discussion off the record.)

3 EXAMINER PARROT: While we were off the
4 record, the parties have proposed various briefing
5 schedules. The Bench has taken those under
6 consideration. We have decided that initial briefs
7 will be due on Wednesday, July 23. Reply briefs will
8 be due on Friday, August 15.

9 The company has agreed to arrange for
10 expedited processing of the transcript from today.

11 Is there anything else to come before us?

12 MR. NOURSE: Your Honor, I just wanted to
13 mention on the -- thanks to Mr. Darr's prompting,
14 actually, the -- I think there is one day of
15 transcript that we have a partial confidential
16 transcript. So we would also commit to reviewing
17 that and trying to work with the reporter to get a
18 more open public version by Wednesday as well.

19 EXAMINER PARROT: All right. Thank you.
20 Anything else?

21 All right. Hearing none, this matter
22 will be submitted to the Commission for its
23 consideration subject to the parties' briefs. Thank
24 you.

25 (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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Summary: Transcript in the matter of the Ohio Power Company hearing - Volume XIII Rebuttal held on 06/30/14 electronically filed by Mr. Ken Spencer on behalf of Armstrong & Okey, Inc. and Gibson, Karen Sue Mrs.