BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

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| In the Matter of the Application Seeking Approval of Ohio Power Company's Proposal to Enter into an Affiliate Power Purchase Agreement for Inclusion in the Power Purchase Agreement Rider. | : Case No. 14-1693-EL-RDR |
| In the Matter of the Application of Ohio Power Company for Approval of Certain Accounting Authority. | : Case No. 14-1694-EL-AAM |

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PROCEEDINGS

before Ms. Greta See and Ms. Sarah Parrot, Attorney Examiners, at the Public Utilities Commission of Ohio, 180 East Broad Street, Room 11-D, Columbus, Ohio, called at 9 a.m. on Wednesday, September 30, 2015.

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VOLUME III

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INDEX

- - -



- - -

INDEX (Continued)

- - -



- - -

INDEX (Continued)

- - -



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Wednesday Morning Session,
September 30, 2015.

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

This is the continuation of the hearing in Case No. 14-1693-EL-RDR, et al. My name is Sarah Parrot. With me on the Bench is Greta See. We are the attorney examiners assigned by the Commission to these cases.

Let's take brief appearances of the parties, names only and on whose behalf you are appearing today.

Mr. Nourse.

MR. NOURSE: Thank you. On behalf of the Ohio Power Company, Steve Nourse, Matthew J. Satterwhite, Matthew McKenzie, Dan Conway, Chris Miller.

MR. KURTZ: Good morning. For Ohio Energy Group, Mike Kurtz.

MR. PRITCHARD: Good morning, your Honors. On behalf of IEU-Ohio, Matt Pritchard and Frank Darr.

MR. OLIKER: Good morning, your Honors. On behalf of IGS Energy, Joe Oliker.

MR. BEELER: Good morning. On behalf of staff, Steve Beeler, Werner Margard.

MR. MICHAEL: Good morning, your Honors. On behalf of AEP Ohio's residential utility customers, the Office of the Ohio Consumers' Counsel, William J. Michael.

MS. BOJKO: Good morning, your Honors. On behalf of Ohio Manufacturers' Association Energy Group, Kim Bojko and Danielle Ghiloni.

MR. FISK: Good morning, your Honors. On behalf of Sierra Club, Shannon Fisk, Chris Bzdok.

MS. HARRIS: On behalf of Wal-Mart Stores East and Sam's East, Inc., Carrie Harris from Spilman, Thomas & Battle.

MR. CASTO: On behalf of FirstEnergy Solutions, Scott Casto.

MR. DOUGHERTY: On behalf of Ohio Environmental Council and the Environmental Defense Fund, Trent Dougherty.

MS. FLEISHER: On behalf of the Environmental Law & Policy Center, Madeline Fleisher and Justin Vickers.

MS. PETRUCCI: On behalf of the Retail Energy Supply Association, PJM Power Providers Group, the Electric Power Supply Association, Constellation

NewEnergy and Exelon Generation, M. Howard Petricoff, Mike Settineri, and Gretchen Petrucci.

EXAMINER PARROT: I think that accounts for everybody. Did we miss anyone?

Thank you. We're going to pick up again with the cross-examination of Dr. Pearce. I would just remind you, Dr. Pearce, that you are still under oath, and please do your best to project your voice so that the folks on the far side of the room can hear you. I'd appreciate that.

Mr. Pritchard.

MR. PRITCHARD: Thank you.

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KELLY D. PEARCE

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

CROSS-EXAMINATION

By Mr. Pritchard:

Q. Good morning, Dr. Pearce.

A. Good morning.

Q. My name is Matt Pritchard. I represent the Industrial Energy Users of Ohio. If for some reason you can't hear me, just let me know and I'll speak louder.

A. Okay.

Q. The affiliate PPA agreement, do you have that in front of you still?

A. I do.

Q. And the affiliate PPA agreement obligates, if executed, AEP Ohio to make a monthly payment to AEPGR, correct?

A. That is correct.

Q. And that monthly payment consists of six subcomponents, correct?

A. Yes, six separate components.

Q. And those six components are a fuel payment, an O&M payment, a depreciation payment, a capacity payment, a tax reimbursement payment, and other miscellaneous payment, correct?

A. That is correct.

Q. And on the depreciation payment, the agreement -- the affiliate specifies that the depreciation rates will be adjusted in intervals not exceeding five years, correct?

A. That is correct.

Q. And AEP Generation Resources does not need to seek Commission approval to modify depreciation rates, correct?

A. The adjustments to the depreciation rate would be reviewed by the operating committee that includes both the buyer and the seller, which would include AEP Ohio, but they would not need to seek Commission approval first.

Q. And turning now to the monthly capacity payment. The capacity payment is calculated as the facilities net book value multiplied by the weighted average cost of capital divided by 12, correct?

A. Yes.

Q. And the facilities net book value is the current net book value of the assets on AEPGR's books, correct?

A. That is correct.

Q. And AEP Generation Resources received these units that are to be included in the affiliate PPA from AEP Ohio, correct?

THE WITNESS: Could you read back the question.

(Record read.)

A. Are you asking if the units were transferred from AEP Ohio to AEP Generation Resources as corporation separation?

Q. Yes.

A. Yes, that occurred.

Q. And during that corporate transfer, the transfer from AEP Ohio to AEPGR occurred at net book value, correct?

A. That's my understanding, yes.

Q. And the corporate separation became effective January 1st, 2014, correct?

A. Yes.

Q. And the net book value on AEPGR's books is largely reflective of the transfer of net book value accounting for a couple years of depreciation, correct?

A. And any subsequent capital investment.

Q. But the majority of the net book value would be representative of that transferred net book value, correct?

A. Correct.

Q. Part of the rationale for transferring at net book value was that following Senate Bill 3 ratepayers were not entitled to any gain from the divestiture of the plants, correct?

A. I know Senate Bill 3 drove what eventually became corporate separation for the plant. I won't opine on all the intent around that.

MR. PRITCHARD: Your Honors, I'd like to mark an exhibit. I'd like to have marked as IEU-Ohio Exhibit 1 --

MR. DARR: 2.

MR. PRITCHARD: I'm sorry, IEU Ohio Exhibit -- are we at 1?

MR. DARR: No. We are at 2.

EXAMINER PARROT: Reserving 1?

MR. PRITCHARD: We're reserving 1.

EXAMINER PARROT: Very good.

MR. PRITCHARD: Sorry, as IEU-Ohio Exhibit 2 AEP Ohio's reply comments in Case 12-1126-EL-UNC.

EXAMINER PARROT: The exhibit is marked as IEU Exhibit No. 2.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Dr. Pearce, do you have in front of you a document that's titled "Reply Comments of Ohio Power Company"?

A. I do.

Q. And on the first page it indicates that the case number is 12-1126-EL-UNC, correct?

A. Yes.

Q. And the case caption for this case on the top left is in the Matter of the Application of Ohio Power Company for Approval of Full Legal Corporate Separation and Amendment to Its Corporate Separation Plan, correct?

A. Yes.

Q. If you turn to the very last page of this document, there's a time stamp indicating that the foregoing document was electronically filed with the Public Utilities Commission of Ohio Docketing Information System on 8/3/2012 in case number 12-1126-EL-UNC, correct?

A. Yes, I see the time stamp of the 3rd of August, 2012.

Q. And, now, if you turn to page 9 of this document, about halfway down there's a sentence that begins "Under SB 3." Let me know when you see that sentence.

A. Okay. Yes, I see it.

Q. And does this document read "Under SB 3, all of these generation assets were subjected to market and EDUs" -- sorry. I'm reading from the wrong spot.

Sorry. It's actually the next sentence that begins "The General Assembly." Do you see that sentence?

A. The sentence that starts what?

Q. The next sentence that begins "The General Assembly."

A. Yes, I see that.

Q. "The General Assembly simultaneously

required generation divestiture and did not provide for any gain, whether real or artificial, to be flowed back to ratepayers." Is that what this document states?

A. That's what the sentence states, yes.

Q. And another rationale for AEP Ohio transferring the assets at net book value was that future transactions or disposition of the generation assets after corporate separation was not a matter of concern for the Commission, correct?

A. I'm not aware of whether it was or not. Do you have a reference to that?

Q. Yes. Will you turn to page 10, the paragraph beginning "Contrary." Let me know when you're there.

MR. NOURSE: Your Honor, could I interject. I mean, he hasn't asked the witness if he's ever seen this or if he's familiar with the positions in this docket. Counsel just wants to read portions of this into the record. We can stipulate to this being admitted as an exhibit, but I don't think there's been anything indicated that the witness knows anything about this document.

MR. PRITCHARD: I've established that this document was filed by -- it's AEP Ohio's reply comments, there's a time stamp indicating it was filed with the Commission, it was verifiable and authenticated with the Commission's website. And these are AEP Ohio's prior statements. AEP Ohio is a party in this case. And I don't believe I need to establish that this witness is familiar with these statements that are impeaching the AEP Ohio's position in this case including the affiliate PPA terms which are tied to net book value.

MR. NOURSE: Your Honor, I certainly didn't question the authenticity; in fact, I offered to stipulate.

EXAMINER PARROT: He stipulated to it.

MR. NOURSE: So that's not the point.

EXAMINER PARROT: And do you have a response to that, Mr. Pritchard? His offer to stipulate.

MR. DARR: We accept.

MR. PRITCHARD: I accept that.

EXAMINER PARROT: Well, if you do have further questions, I do agree with Mr. Nourse, I think you need to at least establish whether or not the witness himself has seen the document before. So either we can agree to stipulate to its admission and move on or, if you have further questions, I do think you need to ask some further foundation questions.

MR. PRITCHARD: If we're going to stipulate to the admission, I'm not sure I need to ask any other questions.

EXAMINER PARROT: Okay. Very good.

Q. And another one of the portions of the monthly capacity payment is that the net book value was multiplied by the weighted average cost of capital, correct?

A. That's correct.

Q. And the weighted average cost of capital will be based on a hypothetical capitalization of 50 percent debt, 50 percent equity, correct?

A. It will be a frozen, frozen capital structure of 50/50, that's correct.

Q. And that capital structure is hypothetical, correct?

A. I believe the more appropriate term is "frozen" is what I'm saying.

Q. Is AEP -- I'm sorry. Go ahead.

A. A hypothetical is saying a particular scenario that could happen. The actual capital structure could be more weighted, less weighted, one or the other, and we're just saying we're freezing it for the period. That's why I'm saying "frozen."

Q. AEPGR's current capitalization is not 50 percent debt, 50 percent equity, correct?

A. AEP?

Q. GR's.

A. GR's? I would refer you to Company Witness Hawkins for the current capital structure of GR.

Q. Thank you.

And the affiliate PPA specifies a formula to calculate the return on equity that is a component of the weighted average cost of capital, correct?

THE WITNESS: Could you read the question back.

(Record read.)

A. Yes, it does.

Q. And after -- if the Commission approves AEP Ohio's application in this proceeding, the Commission will not have any authority in the future to order a different return on equity, correct?

A. As I think mentioned by Company Witness Vegas, the Commission is free at any time to have discussions with him about recommended changes to the agreement which he can take to the seller, and they can agree what changes to make or not to make to the agreement.

Our current prudency review that we're asking is effectively for an approval of the ROE that we've included, and we really couldn't make it any more transparent than saying it's basically based on a corporate Moody's bond index rate plus a certain basis adder and a 50/50 capital structure.

So by them approving that right now, the approval of the formula is the approval of the prudency going forward. We're assuming that, yes, that is the deal that we're offering at this point in time.

Q. And is it your understanding that the conversations with Mr. Vegas, I can't remember if it was Monday or yesterday morning, were in regards to suggestions that the Commission might make before the agreement was executed between AEP Ohio and AEPGR?

A. I believe he did reference discussions before the agreement was executed. My understanding is that that didn't necessarily cut it off, that if sometime down the road they wanted to have a discussion about potential amendments or the parties were just contemplating when they had discussions, Company Witness Vegas would make the determinations as representing the buyer on who all he wanted to share that discussion with or make considerations in potentially seeking any changes to the agreement in the future.

Q. And those future actions that would occur after this agreement is executed, the Commission does not have the authority to order that a change in the return on equity be made, correct?

A. That is correct.

Q. And the weighted average cost of capital is also tied to or a portion of that is made up of debt, correct?

A. That's correct.

Q. And that debt rate is, per the agreement, tied to AEP Generation Resources' average cost of long-term debt, correct?

A. Because we have said in our testimony that it is our intent to move these assets to a subsidiary of Generation Resources, it would be the debt of that subsidiary and that is also going to help us basically insulate all the costs of these units so for clarity and transparency of what costs are flowing through the PPA.

Q. And so at page 7, "Seller's Long Term Debt Rate," there's a definition there, correct?

A. That is correct.

Q. And this definition specifies that for the period June 1st, 2015, through December 31st, 2016, the initial rate is 4.73 percent, correct?

A. That is correct.

Q. Thereafter, it will be, and I'm paraphrasing, seller's average annual cost of long-term debt, correct?

A. That is correct.

Q. And so if these assets are moved from AEP Generation Resources to a subsidiary of AEP Generation Resources, would this provision need to be modified?

A. No. Because as the seller, the seller is defined, as we put in even the title page, purchased power sale agreement by and between GenCo in brackets. That "GenCo" is meaning to represent the subsidiary that we would move the assets to.

Q. Okay. So --

A. So, yes, we'll have to come up with a name of that subsidiary and modify that, but that is the subsidiary of the seller so this reference to the seller would remain intact.

Q. So all the references to the seller in this document would refer to that subsidiary of AEP Generation Resources if that's where you moved the affiliate PPA units.

A. That's correct.

Q. Is there anything in this agreement that would prohibit that new subsidiary from operating units other than the affiliate PPA units?

A. The subsidiary hasn't even been established yet. The intent of the subsidiary is to provide the PPA units in its own legal entity for purposes of the buyer, the seller. To the extent that other parties representing AEP Ohio customers may review costs as well, that those are isolated.

So at this time I don't perceive that that subsidiary would be utilized for other purposes outside of the PPA units.

Q. But there's nothing in this document that would prohibit that yet-to-be-created subsidiary from engaging in other business activities other than operating these affiliate PPA units, correct?

A. Not to my recollection, but nor should it. I mean, this is the agreement between the buyer and the seller and I don't envision -- it would be the first time I've ever seen commercial terms precluding the seller from being able to engage in any other activities.

It would be like the Cardinal Operating Company, it was designed to operate Cardinal plant.

I don't know that there's a provision that says, oh, Cardinal operating plant -- Operating Company, you can't go operate another plant. But the formation of the corporation itself just wasn't formed with that intent.

Q. And another one of the six subcomponents of the monthly payment is an other miscellaneous payment, correct?

A. That's correct.

Q. And this section is broken down into subpoints (A), (B), and (C), correct?

A. Yes.

Q. And (B) and (C) are the two provisions in the affiliate PPA that reference early termination costs, correct?

THE WITNESS: Could you please read back the question.

(Record read.)

A. That is correct.

Q. And you had lengthy discussions yesterday about those two provisions with other counsel, correct?

A. Yes.

Q. And provision (A) under 5.7 specifies that any other cost as described within this agreement not already included in other payment components or any other costs or credits reasonably associated with the facilities will show up in the other miscellaneous payment section, correct?

A. That's in section (A)?

Q. Yes.

A. Yes.

Q. And this is a section where if there were any capacity performance penalties associated with the affiliate PPA plants, this is the provision where they would show up, correct?

A. It's possible, but I would more likely anticipate that when we get the PJM bill for the revenues coming in from these plants, both for the energy, the capacity, and the ancillary services, that that would tend to show up as a line item on that same bill. It would be netted out there. So if it's basically netted against the revenues at the PJM bill level, then there would be no reason to include those costs under component (A).

Q. So they would be an offset to the revenues which would be the AEP Ohio side of the transaction.

A. They would be an offset to the revenues that AEP Ohio would receive to the extent that there are any penalties.

Q. And in your testimony, and in discussions yesterday, you indicated that this agreement was largely based on the Lawrenceburg agreement; is that correct?

A. That was our starting point.

Q. And the Lawrenceburg agreement does not contain an "Other Miscellaneous Payment" provision, correct?

And, just for the record, if you could let us know what you're looking at.

A. I was looking at the Lawrenceburg agreement which was provided in discovery.

Q. Okay.

A. It does not include that provision.

Q. And the Lawrenceburg agreement, because it does not include the "Other Miscellaneous Payment" provision, does not obligate AEP Ohio to pay the undepreciated net book value plus any retirement costs and post-retirement costs as would show up in 5.7(B) and (C) under the affiliate PPA, correct?

I'll withdraw that question.

A. Because it doesn't include it --

Q. I --

A. It does not include that provision. It would not include those things.  One distinction between the Lawrenceburg agreement, important one, is that Lawrenceburg agreement was only a ten-year agreement so it wasn't through the life of Lawrenceburg, as opposed to this agreement, which is -- we're proposing is through the life of the asset.  So of course retirement costs are going to come more into play in this agreement than they would the Lawrenceburg agreement.

Q.   I'll withdraw my request to withdraw and let the answer stand.

And, as you indicated, the Lawrenceburg agreement was for a period of ten years, correct?

A.   That is correct.

Q.   And it provided the buyer, which was AEP Ohio, the sole right to exercise an option to extend that contract, correct?

A.   For I believe approximately two more years.

Q.   Do you have in front of you the OVEC intercompany power agreement?

A.   I do not.

MR. PRITCHARD:  Counsel, could you provide the witness a copy of that exhibit.

MR. NOURSE:  What exhibit was it?

MR. PRITCHARD: Sierra --

EXAMINER PARROT: Three.

MR. PRITCHARD: Sierra Club 3.

Q. The intercompany power agreement obligates AEP Ohio to make a monthly payment to OVEC, correct?

A. That is correct.

Q. And that monthly payment is broken down into an energy charge, a demand charge, and a transmission charge, correct?

A. That is correct.

Q. And the intercompany power agreement requires AEP Ohio to cover a percent of any replacement costs that would not be covered by insurance, correct?

A. That is correct.

Q. And the intercompany power agreement is unit contingent similar to the affiliate PPA, correct?

A. Yes, it is.

Q. And so the intercompany power agreement and both the affiliate PPA agreement obligate AEP Ohio to pay fixed costs and there's no obligation on the generation to have to deliver any energy or ancillary services to AEP Ohio, correct?

A. Well, there is an obligation to provide it whenever the unit is available.

Q. Let me clarify. Because both contracts are unit contingent and excuse OVEC and the seller under the affiliate PPA in instances of outage or force majeure, if there's an outage or force majeure event at OVEC or the affiliate PPA units, AEP Ohio would be obligated to pay fixed costs, and the sellers, OVEC and the affiliate PPA, would not be obligated to provide any energy to AEP Ohio, correct?

A. As with many commercial agreements, "unit contingent" is a fairly standard term, and with our regulated units in our vertically-integrated states, when a unit is out of service, and they all go out of service for various reasons, maintenance outages, whatever, they're still incurring fixed costs at that time which customers are paying for even though the units are not producing any power.

If there is a large concern, and I don't see why there would be, these are coal plants, these aren't nuclear plants, of, you know, wanting an ability to receive replacement power when one of these units is out of service, there are certain insurance-type products in the commercial market that can be acquired, they would be passed through to the buyer, I wouldn't recommend it because we are talking about a diversity of 20 units here so that's part of the benefit of the PPA.

We're not proposing two big 1,300s. They are sort of live or die. They can be up and down. We're talking about 20 units. We've got a great capacity diversity across all those units so at any one time, yes, you could have one or two units out for standard maintenance outage. You are still going to get the output of 18 units. So I don't see it as a big risk. There's ways to hedge that.

As it stands now, there is a unit contingent provision such that, no, units cannot provide power when they are down just fundamentally, the definition of being down. They can still be receiving capacity payments from the PJM market even when they are down, out of service.

Q. Thank you for that clarification. So you do agree with my question, correct?

A. I agree that when the units are down, they're based on good utility practice prudency requirements that we have in the contract. They have an obligation to try to get the unit back up, back available in as fast a fashion as possible, and there can be discussions about exactly how much effort, how much you want to pay overtime crews to get it up. All those discussions can go through the operating committee.

So they have a legal requirement in it to try to shorten outages and keep the units on -- available as much as possible. Before those periods that they are not available they do not have any requirement to provide any kind of makeup energy at that point in time currently. So I agree with the qualifications I inserted. I agree that there is no legal obligation to provide makeup power at this point in time as envisioned for the units when they are out of service.

Q. Just to clarify, because your last response you had put, inserted the word, after your explanation, "currently," and then said with your qualifications you agreed with me, so let me just try this one last time.

Both agreements obligate AEP Ohio to pay the fixed monthly costs, but if the units are on outage, the OVEC and AEPGR are not obligated to provide any power or backup power to AEP Ohio, correct?

A. They are not obligated to provide any backup power with the clarifications that I said that they have an intent to shorten those periods in a commercially good utility practice and prudent manner.

Q. Thank you.

Now, a couple follow-up questions on page, I believe it is 18, where you were talking about the polar vortex of January 2014. Let me know when you're --

A. You're in my testimony?

Q. Yes.

A. Okay. I am there.

Q. For my clarifications, I thought I heard, well, I'm not sure what I heard so let me know if I'm correct.

You're indicating here that this is the amount -- that the $54 million net benefit number is the net benefit for the month of January 2014 that would have occurred if the PPA and PPA rider were in place and all of the units were running during the month of January 2014; is that correct?

A. No. As stated right there in the testimony starting on the very end of line 11, I say "As evidence of this, in addition to the forecasts, the revenues and cost of the PPA Rider were analyzed as though it had been in effect for the first quarter of 2014." So we didn't just look at January. We looked at the first entire quarter.

So, basically, beyond just the polar vortex event, which as we showed by that can have long-ranging implications as the gas draws down, gas goes up, other events occur. So we looked at the whole quarter, and we used -- because it was after the fact, we didn't have to get into forecasts about how much the units are going to run.

We looked at exactly the operation of the units. So it was as straightforward as saying here's what the units ran in these hours. It was known data and the megawatt-hours of all the units times the hourly LMP prices plus the historically low, near historically low prices of $27 and -- $27.73 a megawatt-day so peanuts on the capacity. Customers still would have received the credit that I show on line 15 as $54 million.

The one only adjustment that we made off of that -- that's what would have happened. That's what would have happened. Since we look backwards I can say that definitively. The only hypothetical adjustment we made to that was recognizing that we believe that $27.73 per megawatt-day capacity prices was an anomaly. I think a lot of parties hopefully agree that that's not going to happen again.

So to get a more representative number on capacity values we did look at the average value of capacity on line 19, so that was -- of my testimony, we just took the simple average of the years where the PJM instituted the capacity market in 2007 through 2008 -- through 2007 through 2018, so we were able to average those ten years because some of those auctions had already happened.

The average over that period was still only $93.15 which is a lot less than what some of the more recent auctions have cleared at. And if we just adjusted it to 93.15, which is still a conservative number in my mind, then, yes, under that hypothetical instead of the known 54 million, AEP customers would have got the benefit of $70 million as reflected on line 20 over just that one quarter.

Q. Thank you for that clarification.

A. Sure.

Q. Now, turning back to the unit contingent discussions we were having a second ago, do you recall being asked in discovery to identify -- well, let me back up.

Are you aware that PJM's enhanced liaison committee tabulated hours that would have triggered performance assessments in a file titled "Performance Assessment Hours for 2011 through 2014"?

THE WITNESS: Could you read the question back, please.

(Record read.)

A. That is my understanding, yes.

Q. And you were asked in discovery to identify the operational status of each unit in the proposed PPA during these flagged hours, correct?

A. I don't recall. I may have been.

MR. PRITCHARD: I'll save the rest of my questions on this line. The discovery response is confidential.

Q. And do you recall being asked in discovery to identify any outage for the PPA units and the cause of any outage for the days January 6th, 7th, or 8th of 2014, January 7th or 8th of 2015, or February 19th or 20th of 2015?

A. It was 12-and-a-half hours so I don't recall if I was asked that, sorry.

Q. In discovery, not yesterday.

A. Oh, in discovery, okay. So in discovery if I was asked about it. I thought you meant the deposition, sorry.

Q. In discovery do you recall being asked to identify the outage for the PPA units and the cause of outage on those days that I just identified?

A. Might have been. We had over 1,200 data requests.

MR. PRITCHARD: Your Honor, if I may approach the witness.

EXAMINER PARROT: You may.

MR. PRITCHARD: For the record, I have handed the witness a response of AEP Ohio to ELPC Interrogatory 3-12.

Q. Will you take a minute to review the question and answer here, Dr. Pearce.

A. Okay. I see the question and I see that we referred to a confidential attachment.

Q. And so does this refresh your recollection on whether in discovery you were asked to identify whether the units experienced an outage and the cause of outage on those dates?

A. Yes, we were asked that.

Q. And you responded with "Please see ELPC INT-3-12 Confidential Attachment 1," correct?

A. Yes.

Q. And you are the -- one of the two witnesses who prepared this response, correct?

A. Yes.

MR. PRITCHARD: I'll save the actual exhibit for the confidential section.

Q. Now I want to talk a little bit about your forecasts. Your forecasts do not include any capacity performance penalties, correct?

A. In my testimony?

Q. Your forecasts which are attached to your testimony as Exhibit KDP-2.

A. In Exhibit KDP-2 the, in each case, the third line down, it does not include any performance assessment penalties from the new capacity performance product in PJM nor does it include any additional revenues. So, example, the $574 million does not include any penalties nor revenues from that, that is correct.

The next line down does include, and again we provided a range in testimony, but that does provide the maximum amount of the revenues, and we did not include -- because we provided a range we did not include any offsetting assessment charge in those values.

Q. And in response to questions I believe it was from OMAEG yesterday, you discussed the definition of operating work which tied back to the O&M payment and there was a discussion about the cost of filing defense settlement of claims, suits, and causes of action. Do you remember those questions yesterday?

A. Yes.

Q. And your forecasts do not include any costs associated with the cost of filing defense settlement of claims, suits, and causes of actions, correct?

A. None that I'm aware of. Now, to the extent that the company has certain insurance costs as overhead costs, I believe some of that may have been included in our values. But as far as, you know, any net costs we're responsible for, I don't recall -- I don't believe any of that would have been included in those.

Q. And you had lengthy discussions with several attorneys yesterday about asset retirement obligations. Do you recall those discussions?

A. Somewhat.

Q. And do I understand your testimony from yesterday correctly that the asset retirement obligations are recorded on the books of AEP Generation Resources?

A. Yes, they are.

Q. And these asset retirement obligations, are they reflected in the month -- let me strike that.

Which of the six payment components would the asset retirement costs flow through?

MR. BZDOK: While he's looking may I have the question read back.

(Record read.)

A. If you refer to Exhibit KDP-1, -1, page 3 of my testimony, under the capital section, it specifies all of these various pieces that will make up net book value and it includes around, about five lines down, asset retirement obligations.

Q. And so in the "Monthly Payments" section the amount that's reflected as net book value comes through the capacity payment; is that correct?

A. That is correct.

Q. And the asset retirement obligation for AEP's ownership share of the units, of the PPA units, is equal to $54.9 million, correct?

THE WITNESS: I'm sorry. Could you read the question back, please.

(Record read.)

Q. I should clarify, I meant the affiliate PPA units.

A. The affiliate PPA units. Is that a

number we provided in nonconfidential?

Q. Yes. I will double-check here but -- well, yes, it is.

A. Okay. I guess my response is I don't recall specifically what the number is.

Q. Sure.

MR. PRITCHARD: Your Honor, I'd like to mark as IEU-Ohio Exhibit 3 and, for the record, the document I've requested to be marked as IEU-Ohio Exhibit 3 is Ohio Power Company's Response to Ohio Energy Group's Interrogatory 3-13.

May I approach?

EXAMINER PARROT: You may. And it's so marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Dr. Pearce, while I'm handing this out to everyone would you take a second and add up the numbers in response to part A which is on the bottom of the first page.

Dr. Pearce, have you had an opportunity to add up the values listed under part A in this response?

A. I have.

Q. And what is the total that these come to?

A. I get around 54.6 million. Is that in line with your numbers?

Q. You got 54.6?

A. Yeah. What did you get?

Q. I'll accept your math.

And the response under part A indicates that the value you just tabulated is related to AEP's ownership share of ARO liability amounts for each of the proposed PPA units at December 31st, 2013, correct?

A. Yes.

Q. And if you turn to the second page, you're identified as one of the sponsoring witnesses for this discovery response, correct?

A. Yes.

Q. And the total estimated future costs for retirement-related projects for which asset retirement obligations are currently recorded on AEPGR books for the PPA plants is approximately $120 million, correct?

And, for your information, I am not referencing this discovery exhibit.

A. I don't recall exactly without having the numbers in front of me about how much the future cost is.

MR. PRITCHARD: Your Honor, I'd like to

mark an Exhibit at IEU-Ohio Exhibit 4 and, for the record, this is AEP's Response to OCC's Interrogatory 1-16.

EXAMINER PARROT: So marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. I'd like to draw your attention, Dr. Pearce, to part D of this response.

A. Yes.

Q. And is what I have handed you OCC's -- or, Ohio Power Company's response to OCC discovery request, and is it titled "INT-1-016"?

A. Yes, it is.

Q. And you are the witness who was listed as responding to this document, correct?

A. Yes.

Q. And part D of the response indicates "Estimated future costs for retirement-related projects for which asset retirement obligations are currently recorded on AEPGR's books for the PPA Plants is as follows," and then there's four values, correct?

A. Yes.

Q. And would you add up those four values for me?

A. Yes.

Q. Have you already done that?
A. Yeah, it's around $120 million.
Q. Thank you.
MR. PRITCHARD: We are about 5 minutes till 10. Is this a good time to take a break?
EXAMINER PARROT: I think that if you're at a natural breaking point --
MR. PRITCHARD: I am.
EXAMINER PARROT: Okay. Let's take a ten-minute break. Take the time you need. Come back within ten minutes if you can.
(Recess taken.)
EXAMINER PARROT: Let's go back on the record.
Mr. Pritchard.
MR. PRITCHARD: Thank you.
Q. (By Mr. Pritchard) Do you have the -- I'm switching topics on you. Do you have the 2013 fundamental forecast with you on the stand?
A. Yes, I do.
Q. And this was marked as Sierra Club Exhibit 4?
A. I believe so.
Q. And you relied on the capacity values from the 2013 fundamental forecast provided by

Mr. Bletzacker, correct?
A. For beyond the period PJM auctions had not yet occurred, that's correct.
Q. And if you turn several pages in, you'll see a list of capacity prices in dollars per megawatt, and it's kind of cut off, but do you see the capacity values that start with '23?
A. Yes.
Q. Now, the first year on this page is 2013 and I'd like to draw your attention to the 2018 and 2019 values. The 2018 value on this page is identified as $199.74, correct?
A. For '18?
Q. Yes.
A. Yes, it is.
Q. And for calendar year 2019 the capacity value in this fundamental forecast is $215.54, correct?
A. Yes.
Q. And the values provided -- these values are provided on a calendar-year basis, correct?
A. Yes.
Q. And if we wanted to look at these values on a PJM delivery year, we would weight the 199 and 215 and change, correct?

A. Yes.
Q. And that comes out to $210.46 per megawatt-day, correct?
A. For a PJM planning year?
Q. Yes, for the 2018-2019 planning year.
MR. BZDOK: May I have the number again?
MR. PRITCHARD: Yes. The calendar year was 199.74 for 2018, it was $215.54 for calendar year 2019, and for the PJM delivery year 2018-2019 the value is $210.46 per megawatt-day.
MR. BZDOK: Thank you.
A. For '18-'19 I'm getting something in the $209 per megawatt-day range. What did you provide?
Q. $210.46.
A. Okay. So we're within a couple of bucks of each other.
MR. NOURSE: Can you give your number because that's the one I'm going to write down.
THE WITNESS: $209 per megawatt-day.
MR. NOURSE: Thank you.
Q. Dr. Pearce, do you remember providing in discovery a supplemental response to IEU-Ohio interrogatory 6-1 regarding the capacity performance product and the base residual -- sorry, the clearing price for the capacity performance product in the

2018-'19 delivery year?

A. What data was that again?

Q. It was from IEU-Ohio, interrogatory 6-001.

A. A supplemental?

Q. Yes. There was a response and a supplemental response, correct?

A. I recall the supplemental response.

Q. And in that supplemental response --

MR. PRITCHARD: And I'm not going to mark this as an exhibit yet. This is a confidential document, but counsel for AEP confirmed yesterday that several of the values I will be referencing are not confidential.

Q. Dr. Pearce --

MR. PRITCHARD: May I approach?

EXAMINER PARROT: You may.

A. Oh. Okay.

Q. Does this document help refresh your recollection of whether the -- for the 2018-'19 PJM delivery year that the value reflected by weighting the fundamental forecast is $210.46?

A. It does. And the difference is sitting up here on the fly I was using basically 5 over 12 months versus 7 over 12 months. Here it would have been a little bit more refined to factor in the various number of days in each month. February is a short month, so...

Q. And the 2018-'19 PJM base residual auction cleared capacity resources in AEP's zone, and this is base capacity, at $149.98 per megawatt-day, correct?

A. Are you asking me if that was the clearing price in the base auction?

Q. The 2018-'19 base residual auction for base capacity and resources.

A. It was 149.98, yes.

Q. And the 2018-'19 PJM base residual auction cleared capacity performance resources in AEP's zone at $164.77 per megawatt-day, correct?

A. That is correct.

Q. And both the 149.98 and 164.77 dollars per megawatt-day, you would agree with me that those values are both lower than $210.46 per megawatt-day, correct?

A. They are lower.

Q. Will you turn to page 23 of your testimony, and actually 22 and 23. Let me know when you're there.

A. Okay.

Q. And in these, beginning on page 21, there's a -- this section of your testimony is titled "PJM Generation Adequacy and Retail Rate Stability," correct?

A. Yes.

Q. And the first question on page 21 beginning at line 9 is: "Do you have any comments on capacity adequacy in the PJM capacity market," correct?

A. Yes.

Q. And on page 21 you begin an answer that carries through to page 23, correct?

A. Yes, I do.

Q. And then your response on PJM -- in your response to the question about capacity adequacy in the PJM capacity market, you include several footnotes, correct?

A. Yes.

Q. And if we look at page 22, footnote 1, you cite to the 2014 State of the Market Report, Volume I Introduction, page 50, correct?

A. Yes.

Q. And several other footnotes on this page cite to the 2014 State of the Market Report, correct?

A. Yes.

MR. PRITCHARD: Your Honors, I'd like to have marked as IEU-Ohio Exhibit, and I believe I'm up to 5.

EXAMINER PARROT: Yes, you are.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Dr. Pearce, do you have in front of you -- and the cover page of this document that I've handed you is titled "State of the Market Report for PJM, Volume 2, Detailed Analysis" and you can kind of make out the date but it does indicate on the cover page that this is for 2014?

A. Yes.

Q. And if you flip through and look at the footnote or the footer and the header on this document, you'll see throughout that it's referencing 2014 State of the Market Report for PJM, correct?

A. Yes.

Q. Now, if we look at your footnote 5 on page 22, you're citing to Volume 2 of this report, Section 7, Net Revenues at page 266, correct?

A. I'm sorry. Which footnote?

Q. Footnote 5 on page 22.

A. Yes.

Q. Now, if we look through the table of contents that is included in this document and we flip to Section 7, it's also titled "Net Revenues," correct?

A. I'm sorry. What page are you asking me to flip to?

Q. In this table of contents on the document I've handed you --

A. Yes.

Q. -- it indicates Section 7 "Net Revenue" begins on page 245, correct?

A. Yes.

Q. And if we flip a couple pages later, this table of contents indicates that Section 12, "Generation and Transmission Planning," begins on page 415 of this document, correct? And by "this document" I'm referring to the State of the Market Report document.

A. So what section are you asking about?

Q. Section 12. It's titled "Generation and Transmission Planning" and there's a -- it's indicated page 415.

A. Yes.

Q. And if you flip in the document I've handed you one more page, you'll see at the top it says Section 12, "Planning," correct?

A. Yes.

Q. And the title beginning in the upper left-hand corner is "Generation and Transmission Planning," correct?

A. Yes.

Q. And the page number at the bottom of this page is page 415, correct?

A. Yes.

Q. Now, if you'll look at the second bullet point on page 415, it's titled "Generation Retirements," correct?

A. Yes.

Q. And it indicates "As shown in Table 12-6, 26,679.8 megawatts have been, or are planned to be, retired between 2011 and 2019, with all but 2,140.8 megawatts planned to be retired by the end of 2015," correct?

A. That's correct.

Q. And I'm going to ask you to turn a few more pages to page 419 and look at Table 12-4. Let me know when you're there.

A. I am there. Table 4?

Q. Table 12-4 on page 419.

A. Yes.

Q. Under the column listed -- or under the column titled "Under Construction," the total megawatts of capacity in the PJM queues under construction as of December 31st, 2014, is identified in this table as 21,627.6, correct?

A. That is correct.

Q. And PJM puts out -- or, the marketing -- strike that.

Monitoring Analytics -- which is the independent market monitor for PJM, correct?

A. Market Monitoring Analytics, yes, they are the independent market monitor.

Q. And they put out this State of the Market Report for PJM annually, correct?

A. Yes.

Q. And, for instance, for 2015 they'll put out a quarterly report, but it won't be the entire annual report, correct?

A. I agree with that.

MR. PRITCHARD: Your Honor, I'd like to mark an exhibit as IEU-Ohio Exhibit 6 and the document that I'm going to be handing out is the State of the Market Report for PJM January through June of 2015.

EXAMINER PARROT: Marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Dr. Pearce, will you look through the table of contents of this document.

A. Okay.

Q. Let me know if on page Roman numeral VII it indicates that Section 12 is also titled "Generation and Transmission Planning."

A. I'm sorry. What page are you on?

Q. If you'll look at the bottom right-hand corner, you'll see Roman numeral VII, and then on the bottom left-hand side it says "Section 12, Generation and Transmission Planning," correct?

A. I believe that's Roman Numeral VIII, isn't it? Lower right, "Generation and Transmission Planning." Or maybe it's cut off on mine.

Q. Sorry, but this document indicates that "Section 12, Generation and Transmission Planning," begins on page 397.

A. Yes.

Q. And if you flip a couple pages further in the document I've handed you, the page number on the bottom right-hand corner says "397," correct?

A. The page number says 397 --

Q. Yep.

A. -- Section 12.

Q. Do you see that page?

A. Yes.

Q. And at the top it indicates that this is Section 12, correct?

A. Yes.

Q. And the title in the upper left-hand corner is "Generation and Transmission Planning Overview," correct?

A. Yes.

Q. And under the first bullet point, the first sentence reads "As of June 30, 2015, 77,461.3 megawatts of capacity were in generation request queues for construction through 2024, compared to an average installed capacity of 192,864.9 megawatts as of June 30, 2015," correct?

A. Yes.

Q. And the last sentence under this first bullet point reads "Combined-cycle projects account for 49,851.5 megawatts of capacity or 64.4 percent of the capacity in the queues," correct?

A. Yes.

Q. And if you flip a few more pages in this document to a page that's identified as page No. 401, and let me know when you're there.

A. Okay.

Q. And Table 12-4 appears on this page, correct?

A. Yes.

Q. And the title of this table is "Capacity in PJM queues in megawatts: At June 30, 2015," correct?

A. Yes.

Q. And in the column titled "Under Construction" the total is 22,963.4 megawatts, correct?

A. That is the total.

Q. That's all the questions I have on this document. Thank you.

Do you still have in front of you the 2013 fundamental forecast?

A. Yes.

Q. Do you have in front of you the 2015 fundamental forecast?

A. I do.

Q. And for the years -- these are Sierra Club Exhibits 4 and 5, correct?

A. Yes.

Q. And the values under PJM-AEP Gen hub on-peak for the years of 2016 through 2024, would you agree with me that for each year the on-peak prices in the 2015 fundamental forecast are less than the on-peak price in the 2013 forecast?

A. I would agree that looking in isolation at these prices by themselves the 2016 forecast prices are lower, as are the coal prices in the 2016 forecast, and the capacity value forecasts are higher in the 2016 forecast.

Q. So with your further clarifications about the other information in this document, did I hear you agree with me that the 2015 forecast PJM AEP Gen hub on-peak prices for the years 2016 to 2024 were lower in the 2015 forecast than the '13 forecast?

A. Those are lower.

Q. And in KDP Exhibit 2 under the scenario -- the third scenario down, this scenario relates to the weather normalized case, correct?

A. Yes.

Q. And you project over the nine -- your projection is for nine-and-a-quarter years, correct?

A. Yes, it is.

Q. And over those nine-and-a-quarter years under the weather normalized case you project the net PPA rider credit or charge, excluding PJM capacity performance revenues but including a CO2 tax, is $31 million, correct?

A. That's correct. If you include what was at the time the maximum PJM capacity performance transitional revenue auctions and exclude the approximately 770-plus million dollars of carbon tax, then you see -- then we would forecast it to be the 1 billion number on the next line.

Q. Correct. But I'm just asking you for purposes right now to draw your attention to the third line that you forecasted as the 31 million.

A. Yes. That's based on our five-year average of weather normalization case, that would be the 31 million number.

MR. PRITCHARD: Your Honor, I'd like to mark as IEU-Ohio Exhibit 6 --

EXAMINER PARROT: Seven.

MR. PRITCHARD: -- 7, and this exhibit is a calculation that IEU-Ohio has prepared based on some of the values provided by Dr. Pearce and others.

EXAMINER PARROT: The exhibit is marked as IEU-Ohio Exhibit No. 7.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. (By Mr. Pritchard) Dr. Pearce, do you have in front of you what has been marked as IEU-Ohio Exhibit 7?

A. Yes.

Q. And at the top of this document you'll see the figure of 31 million, correct?

A. Yes.

Q. And that's the same -- strike that.

And if we divide 31 million by 9.25, will you agree with me that the result is $3,351,351?

A. Yes.

Q. And are you aware that AEP Ohio's estimated annual megawatt-hour sales are 43,643,000 megawatt-hours?

A. That would be something in the approximate range of that number.

Q. And if we divide the annual $3.3 million by the 43 million megawatt-hours, you would agree with me that the result would indicate that that $31 million that you project under the weather normal case would end up being a credit to customers of 7.68 cents per megawatt-hour.

A. I would agree with the math on the 31 million would drive you to that number on average. We're using the average of the high and low case, the $574 million, that customer credit would be $1.4 per megawatt-hour in addition to the volatility benefits that this is going to provide in terms of the PPA rider providing a negative correlation when prices move up or down. So we're talking about an average over a nine-and-one-quarter-year period.

Q. And I believe I heard you at the beginning, but just to confirm, you did confirm that that math was correct in this exhibit, correct?

A. If you're wanting to take a total average over that entire period, that is the number that you get.

Q. Thank you.

And one final question, Dr. Pearce. You would agree as a unit the higher a capacity factor per unit, the lower the heat rate, correct?

A. That tends to be the case.

Q. And, for example, if you decrease the output of a unit due to certain inefficiencies, the heat rate goes up, correct?

A. It can drop a little bit, yes.

Q. I believe my question was can the heat rate go up?

A. I'm sorry. The heat rate can drop -- can go up.

MR. PRITCHARD: I don't have any other questions on the public session.

EXAMINER PARROT: Thank you, Mr. Pritchard.

Mr. Kurtz.

MR. KURTZ: Thank you, your Honor.

CROSS-EXAMINATION

By Mr. Kurtz:

Q. Good morning, Dr. Pearce.

A. Good morning.

Q. I want to talk to you about the payment of the remaining net book value at the end of the contract. There's two situations where consumers would be required to pay AEPGR the remaining net book and that's if at the normal end of the commercial operation lives of the units or if a unit retires early, correct?

A. That's correct.

Q. Do you know the net book value of the units today for 2016?

A. Well, the total rate base net of ADIT, I think it's like in the $1.6 billion range.

Q. And I have 1.564 billion; is that correct?

A. Sounds about --

Q. Is that consistent?

A. Sounds about right.

Q. Okay. Then I have in 2024 1.391 billion, can you verify that one also? In other words, it's gone down over the 2016 to 2024 period just 11 percent or 173 million.

A. That sounds correct.
Q. Okay. And the net book value is equivalent to the rate base; is that correct?
A. Yes.
Q. Okay.
A. Well, the net book value in the ADIT adjustment is going to be the rate base.
Q. But they're similar numbers, net book and the rate base?
A. Yeah.
Q. So under this proposal, if all the units retired, let's just take 2024, the consumers would owe AEP Generation Resources $1.4 billion.
A. If for some reason they were -- they retire but, as was provided in my testimony, we -- our currently planned retirement dates for the units are anywhere from 2033 to 2038 with one unit out to 2051.
Q. But if they were to retire -- if they were to retire in 2024, early, the consumers would owe 1.4 billion.
A. I would have to understand more about the circumstances that would cause that to happen.
Q. Okay. And the determination of the net book value or the rate base, we start with the

starting point and then we subtract the depreciation and then we add capital additions and that gives you your rate base or your net book.

A. Uh-huh.

Q. Is that correct?

A. Yes. Yes.

Q. Okay. So if the rate base or the net book value has only gone down 11 percent over the eight years we know, '16 through '24, it means the capital additions have been more or less -- mostly offsetting the depreciation reductions to the rate base.

A. Mostly offsetting? Could you --

Q. Well --

A. -- clarify.

Q. The depreciation would have been more than the net capital additions.

A. That's correct.

Q. Because it went down by 173 million.

A. That's right.

Q. But you still have a very significant rate base at the end of eight years of this deal.

A. You're still, I mean, based on the numbers we're talking about, they are what they are.

Q. Okay. And under this scenario, if there were to be a large capital addition, let's just use a hypothetical, one of the units that AEP owns a hundred percent, Cardinal or Conesville 5 or -- 5 or 6, in the last year of the PPA let's say a $500 million scrubber in each of those units, this is an extreme example I'll give you, but under this structure consumers would owe you at the end of the -- after one year of service the complete capital cost of that capital addition.

A. I can't accept that hypothetical. These are all mature units and they're all already scrubbed so what we've already got is our forecast out to 2024 and then our anticipation is that as the units do start climbing, getting near to the end of their commercial life, we will start tapering off capital investment even further. We're not going to keep putting money in a plant you know is getting close to its retirement date.

And so the rate base and the return on rate base customers are paying should start dropping off pretty dramatically, and so then you will see that, as you see that net book value decline.

Q. Whatever capital additions are added to these facilities at the end of their useful life that didn't have a chance to fully appreciate, if you put on a 20-year useful life of a piece of equipment and it only operates for five years, consumers are going to owe you, or owe AEP Generation Resources, the remaining net book cost, whatever it is of the undepreciated asset.

A. I can't accept that as a premise of the question from the standpoint that the units that we are -- our disposition units that we are retiring for MATS, we tended not to put a lot of capital into those units near the end of their life.

Q. Maybe you misunderstood my question.

A. Okay.

Q. I said whatever capital you do put in, in the real world.

A. Sure.

Q. Consumers are going to owe you for that at the end of the deal.

A. To the extent we may put some very minor capital into it, then yes, we would be looking at does it economically make sense to put that capital into a unit shortly before it retires. So there's going to be a lot of scrutiny on anything other than some very minor maintenance and repair-type work that would be capitalized.

Q. Now, AEP Ohio and AEP Generation

Resources will unilaterally determine the depreciation expense at least once every five years --

A. Yes.

Q. Okay. Now, under this scenario where you get a hundred percent recovery of your rate base at the end of the deal, wouldn't -- if you underdepreciated during the term, would you keep the rate base artificially high and then you just pick it all up at the end of the PPA if you underdepreciated the assets; isn't that what would happen?

A. If you underdepreciated the assets to the extent that there was remaining net book value at the end of the life of the units, then that would be the outcome. The benefit we see of the PPA, at least I see, particularly that it is through the end of the life, I believe that everybody's interests are aligned, both the owner and seller, the buyer AEP Ohio and its customers, to maintain a nice, good depreciation expense value such that we get darn close to zero net book value at the end of the life, so there is no large lump sum at the end of the life.

Q. Well, you'd really have to pick up the pace based upon the numbers that we know because you've really only depreciated by 11 percent over the eight-year period, 2016 to 2024. Let me strike that question.

One of the reasons you said that consumers should pay for the net book costs at the end of the PPA is because this is a life of the unit deal as compared to the Lawrenceburg which is a ten-year deal that has no such "you must pay net book at the end" provision; is that correct?

A. That's correct.

Q. Okay. And are you familiar with the FirstEnergy PPA RRS proposal?

A. Vaguely.

Q. Do you know that it's for a 15 years' term only and there is no such "you must pay net book at the end" of their deal?

A. I was aware that it was for a 15-year term.

Q. Are you aware that there's no ratepayers must pay the remaining net book costs under their proposal because it is a 15-year term?

A. I was not aware of that.

Q. Are you aware that the OEG witnesses Mr. Baron and Mr. Kollen have recommended a 15-year PPA exactly to eliminate this problem?

A. Eliminate?

Q. Eliminate the problem of paying the net book costs at the end of the PPA, did you overdepreciate, did you underdepreciate, did you put capital in. If it's 15 years, we don't have this $1.6 billion issue.

A. We forecasted the numbers through 2024 based on our forecasts of life. That's a reasonable forecast amount through that period. I don't see this as a problem. In fact, that's what I see -- that's a problem that is addressed by us proposing an end of the year life. All the parties are aligned. So there's not these disagreements on, well, if I'm the buyer in a defined term agreement, I may have motivation to limit my depreciation expense to as little as possible because that way, if I haven't wrote off enough in my net book at the end of the term, it's not my problem.

In this case I believe all the parties' interests are going to be aligned in getting the depreciation expense as correct as possible so that we can start working that net book down and coming near zero at the end of the life of the units so there is no arguments.

Q. If this were a 15-year PPA instead of life of the unit, which can go out to 36 years as to

Zimmer, right, if this was a 15-year PPA and the depreciation rate was set properly, AEP Generation Resources would get a return of their investment, a proper return of their investment through the 15 years by the properly established depreciation expense; would they not?

A. That's what we've proposed is -- you're saying through the life of the agreement, but we're getting a, I'll say, proper return on rate base plus depreciation expense as we go.

Q. Well, over whatever term it is, if the depreciation expense is set properly, the owner of the asset would get the return of their investments through depreciation.

A. Yes. Yes, I agree with that.

Q. Okay.

A. And my point is to me a proper depreciation expense is one that is depreciating the asset down so we're approaching zero net book around the end of the anticipated retirement date.

Q. Suppose the Commission didn't want to deal with a $1.6 billion or whatever the billion, whatever the issue is at the end of the useful life of these units and the Commission said we want AEP's PPA to look like FirstEnergy's and it's 15 years only. What would be the process for the Commission doing that? Would it be the same thing I discussed with Mr. Vegas, that that would be a condition in their approval order and then you'd have to go back and adjust the PPA accordingly?

A. That would be something for Mr. Vegas to take up as he discussed when he was on the stand. I'm supporting the technical terms of the PPA, which is through the end of the life.

Q. And if the Commission didn't want to have a potential billion dollar issue argument at the end of the PPA, they wanted to make, you know, it more of a lease rather than owning the units, then AEPGR would take that Commission decision and decide whether they wanted to go forward, or just hold on to the assets.

A. And where I'm struggling with the premise is I believe the agreement as we provided eliminates the problem that I'm hearing you state. By the end of the -- if we have the depreciation set properly across all the units so we don't have any big net depreciation book on our books at the end of the units that are retired, if we have just a five-year agreement, then there's going to be an incentive to get as little depreciation expense in there that the parties are not going to have aligned.

So I believe by -- I believe the end of the year life is better to address whatever that book value we want to talk about that we're attempting to expense than trying to come up with a defined term agreement.

Q. Maybe I missed this. Where in the financial analysis does it show what the net book value will be at the end of the useful life of each of these units? You don't have that.

A. We forecasted the numbers through 2024 and by us including at least two depreciation expense adjustments we looked at what was the capital, what was the remaining life, and effectively a straight line depreciation between that point and the end of the life of the units.

Q. You're saying don't worry, but we're seeing no numbers what the net book value will be at the end of the life of the units or certainly what the net book value would be if they retire early.

A. We have not quantified the number beyond 2024 but what I can just say in a quantitative sense, as I lower my rate base, as I get to a point that I'm investing capital at a slower pace, then basically -- and I still have a depreciation expense in there, my net rate base is going to slowly start coming down over time. In fact, we've actually included the ARO liability as another reduction on rate base.

So the rate base piece will come down, so the depreciation expense, I mean, even if there's some adjustment that slowly increases that to a point where we get to zero near the end of life, customers' total costs could stay about the same, it could go down, it could be about the same. But we know we're going to get a revenue cost that's going to go down as the rate base, the cost of capital basically times rate base is going to go down. It's going to be a natural offset.

Q. I understand how all that works. I understand the ratemaking of it. What I don't see any evidence of it at all is what the net book value will be at the end of the useful life. No analysis.

A. And through the two adjustments we made we have applied annual depreciation numbers that are known numbers where we are forecasting to be at zero at the end of the useful life.

Q. By the way, did you read the OEG testimony on the 15-year versus end of useful life issue?

A. In this case?

Q. Yes.
A. I skimmed it.
Q. Okay. Did you skim all the OEG testimony, Mr. Taylor, Mr. Baron, Mr. Kollen?
A. Briefly, yes.
Q. Let's talk about the retirement costs. Your proposal is that the last five years of the useful life of each of the units, customers would pay 100 percent of the retirement costs, the projected retirement costs, with no true-up; is that correct?
A. They'll pay it, but given that the life of the units is beyond the post-retirement --
Q. Well, that's true.
A. Yeah.
Q. It would be the last five years of the PPA for each of the units plus more if the retirement costs -- no. No. It's the estimated retirement costs over the last five years.
A. It's the estimated retirement costs over the last five years, as units retire and units are taken out of service, that I don't think we -- I think we didn't specifically address whether there would be an anticipated true-up on that number. It's reasonable to assume there would be on the final retirement costs.

Q. But it's actually not part of your proposal, is it?

A. It's not included in the PPA at this time.

Q. Okay. Now, these units, when they retire, will have been used for 60, 70 years and the PPA is only for a subset of the entire life of the power plant, correct?

A. Yes.

Q. So why should consumers pay 100 percent of the costs of retirement if they're only using the power plant for a subset of its useful life?

A. The PPA itself was a negotiated agreement between the buyer and the seller and, in the case of all things retirement related, the largest focus was on the asset retirement obligations, so things that we are actually reporting reserve on.

Something that was put into the agreement that actually works in the benefit of AEP Ohio and its customers is both the -- there's an asset and a liability, both were put in in rate base and, as it so happens, the net of those two works out to be actually a negative reduction in rate base. The liability side exceeds the asset side.

So, based on the fact that customers are going to get a benefit on reduced rate base, reduced cost of capital for the ARO requirement for required things, ash ponds, asbestos removal, the retirement -- the nonrelated -- or, rather, I'll say nonrequired retirement costs which, again, by definition we're not even required to do, we don't anticipate how much that would be, is we would look to cover the rest of that through that last remaining five years when we're anticipating that the rest of the costs through the agreement, particularly, as I said, rate base, is going down anyway.

Q. I didn't want to interrupt you.

A. Sure.

Q. You conflated the two issues, I'm not talking about the ARO issues. And, by the way, you know Mr. Kollen completely disagrees with you and he reduces rate base and the revenue requirements by $5-1/2 million by your treatment of ARO in this case. You saw that, didn't you?

A. What I saw is he was proposing to take out the asset side from the rate base and the only way that it's proper to do that is if you take out the liability side which reduced rate base. And my point is the reduction in the liability side is better for customers to the tune of $30 million.

So, basically, he took out one side, he didn't take out the other, and if you're going to agree to take out both sides, it is actually worse for customers.

Q. Well, he did it the way you did it in the 10-2929 case. Do you remember that case, the big capacity case, the 188.88? He did it the way you did it there.

But let me -- I want to get back to the nonlegal, the non-ARO asset retirement issue. Why should consumers pay a hundred percent of those costs, you say they're not going to be much, why should consumers pay a hundred percent of those costs over the last five years of the contract if the PPA is only for a subset of the useful life? Whatever those costs might be. Why shouldn't it be pro rata?

A. I think when you look at the PPA, you could say you have to look at it in total just like a settlement, and the way you can point to specific provisions, you can say this favored one party, this favored the other.

This is a brand-new agreement. This was offering the output of these lives through the end of their useful life. GR is effectively giving up any market opportunities, but they recognize that to the extent that there is any, and again it may be not very much, it may be nothing, that they have included the provisions that that small amount of asset retirement or, excuse me, other retirement obligations be paid for through the PPA.

Q. Well, if it's going to be a small amount, why is Mr. Kollen's pro rata recommendation not reasonable? If it's a small amount, what difference does it make?

A. Well, like I said, that was part of the fundamental total deal was that those retirement obligations are included.

Q. Now, if the Commission said since we don't even know what those costs are going to be, right now there's no obligation to tear down a power plant.

A. That is correct.

Q. But there might be. And since we don't know what those retirement obligations will be in the future, if the Commission said consumers should only pay for their pro rata share, if the PPA is 20 percent of the life of the unit, they should pay 20 percent and AEPGR should pay the other, if the Commission said that, that would be the same kind of deal, it would go into the order and then AEPGR would have to decide whether they wanted to accept that condition or not.

A. If there becomes a legal requirement in the future, my presumption is, then, that it would be established under an asset retirement obligation, and we've already talked about the accounting on that. When I get into nonrequired obligations, as you said, we're not required to even tear down the plant. That could be as simple as a security guard, a little bit of power to the station to run pumps so the basement doesn't flood out, we're talking very minimal costs. And to the extent that we, as scrap metal prices go up and down, there will be a lot of salvage value.

I believe we've had arguments in states that, hey, you have a salvage value that meets or exceeds or is about the same as your replacement costs. So these are all coal plant -- this is not a nuclear unit like FirstEnergy's case so we're not anticipating large costs either way on the retirement costs of these units that we haven't already addressed in the ARO.

Q. The nuclear units have a trust fund. But going back to this, if the consumers are going to be on the hook for a hundred percent of the nonlegal retirement costs no matter what they are, AEP

Generation Resources could tear it down, charge consumers and build a new plant at that site where there's already transmission there and reap the value of it that way, couldn't they?

A. As far as future -- once the remediation projects are done --

Forgive me, it took me a minute to find it. Under the proposed PPA, Section 5.7, we refer to retirement, at the very end of that provision. So as far as, for example, what I heard you say, something like repowering the site, that where there's a disagreement of a retirement date for units or facilities, and this agreement is terminated, in the event of 2.4, in the event the seller intends to continue operating such unit or facility after it's removed from this agreement, and I'll skip ahead a little bit, seller will also apply credit to buyer's invoice referenced above with respect to allocating the retirement-related costs of such units or facilities to account for the additional time seller intends to operate the units or facilities.

So I believe that would, in part, capture that intent.

Q. Let me give you a chance to answer my fundamental question one more time.

A. Okay.

Q. Whatever these nonlegal retirement costs are at the end of the useful life of these units, why should consumers pay for 100 percent when they've only had a PPA that is a fraction of the life of the plants?

A. And my short answer to that is the PPA was effectively negotiated between the buyer and the seller and I don't believe you can look at one specific provision and say, well, this does not go on in my favor without pointing to all of the benefits that go into the buyer's favor such as our forecasted benefits in terms of anticipated net dollars that were received and reduce volatility.

Q. Okay. New issue. Yesterday you were asked if there's anything in the agreement that prohibits AEP Generation Resources from selling one or all of the power plants during the -- while the PPA is providing a credit to consumers. And I don't believe you were able to find anything. Do I recall all this correct?

A. To me, such a decision would be made through the provisions in the operating committee and the successors and assignments rights under Article 13.5.

Q. Now, Mr. Taylor for OEG recommended that the Commission put a condition on its approval that none of the units be sold unless the Commission approves that, unless the PUCO agrees. Would that be objectionable, and if so, why?

A. For, I believe as Company Witness Vegas stated when he was on the stand, that this is what we're providing, to the extent that the Commission wants to put some condition or requirement on that, then obviously the company would diligently review that order. It would be Mr. Vegas as one of the policy executives in the case to go back to the seller, see what the agreement is and come back forward with anything, that or any other proposed provisional change.

Q. This is more of a nuts and bolts issue. Mr. Kollen was critical that there's no formula, there's no ratemaking formula that's tied to FERC accounts that -- and you have those for your Rockport unit power agreement to Kentucky Power, you had it in the 10-2929 case, you had a very detailed formula. I think you have it in your other wholesale cost-based agreements. Am I correct so far where you do have a formula rate, that shows how the revenue requirement will be calculated?

A. We have a monthly detail on our monthly bills and then we have a full-fledged formula template in our wholesale muni and -- formulary agreements, and I'm in favor of certainty.

I mean, to the extent that the agreement is signed that we could develop, you know, a bill format that is agreeable to both buyer and seller and provides, you know, the level of detail on a monthly basis. I personally don't see any issue with that as long as we understand this prevails and, obviously, appropriate qualifiers such as if you include certain FERC accounts and then if FERC two years from now introduces a new FERC account, those kinds of things we'll have to address.

Q. So if the Commission were to provisionally approve the PPA, you would envision filing the rate templates so staff could review it, make sure they agree with how the numbers are calculated?

A. It could be -- it could be a bill format with detail. It could be some sort of template is what we used, the term. I mean, obviously, you know, we've said we're going to follow the FERC system of accounts and the buyer has all of the audit and accounting rights as we've described in it and the seller would make access to the buyer all of the level of detail he needs to be able to calculate his bill down to the penny.

Q. I think we all agree certainty would avoid confusion in the future, right?

A. Definitely.

Q. Return on equity. The return on equity proposal is cost of long-term debt via a Moody's index, ABB [verbatim] I think, plus 650 basis points.

A. Yes.

Q. Adjusted annually.

A. Yes.

Q. And in your analysis, this Exhibit 2 which I think is OCC Exhibit 1, but in this financial forecast you used the debt rate from December of '13?

A. In this we used the debt rate from December of '14.

Q. '14? And then you added 650 basis points and so you got 11.24 percent?

A. That's correct.

Q. Okay. And that's the after-tax return on equity.

A. Yes.

Q. You have the tax gross-up factor in your workpapers. And when I apply that, I get

17.59 percent pretax return. Can you do it? That would be great.

A. I'll just -- I don't know how much -- I think we provided that in confidential workpapers. Can we just use around 17 percent; is that comfortable?

Q. 17-1/2 percent?

A. 17-1/2.

Q. Okay. That's fine. And then there's a floor and a ceiling, an after-tax floor and an after-tax ceiling in the proposal. The after-tax floor on return on equity is 8.9 percent and the after-tax ceiling is 15.9 percent; is that correct? It's in the agreement and Ms. Hawkins' testimony as well.

A. Yes.

Q. And the ceiling, if it's the after-tax return of 15.9 percent return on equity, the pre-tax return is 24.89 percent?

A. I would accept that.

Q. Okay.

A. Understanding that's not money to AEP shareholders, that's money to the IRS.

Q. But it is money to ratepayers because that's what you collect. You collect the taxes from consumers so that you can net out whatever the after-tax return is, correct?

A. That's correct.

Q. So the pre-tax return goes into the revenue requirement.

A. Yes.

Q. Okay.

A. And, of course, if we, you know, and this is over a long-term agreement, the proposed life of asset, so if we get into a very high debt rate, high inflationary period, that is actually something that I see as in the benefit of the buyer because investors are always going to expect a -- some sort of premium above the debt rate and yet effectively they're going to start getting squeezed. If the corporate Moody's bond index starts pushing up, then the basis adder has to be capped.

Q. Based upon your rate base assumptions that you've used in this financial forecast, a 1 percent change in the return -- in the after-tax return on equity equals a $12.2 million revenue requirement. Do you agree with that?

THE WITNESS: I'm sorry. Could you reread the question.

(Record read.)

Q. Let me refine it. The 2016 rate base.

A. You're talking about before tax.

Q. No. Yes, the before-tax revenue requirement.

A. Yes.

Q. Did I say -- I'm sorry, I was wrong, 12.2 million?

A. Yes. After-tax about 8 million.

Q. So if the return on equity goes up by 1 percent, the cost to consumers under the PPA goes up by 12.2 million. If the return on equity goes down, it's a reduction of 12.2 million; is that correct?

A. That's correct, it would work either way.

Q. Okay. So under this KDP Exhibit 2 -- by the way, you say you did glance over Mr. Taylor's testimony?

A. Yes.

Q. Did you look at his return on equity flex-down proposal?

A. Briefly.

Q. Briefly.

Let's look at KDP-2, the weather normalized case, the net PPA rider charge, it's the $49 million number for 2016.

A. I'm sorry. Which number?

Q. $49 million PPA projected charge in 2016 with the weather normalized scenario, third line down.

A. Yes, I see that.

Q. Okay. So if the Commission -- well, if the Commission were to adopt or, under Mr. Taylor's proposal, in order to flex down the return on equity to offset that $49 million charge, the return would have to go down by 4 percent, 4 times 12.2, to offset that $49 million charge. Is that how you understood his proposal?

A. Something to that effect, yes.

Q. So under that scenario AEP Generation Resources would earn not 11.24 percent after tax, but 7.24 percent after tax, we'd have to flex down the return by 4 percent. So they would still earn 7.24 percent and consumers would have no PPA charge at all; is that how you understood his proposal?

A. Yes. That's how the proposal would work to my understanding.

Q. That sounds pretty fair. The AEP Generation Resources still earning a healthy return and consumers pay no PPA charge.

MS. BOJKO: Objection, your Honor. I

move to strike counsel's commentary about what he believes to be fair or not fair.

Q. Do you agree that --

MS. BOJKO: Whoa, whoa, there's a --

EXAMINER PARROT: He's rephrasing.

MS. BOJKO: Oh, thanks.

Q. (By Mr. Kurtz) Do you agree it would be a fair result for all the interested parties for AEP Generation Resources to still earn 7.24 percent after-tax return on equity and consumers are shielded from paying any PPA charge? Why wouldn't that be fair?

A. I don't believe that that personally would be fair from the standpoint that, of course, you're pointing me to one case and I'm pointing you to the one above it, the average of the high and low load forecasts where customers are going to get $38 million in that same 2016 time period. It climbs as high as in 2021 $161 million. We are not proposing that, you know, despite that really nice big credit, which we sincerely hope and have forecasted that customers will get during that period to try to flex up the ROE.

The ROE is just tied from a really standard corporate financing principle of risk premium between debt rates and what investors expect and just to hold that steady throughout the period. So it will move up and down with debt rates because of financing concerns about it's a long-term period, but without this notion of trying to flex it up or down depending on the outcome of it.

And I think his proposal notice was only a flex down. I didn't see one that it went up.

Q. Well, under his proposal did you understand this, that every year that there's a credit under the PPA, all these good years you've pointed to, AEPGR would earn 100 percent totally the rate of return that they've requested here. It only would flex down to offset the PPA when it would be a charge, but when it's a credit, take all your money because it's a win-win. Is that how you understood it?

A. Yeah, that's what I'm hearing is he's providing, well, under certain circumstances relative to the proposal money will be taken away. Under other circumstances we still break even with what we proposed. And, again, let me preface all of this as saying, you know, if there's any other such discussions about tweaks, again, Company Witness Vegas had that discussion on this.

But to me I think the fixed ROE adder is reasonable. It is consistent with Lawrenceburg. All of our formula rate customers have a standard fixed basis adder. The ones that have a floating ROE, and there's these notions of, well, if the rate goes down, if the rate goes up, then we're going to adjust the basis adder. The basis adder is fixed in a multitude of contracts that AEP has.

Q. Why is it reasonable for AEP Generation Resources in the bad years when this hundred million dollar or $137 million charge, in those bad years, why is it -- why would it be reasonable for AEP Generation Resources to earn up to a 15.9 percent return on equity after tax, or 24.89 percent pretax, when consumers are paying a big charge? Why would that be reasonable?

A. If they're paying a big charge, that means that wholesale prices are low so hopefully I would anticipate that overall our retail customers are overall paying a low rate, even with the charge of the rider.

Where it will really, really help their benefit is if we get to a 2005 through 2008 time frame, which wasn't that long ago, wholesale prices go up in a very dramatic fashion, that's going to be reflected, I firmly believe, in CRES provider offers, that's going to be reflected in the SSO offerings. These units will sell into that very high-priced market and make very good profits for customers and they will provide all that through and they could ask the same question. Well, wait a minute, if I was a merchant Gen during these years, I could be making a huge return relative to what I'm getting under this contract. Why is that fair to me?

It's just the natural difference that you're going to get between a cyclical market and a cost-based rate.

Q. Do you agree that overall this new fundamentals forecast would significantly lower projected energy revenues, that overall that's going to, even when you adjust for everything, it's going to lower the value of the PPA to consumers?

A. As I believe I've stated, the energy prices were lower. As far as seeing the overall net impact on the forecast, we would have to -- we would have to incorporate everything including the forecasted lowering of the coal costs, the forecasted increase in the fundamentals capacity costs, and then all the other things that go into our PLEXOS modeling.

If, hypothetically, units don't run quite as much, you may save some additional O&M expense, we have some LEAN activities going on, so we would have to look at everything to see how much of an impact that lower forecast has on top of the fact that I think we all recognize forecasts change over time.

This forecast went down. The next one that Company Witness Bletzacker compares using best information developed at the time could very well move the number up -- back up, and I will let him speak to that part.

Q. Do you assume or presume or is it fair to assume that Goldman-Sachs has the same newly revised energy forecast?

A. I'm sorry?

Q. Do you think it's fair to assume that Goldman-Sachs -- or, somebody, not Goldman-Sachs, somebody who might buy the power plants from AEP Generation Resources has got the same new lower forecasts?

A. I don't know what forecasts they're using.

Q. If they did, wouldn't they be willing to pay less money for the power plants? In other words, aren't AEP Generation Resources' options narrowing because of this sustained decline in energy pricing?

A. I have a difficult time accepting -- again, from my purpose as I stated, for me to carry that whole forecast out, I'd have to do a lot more work. That would be one input into any modeling I would do. There's a wide array of modeling proprietary that different companies use including banks, consulting firms for that, so I don't know how they would do their modeling, how they would do their valuation of the plants.

Q. It's the stated corporate intention or goal of AEP to get out of the unregulated business, right? You're either going to sell the power plants or do a PPA, but you don't intend to hold on to them as a merchant function. Do I understand that correctly?

A. I have not kept track of all the public statements on the future of those plants.

Q. Now, do you understand that one of the factors the Commission will decide in whether to approve a PPA is the allocation of financial risks between shareholders and consumers?

THE WITNESS: Could you read the question.

(Record read.)

A. I understand that is -- that's along the lines of one of the factors that the Commission issued in its ESP III order.

Q. Do you understand that Mr. Taylor proposed this flex-down ROE as a way to address that concern, as a way to give AEPGR full return, what it asked for, in the good years when it was a credit but give them a lower profit margin when it's a charge?

A. And without going into our ROE discussion, I believe we've addressed the concern about risks to AEP Ohio in terms of them having to work to pass through costs through the ESP -- excuse me, the PPA rider.

Q. One last thing. Mobile-Sierra, that's at the end of this proposed contract. Do you know what that is?

A. I know -- I'm not -- I know a nonlegal amount enough to know that I will say I will refer you to counsel.

Q. Okay. Let me just ask you about it. It's in the document that --

A. Okay.

Q. You recognize those are two famous U.S. Supreme Court cases dealing with how rate agreements can be, essentially the standard of review that will be used in modifying rate agreements? Do you understand at least that much of it?

A. Yes.

Q. And that when you put a Mobile-Sierra clause in -- and this is probably fairly standard in your contracts with third parties, isn't it?

A. I believe I've seen it in contracts before, yes.

Q. So what it really says is before the FERC -- because this would be a FERC-approved rate, before the FERC can change it, the party who wants to change the deal has to meet the public interest standard, which is very high, rather than the just and reasonable standard which is the standard standard under the Federal Power Act. Is that how you understand that to work?

A. Again, as I just specified, I'm not an attorney so to the level that a Mobile-Sierra doctrine would apply or not apply to the contract, that gets -- as an engineer that gets into the, dare I use the word "boilerplate" language on something like Mobile-Sierra. So I would feel like you're asking me to provide a legal opinion, and I'm not an attorney.

Q. Let me ask you this policy question. If you assume that this Mobile-Sierra which sets up a public interest standard before the rate can be changed is a tough standard to meet, shouldn't the PUCO get it right the first time because if it wanted to change the agreement midway, the Commission or somebody else would have to go to FERC and meet this standard?

A. Well, I think the intent of this agreement overall, as discussed by Company Witness Vegas, was that, you know, the agreement is a FERC-jurisdictional contract between the parties. To the extent that the Commission right now is conducting its review of it, if in the future there is some concern about costs that they're seeing as proposed for the PPA rider, they'll work with Company Witness Vegas to review that and he can potentially go back and -- and that would be the same with the whole document, have a discussion with the buyer about any potential changes they want, to include changes to it, any new FERC accounts like we talked about, anything.

Q. Well, I think it's very important we all recognize the Commission needs to have this audit review and the ability to --

A. Yes.

Q. -- disallow authority.

A. Yes.

Q. But this is different. If there needed to be a change to the contract and AEP Generation Resources just said no, tough, we're not going to agree to it, it would be very hard to change it given the Mobile-Sierra provision. So my question -- do you agree with that part so far?

A. See, you're saying very hard and, again, that's why I'm not an attorney --

Q. We would have to meet the public interest standard if they did not agree.

A. I've heard of a public interest standard as a nonlegal person, so I can't really provide you additional detail on how strong of a provision that means.

Q. Do you agree with this proposition, that given the importance of this contract it's important that the Commission get it right up front?

MR. NOURSE: Your Honor, I just, I object. I mean, he's already given his full understanding of Mobile-Sierra and we're kind of going over the same questions again. I think he's already responded to the extent he can.

MR. KURTZ: That was actually my very

last question and I think the witness probably understood it.

EXAMINER PARROT: I will allow the question.

(Record read.)

A. Oh, I fully agree that, I mean, that's what we provided in the case, the full contract, not just a summary of terms and conditions as may have been done in FirstEnergy, so, yes, we want to be as transparent with the Commission with every term in this agreement for their consideration.

MR. KURTZ: Thank you, Dr. Pearce.

Your Honors, no more questions.

EXAMINER PARROT: Thank you, Mr. Kurtz.

Mr. Dougherty, do you have any questions?

MR. DOUGHERTY: No questions, your Honor.

EXAMINER PARROT: Ms. Mooney?

MS. MOONEY: No, your Honor.

EXAMINER PARROT: Mr. Beeler?

MR. BEELER: Nothing, your Honor, thank you.

EXAMINER PARROT: All right. Some of the parties have indicated that they have questions that will require us to go into a confidential session so at this point let's go off the record so we can prepare to do that, please.

(Recess taken.)

EXAMINER PARROT: Let's go back on the record. At this point we are going to enter the confidential portion of the transcript.

(CONFIDENTIAL PORTION EXCERPTED.)

(OPEN RECORD.)

EXAMINER PARROT: While we were in our confidential session we finished up with the cross-examination of Dr. Pearce, and we have had a lunch break and are now ready to proceed with redirect from the company.

Mr. Nourse.

MR. NOURSE: Thank you, your Honor.

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REDIRECT EXAMINATION

By Mr. Nourse:

Q. Dr. Pearce, just a couple areas I want to cover on redirect. First of all, there has been a good deal of discussion during your cross-examination about the fee under 2.4 of the PPA, "Other Early Termination Rights," and that provision refers to the Article V which is the payment we've discussed, correct?

A. That is correct.

Q. Okay. Can you tell me in your own view why you think inclusion of this provision in the PPA is a positive provision to have been included?

A. I think the inclusion of 2.4 was very beneficial to both the buyer and the seller and AEP Ohio customers in this case. We have provided in our filing the anticipated retirement dates of the units. Over time as you get close to the retirement date, people can start reviewing those and make decisions about whether a unit is in good shape, you want to continue operation of the unit, you're ready to basically go ahead and shut the unit down.

So we were asking ourselves, well, if the seller and buyer have an honest difference of opinion on how much longer to keep the unit in service, whether you put more capital into it or just call it a day on the unit, so we foresaw that specific scenario and eventuality coming up. So we put this in to provide really a lot of flexibility to both sides to say if the buyer, in this case AEP Ohio, decides that the -- the unit's close enough to retirement, the boiler needs some work, they're ready to basically just be done with that, then they can exercise that right and then there's a process described in the contract where we can assess a value of the unit and hopefully, if it's close to retirement, the net book value's close to zero anyway, but it allows the seller to continue to operate the unit and move forward and, similarly, in the same vein as the operating committee allows the parties to discuss and extend the unit's retirement beyond its retirement date. So it just provides maximum flexibility to move the retirement date in either direction.

Q. And, Dr. Pearce, was Section 2.4 and the associated fee or charge there that's referenced, is that one of the provisions that would be normally or typically in a PPA or is this something that was basically inserted or created in the context of these particular circumstances with this case?

A. I think it's a reasonable provision to have in this type of contract out to the end of life to basically preserve the flexibility between the seller and the buyer to effectively mutually come to some reasonable agreement between them on when to end the buyer's obligations of the unit and the unit either is retired or it continues.

Q. And, Dr. Pearce, do you have an example that you might give about how this could be beneficial or provide the Commission with flexibility in let's say the outer years of the contract?

A. Yes. I mean, as we get close to the end of the life of the unit is when I believe those discussions would occur with the Commission, and they can look at the remaining economic of the unit, both what market prices are doing at the time, the condition of the unit, any anticipated additional capacity cost, along with all other types of benefits that we've been talking about suggested delay of transmission investment, jobs continuing at the site, and just really make a decision on when they're ready to allow the unit to retire.

Q. Okay. So is it fair to call this an early buyout fee, the charge that we're talking about under 2.4?

A. I believe that's fair.

Q. Okay. Can you provide an example that, say, with five years left in the expected economic life of a unit where the Commission and AEP Ohio might have options to either exercise this or not?

A. Well, as I provided in the -- or is actually even attached to the agreement, Schedule A, I'm sorry, the attachment to my testimony, KDP-1 has the currently planned retirement years of the units, 2033, so the whole point is if we get out to 2031 and, you know, one of the units, and I'll just -- I'll pick one, Conesville unit 5 -- or, excuse me, Cardinal 1 is in need of some tube repair, a significant capital outage, then the Commission has the flexibility to decide to do that work, which may extend the life of the unit, and if prices are good, the parties can agree to do that and continue with the life of the unit or they can decide to go ahead and end it, pay the remaining net book value, which should be very low at that point, and then they can even assess per the terms if there's any remaining market value and pull that unit out of the agreement.

Q. Yeah.

MS. BOJKO: Your Honor, just excuse me. Your Honor, may I have that question reread.

(Record read.)

MS. BOJKO: Thank you.

MR. NOURSE: That's what I wanted to clarify, because I didn't word that question quite the way I wanted to.

Q. (By Mr. Nourse) When I said "Commission" would have an option, what I was really asking was about whether AEP Ohio would have an option knowing that the Commission would be looking over its shoulder, so to speak, when it comes to prudent decisions of this nature under the contract.

So if you have five years left and you're looking at a particular unit and you're looking at its net book value and let's say that you further determine, it's a consensus view that there's sustained low market prices, that there would be more of a benefit to terminate and pay the early termination fee to customers than to keep the contract in place for the remainder of the five years that I mentioned, is that an example of how this provision could work?

A. That is one example, yes.

Q. Okay. And just, again, to be clear, that would be AEP Ohio making that decision and presumably either getting some kind of concurrence before or after the fact from the Commission that that was a prudent thing to do and that the costs that are associated with the early termination fee, the buyout fee, would be then recovered in retail rates, correct?

MR. BZDOK: Objection, there's been several leading questions and I know there's a desire to streamline, but that's maybe beyond the pale in terms of leading the witness.

MR. NOURSE: I think he already answered, your Honor, and I think there is latitude for leading questions on redirect.

MR. DARR: There is not, your Honor.

MR. OLIKER: There is not.

MS. BOJKO: No.

MR. NOURSE: Okay. So I'm moving to the next topic.

EXAMINER PARROT: He didn't answer the question. All right, so move along then.

MR. NOURSE: Well, okay, I thought I heard him answer, but it's not on the record.

EXAMINER PARROT: It's not on the transcript so you offered to move on.

MR. NOURSE: No, I said, on the basis that I thought he answered, your Honor.

EXAMINER PARROT: All right.

MR. NOURSE: So are you allowing the answer, your Honor?

EXAMINER PARROT: Did you finish your response to the objection then, Mr. Nourse? Now that you realized he's not actually answered it, is there anything else you wanted to add?

MR. NOURSE: I was going to say I think there's considerable latitude on redirect and if that's the objection that it's a leading question, I think that's invalid.

EXAMINER PARROT: There may be a little latitude but I agree that one went a little too far. I think if you maybe try to break it down, Mr. Nourse, take it piece by piece.

Q. (By Mr. Nourse) Well, the example that we were discussing, Dr. Pearce, and again the last point that I wanted to clarify was about who makes the decision. So under the contract is it AEP Ohio that makes the decision to exercise Section 2.4 early termination or is it the PUCO?

A. It would be AEP Ohio.

Q. And is it your understanding that AEP Ohio's decision under such an example under Section 2.4 would be reviewable by the Commission relative to AEP Ohio's prudence in making that decision?

A. That's my understanding, yes.

Q. And the Commission's review in that context would be in the context of retail rate recovery of the early termination or -- early termination fee, correct?

A. Through the PPA rider, yes, that is my understanding.

Q. Thank you.

So I'd like to move on to a second area. There's been some cross-examination, I believe in particular by Mr. Kurtz, about the depreciation rates and whether there could be different changes, I think he went through a couple different examples of circumstances that would change and then the resulting decision by AEPGR, Generation Resources, to either change or not change their depreciation rates. Do you recall that?

A. Yes.

Q. Okay. And can you -- and I believe your opinion -- or, your understanding you stated was that in general the depreciation rates are geared toward reducing the underlying costs to zero at the end of the economic life of the asset, correct?

A. That is the target.

Q. And so is there an additional, other than just saying that's a goal or that's the understanding, is there additional reason that the company, in this case Generation Resources, would be obligated to gear its recovery to zero at the end of the economic life?

A. Yes. While I am not a CPA it would be my understanding and under basic GAAP principles that there would be an obligation to target the depreciation expense in an appropriate manner to reach the retirement date at or about the end of the planned retirement of the unit.

Q. Okay. Next topic is do you still have OMA Exhibit 7?

A. What is that exhibit?

Q. I'm trying to find it myself.

MS. BOJKO: Seven is a confidential exhibit.

MR. NOURSE: Yeah, I'm not going to get into the content, once I find it.

Q. Do you still have that exhibit, Dr. Pearce?

A. Exhibit 7?

Q. Yeah.

A. That looks to be it.

Q. Okay. So, again, without disclosing confidential information I just want to ask you conceptually or from a mathematics standpoint or accounting standpoint, I believe the question from Ms. Bojko related to whether column 8 entitled "Remaining to Be Recovered" was -- essentially was equivalent or reflected the amount that would be paid under the what we earlier referred to as the exit fee. Do you recall that?

A. Yes.
Q. Okay. And would you like to explain your affirmative answer earlier with a little bit more clarity.
A. Well, that would be the starting point. Just the only thing I'll say is that to the extent that there would be a reduction for other things in our -- as defined, our facilities net book value, primarily accumulated deferred income taxes would come off of that value.
Q. Okay. Thank you.
Last topic is I want to discuss with you the changes and the basic reason why you made changes or updates to your testimony from the original testimony filing date of October 2014 to the testimony that you filed on May 15th in support of the amended application. So the updates you made during that period I'd like you to explain briefly and explain why you made each one. Do you understand that?
A. Yes, I do.
Q. And so the first one I believe was for a coal contract for a significant supplier of Conesville 4 unit.
A. Yes. Between the time period of our

October 2014 filing and the April-May time frame that we were working on this updated amended application there was a significant change in the Conesville coal contract, and we had enough time and had noticed earlier a little bit of inconsistency between the three cases anyway so we knew we had a little bit of work to do.

So we brought the three cases up to reflect the end of the old coal contract and modified the numbers in early-2015.

Q. All right. And then I believe --

A. And if I could --

Q. Go ahead.

A. I may just add that was a certain and known change and we would have made that change whether -- if that had been a great deal coal contract, super cheap and it rolled off, we would have still made that same change. We were not attempting whatsoever to update it because of directionally which way it went. We went with the certainty of the coal contract.

Q. Right. And the second update I believe was that you added the OVEC PPA financial projections associated with that back in. Can you explain that one?

A. Yes. My understanding, after there was a ruling based on the last ESP and the determination by this Commission that the PPA rider was legal, but at zero cost, so they at that point in time elected not to include OVEC. It was a natural fit to then incorporate OVEC into this agreement.

Q. Okay. And that was complementing what the amended application added as compared to the original application in this case, correct?

A. Yes, between the October original application and the May 15th amended application of this year. The ESP III order and the OVEC decisions occurred in that time period.

Q. Okay. And then you also, I believe, removed some 2015 data in your May 15th testimony.

A. That's correct. I mean, realistically we were filing in May so it made sense to take out the June through September I believe period of 2015 since realistically, you know, we assumed that the PPA rider filing May 15th would not go into effect at this time, just as when I look at Exhibit KDP-2 now, I mean October starts tomorrow so it would probably be realistic to remove the last quarter of this year. That's the type of change we would make if we were doing the numbers now, which would actually provide additional benefit for customers.

Q. Okay. And then you also made an update or you incorporated an update relating to the debt and equity costs?

A. Yes. And that was a fairly trivial change but it happened and it was with certainty and since we had proposed to use the corporate Moody's bond index Baa rate for the month of December and we had originally filed in October and then we updated in May, well, between that time period December had occurred so we effectively had perfect information of what that most recent December's bond rate was. And so even though it was really an immaterial change to the values we went ahead and updated for that known and certain change.

Q. Okay. And then finally I believe you, in your May testimony, you also created a range for capacity performance revenues associated with the affiliate PPA units and OVEC, correct?

A. That is correct.

Q. Do you want to explain that one.

A. Yes. As outlined on Table 1, when we filed in May, this is one that we were close enough to anticipating that the FERC would issue an order in this case, but as everyone knows, that didn't occur until June, but in anticipation that it would come out the expectation that there would be some sort of capacity performance product approved and effectively getting together in-house experts to try to figure out how much of a -- additional revenues or what, I've used the term uplift not to be confused with balancing operating reserve or operating reserve charges, we could see from that.

Our consensus was it was very difficult because it had never occurred before, such an auction. So we elected initially in our May filing to provide a range of basically from zero to the max, which was a very wide range, and then only after the auctions occurred in late-September/early-October -- I'm sorry, excuse me, late-August/early/September, since that range was now, those dollars were now known we could go back and effectively instead of giving a broad range zero to 196 million compute the number precisely.

MR. NOURSE: Okay. Thank you. That's all the questions I have, your Honor.

EXAMINER PARROT: Thank you, Mr. Nourse.

MR. PRITCHARD: Could I have the witness's last answer reread.

EXAMINER PARROT: The entire answer?

MR. PRITCHARD: Just the end of that answer is all I need.

(Record read.)

MR. PRITCHARD: Thank you.

MR. BZDOK: No questions.

EXAMINER PARROT: Ms. Bojko?

MS. BOJKO: Just a few follow-up.

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RECROSS-EXAMINATION

By Ms. Bojko:

Q. Different things said between you and your counsel so I want to make sure I understand. The PPA contract does not include the Public Utilities Commission of Ohio as a party; is that correct?

A. That is correct.

Q. And nowhere in that contract does it even use the word Public Utilities Commission of Ohio; is that correct?

A. It's nowhere in the contract to my knowledge.

Q. Okay. And, as I understood your testimony previously today, you are not seeking approval of that contract from the Commission through this proceeding; is that correct?

A. We are seeking the prudency of AEP Ohio entering into this contract.

Q. So you're seeking preapproval of the prudency to enter in the contract, but you're not actually seeking approval of the contract; is that correct?

A. That is correct. It's my understanding this is a FERC jurisdictional contract.

Q. Okay. And you are not seeking the Commission's approval of the actual terms that are included in that contract; is that correct?

A. In their review of the prudency of us entering into the contract we have provided them a copy of the entire contract, so while I won't dare to guess what the Commission would do, I would presume that they are going to review all the terms of that contract in their prudency review. If that answers your question.

Q. No. My question is are you actually asking the Commission to sign off on the actual terms and conditions of the contract prior to executing the contract?

A. We are asking the Commission to review the entire contract. As you just pointed out, there's not a place for them to sign per se but to review all the terms of the contract. We are -- that would be part of their review that I would anticipate.

Q. Okay.

A. I'm not speaking for the Commission.

Q. And that review that you're talking about occurs now in this case; is that correct?

A. That's my understanding, yes.

Q. And you will not sign this document unless you're getting the preapproval from the Commission; is that correct?

A. I'm never going to sign it, but understanding --

Q. AEP Ohio.

A. Yes, understanding that representatives for the buyer and seller, it's not anticipated that they would enter into this agreement, my understanding, absent this finding by this Commission.

Q. And it's your understanding that AEP Generation is not regulated by the Public Utilities Commission of Ohio; is that correct?

A. That is my understanding.

MS. BOJKO: No further questions. Thank you, your Honor.

EXAMINER PARROT: Thank you, Ms. Bojko.

Mr. Michael?

MR. MICHAEL: None, your Honor. Thank you.

EXAMINER PARROT: Mr. Oliker?

MR. OLIKER: Thank you, your Honor. Just one or two maybe.

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RECROSS-EXAMINATION

By Mr. Oliker:

Q. Dr. Pearce, you discussed the potential prudence review of an early termination toward the end of the life of the contract with AEP Generation Resources, right?

A. Yes.

Q. Now, in the event that there's a few hundred million dollars -- or, scratch that. Let me start prior to that.

In the event the Commission does determine a decision for an early termination is imprudent, is AEP Ohio committing not to exercise its rights under Chapter 4909.16 to file an emergency rate case?

MR. NOURSE: I would object as obviously being a legal question and, also, it's not clear which type of early termination he's asking about. My redirect was limited to Section 2.4.

EXAMINER PARROT: Maybe rephrase, Mr. Oliker.

MR. OLIKER: One quick minute, your Honor.

Q. (By Mr. Oliker) Let me ask it this way: If the Commission's determination on the prudence of AEP Ohio's decision-making lowers the net income of AEP Ohio, is the company committing in this case to not file an application with the Commission to recover that cost?

A. I'm supporting the agreement. That would have been a question for Company Witness Vegas.

Q. Okay.

A. I have no knowledge or opinion on that.

Q. So let's assume there is a decision of imprudence and the impact on AEP Ohio is $500 million. Would you agree that would lower the net income of AEP Ohio?

MR. NOURSE: Your Honor, I'd just object because now we're getting into questions he certainly could have asked during regular cross. It doesn't relate to -- it doesn't relate to the redirect and the hypothetical that was introduced there.

MR. OLIKER: Your Honor, it's completely responsive to the redirect question which is the Commission's ability to review AEP's decisions and early termination for prudence.

MR. NOURSE: Again we've explored these provisions quite fully in cross-examination, so this separate issue doesn't really relate to the scope of the redirect. I agree it relates to the contract but that was totally covered during cross-examination.

MR. OLIKER: Just as the redirect related to the contract.

EXAMINER PARROT: I'll allow this particular question. We'll see where you go from there, Mr. Oliker, but we aren't going down the paths we've already been down before. So we do need to tie it into the redirect.

MR. OLIKER: Could I have my question read back, please?

EXAMINER PARROT: You may.

MR. OLIKER: Thank you.

(Record read.)

A. If there's a decision of imprudence in the sense that you're saying then dollars don't flow through the PPA rider?

Q. Yes.

A. I would anticipate, all else being equal, that that could lower AEP Ohio's net income.

Q. Okay. And regarding the prudence authority that Mr. Nourse indicated the Commission has, if the Commission were to lower AEP's net income through a disallowance of $500 million, there's nothing in this proposed agreement which would limit AEP Ohio's rights under Ohio law, perhaps 4909.16 to file an emergency rate case.

A. Is this in reference to the questions Mr. Nourse just asked me?

Q. Yes.

A. Okay. As I understood it, Mr. Nourse was asking me about Section 2.4, so that is not tied to a -- any kind of finding of imprudence or imprudence [verbatim]. It was if the parties get near, for example, the end of life of a retirement unit -- of the retirement of a unit and then they can have, you know, honest people can have a disagreement about how long to continue a unit if there is such a disagreement, and then it provides the flexibility for AEP Ohio, if they forecasted and they believed that the revenues are not as great as the additional costs, it provides basically -- excuse me, AEP Ohio to make a decision after perhaps some discussions with the Ohio Commission to go ahead and effectively pull that specific unit out of the agreement and pay the remainder of the net book value, that's what we were discussing, and then doing a fair market assessment on it.

So where I'm going with that is that was the provision that I was discussing on his redirect, and that's not tied to an imprudence.

Q. I'm not sure I want to -- well, I hesitate to do this, could you explain where the prudence comes into the question Mr. Nourse asked you?

A. Well, my understanding is he specifically, I thought, referred to Section 2.4 --

Q. Okay.

A. -- which talks about in the event the parties are unable to reach agreement upon the retirement date of a unit or facility, it's on page 10, excuse me, and again, this was seen as a benefit to both parties including the -- and honestly there was some -- I think there's some thought that the Commission could also approve this because it really provides the maximum flexibility in the sense that if they get close to a unit's retirement anyway, and some dollar costs come up that they don't want to spend, then they're allowed to effectively do this assessment because on page 15 under number (C) to effectively pass through the remaining net book value of the units to the buyer and also do some sort of fair market valuation of the difference, and that's all that would be passed through to AEP Ohio.

MR. OLIKER: Thank you, Dr. Pearce. I have no more questions.

MR. PRITCHARD: No questions, your Honors.

EXAMINER PARROT: Thank you, Mr. Pritchard.

Mr. Yurick?

MR. YURICK: Nothing, your Honor. Thank you.

EXAMINER PARROT: Mr. Kurtz.

MR. KURTZ: Thank you, your Honor.

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RECROSS-EXAMINATION

By Mr. Kurtz:

Q. Dr. Pearce, on your redirect you indicated that the whole intent of the AEP Generation Resources would be to depreciate the units in the PPA such that on or about their retirement the net book cost would be about zero.

A. Yes, I did.

Q. Okay. Were you involved in AEP Ohio's proposal here that was ruled on by the Commission January 11, 2012, where AEP sought about $70 million of recovery of Sporn unit 5 decommissioning costs when that unit had to retire?

A. I was not involved directly then.

Q. That was a 450-megawatt unit. Do you recall that?

A. That sounds about right.

Q. So, and this is a -- well, the non-OVEC portion of the PPA is 2,800, 2,700 megawatts?

A. Around 2,700.

Q. So if a 450-megawatt retirement had $70 million of remaining net book value, it is conceivable that the units here could have the same situation.

A. My understanding is in a fully regulated environment, based on Commission determinations of what depreciation expenses to apply to rates can be appropriate for generally accepted accounting principles, although, again, the goal I think in any case is that you are targeting zero, but I understand that in results of cases you can have approved depreciation rates.

As far as what the specific allowance for deviating, I'll say, from trying to get to zero in this type of an agreement, I would like to refer you to Company Witness Mitchell who is a witness in this case and he is head of our accounting policy and he could provide you a much better expert answer to your question than I can.

Q. And, in fact, if you really did depreciate all the way to zero, you won't need the provision that says you could recover net book costs because there would be nothing to recover. You want it because there's a possibility there could be a remaining balance and it could be significant; isn't that correct?

A. I believe, correct me if I'm wrong, but I think the provisions talked about that, talked about scenarios like with early retirements. I don't know that there's something --

Q. Or at the end of the commercial operation life.

A. Yeah, if there is some remaining net book value at the very end of the life, we would seek that, to the extent that it's close to zero but not exactly zero.

Q. Do you have IEU Exhibit 5?

A. I'm not sure I do at this point.

Q. It's the Market Monitor State of PJM Report, Volume 2. On page 422 of the report it lists the plan deactivation of PJM units including all the AEP units.

MR. NOURSE: Your Honor, I just object. This has gone beyond redirect.

MR. KURTZ: Well, where I'm going with this, this shows the early retirements of the AEP units and I want to ask the witness if any of these units had net book cost remaining, if he knows, because his testimony on redirect testimony was his goal was to get to zero.

EXAMINER PARROT: I'll allow it, Mr. Kurtz.

Q. (By Mr. Kurtz) Do you have that?

A. Yes, I see this. And I will say again, in a regulated company that is regulated, is my understanding, GAAP accounting principles will allow the Commission to authorize depreciation rates, and as such, you know, your net book works out mathematically to be whatever it is.

Q. Well, under this contract, under this PPA, you and AEPGR can agree to any depreciation rate you want, we established that earlier, and change at least every five years.

A. And what I'm saying is that's where I say the goal is going to be to get the units appropriately depreciated over their life to achieving zero or as close to it as we can get at the end of their life.

Q. Do you have this page 422 of IEU Exhibit 5?

A. I do.

Q. First unit I see being retired, Big Sandy unit 2, Kentucky Power unit, 800-megawatt unit retired in the middle of '15. Do you see that?

A. Yes.

Q. I know for sure because I was in the case, that had several hundred million of net book costs remaining; did it not?

MR. NOURSE: Your Honor, I object to Mr. Kurtz testifying. And, again, the witness has already explained the difference between a regulated unit and one that's covered by GAAP and their independent accounting firm. That was the purpose of redirect. So I don't know why we're --

MR. KURTZ: I'll rephrase.

Q. I see nine entries of AEP units retiring. Do you know if any of those nine had net book costs remaining when they retired?

A. I would assume several of these did, but to go to the one that you specifically said, Big Sandy 2, it's the point I just made, that in a vertically-integrated state, that if the Commission in that state, the Public Utilities Commission, has authorized a specific depreciation expense rate, then that's what's going to be used on the books and so while kind of from a general rule you'd like to get to zero, that's going to just mathematically get you where you get to, which is different than what I see the PPA doing.

Q. Would we even need to be discussing this if the PPA was for a set period of time like your Lawrenceburg contract or like the FirstEnergy proposal across the hall?

A. To me, see, that is actually -- in that context I think we'd have to discuss it I'll say even more because then there would be concern from both buyer that they didn't pay too much in depreciation expense and seller that they have a concern that they're not going to get paid enough.

By going through the end of the life I think their interests are mutually aligned, which is a good thing, that will try to basically agree on a depreciation expense rate that gets us at or close to zero at the end of the life of the unit.

Q. One last question. You understand that this net book issue is not even an issue in the FirstEnergy case.

A. I have not been following closely what they --

MR. KURTZ: Okay. Thank you, your Honor.

A. What they've done for depreciation expense for the FirstEnergy case or how they've handled depreciation expense in that case.

EXAMINER PARROT: Thank you, Mr. Kurtz.

Ms. Fleisher?

MS. FLEISHER: Yes, just one quick question, which I can just do from back here.

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RECROSS-EXAMINATION

By Ms. Fleisher:

Q. So, Dr. Pearce, you discussed with Mr. Nourse some updates that you made to your forecasts for your May testimony, correct?

A. Yes.

Q. Who did you talk to in discussing which updates to make to your testimony?

A. Varying people in the company. I don't recall who all I would have talked to in the normal course of business.

Q. Did you talk to Company Witness Bletzacker?

A. Company Witness Bletzacker? I have the pleasure of seeing Company Witness Bletzacker from time to time and as far as -- if you're questioning the numbers from him that I would have used, again, he puts those out there on a company intra-website that is available to basically the entire company. I believe at some point -- we would have had a conversation in the spring and a confirmation that the forecast from last -- the October 2013 forecast was still the most recently available forecast he had.

MS. FLEISHER: That's all I have. Thank you.

EXAMINER PARROT: Thanks, Ms. Fleisher.

Ms. Petrucci.

MS. PETRUCCI: No questions.

EXAMINER PARROT: Anybody else that I'm not familiar with, everybody who's joined us now so I want to make sure I'm not missing anybody. Going once.

All right. Mr. Beeler.

MR. BEELER: No questions, thank you.

EXAMINER PARROT: All right. I believe that Mr. Nourse has already moved for the admission of AEP Ohio Exhibit No. 2. Are there any objections to its admission?

(No response.)

EXAMINER PARROT: Hearing none, Company Exhibit No. 2 is admitted into the record.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER PARROT: Thank you, Dr. Pearce.

Mr. Bzdok, you may move your exhibits.

MR. BZDOK: Thank you. At this time I would move for the admission into the record of Sierra Club Exhibits -- excuse me, Exhibits Sierra Club 4 and 5 and Confidential 6.

MR. NOURSE: No objection.

EXAMINER SEE: All right. With that, Sierra Exhibits 4, 5, and Confidential 6 are admitted into the record.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER PARROT: Ms. Bojko.

MS. BOJKO: Thank you, your Honors. At this time I would move the admission of OMAEG Exhibit 6, 7 Confidential, 8 Confidential, 9 Confidential.

MR. NOURSE: No objection.

EXAMINER PARROT: All right. With that OMAEG Exhibits 6, 7, 8, and 9 are admitted.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER PARROT: Mr. Pritchard.

MR. PRITCHARD: Yes, your Honor. I would move for the admission of IEU-Ohio Exhibits 2 through 7 and 8 confidential, and I believe that Exhibit -- IEU Exhibit 2 has already been stipulated to.

MR. NOURSE: Yes.

EXAMINER PARROT: Yes, that's correct.

MR. NOURSE: Yes. One second, your Honor. And IEU 8 was confidential, right?

MR. PRITCHARD: Yes.

MR. NOURSE: No objection.

EXAMINER PARROT: With that IEU-Ohio Exhibits 2 through 8 are admitted.

(EXHIBITS ADMITTED INTO EVIDENCE.)

EXAMINER PARROT: Next up is Mr. Oliker.

MR. OLIKER: Thank you, your Honor. I would move for the admission of IGS Exhibit 1 which is a confidential document.

EXAMINER PARROT: Thank you, Mr. Oliker. Any objection?

MR. NOURSE: No objection.

EXAMINER PARROT: All right. IGS Exhibit

1 is admitted.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER PARROT: Miss Fleisher?

MS. FLEISHER: Your Honors, I'd move the admission of Confidential ELPC Exhibit 5 and Confidential ELPC 6.

MR. NOURSE: No objection.

EXAMINER PARROT: Very good. ELPC Exhibits 5 and 6 are admitted into the record.

(EXHIBIT ADMITTED INTO EVIDENCE.)

MR. PRITCHARD: Your Honor, might I inquire before we take the next witness just have a couple-minutes facilities break and for me to clean up my giant mess I have here to make room for Mr. Darr?

EXAMINER SEE: Quickly.

(Recess taken.)

EXAMINER SEE: Let's go back on the record. Mr. Fetter, if you could raise your right hand, please.

(Witness sworn.)

EXAMINER SEE: Thank you. Have a seat.

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STEVEN M. FETTER

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

DIRECT EXAMINATION

By Mr. Miller:

Q. Please state your name and business address for the record.

A. My name is Steven M. Fetter. My business address is 1240 West Sims Way, Port Townsend, Washington 98368.

Q. Mr. Fetter, by whom are you employed and in what capacity?

A. I have my own energy advisory firm called Regulation UnFettered and I'm the president of that firm.

Q. Did you cause testimony to be filed in this case?

A. I did.

MR. MILLER: Your Honor, I'd like to mark Mr. Fetter's testimony as I believe we're at Company Exhibit 3.

EXAMINER SEE: So marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Do you have a copy of that document I just referred to as Company Exhibit 3 in front of you, Mr. Fetter?

A. Yes.

Q. And was this testimony prepared by you or under your direction?

A. Yes.

Q. Do you at this time have any changes, additions, or corrections to this testimony?

A. I have four clarifications.

Q. Can you go through and point out exactly where those are for everyone.

A. Yes, and I note that most of these were discussed at the time of the deposition so they shouldn't be surprises. On page 4, line 8, after the phrase "affiliated power purchase agreement," I insert the phrase "summary of major terms" and then the open parens starts.

Q. For clarity can I ask you to read it as it would read now with your correction.

A. "AEP Ohio has asked me to review its affiliated power purchase agreement summary of major terms ('Affiliated PPA') proposed in this case, as well as the inclusion of the OVEC entitlements in the PPA Rider (together, 'PPA rider units' or" --

Q. And, Mr. Fetter, in light of time I'll ask you to stop it.

A. I will stop.
Q. That's a long sentence.
EXAMINER SEE: Go ahead.
Q. Change No. 2, Mr. Fetter.
A. The same page, page 4, line 14, after the phrase "whether the PPAs" I insert the phrase "within the PPA rider," so that let me just read the end of that sentence. On line 14 will read "offer an opinion as to whether the PPAs within the PPA rider align with the public interest here in Ohio."
Q. No. 3.
A. The next edit, same page, 4, line 20 where it says "Commission approval of the proposed PPAs" I insert the same phrase "within the PPA rider," and I'll read just line 20 as corrected: "Commission approval of the proposed PPAs within the PPA rider, and then balanced them against any."
Q. Next.
A. The final change is on page 13, line 1, that the second sentence begins "I conclude that approval of the PPAs" and since the -- the PPAs and specifically the affiliated PPA is not here for approval, I changed the phrasing just to be clear "I conclude that acceptance of the PPAs, as proposed."
Q. That's the entirety?

A. Yes.

Q. With that, if I were to ask you each of the questions that are in your testimony with the modifications you just made, would your answers be the same today?

A. Yes.

MR. MILLER: Your Honor, I move for admission of Company Exhibit 3, subject to cross-examination by the parties.

EXAMINER SEE: Okay. Mr. Fisk?

MS. BOJKO: Excuse me just quickly, the errata sheet that was just handed out by counsel, was that for the deposition?

MR. MILLER: Yes, ma'am.

MS. BOJKO: Just to clarify. Thank you.

EXAMINER SEE: Go ahead, Mr. Fisk.

MR. FISK: Thank you, your Honors.

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CROSS-EXAMINATION

By Mr. Fisk:

Q. Good afternoon, Mr. Fetter.

A. Good afternoon, counselor.

Q. How are you doing today?

A. A little tired.

Q. Understandable.

Just to make sure we're on the same page starting out, I just want to define a couple terms. If I refer to the applicant in this proceeding Ohio Power Company as AEP Ohio, will you understand what I mean?

A. Yes, sir.

Q. Okay. And if I refer to AEP Generation Resources as AEP Generation, will you understand what I mean?

A. Yes.

Q. Okay. And if I refer to American Electric Power Company simply as AEP, will you understand?

A. So you would mean the parent company?

Q. Yes.

A. Yes.

Q. Okay. And if we could walk through the corrections you made --

A. Yes, sir.

Q. -- to your testimony starting on page 4, on line 14, so you've added -- so it says "whether the PPAs," and you've added "within the PPA rider." So is it your testimony that the PPAs are already within the PPA rider, or are you saying the ones they're proposing for inclusion in the PPA rider?

A. The ones they're proposing to be in the PPA rider, and I'm offering my opinion as to those items in the rider, whether it aligns with the interests of the state.

Q. So with the inclusion of those items in the rider.

A. Yes.

Q. Okay. I just wanted to make sure. And then on page 13 on line 1, am I correct you -- so it says "I conclude that" and it used to say "approval" and you're changing "approval" to "acceptance," right?

A. Yes. I came up with this change this morning, but it relates to discussion just in the past half hour about the company is not asking this body to approve the affiliated PPA. It's more like getting a comfort level with that document.

Q. Okay. And what is -- where did you come to the conclusion that the companies are not proposing or not asking the Commission to approve the PPA?

A. Well, I just heard Dr. Pearce indicate that they're putting it forward for I guess a prudence response, but he and I view it as a FERC jurisdictional item so I thought not having the word "approval," would be a better choice of words to put "acceptance" since it would be the FERC that would ultimately approve the affiliated PPA.

Q. Okay. So you were in the hearing room today and yesterday, correct?

A. I was not here all of yesterday, but today I was.

Q. Before you entered the hearing room yesterday, was it your understanding that AEP Ohio was seeking approval of the PPA as opposed to just acceptance?

A. I guess I would describe it as I was using "approval" as not a term of art, just as a word without legal meaning, and I thought it would be appropriate not to use the word "approval" with a legal meaning and that's why I changed it to "acceptance."

Q. Do you have an opinion as to whether, if the Commission were to not approve the PPA, whether AEP Ohio could still enter into it?

A. You're saying small A or legal A approval?

Q. Let's start with small A.

A. Okay. I believe AEP Ohio is free to enter into any PPA, whether this one or any other one. I know in this case in the application it indicated that it does not intend to -- it hasn't been signed yet. They're waiting to see what happens to the PPA rider.

Q. Okay. But when you say your opinion is that AEP Ohio can enter into any PPA, you mean without Commission approval; is that correct?

A. They can do it without Commission approval, they could do it with a regulatory out clause, they could do it without a regulatory out clause. It would be their freedom.

Q. Okay. And are you aware that there is an actual contract that has been created setting forth the terms of the proposed PPA?

A. Yes. And that's why I noted at the outset of preparing my testimony I reviewed the summary of major terms to get a sense of the PPA, but I'm not here saying that I've read however many pages and am offering an opinion on that entire document.

Q. So at the outset of putting together your testimony you had not read the actual contract; is that correct?

A. That's correct.

Q. Have you read that actual contract as of today?

A. I think I might have skimmed it, but I have not read it in great specificity.

Q. And you did not have any role in developing the terms of that contract, correct?

A. I did not.

Q. And so when you referred in your correction to page 4, line 8 of your testimony to summary of major terms, are you there referring to Exhibit KDP-1?

A. It's the exhibit within Dr. Pearce's document and so that would be it.

Q. Okay. Great.

And are you aware of what generating units are included in the proposed PPA?

A. I have reviewed it so I've seen the name of all those plants and then the OVEC entitlement involved I think 11 other plants, so I've read the names.

Q. Do you know the names today?

A. You mean by memory?

Q. Yes.

A. No.

Q. Okay. Do you know the names of the OVEC units?

A. By memory?

Q. Yeah.

A. No.

Q. Can we agree to refer to the units that are included in the proposed PPA as the PPA units?

A. The nine within the PPA as the PPA units? That would be fine.

Q. Okay. And for the OVEC units can we refer to those as the OVEC entitlement?

A. That sounds like a good phrase.

Q. And is it your understanding that AEP Ohio is also seeking in this proceeding authorization to pass the net of the costs and revenues of the PPA units through to customers through the PPA rider?

A. Could you say that again, please?

MR. FISK: Could you read it back.

(Record read.)

A. Yes. In a fashion, yes.

Q. Okay. And AEP Ohio is also seeking to pass the costs and revenues of the OVEC entitlement through to customers through the PPA rider; is that right?

A. Yes.

Q. And as you formed -- well, as you drafted your written testimony, you had not reviewed any information regarding the costs of the PPA units over the past five years; is that correct?

A. I have not.

Q. And you also have not reviewed any information regarding the revenues of the PPA units over the past five years; is that correct?

A. I was not asked to do that.

Q. Okay. And is that the same in terms of costs and revenues, you haven't reviewed those for the OVEC entitlement over the past five years?

A. That would be true, yes.

Q. Okay. And do you know what the term "capacity factor" means?

A. Yes.

Q. Okay. Generally, what is that?

A. The amount of capacity or electricity that's committed and put out by a plant.

Q. And you did not review any information regarding the capacity factor of the PPA units over the past five years, correct?

A. No. I have not reviewed specific information about the plants that are included in the PPA units.

Q. And with regards to capacity factors, it's the same answer for the OVEC entitlement?

A. Yes.

Q. And you do not know the age of any of the PPA units; is that right?

A. Well, I have reviewed all the documents in this case, so I've read it, but I didn't memorize the age of the plants.

Q. And at your deposition you also did not know the age of any of the plants; is that right?

A. Same thing, I read it, I didn't memorize the age of the plants.

Q. Okay. And you on page 4 of your testimony, and if we can agree when I refer to your testimony, I'm talking about your May 15th testimony unless I say differently.

A. That's a good way to do it.

Q. Great. So page 4 of your testimony, lines 19 through 22, you I guess kind of basically summarize that you are -- in your analysis you balance the purported benefits of the proposed PPA and its inclusion in the PPA rider against any potential negatives; is that generally correct?

A. Yes.

Q. Okay. So in evaluating the proposed PPA and its inclusion in the PPA rider, you assessed whether the benefits would outweigh the costs?

A. Yeah, that's what I set out to do.
Q. Okay.
A. Yes.
Q. And would you agree that the assessment of whether the benefits of the proposed PPA and its inclusion in the PPA rider outweigh the costs was important to your recommendation that the Commission should approve the inclusion of those costs in the PPA rider?
A. Yes.
Q. And if you could turn to page 6 of your testimony, lines 17 through 18, and let me know when you're there.
A. I'm at 17.
Q. Okay. And towards the end of 17 you have a reference to many of the plants at issue could end up being retired early. Do you see that?
A. Yes.
Q. And so is one of the benefits that you are claiming would result from the proposed PPA and its inclusion in the PPA rider avoiding the retirement of the PPA units?
A. I view that as a benefit.
Q. And your analysis assumed there would be certain rate and nonrate impacts to customers if the

PPA units were to retire; is that right?

THE WITNESS: I'm sorry, could I hear that again.

(Record read.)

A. From a rate standpoint I'd say that my understanding from Witness Bradish, that if the plants were to be retired, there would be substantial transmission upgrade costs, so that would be on the financial side.

On the nonfinancial side, I've noted the benefits of the plants continuing, so if you look at the opposite, those would be the negatives of the plants being retired.

Q. Okay. And we'll get to those specifics in a minute, but I guess just as a general matter, your analysis assumed that one of the benefits of inclusion in the proposed PPA in the PPA rider is avoidance of certain rate and nonrate impacts if the PPA units were to retire; is that right?

A. Yes.

Q. And you do not know if any of the PPA units would actually retire if the Commission were to reject the proposed PPA or its inclusion in the PPA rider, correct?

A. No. I have reviewed the filings in this proceeding and the one that led up to the February Commission order and so I take the company at its word that it would seriously consider whether any would have to be retired.

Q. Okay. But you yourself don't have any personal knowledge that they would retire.

A. I have not studied them with a view towards whether they would be retired.

Q. I believe a couple of minutes ago you referred to Mr. Bradish's testimony; is that correct?

A. Yes.

Q. And you discussed that in your own testimony at page 12, lines 16 through 20; is that right?

A. Yes.

Q. Okay. And you reference in that portion of your testimony that a, quote, "significant investment of $1.6 billion (or more) will be needed for transmission upgrades to assure reliability going forward"; is that right?

A. That's what I say based on what I saw in Mr. Bradish's testimony.

Q. Okay. And so you considered the avoidance of that $1.6 billion in transmission upgrades to be a benefit that you factored into your analysis and weighing of benefits and costs?

A. I viewed it as a benefit to be able to -- if it were to be avoided.

Q. Okay. And you don't know, however, what generating units Mr. Bradish assumed would be retired in his analysis, correct?

A. I am not -- I don't know and I'm not assuming which ones.

Q. And so you don't know if the reference to transmission upgrades identified by Mr. Bradish would actually in part be needed to address reliability impacts of the potential retirement of other units besides the PPA units, correct?

A. I would defer all those issues to Mr. Bradish.

Q. Okay. And you've never reviewed any transmission modeling that Mr. Bradish might have done; is that right?

A. Other than reading his testimony I have not.

Q. And you're not offering any opinions about the reasonableness of Mr. Bradish's testimony, correct?

A. That is correct.

Q. And also on page 12 of your testimony, lines 19 through 20, you state that a, quote, "large part," unquote, of the $1.6 billion of transmission upgrade costs would end up on AEP Ohio customer rates; is that right?

A. Yes, the jurisdictional portion of that investment in transmission.

Q. And when you say "large part," do you mean more than 50 percent?

A. I'd have to look back at Mr. Allen's testimony. This comment is based on my review of Mr. Allen's testimony.

Q. Okay. Do you know how PJM allocates transmission upgrade costs?

A. Not specifically here.

Q. So your testimony with regards to any allocation of transmission upgrade costs is entirely based on Mr. Allen's testimony; is that right?

A. Yes, sir.

Q. And you're not offering any opinion as to the reasonableness of Mr. Allen's estimate of how transmission upgrade costs would be allocated; is that right?

A. Yes. I'll leave it to Mr. Allen to defend his testimony.

Q. Okay. And you do not know if a

generating unit owner is required to notify PJM if it intends to retire a generating unit, correct?

A. I expect they would, but I couldn't tell you the terms they'd have to use to tell PJM.

Q. And you're not familiar with PJM reliability must-run contracts; is that right?

A. Well, not specifically PJM's, but normally a must-run plant has to run for reliability purposes on the system.

Q. But you don't have any knowledge about how PJM reliability must-run contracts work, correct?

A. I haven't looked specifically at the PJM such contracts.

Q. So you don't have any opinion as to whether a PJM reliability must-run contract might help reduce any costs to AEP Ohio customers related to transmission issues from the retirement of any PPA units; is that correct?

A. I don't have an opinion on that.

Q. And if you could turn on your testimony to page 6.

A. I'm there.

Q. Okay. Lines 18 through 20. You reference there, and I'm quoting, "AEP Ohio's worry that there will not exist an easy path ahead for generation construction"; is that right?

A. Yes.

Q. Okay. And then over on page 7, lines 7 through 9, you have some testimony there about whether PJM's three-year planning horizon is sufficient to attract new generation investment into Ohio; is that right?

A. Yes.

Q. You have not personally reviewed information about generation projects under construction in Ohio, right?

A. I have not.

Q. Okay. And you have not personally reviewed information about generation projects otherwise under development in Ohio; is that right?

A. Not specifically. I know there are several under development. I know that many plants just generally that are planned to proceed often don't.

Q. Do you know what the PJM generation queue is?

A. No.

Q. Okay. So you've never reviewed the PJM generation queue?

A. I have not.

Q. And am I correct you are not aware of the proposed Middletown energy center natural gas plant?
A. I've heard of it. I'm not aware of the specifics.
Q. Did you first hear about it at your deposition?
A. Possibly.
Q. Okay.
A. Possibly.
Q. And so you are not offering any opinion as to whether that natural gas plant will enter into operation.
A. I'm not offering an opinion.
Q. Okay. And are you aware of the proposed Carroll County energy center natural gas plant in Ohio?
A. No.
Q. And you're not offering any opinion as to whether that proposed natural gas plant will enter operation?
A. That's true.
Q. And you are not aware of the proposed Lordstown generating station in Ohio; is that correct?
A. Same answer.

Q. And you're not offering any opinion as to whether that plant will enter operation; is that right?
A. I am not offering.
Q. Okay. One more. You're not aware of the proposed Oregon clean energy center natural gas plant in Ohio; is that right?
A. Not aware.
Q. And you have no opinion as to whether that natural gas plant will enter into operation?
A. No opinion.
Q. Okay. Your testimony on page 9 starting at line 4. Let me know when you get there.
A. I'm there.
Q. Okay. And so from line 4 down to line 15 you have a discussion about the regulatory framework in four states that neighbor Ohio; is that correct?
A. Yes.
Q. And those states being Indiana, West Virginia, Kentucky, and Michigan?
A. Yes.
Q. And you testified that all four of those states have traditional cost-based regulatory frameworks that help provide the certainty needed for investors to provide funds for infrastructure

investments; is that right?

A. Yes. I indicate with Michigan that there's some competitive aspect, but it's been reduced from its initial introduction.

Q. It's down to 10 percent?

A. Ten percent.

Q. But you -- am I correct you do not know if more generation capacity is being built in any of those four states than in Ohio; is that correct?

A. I haven't looked at that.

Q. And you don't know whether there have been fewer generating unit retirements in those four states than in Ohio?

A. Same answer.

Q. Okay. And your testimony on page 8 at lines 1 through 21, you have a discussion there of what is commonly referred to as the California electricity prices; is that right?

A. Yes.

Q. And that prices occurred in the year 2000; is that right?

A. 2000-2001.

Q. And in very summary form, essentially wholesale electricity prices spiked in California due to manipulation in the markets by Enron and other entities; is that right?

A. Well, the first step was generation divestment followed by a degree of, well, and then a retail rate freeze and then spiking wholesale markets and the refusal of the regulators to take away the retail rate freeze, and then a major part of the spike was based on manipulation.

Q. All right. And you are aware that AEP Ohio is part of PJM, right?

A. Yes.

Q. And you would agree that there have not been issues with market manipulation in PJM on the order of what happened during the California electricity crisis?

A. Well, since the deposition where I gave probably too much faith to the operation of the PJM market I reviewed Mr. Chernick's testimony and he indicates a phrase very similar to yours. He says that PJM in its 18 years of operation has not been perfect but that there has not been manipulation and abuse to the order of California's.

So when someone reads that sentence, you have to go look behind what Mr. Chernick means because there's certainly very interesting phrasing, and I did look. And in the past six months the FERC has found two instances of manipulation, Powhatan Energy and City Power Marketing were both found and fined by FERC.

About the time I was sitting down to the deposition FERC was announcing a new investigation of an entity called Coal Train Energy so, I mean, I've learned that since the deposition that over the past six months there have been problems.

I also think it would be a mistake for this Commission to set as their threshold for consideration of manipulation what happened in California. California was, in my mind, the largest example of fraud within the utility markets since regulation began about 125 years ago. So I would hope that this Commission and PJM and other commissions involved with PJM would be concerned about manipulation and abuse well below the level that occurred in California.

MR. FISK: I would move to strike the answer starting with the discussion of California. It's not responsive to the question which was simply has that level of manipulation happened here, as to what happened in California, not as to whether or not that should be the standard the Commission should use.

MR. MILLER: Your Honor, I believe the question was are you aware of market manipulation in the PJM, and the answer to the question was answered responsively, in fact, succinctly.

EXAMINER SEE: And I'm going to allow the answer to stand.

MR. FISK: Thank you, your Honor.

Q. (By Mr. Fisk) So all of that answer that you just provided was not what you provided at your deposition, correct?

A. As I said, I had too much faith in the PJM market when I sat across from Mr. Mendoza and, like I said, I read Mr. Chernick's testimony and his sentence was much too interesting to ignore.

Q. And have you identified any wholesale electricity price spikes along the order of what happened in California as a result of these three new found instances of market manipulation?

A. I have not seen spikes in the order of what occurred in California.

Q. And on page 8 of your testimony, you have a quote on lines 16 through 21 that discusses whether having a large reserve could have helped California avoid the electricity crisis; is that correct?

A. Yes.

Q. And you do not know what PJM's reserve margin is, correct?

A. No.

Q. And you do not know whether total capacity in PJM exceeds the reserve margin; is that right?

A. I haven't looked at that.

Q. Do you know what the total generating capacity in PJM is?

A. No.

Q. Do you know what the total generating capacity in Ohio is?

A. No.

Q. And so if you turn to -- well, I think we already established that in your analysis you balance what you've identified as benefits of the proposed PPA and its inclusion in the rider against potential negatives; is that right?

A. And I went into items not knowing if they'd be positive or negative --

Q. Sure.

A. -- and upon my review I came to a conclusion.

Q. Okay. And the primary potential negative that you considered was whether the proposed PPA and its inclusion in the PPA rider would add any costs to the bills of AEP Ohio's customers, right?

A. I'd say there were two major potential negatives, that being one of them and the other being the potential that it would have a negative impact on the evolving competitive market in Ohio.

Q. Okay. And your consideration of whether the proposed PPA and its inclusion in the PPA rider would add any costs to the bills of AEP Ohio's customers relied on the testimony of Dr. Pearce, right?

A. Yes, sir.

Q. Okay. And in particular you were relying on the forecast of PPA rider impacts set forth in Exhibit KDP-2 to Dr. Pearce's testimony; is that right?

A. Yes.

Q. Okay. And you've not independently verified Mr. Pearce's analysis or numbers, correct?

A. Only to the extent that I found comfort at his upward bound and lower bound, I felt comfortable that he had covered the waterfront with his analysis.

Q. Okay. And we'll get to that in a sec, but outside of that the actual forecasted numbers and the assumptions used in that you did not do anything to independently verify those, right?

A. No. I relied on Dr. Pearce's numbers.

Q. And so you're not offering any opinions on the reasonableness of Dr. Pearce's forecast outside of your confidence.

A. Other than the range.

Q. Okay. Your reference to the range, you discuss that starting on page 11 of your testimony, line 14, correct?

A. Yes.

Q. And I believe that the range that you're talking about, is that the 5 percent higher load versus 5 percent lower load sensitivities?

A. Each year for about ten years, nine years and three months, but probably more like nine years now.

Q. Okay. And so the 5 percent lower load case, is it your belief that Dr. Pearce's analysis assumed that load would decline 5 percent from current load?

A. I believe he based it on his weather normalized case, and then he laid the 5 percent lower load on that.

Q. Okay. So there's a weather normalized

case that you reference on page 12, line 2 in your testimony, right?
A. Yes.
Q. And you describe that as the no forecasted change in load; is that right?
A. Well, that would be his analysis of the expectation of load adjusted for weather.
Q. Okay. And when you say "no forecasted change in load," so is it your belief that Dr. Pearce just assumed that today's load would continue steady through 2024?
A. I believe he relied on analysis from Mr. Bletzacker in coming to his weather normalized case.
Q. Okay. And I guess I'm asking what your understanding is. Did Dr. Pearce's weather normalized case, did that just assume flat load through 2024 or did that assume load was going to increase? Do you know?
A. I don't think it was just flat load, but I didn't look specifically at what Mr. Bletzacker and Dr. Pearce put into that case.
Q. Okay. So you don't know if under the weather normalized case load, you don't know at what rate load is being projected to be increased in

Dr. Pearce's analysis under the weather normalized case, correct?

A. Not specifically, yes.

Q. Okay. And you don't know what load Dr. Pearce forecasted for 2024 in his case, correct?

A. Correct.

Q. And so when you refer to a 5 percent lower load scenario, is that 5 percent below whatever he projected for the weather normalized case?

A. I think that would be 5 percent off the baseline case.

Q. Okay. So if -- if his case projected more than a 5 percent increase between now and 2024, the 5 percent lower load case would still be projecting an increase over that time period, correct?

A. You're saying if the weather normalized case --

Q. Yes.

A. -- projected movement up 5 percent each year.

Q. 5 percent by 2024.

A. No. It would be 5 percent off the baseline case.

Q. Okay. So your understanding is that the

5 percent lower load is you take the baseline, the weather normalized case, and then you drop it 5 percent.
A. That's my understanding.
Q. And that -- for the 5 percent higher load you take the weather normalized case, you raise it 5 percent, correct?
A. Yes.
Q. And then Dr. Pearce also has a load or also had a scenario in which he averaged the high and the low, correct?
A. Yes.
Q. So, based on your understanding of what the high and the low are, wouldn't that averaging scenario just be the same as the weather normalized?
A. No, because, as Dr. Pearce indicates, there's an asymmetry in growing load versus reducing load and so it's exaggerated on the upward side and I think that's what led to his differential numbers on the high load and low load happening in his analysis up and down within the same period.
Q. Okay. And you testify on page 12, lines 8 through 9, "I cannot recall any party putting forward evidence of an expectation that the US or world economy would suffer a further significant drop

going forward." Do you see that?
A. Yes.
Q. Do you know if any of Dr. Pearce's load scenarios assume that load in 2024 would be lower than it is today?
A. I'm not sure.
Q. And are you -- I believe you referenced a few minutes ago forecasts provided by Mr. Bletzacker?
A. Analysis from Mr. Bletzacker that went into Dr. Pearce's conclusions, as I understand the process.
Q. And you're not offering any opinions on the reasonableness of any of Mr. Bletzacker's analysis or forecasts?
A. No. No.
Q. So it's up to Mr. Bletzacker to defend his forecasts --
A. Yes.
Q. -- in this proceeding?
A. Yes.
Q. All right. You can turn to testimony on page 8, lines 25 to 27. Let me know when you're there.
A. Okay.
Q. You have a sentence there that says "No

one can predict how the capacity and energy markets will progress anywhere in the country, much less PJM where conditions and price levels vary so much between regions"; is that correct?

A. Yes.

Q. And that's your testimony?

A. Yes.

Q. So you would agree that no one can project the certainty of the future with regard to energy prices or capacity prices?

A. Yes. The best someone can do is make a well-reasoned forecast of what the future will hold.

Q. So the forecasts relied on by the company in this proceeding, there would be some degree of uncertainty regarding -- in that forecast?

A. It would be the same as in any regulatory proceeding. Forecasts are put in, the party sponsoring the forecast would defend it, and then opponents would attempt to poke holes in it.

Q. And the net revenues or costs passed through to customers under the PPA rider would be based on the difference between the costs of operating the PPA units and the revenues earned through the PPA units through the sale of energy capacity and ancillary services into the PJM market, correct?

A. Yes.

Q. So the financial impact of the inclusion of the proposed PPA in the PPA rider on AEP Ohio customers would depend heavily on where PJM energy and capacity markets go in the future, right?

A. Yes.

Q. Okay. And the risks that energy and capacity market prices end up being different than what AEP Ohio is projecting falls on AEP Ohio's customers, right?

A. Say that -- I've lost you. Say that again.

MR. FISK: Could you read that question back.

(Record read.)

A. Either up or down, yes.

Q. So with regards to the financial impact of the inclusion of the proposed PPA and the PPA rider, AEP Ohio customers would largely be at the mercy of the PJM capacity and energy markets, correct?

A. Well, they are at the mercy now. This would attempt to damp down the volatility within the PJM market.

Q. But in terms of the financial impact of the inclusion of the PPA rider itself leaving aside whatever they currently -- what they're currently paying for their own electric service in terms of the PPA rider, its economic impact on AEP Ohio customers would leave them largely at the mercy of the PJM capacity and energy markets, right?

A. Well, what I'm saying, putting aside everything, they're at the mercy of the PJM markets. This will be something that's plugged into the PJM markets and it would either result in a credit or charge to AEP Ohio regulated customers depending on where PJM market resides at that moment.

Q. So whether that's a credit or a charge is largely at the mercy of the capacity and market energy prices in PJM.

A. Everything turns on the markets; yes.

MR. FISK: Could I have one minute? I just want to make sure.

EXAMINER SEE: Sure.

MR. FISK: Thanks.

I have nothing further on the public session.

EXAMINER SEE: Thank you.

Ms. Bojko.

MS. BOJKO: Thank you, your Honor.

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CROSS-EXAMINATION

By Ms. Bojko:

Q. Good afternoon, Mr. Fetter.

A. Good afternoon.

Q. My name is Kim Bojko, and I represent the Ohio Manufacturers' Association.

You mentioned earlier filings that you've reviewed, and you mentioned that in your testimony as well. Are the filings that you reviewed the AEP company witnesses? Is that what you reviewed in this case?

A. In the predecessor case I reviewed, if I recall correctly, I would have reviewed I believe Vegas, Allen, and McDermott, former Illinois Commissioner McDermott, and also Mr. Choueiki, I don't know how to pronounce his name. As I recall those are the ones that I reviewed from the predecessor case.

Q. Okay. And then in this case you -- you didn't view all the filings that have ever been filed in this case; you just viewed certain testimony from the company such as Dr. Pearce, Mr. Bletzacker, Mr. Vegas, and I believe you said maybe one other one, Mr. Allen.

A. Well, that would have been early on. Once it was all filed I would have at least skimmed every company witness testimony and then some of the opposition testimony.

Q. Okay. But you haven't reviewed discovery in this case except for ones that you were asked to respond to; is that right?

A. I think that's something I avoided having to do.

Q. Smart man.

On page 9 of your testimony you discuss that deregulation in Michigan initially occurred in 2000; is that correct?

A. In 2000, yes.

Q. And that occurred after you left the Commission in October of 1993; is that correct?

A. Yes.

Q. On page 10, lines 2 and 3 of your testimony you equate the PPA to an insurance policy; is that correct?

A. Yes.

Q. Okay. And you reference homeowner insurance so let's take homeowner insurance. Does a person interested in purchasing homeowner insurance have a choice as to which policy he ultimately purchases and what terms and conditions are in that policy?

A. Well, it's interesting because in the free market they would have a choice, but if they were to borrow a lot of money through a mortgage, the mortgage provider might require some kind of I think it's PMI or some kind of backup so that the mortgage gets paid off.

Q. Okay. So there might be some parameters around the types or levels of insurance, but they -- but a customer gets to go out and procure the homeowner policy or even the mortgage company for that matter, they get to procure who they want to carry that policy for them, do they not?

A. Yeah. Generally, yes.

Q. Okay. And they would also get to choose the term of their policy, again maybe within parameters set by some kind of regulated body, but they would get to choose the terms; is that correct?

A. Yeah, in most cases, yes.

Q. And under AEP's proposed insurance policy the customer doesn't have a choice as to whether to accept and buy this insurance or not to accept or buy; is that correct?

A. Well, as with many regulatory policies, the Commission will ultimately make a determination of what's best in the public interest and if they determine that this type of insurance is in the public interest of all the stakeholders before this body, then they would be making a decision that would affect all the stakeholders.

Q. Okay. But I'm going to talk about the customer, the consumer. The consumer for this particular insurance policy doesn't get to choose the provider. It's going to be provided by AEP Ohio; is that right?

A. If the Commission decides that, then it would be provided in the form that we've heard described over the last several days.

Q. Okay. And that consumer doesn't get to pick which level of insurance that they have an appetite for risk for; is that correct?

A. They cannot, but they will be getting a type of insurance the likes of which I don't think they could purchase on the open market, so there's a trade-off there.

Q. And have you talked to the consumers, have you talked to some commercial and industrial consumers to see if they could actually purchase this type of insurance policy?

A. I have not.

Q. Have you talked to suppliers to see if they offer this kind of product in the market?

A. No, but I -- you know, just from my experience over the last 30 years including time in the financial community, I don't believe such a type of insurance or hedge, whatever you want to call it, would be available which could run 10, 15 years or longer.

Q. Well, actually the insurance policy proposed in this case could last up to 36 years or longer; isn't that correct?

A. That's when the last plant is aimed for retirement.

Q. And page 10 of your testimony, line 11, you say "will benefit all participants within those markets." Do you see that?

A. The improved stability that the PPAs will bring to AEP Ohio's customers will benefit all participants within those markets, yes.

Q. The "all participants" that you're talking about in this sentence is not referring to other generators that participate in the markets, is it?

A. It would be -- it refers to the improved stability that the PPAs will bring to AEP Ohio's customers.

Q. The customers.

A. The customers, yes.

Q. Okay. So you haven't analyzed how favoring one generator over another generator regarding getting one generator's operating costs paid for by ratepayers will affect the competitive market, have you?

A. No, I haven't looked at that.

Q. And isn't it true that competing generators do not support distribution utilities entering into power arrangement agreements with an unregulated generator affiliate?

THE WITNESS: Could I hear that question again?

(Record read.)

A. I would think that's possible.

Q. And isn't it true that the independent market monitor for PJM also poses the concept of subsidizing one generator over another stating that it is inconsistent with the competitive market?

A. I haven't seen that but it's possible.

Q. Beginning on page 8 of your testimony, going over to page 9, you discuss rate volatility. Do you see that?

A. Starting where?

Q. It's in the answer embedded in the beginning of question 23, it's -- you talk about -- on line 27 you talk about circumstances will evolve and you go in and you start talking about market volatility. Do you see that?

A. I'm sorry, if you tell me the page and the line, I'll start reading from that point.

Q. It's embedded in your answer. It's beginning on the answer beginning on line 24 of page 8 and it goes over to page 9.

A. Okay. And how far down into 9 should I read?

Q. Well, I see the word "market volatility" on line 3.

A. Okay. I'll start reading --

Q. Three or 4.

A. -- to myself if that's okay.

Okay, I've read that.

Q. My question just was you discuss rate volatility in your testimony; isn't that true?

A. Yes.

Q. Okay.

A. Market volatility.

Q. Well, you also discuss rate volatility, do you not?

A. Yeah, I guess if they buy in the market, then what they pay would be volatile.

Q. And you understand that in Ohio -- I'm sorry, you're not an attorney, are you, sir?

A. I was about 30 years ago.

Q. You were at one time?

A. Yeah, it's hard to believe.

Q. You're not an attorney in Ohio, I should clarify that.

A. I am not an -- I happen to be in Ohio and I'm an attorney, but I'm not an attorney in Ohio.

Q. You're not a licensed attorney practicing in Ohio; is that correct?

A. As of this moment, that's an accurate statement, and I can attest that it will be accurate for the rest of my remaining days.

Q. And do you know, sir, that in Ohio nonshopping customers take service pursuant to a standard service offer which is a fixed price service based upon the average of several competitive bid solicitations conducted by AEP Ohio?

A. That's my understanding.

Q. And we call that here the SSO --
A. Yes.
Q. -- if I call it that. Customers taking service pursuant to the SSO do not experience volatility with the markets; isn't that true?
A. Well, as auction -- future auctions go on, eventually the SSO customer is subject to volatility.
Q. Maybe. I mean, the market, if they're in a three-year fixed-price contract, the market could work itself out, and they could eventually not see any rate volatility. It may remain the same; isn't that possible?
A. Yeah. I mean, they're subject to the potential for volatility.
Q. And you are aware that some customers, shopping customers, can enter into fixed-price contracts in order to have stable rates; is that correct?
A. Yes, and I expect that they pay a premium for a fixed-rate contract.
Q. Well, have you reviewed individual customer contracts to determine whether they are specifically subject to any varying degrees of volatility through their contracts?

A. Wait. I lost you there.

Q. I'll try again. Have you reviewed customers' individual contracts to determine the degree of volatility that they may or may not be subject to?

A. I haven't reviewed specific contracts, but I know how contracts operate and the risks -- if you have a fixed-price contract, there's a risk there, and there's usually a premium paid for taking away that risk on one side of the equation.

Q. And fixed-price contracts are varying terms from one to seven years; isn't that possible?

A. The longer out it goes the more the premium would be.

Q. But just so we're clear, you don't know of any specific Ohio customers that do or do not have premium built into their fixed price offers or their contracts; is that correct?

A. Well, I believe that every contract in the world potentially has a premium plugged in if risk is lowered, so I don't know specific Ohio contracts, but if they are fixed and depending on the length of their tenure, there's a lowered risk and there's a premium they pay for that lowered risk.

Q. But the premium would be based on the competitive market; isn't that true? A marketer or supplier would have to base their offers and contracts on a competitive solicitation or -- in order to be competitive they could not set an extraordinarily high premium if the market did not bear that; isn't that correct?

A. Yeah, I mean there would be competition, but I don't think any supplier would lock in the fixed level for X number of years without in their own mind-setting their own premium based on the risks that they're taking on.

Q. And since you haven't looked at any of those premiums you can't tell me whether that premium in those fixed-price contracts are higher or lower than the premium or the insurance policy that AEP Ohio has requested in this case, can you?

A. Well, if we rely on Dr. Pearce's analysis, I don't think it's possible for there to be a contract with a -- it would have to be a negative premium to compete with the analysis that Dr. Pearce has put forward.

Q. Well, but Dr. Pearce's analysis is not discussing a fixed-price contract. Dr. Pearce's analysis adds a charge if the revenues from the market are less than the costs, then Dr. Pearce's analysis adds a charge to a customer's fixed-price contract; isn't that true?

A. Yeah. I'm saying if we rely on what he's put forward as his forecast, then it beats any premium put forward by your competitive suppliers, but, as you say, it's not a sure thing.

Q. Well, but it's going to be in this context, it will be in addition to whatever the fixed-price contract that a customer is able to obtain from the marketplace, isn't it?

A. It depends if it's a credit or a charge over time.

Q. And if it's a charge, it will increase that customer's fixed-price contract so that customer will no longer have a fixed-price contract; isn't that correct?

A. If it's a charge, it would negatively impact, and if it was a credit, it would be a positive. But it's also possible that with the dampening of volatility via the PPA rider, some customers may choose not to pay that premium for a fixed rate contract because they feel more protected by what's being put forward by the PPA rider.

Q. Well, some customers have already entered into those contracts and may have the contracts so they don't have that choice to not choose entering into contracts; isn't that true?

A. Yeah, and at some point the contract will expire and they'll renegotiate based on the conditions at the time.

Q. And it's your understanding that this PPA rider, whether it's a charge or credit, will change so the rate is going to be fluctuating; isn't that true?

A. It will turn on market levels.

Q. On page 5 of your testimony, line 20 and 21, you state that it appears that "while the inclusion of the proposed PPA Units would likely result in higher costs for customers early on." Do you see that?

A. Yes.

Q. So you are recognizing that there is going to likely result in a higher cost for customers at least in the initial term; is that right?

A. Well, it depends how long it takes to get this in place, but based on his analysis, the first column of 2015 indicates negative numbers across the board.

Q. And there are other forecasts that indicate negative numbers even longer than '15; isn't that correct?

A. Yes.

Q. Okay. And you talked with Mr. Fisk a little bit about the biggest potential negative you saw of this proposal was the cost burden on customers that this additional charge could have; is that right?

A. I very much wanted to see Dr. Pearce's analysis before I came to a conclusion as to whether the PPA rider was potentially positive, neutral, or negative vis-a-vis financial burden.

Q. And you determined that the biggest potential negative of this proposal is the cost burden on customers of the additional charge of the PPA rider; isn't that correct?

A. Well, as I said, two potential negatives, the financial one and then the potential that it might have a seriously negative impact on the evolving market.

Q. Right. And the way I understood your previous testimony, that you believe that this cost burden on customers was the biggest or the major, I think were your words, of the AEP proposal; is that right?

A. I'll take it that the financial would be the most important to me.

Q. And you believe that based on Dr. Pearce's forecast that that potential negative to customers could equal the $927 million that you cite to on page 11, line 20 of your testimony; is that correct?

A. If things went really poorly over the next nine years, it would indicate the 927 million.

Q. I'm sorry, I think I inverted those numbers. Page 11, line 20.

MS. BOJKO: May I have his response read back, I was trying to correct my page number.

(Record read.)

Q. If things went really poorly or if the market prices stayed very low, which to some customers that may not be a poor thing to happen; isn't that correct?

A. Well, I'm in support of low prices, but if there's a lot of plant retirements and low prices don't incent new plant development, then it's a rose with a thorn.

Q. Or if low prices mean that there is more competition and that there's more supply coming online, then that would also be a positive thing that happens to the market, from a customer's perspective, maybe not from a generator or a utility's per perspective but from a customer perspective.

A. I will agree with you that if prices are forever low and there's always more than enough supply, then it would be a good thing, customers would be happy.

Q. So assuming that the rider is approved and that there is a charge and that this potential proposal could cost customers the $927 million you cite to that's in Dr. Pearce's forecast, did you analyze the effect of increasing a customer's price of electricity to pay for the generating plants to continue? Did you look at that and what that impact would be on the individual customer's business?

A. I did not.

Q. I'm assuming, then, you didn't look at that additional cost that that customer will have to pay and look to see how it would affect either reinvestment in their business or in the economy generally; isn't that correct?

A. I mean, if the economy was in very poor shape, then there would be a lot of negative effects.

Q. And you would agree with me, sir, that an increase in electricity prices to energy intensive customers would affect the manufacturing

productivity; isn't that correct?
A. Yes, it could.
Q. And you would agree that the -- Dr. Pearce's forecast that you are looking at, you would agree that that resulted in a potential cost burden to customers for a 9-1/2 year period; isn't that correct? The, excuse me --
A. Nine and a --
Q. Nine-and-a-half-year period.
A. It's nine-and-a-quarter years; is that right?
Q. I thought his forecast was from June; is that not right?
A. Okay. The exhibit I have has October to December.
Q. Oh. They changed it, sorry. Okay, nine-and-a-quarter years. That's the duration that Dr. Pearce has projected the $927 million burden on customers for the one case that that's what he's projected --
A. At the very low end stress case.
Q. Okay. And so I am wondering, did you do an independent analysis of what the cost burden on customers could be over the 36 years of the proposal if assuming that the retirement goes out to 2051 as

we discussed earlier today?

A. I have not.

Q. Do you know whether any AEP witness did the forecast of the potential negative impact on customers over the life of the PPA contract?

A. I don't know.

Q. And you would agree that, all else being equal, there would be little, if any, impact on reliability if the plants in the PPA were sold instead of retired.

A. Well, I probably disagree with you there. It would depend what the purchaser of the plants has intended. At my deposition I mentioned with a thousand page tax code in this country that probably only needs to be five or ten pages, I see the potential that an entity might buy the plants and not want to run them as they've been running today because of some great tax benefit they may be able to get.

Q. Okay. And I said all else being equal, so assuming that there's not some change in tax. If the plants were to continue to run in virtually the same way that they're being run today, if that were to occur, there should not be any significant impact on the reliability; isn't that correct?

A. So you're saying like if Warren Buffett bought them all and kept everyone in place and the management in place and all that he did was once a year in Omaha he talked about them, things would all be the same.

Q. Sure, under your -- under that scenario, is your -- sure.

A. If nothing changes at all, then potentially it operates the same. I can't envision a purchaser who would buy them and not want to change some things to, in their own mind, try to make them more profit making or more efficient, cut expenses, cut employees, number of employees. I think when you take it out of the -- either the regulated realm or the recently-passed regulatory realm and put it in the total free market of generation, I think there's a great likelihood that it would be run in a different way and reliability might be not as high because it would be a purely profit-making entity.

Q. But you make a great point. So a new owner could come in and actually run it better than what AEP Ohio is, they could run it more efficient, they could run it and sell it for a higher profit; isn't that true?

A. Or they may decide that it's worth it to cut the workforce by 20 percent, lose a little reliability, but put more money in its pocket.

Q. But AEP Ohio isn't running these plants. The unaffiliated generator could do the same thing because they're not regulated by the Commission, couldn't they?

A. You know, when that idea comes up that once this PPA is approved at whatever level and put into the PPA rider, then the AEP Generation unregulated management can just sit on a chair and put their feet up.

I tend to think that unregulated AEP Generation company wants to be viewed as a very positive acting free market company, and so I don't see these incentives for them to do nefarious things or run inefficiently or just try to push costs through the PPA into the rider. I think that their hope would be to attract more business from the outside world since they're free of the regulated tent. And so I disagree that there's a big impetus for them to run the operation poorly or just try to make as much money as they can at the expense of their reputation. I just don't see that path.

Q. But you see it for everybody else but AEP Ohio and AEP Generator. You think that anybody else that comes in here will have some kind of ulterior motive and will run the plants into the ground; isn't that what you're saying?

A. Well, let me give you an example. I was deposed two weeks ago by Mr. Mendoza who I think is a very sharp attorney -- you can tell him. Is he here?

MR. MENDOZA: Thank you, Mr. Fetter.

THE WITNESS: He's a very sharp attorney. Had I said to Mr. Mendoza when we talked about manipulation, if I said to him, "Mr. Mendoza, I believe the largest automobile manufacturer in the world is going to commit the biggest conspiracy and fraud that has ever happened in the automobile business and that they'll have a computer that shows emissions 1/40 of what Sierra Club is protecting against,"" and I'm sure Mr. Mendoza would have gone back to San Francisco and said "you should have seen the crack pot I deposed today."

And so when you get in the free, open market where the dollar becomes the main goal, then I do think there's a very strong likelihood that parties that have never had any connection to regulation operate different than an entity that was recently regulated and is still under a parent company whose main operations across the country are regulated.

So I'm not saying AEP Ohio's so special. I just think -- I just think an entity that has run in a regulated setting, especially in the recent past, is very different than an entity that a hedge fund set up to go out and buy assets and try to maximize profit. Just my view. You know, the Commission can disagree with me.

MS. BOJKO: Well, I'm not sure, your Honor, what that had to do -- any of his response had to do with the automotive industry and I saw no connection and I waited for the connection so, I mean, I move to strike all the comments about the automotive industry and the ongoings of some alleged scandal.

EXAMINER SEE: You're making a motion to strike?

MS. BOJKO: I did. I'm sorry if I wasn't clear about that.

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

MR. MILLER: I would respond but your Honor is already shaking her head. But yes.

EXAMINER SEE: Counsel should never try to read the Bench.

MR. MILLER: She asked about motive. She asked if anybody could do it better. I mean, these were all these questions, and he was just simply being responsive in elaborating, all this has to do with the issue of a regulated utility, nonregulated utility, what the regulatory compact is. The bottom line is I think he was responsive somewhat elaborately and happily picked out Mr. Mendoza and rewarded him for being a sharp attorney, which is interesting, but nonetheless I think it was responsive.

EXAMINER SEE: I agree that the answer was responsive to the very broad question.

Q. Okay. So I actually just asked you about other unaffiliated generators so I'll ask it again. You believe that there's a difference from an Ohio regulated company -- strike that.

You would feel comfortable if another regulated entity that had been regulated at some time in the past comes in here and purchases the generating units; isn't that your testimony? If they had been regulated sometime in the past, then they must be okay.

A. Building upon my last answer which has survived, I think a regulated entity unrelated to

AEP Ohio that was recently regulated and now is unregulated, I would expect that they would be a better purchaser than a hedge fund.

Q. Okay. And you are aware that AEP Generator only operates 3 of the 20 units that are in this case.

A. You mean by -- yeah.

Q. Okay.

A. On their own.

Q. Just so we're clear, when we talk about operators, even if AEP Generator would sell its share which is very minimal in some circumstances to a co-owner, that co-owner would continue to operate the plants; isn't that true?

A. Well, every plant would have its own story and some I would be more concerned about than others.

Q. Okay. And have you looked at each individual plant and how it's operated?

A. I've read the testimony, so to the extent that's discussed, yes, but certainly not at the depth that other witnesses have looked at it.

Q. Okay. You haven't done any kind of independent analysis of whether each plant is operating efficiently in Ohio; is that correct?

A. I have not looked at that.

Q. Let's change to page 11 of your testimony. Let's talk about on page 11 you discuss the economic issues raised in AEP's application. Do you see that?

A. At the bottom?

Q. And you --

A. Or at the top? I mean, are you talking about pure financial or the nonfinancial social issues that have a financial impact in the end?

Q. Well, on page 11, let me find the line number for you, sir, up at the top on lines 11 you talk about jobs and the local community. Do you see that?

A. Yes.

Q. Okay. So your reference to jobs and wages is assuming the continuing operation of the plants; is that right?

A. The continued operation of the plants similar to as they've been operated.

Q. And you're referencing here the Witness Allen's testimony and his economic development study that he did; is that correct?

MR. MICHAEL: Objection. Mr. Allen didn't perform any economic development study.

MS. BOJKO: Fair enough. I'll rephrase, your Honor.

EXAMINER SEE: Okay.

Q. Are you referencing Mr. Allen's testimony and the economic development study that he attached that was performed by someone other than Mr. Allen?

A. No. I'd say I'm referencing my experience as a regulator in Michigan for six years and my view that the policies that the Commission should effectuate when I served on the Michigan Commission should factor everything into its decision-making, not just the ratepayer or the generator, but the total public interest impact on the state at large.

Q. Okay. So for this case, when you reference the jobs and the local community economics, did you do your own economic development study in this case?

A. Like I said, I don't need to do a study to know that if a plant continues operating as it has versus being shut down or potentially sold to someone I might feel was nefarious but you might not feel was nefarious, that things might happen negatively in small communities around the state.

Q. Okay. So the answer is, no, you didn't conduct a specific study on these particular plants and the plants remaining in service in the particular regions that they are located in; is that correct?

A. Correct.

Q. Okay. And you would agree with me that more stable energy pricing positively impacts economic development; isn't that true?

A. You mean when the PPA rider dampens down volatility, that it could be a positive for economic development, we're finally in agreement.

Q. Actually I was referring to not an artificial hedge you were talking about. I was talking about when energy prices in the market remains relatively flat, that that would be a positive for economic development; isn't that true?

A. Well, I think economic development is driven positively by greater certainty and that's one reason why I support the concept of the PPA rider. Because no matter how volatile the markets are over the next X number of years, this PPA rider is going to damp down the volatility so I think it could be not only a plus for economic development but it might allow some customers to feel they can move off the SSO and go to the CRES-type service because it would be a less volatile market they're dealing with.

Q. So did I get out of there that you agree with me that stable energy pricing positively impacts the economic development of a region?
A. As I said, more certain so if more certain matches up with stable, I think we finally have come to agreement.
Q. Still on page 11 of your testimony, if you look up at the top a little further, go to lines 6 and 7.
A. Yes.
Q. Here you mention special economic development rates for large customers. Do you see that?
A. Yes.
Q. And you believe that the PPA is in essence an economic development rate for AEP Generation.
A. Let me read over what I've written.
Q. Sure.
A. Okay. And the question again?
Q. Do you believe that the PPA is in essence an economic development rate or arrangement for AEP Generation?
A. That sentence relates to my view that the role of the Commission is a macro one to look at

all -- what's in the public interest of the entire state and, as we just agreed to a little while ago, more certain or stable markets make it more attractive for business.

Q. And would you agree that under that review or analysis the Commission should look at past experiences just as you have used your past experiences today to determine whether a rate subsidy to a particular entity is a good or bad idea?

A. I mean, without a doubt each individual Commissioner is going to consider their past experiences, but I would hope that they come -- and I trust that they'll come to a decision that represents what they view as a positive public interest decision for the state at large.

Q. And you would -- or, you wouldn't be surprised to learn that the Ohio Commission in the past has developed special economic development arrangements for large customers in the state? Would you be surprised?

A. I would not be surprised.

Q. Okay. And are you aware that when the Commission has tried this model, they've tried to provide subsidies to a failing company in order to sustain that company until they turned around or started making a profit?

A. So are you asking if I'm aware of a specific case or I'm aware that that might be a reason they'd use?

Q. Well, that might be a reason that they'd use.

A. I can see they might come up with an attractive economic development rate that at least covers its costs, maybe not fully loaded costs, but does not have a negative impact on other customers, but would be lower than the fully loaded costs that other customers pay.

Q. Okay. And are you aware -- let's be more specific, are you aware that the Ohio Commission has provided rate subsidies up to $308 million in an effort to support a company until it could stand on its own and turn a profit?

A. I'm not aware.

Q. And are you aware that despite these subsidies by the ratepayers, that customer ultimately filed bankruptcy and the ratepayers were left holding the bill?

A. I'm not aware.

Q. Are you aware in that same proceeding or are you aware in this situation that we're talking about the Commission has previously stated that it was unlawful for AEP Ohio to share the benefits and credit jurisdictional customers a portion of any proceeds from a wholesale sale of energy or capacity?

THE WITNESS: I better hear that again.

(Record read.)

A. I'm not aware of what -- of that example.

MS. BOJKO: May I have just one moment, your Honor, please?

EXAMINER SEE: Yes.

MS. FLEISHER: Could we go off the record for one second?

EXAMINER SEE: I'm sorry? Hold on.

MS. FLEISHER: Could we go off the record?

EXAMINER SEE: Yeah, we can go off the record for a minute.

(Off the record.)

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

Ms. Bojko, you needed a minute?

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

EXAMINER SEE: Ms. Fleisher.

MS. FLEISHER: Thank you, your Honor.

CROSS-EXAMINATION

By Ms. Fleisher:

Q. Mr. Fetter, my name is Madeline Fleisher. I represent the Ohio Environmental Law & Policy Center.

A. Hello.

Q. Thanks for being here. I was just wondering, in your experience in this industry whether you're aware of customers implementing energy efficiency measures.

A. Yes.

Q. And would those efficiency measures reduce their energy use?

A. If they're successful, yes.

Q. And to the extent they reduced their energy use, would that reduce their exposure to market prices for energy?

A. You're saying if they used less -- you're saying if they use less, they would be dealing with a different market or that they would be paying less based on the market prices?

Q. The latter.

A. If they use less and the market stays the same, they'd be paying less.

Q. And are you familiar with customers

installing distributed generation such as rooftop solar on the residential and commercial side or combined heat and power facilities on the industrial side?

A. I've heard of it.

Q. And such distributed generation would provide energy to the customer that's not through the utility or a retail service provider, correct?

A. Often they'll have a backup with the utility, but they could be providing some of their own power.

Q. Certainly. To the extent actually it successfully generates electricity, correct?

A. Yes.

Q. And would that reduce the customer's exposure to market prices for electricity?

A. If they're producing their own, it would lower their connection to the market but then it would all turn on how much it costs them to produce their own.

Q. And are you aware of a PUCO decision disallowing FirstEnergy costs for procuring renewable energy credits from its affiliate FirstEnergy Solutions in the amount of $43 million?

A. I'm not aware.

Q. Okay. Are you aware that FirstEnergy is a regulated Ohio utility?

A. I've heard of them.

MS. FLEISHER: All right. That's all I have. Thank you.

THE WITNESS: Thank you.

EXAMINER SEE: Mr. Michael.

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CROSS-EXAMINATION

By Mr. Michael:

Q. Mr. Fetter, how are you, sir?

A. I'm good. Thank you.

Q. Good. I'd like to take you back to your days when you were a member of the Michigan PSC if I could.

A. You may.

Q. You didn't view your role as a regulator regulating public utilities as being a partner of the public utilities you regulated, correct?

A. Not in the least.

Q. And you're offering -- I'm going to bring you to present day now, you're offering an opinion on whether the PPAs align with the public interests here in Ohio, correct?

A. The PPAs within the PPA rider?

Q. Yes, sir.

A. Yes. I'm offering an opinion whether the PPAs within the PPA rider align with the public interest.

Q. And going back to Michigan, you were asked to make similar determinations when you were a member of the Michigan PSC, correct?

A. Yes. Yes.

Q. And when you did that, you considered all the record evidence, right?

A. Yes.

Q. And you considered the interests of all the parties, right?

A. And I'd even go beyond the parties to capture the public interests of the entire state at large.

Q. Okay. And in reaching your opinion in this case you looked only at the filed direct testimony of the party, namely AEP Ohio, that was paying you $625 an hour, correct?

A. That is what they're paying me, and I looked at -- I mean, eventually I saw other testimony but when I put mine together, it would have been based on my review of, actually my review in the predecessor case was their testimony and also some of the opposition testimony, and then in this case in putting my position together I would have reviewed two or three of their witnesses early on, all of the witnesses at the time of filing, and then reviewing some of the opposition witnesses within the last couple weeks.

Q. Okay. When you filed your direct testimony in this case, Mr. Fetter, you looked only at AEP Ohio company witness testimony in order to reach your conclusion, correct?

A. Well, other than the predecessor case --

Q. Which predecessor case are you referring to?

A. It's the one that led to the February 20th, was it February 25th, was that the date it was decided, approving the concept of the PPA rider but not placing any either -- not placing OVEC entitlements into the PPA rider. I reviewed, as I said earlier, I reviewed McDermott's testimony, Vegas maybe, and Allen maybe, and I don't know how to pronounce the staff. Was it a staff witness?

MR. BEELER: Choueiki.

A. Choueiki, I reviewed Choueiki's testimony in that predecessor case. I was not involved in that case.

Q. Also not involved in that case was the affiliate PPA, correct?

A. Correct.

Q. And so this current case does involve the affiliate PPA, correct?

A. It does.

Q. And so for this current case when you filed your direct testimony on May 15th, 2015, the only testimony was that of the AEP Ohio company witnesses filed in this docket, correct?

A. That would be -- when I filed mine, theirs was being filed. No other party was filing on that day.

Q. And, Mr. Fetter, you assert that it will be virtually impossible, based on the company's testimony, for the PPA units to compete, correct?

A. Say again, please.

Q. Certainly. You assert that it will be virtually impossible for many of AEPGR's generators to compete given the status of the PJM marketplace, correct?

A. Can you direct me to my testimony?

Q. Of course I can. Look at page 6 of your direct testimony, please.

A. I'm there.

Q. And I'll direct you to lines 14 through 16.

A. Okay. I stand by that sentence.

Q. So that refreshes your recollection, right, about your assertion that it's going to be virtually impossible for the AEPGR PPA units to compete, right?

A. For many of its existing plants to compete.

Q. Including the PPA units, right?

A. Well, that's not what the sentence -- the sentence speaks for itself.

Q. Well, when you wrote that sentence, Mr. Fetter, were you including the PPA units or not?

A. Well, let me read.

The way it's written it's more general so it would be that the company's indicating many of its existing generation plants, it would be virtually impossible for them to compete.

Q. But you start off the sentence with "the evidence put forward by the company," which is limited to the PPA units and the OVEC entitlement, right?

A. I'll accept that, that in reading the testimony that they were either wholly or primarily talking about the PPA units.

Q. Okay. Mr. Fetter, I believe you have KDP-2 --

A. I have it here.

Q. -- in front of you; is that correct? I'd liked your rose and thorn analysis earlier, so I'd like to give you another one up in Ostrander where I come from. The horse that Mr. Pearce is asking the Commission to bet on is the average of the high-low loads, correct?

A. The horse that Dr. Pearce's -- I used to be a horse race announcer so I really love this example. The horse that Dr. Pearce is asking the customer to bet on, is that what you said, the customer?

Q. No. What Dr. Pearce is asking the Commission to focus on in terms of his projections is the average of the high load forecast, correct?

A. Yes.

Q. And that's the one you think is most reasonable in your direct testimony, right?

A. Yes.

Q. Okay.

A. Yes.

Q. And if I could draw your attention to that table where he is including the numbers for that forecast. Do you see that?

A. Yes.

Q. And starting in 2016 Dr. Pearce projects that there is going to be positive revenue flowing total to the AEPGR PPA units as a result of sales on the PJM market, right?

A. That's what he's forecasting.

Q. And he's also forecasting that for every year all the way through 2024, right?

A. Yes.

Q. Okay. So if Dr. Pearce's numbers are correct, in fact, the PPA units would be profitable in each and every year from '16 to 2024, right?

A. If all the assumptions that went into that line occur, then he finds that they'd be profitable.

Q. I wanted to talk with you a little bit about California. Part of the problems that happened in California stem from the fact that there was a retail rate freeze that prohibited the regulated utilities from recouping unexpectedly high wholesale prices, right?

A. Well, I view the first major mistake was the generation divestment, as I mentioned in my testimony. Another major mistake was the retail rate freeze.

Q. Okay.

A. A third major mistake was allowing wholesale prices to move with the market. Probably the next mistake was not -- I believe San Diego Gas & Electric filed a claim of manipulation as early as summer of 2000, so that would have been a year and a half or almost, a little over a year before the CBO report. So there must have been talk and consideration around the state that manipulation was going on.

So that would be the fourth mistake, that the Commission or the legislature did not figure out soon enough that not only was some manipulation going on, but, as I said, the worst manipulation that had occurred within the regulated utility industry in the 125 years of history.

MR. MICHAEL: Your Honor, I move to strike that answer as nonresponsive. I didn't ask for a laundry list of the issues in California. I said part of the reasons stemmed from the retail rate freeze.

MR. MILLER: Your Honors, he said I wanted to talk a little bit about California, and then he cited to part of the problems which opens the door. I think it was a responsive answer.

EXAMINER SEE: Indeed it does.

Q. (By Mr. Michael) So, Mr. Fetter, you're aware that the Commission could allow -- disallow cost recovery if they found costs were incurred imprudently as part of the company's proposal, right?

THE WITNESS: I believe I heard the question. Just to make sure, let me hear it back and then I'll reply.

(Record read.)

A. I believe that that's their position, and it certainly is my position.

Q. Okay. And AEP Ohio, even if there was a disallowance, would still be responsible for paying the contractual price under the affiliate PPA irrespective of whether there's a disallowance, right?

A. Unless there was some violation of the contract, they would have to pay under the contract.

Q. Okay. And, further, if there was a disallowance, AEP Ohio could terminate the affiliate PPA, correct?

A. I believe there are certain terms under which they can terminate including a major disallowance.

Q. If they did, AEP Ohio would be responsible for paying the generating company the undepreciated net book value of the PPA units, right?

A. That's my understanding.

Q. In your experience, Mr. Fetter, once a market is set up with its ups and downs, the intent of legislators is to let the market operate, right?

A. Well, I find that legislators let it operate until it doesn't go in the direction the legislators were hoping for. And then sometimes they interfere.

Q. Do you remember --

MR. MICHAEL: Can we have a second, your Honor, please?

EXAMINER SEE: Yes.

MR. MICHAEL: May we approach, your Honor?

EXAMINER SEE: Yes.

Q. You recall having your deposition taken in this matter, right, Mr. Fetter?

A. I do.

Q. And you've been provided with a copy of the transcript of the deposition?

A. Yes, sir.

Q. If I could draw your attention, please, to -- draw your attention to page 122, Mr. Fetter, lines 10 through 21. Please let me know when you're there.

A. Ten through 21?

Q. Yes, sir.

A. Okay. Should I read it to myself?

Q. No, sir.

I'm going start on line 10 and read it to you, sir. "And why are you saying that these cannot be remedied through regulatory channels?

"Answer: Market-based pricing?

"Question: Yes.

"Answer: In my experience, once a market is set up, with its ups and downs, the intent of the legislators and regulators is to let the market operate, and so when there is shortages or storms or -- I guess like the polar vortex it was called, where prices got very volatile, that's what markets do. They react to shortages or unknown events as opposed to traditional cost-based ratemaking." Did I read that correctly?

A. Let me read it through, I believe you have but let me read it so I...

Okay, I've read it.

Q. And I read that correctly, right?
A. You did.
Q. Okay. So some price volatility is inherent in a competitive market, right?
A. Yes.
Q. Okay. And when you were on the Michigan PSC, you carried out the authorization put into law by the Michigan legislature, right?
A. You mean the laws of the state.
Q. Correct.
A. Yes.
MR. MICHAEL: I have no further questions, your Honor.
EXAMINER SEE: Mr. Oliker.
MR. OLIKER: Sure.

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CROSS-EXAMINATION

By Mr. Oliker:
Q. Good afternoon, Mr. Fetter.
A. Good afternoon.
Q. My name is Joe Oliker, and I represent IGS Energy. I have just a few questions for you.
Earlier when you were having conversation with counsel, am I correct that you indicated that it would be a bad thing for a hedge fund to acquire

these PPA units?

A. I think that's a broad interpretation. I think with the hedge fund the likelihood of maximization of profit versus another entity, I would say that that would exist, but I would not say all hedge funds would do it in a negative manner.

Q. You agree that there is -- strike that.

You would agree that if the Commission does, in fact, approve this proposed transaction, AEP Generation Resources would be free to transfer its interest to a hedge fund?

A. I don't believe that's the intent of the company, but unless a limit was set, then I guess they could sell it out.

Q. And that could potentially be leveraged 90 percent debt and 10 percent equity, correct?

A. If they did that.

MR. OLIKER: No more questions, your Honor. Thank you, Mr. Fetter.

THE WITNESS: Thanks.

EXAMINER SEE: Mr. Darr?

MR. DARR: Thank you, ma'am.

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CROSS-EXAMINATION

By Mr. Darr:

Q. At page 8 in your testimony you refer to wanting to, as you describe it, preserve the optionality available to the Commission, correct?

A. Yes.

Q. And you testified previously that the Commission is a -- is bound by whatever Ohio law is applicable to this case, correct?

A. Yes.

Q. And to the extent that there are mandatory provisions governing what the Commission can or cannot do with regard to this application, the Commission would be obligated under those circumstances to carry out those mandatory provisions, correct?

A. Well, I guess the one exception I would see, and I relate it to my past regulatory experience and I expect it carries over to other regulatory bodies, is the possibility that parties could come to a settlement and agree to policies going forward that perhaps the Commission would not have the power to do on its own.

Q. Let me explore that with you. Have you reviewed the standard in Ohio adopted by the Ohio

Supreme Court called the three-prong test for addressing settlements presented to the Commission?

A. If I have, it would have been a while ago.

Q. Are you familiar with the Monongahela case which states specifically that the Commission -- are you familiar with the Monongahela case which dealt with the application of the three-prong test to a settlement in front of the Commission?

A. If I did it was a while ago.

Q. So as we're sitting here today, you're not familiar with either the three-prong test or the application in Monongahela of the three-prong test, correct?

A. As I sit here today, no.

Q. Now, with regard -- coming back to my original question, to the extent that there are mandatory limitations under Ohio law, and assuming that this is a contested case which, judging from this room it is, would your answer be that the Commission would be bound to apply the statutes as it found them?

A. As it?

Q. Found them.

A. I expect they would.

Q. And to the extent that the Commission had some discretion, then the Commission could impose within the bounds of that statute its discretion to decide where on the public policy spectrum it feels the state of Ohio would be best served, correct?

A. I would agree with that statement.

Q. And, in fact, that's the position you've taken repeatedly in testimony such as in Oklahoma in January of 2015, correct?

A. I'm very consistent.

Q. Well, we're glad for that.

Now, I want to move on. With regard to the public policy decisions, are you familiar with the concept of moral hazard?

A. I guess I welcome you explaining to me.

Q. Well, are you familiar with the concept that a moral hazard is a situation in which there's an assignment of risk of a poor outcome to a party that cannot control that risk?

THE WITNESS: Could you -- could you read that back slower than Mr. Darr said it.

Q. Certainly. Are you aware that the concept of moral risk is the assignment of a risk of a poor outcome to a party that cannot control that risk?

A. I think you said moral risk. Did you mean moral hazard?

Q. Moral hazard, yes.

A. So assignment of a --

Q. Risk of a poor outcome to a party that cannot control that risk.

A. Okay. I'll accept your definition.

Q. And would you agree with me, or is it your understanding that in the case of moral hazard that can lead to an inefficient assignment of resources?

A. I guess conceivably that could happen.

Q. And would it be in the public interest, as you understand it, for the Commission to adopt a regulatory policy that created a moral hazard?

A. That they viewed as a moral hazard?

Q. Correct.

A. I guess I'd want to know the specifics of what they were assigning.

Q. Well, do you think the Commission should be in the business of assigning risks to a party that can't control that risk?

A. I guess I would reserve judgment whether a commission would ever choose to do that for positive reasons.

Q. Are you suggesting that there would be positive reasons for assigning risks to a party that could not control that risk?

A. What I'm saying is there might be in its wide authority a decision to do that that served the greater good.

Q. So in that instance you would look to other rationales that might overwhelm or offset the moral hazard that might otherwise be created; is that what you're saying?

A. I would think there would be a balancing.

Q. And in the case of the inefficiency that might be created by that, do you think it's the Commission's business to, as a matter of public policy, to create a less efficient outcome when a more efficient outcome is available?

A. I guess I go back to I'd want to know the specifics of what it was doing and why it was doing it.

Q. So essentially what you're saying to me is there may be other noneconomic reasons for the Commission to undertake a particular decision?

A. I mean, it's hard to come down hard and fast without knowing specific circumstances.

Q. So in each case you'd want to look at the record and, as you indicated to I believe Mr. Fisk earlier today, look at the record and determine whether or not there were offsetting benefits to the creation of this moral hazard?

A. I guess I'd want to know the specifics of the positives and the negatives including the moral hazard.

Q. And in that situation you'd have to do, to use the vernacular, a deep dive into the record, correct?

A. Well, a review of the record to come to a determination.

Q. Now, with regard to the work that you did with Fitch several years ago, a lot of that was directed at the adoption of legislation to securitize assets associated with the reregulation of generation businesses, correct?

THE WITNESS: With the -- I'll have to hear that.

(Record read.)

A. With the deregulation.

Q. Or reregulation.

A. Securitization was used as a means to recover stranded costs to allow for a less regulated environment.

Q. And with regard to stranded costs, you mean expenditures that were originally made and found to be prudent at the time of the investment and now with the movement toward electric restructuring or competition were no longer competitive with a potential market, correct?

A. Yes.

Q. And the securitization process was designed to lower the cost associated with those -- lower the -- let me just start that again.

The process of securitization was designed to lower the cost to customers to pay off those stranded costs identified by a commission, correct?

A. It would be -- I'm agreeing with you, but it was to lower the cost in the most efficient way to allow for recovery and allow movement towards a more competitive landscape.

Q. And one of the elements of securitizing those costs was to provide some finality as a requirement before some securitization of the bonds would be completed, correct?

A. It would be finality and also nonbypassable. So every customer accessing the distribution system would contribute to that goal.

Q. So there were two issues here; there was finality and nonrevocability, correct?

A. And nonbypassability too.

Q. So three issues. And that was important because investors that took positions in those bonds wanted to know that they would get their money.

A. Which is -- which is true of any investor but some take more risks than others.

Q. And that was going to be my -- you anticipated my next question. Any investor that looked at making an investment in, for example, the creation of a utility generation plant, utility's generation plant would be looking for that kind of return, correct?

A. You're talking about a regulated generation plant.

Q. Let's start with the regulated generation plants.

A. So they would be investing in the utility at large. They would not be just investing in that one plant, so if it was good or bad, they would suffer because of that one plant, they would invest in the entire utility or regulated utility through its parent company.

Q. And in that regard they would be looking for certainty out of the commission or whether it's the Federal Energy Regulatory Commission or a state commission, they would be looking for certainty out of that commission as to the rules of the road, correct?

A. Well, the ultimate goal would be consistent regulation, constructive regulation, basically no surprises. That's what an investor is looking for.

Q. And a change in those rules would be a result that investors may find increases risk in that particular state if the commission, for example, flips back and forth from one regime to another regime, correct?

A. As I said, if the commission, whether on its own account or because of a change in membership or change in legislation, if they were to change the rules of the road in an inconsistent manner, investors would be concerned.

Q. And that would be translated into potentially an increase in the cost of the securities or borrowings necessary to construct new facilities.

A. If the reputation of a regulatory body moved in the negative direction, investors would want a larger return.

Q. And that would be true as well, would it not, in those states that have opted for what you've described as deregulation with regard to merchants that are seeking to enter that marketplace, correct?

A. Well, I might have lost you there. Are you talking about investors in the merchants?

Q. Correct. If they perceived that the rules of the road adopted by the state regulatory commission were flexible, that is they could change from one regime to the next or from one year to the next, merchant generators would perceive or investors in merchant generators would perceive that as a more risky situation; would they not?

A. Well, to -- yes, but to begin with investors in merchant generation are very different type of investors than in regulated-type utilities.

Q. Certainly, they are more willing to undertake risk than a regulated utility, correct?

A. I agree with you a hundred percent.

Q. Now, at the Michigan commission you concluded -- you and other Commissioners concluded that retail wheeling would cause more problems than it would provide solutions and as a result never move forward with restructuring on a retail wheeling concept, correct?

A. That's what we did in the early-'90s.
Q. I want to turn to your understanding of the draft agreement which I understand you've made a couple of changes to your testimony concerning that today. It's your understanding of the draft purchased power agreement that the generator, in this case AEPGR, will receive its costs, correct?
A. Yes.
Q. And in addition to receiving -- and by "costs" you mean the operational costs and depreciation expense associated with these plants?
A. Yes.
Q. And in addition to that the companies would also be receiving a return on the net present value of the assets of the utility plants, correct? I said that poorly, let me rephrase that.
In addition, they would -- the generator would be receiving a recovery of a return based on the net present value of the purchased power agreement assets, correct?
A. I'm not sure if it's net present value or book value, but they would be receiving a return.
Q. Did I say present value?
A. Net present value you said.
Q. I meant net book value.

A. Yeah. Yes, I believe so.
Q. And it would receive those payments from AEP Ohio, correct?
A. Yes.
Q. As the buyer AEP Ohio would be paying AEPGR for the power and other ancillary services associated with the plants, correct?
A. Which would then go into the market, yes.
Q. And this would bind AEP Ohio to that payment structure, correct?
A. As far as I know, yes.
Q. And AEP Ohio would be captive to AEPGR for the life of the contract, correct?
A. Well, there are certain provisions that were discussed earlier about getting out of the contract so there are steps to be taken, but they would live -- have to live under the terms of those contracts.
Q. Absent the exercise of termination they're on the hook for the payments month after month until the termination occurs.
A. Unless there's a violation on the Gen side.
Q. And you understood, and I believe you were here when this discussion took place this

morning, that this contract and the one with OVEC are both unit contingent, correct?

A. That's my understanding.

Q. And under a unit contingency provision the buyer in this case is required to pay the fixed costs and other associated costs as provided by the contract regardless of the output of the plants.

A. That's my understanding.

Q. Now, with regard to the rationale for the rider that you give on page 6, basically what you're saying here is that you would be looking for a regulated environment for guidance, correct?

A. Could you point me out?

Q. Sure. It starts at page 6, lines 14 through 16, and the comment about looking for regulated environment for guidance is at page 9, lines 10 through 15.

A. And the question again, sir?

Q. Well, my question is I just want to confirm that you would be looking toward a regulated environment with regard to these plants as a means of meeting the problem that you identify on page 6.

A. So the problem you're saying that I've identified is the inability of the plants to compete in the current environment and then you're directing me to a discussion of regulatory frameworks on page 9?

Q. Correct.

A. So it would be a regulated structure to allow these plants to go forward with what I view would carry benefits for customers whether they're under the SSO or the CRES.

Q. And the emphasis here is that what you're looking at, as I understand it, is a regulated environment as a model of a solution to the problem of reliability and making sure that these benefits are realized, correct?

A. Well, when you say a regulated model, AEP Ohio would still be under the regulated model, GEN would have its obligations under the contract.

Q. Let me see if I can make this clearer for you. In terms of the recovery that AEP Generation Resources would receive, is it your understanding that they would receive what amounts to a cost plus or cost plus a return on and of the PPA assets?

A. Under the contractual terms.

Q. You agree with that.

A. Yes.

Q. And would you identify that as being akin to or similar to the type of regulation in, for example, Michigan which uses rate based rate of return?

A. Well, it would be similar except that as we've also said GEN is not under the regulatory authority of the Commission.

Q. And if we were to look at the rate base regulatory process in Michigan, the process would be very similar to the traditional model of determining what the rate base is based on a date certain, correct?

A. Except for the fact that they have some small portion of competition as of now.

Q. I understand that. But if we're looking at a traditional base rate case, you would initially have to establish a rate base as of a date certain, correct?

A. Yes.

Q. And you would calculate the --

A. Or a forecast. Either a date certain or a forecast of the future.

Q. And you would also have to determine the operational and maintenance expenses either over a historic test period or a future test period, correct?

A. Yes. Yes.

Q. And there would be provisions requiring that the assets in rate base be either deemed used and useful or a determination that they would be used and useful during the forthcoming period, correct?

A. Well, it would depend on the specific statute as to the standards, but used and useful is often utilized.

Q. And certain expenses would be deemed either above or below the line for purposes of calculating operations and maintenance expense, correct?

A. Yes. Yes.

Q. And I believe in Michigan you also have a fuel clause; is that correct?

A. Yes.

Q. And this fuel clause, I thank my colleague from Michigan for providing me the name, is called the power supply cost recovery provision, correct?

A. Yes, it is.

Q. And in that process there's a September 30th filing of a plan?

A. For the upcoming year, yes.

Q. And then there's a reconciliation process, correct?

A. Yes.

Q. And this reconciliation process goes through a full hearing with intervention, discovery, and the opportunity for cross-examination, correct?

A. Yes.

Q. And also includes a review of the fuel, emissions, interchange, and purchased power agreement costs, correct?

A. From what I remember, yes.

Q. And am I also correct, and I'm basing this on our discussions or the discussions I heard during your deposition, and correct me if I'm wrong, that there's a mechanism in Michigan such that if an order of the commission is deemed to be unlawful as a result of a judicial appeal, that there is a -- that the commission will set up a -- what's called a refund proceeding?

A. I cannot ever remember the need for a refund that could not be effectuated under Michigan law.

Q. So, for example, if there were a miscalculation of rate base as determined by the appropriate appellate court in Michigan, that case would come back to the state commission and the state commission would go through a process of effectively

refunding to customers the effect of that mistake.
A. Usually with interest.
Q. And, as I understand it, is it fair to say that this general structure that we've just been talking about in Michigan is the type of regulatory structure that you had in mind when you thought -- when you described for us in your testimony at page 9 the policies or goals or outcomes that should guide the Commission in this case?
A. Could you direct me.
Q. Again, I'm referring to your statement on page 9 to the effect that you would look to a regulated environment for guidance in this case.
A. Well, I believe at the top of the page I'm describing the structure discussed in this case, and then I feel strongly that the continuing existence of the generating plants, even under this structure, provides the Commission with optionality or flexibility if unknown future events were to occur.
Q. Not my question, Mr. Fetter. Not a response to my question so let me try again.
Am I to understand correctly when you're referring to a regulatory environment, what you're referring to is a traditional rate of return type of

environment like the one that we just discussed with regard to Michigan?

A. So you're saying that am I looking at this case within that regulatory framework?

Q. No. I'm asking is your regulatory framework that you mention on page 9, is that a traditional cost-based kind of regulatory structure that you consider should be the guidepost?

A. Well, I mean, I mentioned that Michigan has a regulatory structure that includes competitive elements and cost of service elements for generation service. I talk about other states which are more focused on cost-based regulatory frameworks.

Q. And you view those favorably, correct?

A. Yes.

Q. And when we're talking about it -- and all I'm trying to get at here is to understand what you mean by a traditional cost-based regulatory structure. Is it what we've just described with regard to your experience in Michigan under the traditional or under the Michigan approach to cost-based regulation?

A. Before they moved to their competitive piece which postdated me? Are you saying now, today, or back when I served?

Q. When you served and as we've just discussed it over the last five minutes.

A. Okay. When I served it was traditional cost-of-service ratemaking. Now Michigan has moved, attempted a competitive piece which they found was problematic and which they winnowed down to no more than 10 percent. So it's a 90 percent traditional regulated environment and a hybrid 10 percent more competitive.

Q. I don't think we're communicating, Mr. Fetter, so let me try one more time.

A. And I'm trying. I apologize.

Q. The traditional cost-based regulatory framework that you're referring to is similar to or akin to the Michigan structure that we have just discussed, correct? I don't know in which, and let me be even more specific. It is one in which there's a determination of an asset base as of a date certain, a test year to determine operations and maintenance expenses and potentially cost-based recovery of fuel from a very specific cost-based fuel mechanism.

A. That would be a traditional framework.

Q. That's all I was asking, Mr. Fetter. Thank you.

A. And I was trying.

Q. I understand. Sometimes it's tough in these rooms.

A couple of specific questions and I think I'll be finished. First of all, is it fair to say you're not sure what percentage of coal generation is needed in Ohio's generation fleet to maintain reliability?

A. Well, I believe from the figures I saw from the EIA, it's about 67 percent coal and the questions I was asked at deposition was if it went to 60, would that be good enough for reliability. And I said it would depend which 7 percent of coal plants were taken away and how they would affect the system.

Q. And by that token is it fair to say that you don't know what the particular level of reliability would be of coal generation as a percentage of the Ohio fleet to protect reliability?

A. And as I said, it would differ depending on which coal plants were taken away.

Q. So there's no bottom line at this point, correct?

A. I don't think you can just deal with a number.

Q. One last question, Mr. Fetter. If the net benefit to customers worked out to less than a dollar a year, would you consider that an effective hedge to the massive volatility that you identify in your testimony that exists in the current wholesale market?

A. If -- I'm sorry, could you either tell me or could you read that again.

Q. Sure. If it turned out that the benefit to customers was one dollar or less, would you consider that an effective hedge against the volatility that you've identified in your testimony in the current wholesale market?

A. So you're saying the hedge's impact was to impact the market one dollar a year?

Q. No, I'm saying that customers would benefit from the hedge proposed under the PPAR by a dollar or less, would you consider -- annually, would you consider that an effective hedge of the volatility that you've identified in your testimony?

A. And all the nonfinancial benefits would remain?

Q. Yes. Let's assume that to be the case.

A. I think -- I think all those nonfinancial benefits are very important, very positive.

Q. And a buck on top would be just that much better, right?

A. It would be about a dollar more value.

MR. DARR: Thank you. Nothing further.

EXAMINER SEE: Mr. Yurick?

MR. YURICK: Just a few, your Honor.

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CROSS-EXAMINATION

By Mr. Yurick:

Q. Good evening, Mr. Fetter.

A. Good evening.

Q. On page 7 of your testimony at line 9, I just want to make sure I'm clear --

A. Okay.

Q. -- you say "customers in Ohio could become totally at the mercy of capacity and energy markets." Do you see that statement?

A. Yes.

Q. And my understanding of what you're saying there is that if the PPA rider is endorsed by the Commission, that there will be a financial hedge as a result of that that would partially blunt the effects of the merciless capacity and energy markets; is that accurate?

A. It would damp down volatility.

Q. You're not suggesting there that any Ohio customers would be able to obtain capacity or energy from the PPA assets, correct?

A. They would still be gaining it either as an SSO or a CRES from the PJM market, but I view that the volatility in that market would be less.

Q. I would really appreciate it if you answered my question which I think was a little different. You are not suggesting that specifically any Ohio customers could obtain capacity or energy from the PPA assets because all of those -- all of the energy capacity and ancillaries from those PPA assets are going into the PJM market, correct?

A. Yes.

Q. And PJM covers obviously more states than Ohio, correct?

A. Yes.

Q. I think you said earlier that you don't know the generation capacity of PJM.

A. I do not.

Q. And I would take it, then, that you would have no idea what percentage of the total generation capacity of PJM would be represented by 3,100 megawatts.

A. I do not know.

Q. The PPA arrangement, that could exist

without the existence of a PPA rider, couldn't it?
A. If the company chose to sign the PPA agreement either with or without a regulatory out clause, they could do that either way.
Q. In that case it would just be two businesses agreeing on a business arrangement.
A. And if they had a regulatory out clause, that would include the Commission in that situation, that circumstance.
Q. So without the PPA rider, the costs and the benefits of that PPA arrangement would be borne by the individual companies, correct?
A. The parties to the contract.
Q. Yes. But with a PPA rider the costs and benefits are passed through to customers, correct?
A. The credits or charges end up on the customer's ledger.
Q. You talked a little bit about the situation in California in your testimony and a publication that was put out by the congressional budget office.
A. Yes.
Q. Do you recall that?
A. Yes.
Q. The regional transmission organization

involved in that situation was the California independent systems operator, correct?

A. Yes.

Q. And the California independent systems operator is the regional transmission organization for California, correct?

A. Yes.

Q. It's not involved in the transmission operations of other states, to the best of your knowledge, correct?

A. I believe it's just California.

Q. Did you recall that article, you obviously read it, correct?

A. Yes.

Q. Are you generally familiar with its contents?

A. I think, as I recall, I skimmed it and then found language I viewed was appropriate to my generation divestment concern and I quoted it.

Q. I'd like to ask you if you remembered some other quotes. If you don't remember them, that's a fine answer. I'd like to ask you if you recall on page 31 under the heading "Supply Side Lessons" a sentence at the end of the first paragraph of that publication that said: "One lesson not to take from the California experience relates to the size of the reserve margin: Building enough capacity to meet the demand for electricity under any scenario may not be cost-effective." Do you recall that?

MR. MILLER: I'm sorry, can I object? I mean, can he take a look at the document? Do you have it?

MR. YURICK: I just want to know if he recalled that or didn't recall it at this point, so I have it on my computer. I have a copy that's supposed to have been here by now, but I don't have a copy of it.

MR. MILLER: I guess --

MR. YURICK: I am just asking if he recalls that passage.

MR. MILLER: Could you be more general than that and then for best evidence purposes perhaps we can get the document in his hand.

MR. YURICK: Well, I think the question at this point pending is just whether he recalls that passage or not, so if he doesn't recall the passage, that's fine. If he does recall the passage, I'd ask him about the passage.

THE WITNESS: I would have read it even before I filed in May so I wouldn't recall any specific passage except what I quoted in my testimony I've read several times including yesterday or today.

Q. Okay.

MR. YURICK: That's fine. I wasn't going to take it any further if he doesn't recall.

MR. MILLER: No, if he doesn't recall it, then -- I'd just object to you reading into the record without having the document, though.

MR. YURICK: Well, I don't know how to ask him if he remembers a passage without reading the passage. I don't know how to do that. I apologize.

MR. MILLER: There might be another copy in the room. Anyone who has his --

MR. YURICK: I can show him the copy I have on my computer.

EXAMINER SEE: He just said he didn't remember and let's be done with it.

MR. MILLER: Can we strike that then?

EXAMINER SEE: You want to make a motion to strike?

MR. MILLER: I would like to make a motion to strike everything that would allow the question along the lines of do you remember the specifics of the document but not having them read into the record.

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

MR. YURICK: Yeah, I don't know how to ask him if he remembers a specific passage without reading the passage to him. I also think the fact that he doesn't remember that passage but obviously focused just on one paragraph of the document goes somewhat to demonstrate his grasp generally as an expert witness of the material.

So I don't think it's an inappropriate question. I don't think I posed it inappropriately. I'm not going to ask him any more questions about it if he doesn't recall it, but I think the fact that he doesn't recall it is somewhat telling.

MS. BOJKO: Your Honor, may I be heard? Mr. Fetter cited to this document in his testimony, and he picked out one sentence to quote. If it's going to be stricken, then I think that we need to strike the testimony discussing it and the footnote that cites to it.

EXAMINER SEE: It's there. We'll let it stand for what it's worth. We're going to move on.

MR. YURICK: Okay.

Q. (By Mr. Yurick) Well, maybe I can ask it this way since I have apparently fallen down on the job without having the document here which apparently is -- would be -- everybody would be happy about that.

EXAMINER SEE: I'm sorry, say that again. Never mind. Keep going.

Q. Do you remember the document talking about the expense of a reserve margin and having to balance the expense of -- in that case creating a reserve margin but the expense of a reserve margin generally and having to balance that against the prices that consumers are willing to pay?

A. I remember the balancing. I also remember at my deposition --

Q. Yes.

A. -- the phrase "creating" came up, and I asked are you talking about a green field where you're going to have to build a plant --

Q. Sure.

A. -- to provide the reserve margin. So it will turn on the specifics, it will turn on the costs of the reserve margin, and it will turn on the price stability that the reserve margin provides. And I was using it to support the proposition that generation divestment in California undercut the goal of striking a balance.

MR. YURICK: Your Honor, may I approach?
EXAMINER SEE: Yes. Mr. Yurick, what are you handing us?
MR. YURICK: This is going to be Kroger 1. Does everybody have a copy that wants one?
MR. NOURSE: Thank you.
EXAMINER SEE: The exhibit is so marked Kroger Exhibit 1.
(EXHIBIT MARKED FOR IDENTIFICATION.)
MR. YURICK: Thank you.
Q. If you could turn, sir, to page 31 of that document. Well, first of all, handing you what's been marked Kroger's Exhibit 1, do you recognize that as the article that you cited in your testimony?
A. Yes, I do.
Q. Could you turn to page 31 of that document, please.
A. I am there.
Q. Now, under the heading "Supply-Side Lessons," the last sentence in that paragraph states, does it not: "One lesson not to take from the California experience relates to the size of the reserve margin: Building enough generating capacity to meet the demand for electricity under any scenario

may not be cost-effective." Correct?

A. That's what it says.

Q. And I think we established that you had no independent recollection. Does reading the passage in Kroger Exhibit 1 refresh your recollection regarding that statement in the report?

A. I have read it. I believe it exists in the document.

Q. And I think really it's sort of what we were talking about a little bit before, discussing just a minute ago. It says creating -- "There are costs associated with any kind of either creating or maintaining generation, and those costs have to be measured against the stability that is provided," correct?

A. Yeah. I think we agreed on that.

Q. If you could look, please, at the next page and go down to the fourth -- I'm sorry, the third paragraph where it says: "Having a large reserve of generating capacity could ease the transition from a regulated to a competitive market structure. Indeed, if California had implemented its plan in the early 1990s, when the state's utilities" -- "Indeed, if California had implemented its plan in the early 1990s, when the state's utilities still possessed more capacity than they needed, the market could have better handled the stresses that arose in the summer of 2000. That improved response could in turn have masked some of the faults of the restructuring plan." Do you see that?

A. Yes.

Q. That's the quote that you cited basically saying that the lack of excess generation capacity in California contributed to the problems that they had during restructuring, correct?

A. And the reason being they were -- the commission wanted them to divest their generation.

Q. Correct.

A. And for the large part they did.

Q. Do you recall if there were other issues that impacted the California situation?

A. Other than the manipulation that apparently the authors of this report did not notice?

Q. For instance, price caps, artificial price caps.

A. There was a retail rate freeze, yes. There was wholesale markets moving that appeared to be moving with the market but were not. They were being manipulated. At the time I was at Fitch Ratings when this was all going on.

Q. I think you're -- I think you're going a little past what I asked you. I just basically asked you if the price -- the retail rate caps were also a factor in the California situation.

A. Oh, yeah. And I think I've written that in my testimony. Yes.

Q. Now, the paragraph after the one that you cited referring back, in my opinion, says "Creating such a reserve as a matter of policy, however, is an expensive way to ensure price stability. One of the reasons that the state moved to a competitive market structure was to help reduce electricity prices by lowering the costs of the utilities' reserve capacity. In a competitive market, producers' investment in reserve capacity should be consistent with the amount of price stability (or, equivalently, supply security) that consumers are willing to pay in the form of long-term supply contracts." Correct?

A. Yes.

Q. Okay. So would you agree with me that one of the reasons that Ohio moved to a competitive market structure was to reduce electricity prices?

A. Well, and I think I said this earlier, legislators and commissioners often want to move to the market for the belief that that will create efficiencies so that the only possibility is prices will go down. And that's not always the case. And so since that's not always the case I find reducing volatility is a positive factor once policy makers have determined that moving to a market setting is appropriate.

Q. I understand that. But my question was, okay, would you agree with me that one of the reasons that Ohio moved to a market rate structure was to try to reduce electricity prices?

A. I would agree with that. I also have seen that they wanted price stability as one of the goals.

Q. And do you see the statement, the last sentence where it says "Investment in reserve capacity should be consistent with the amount of price stability that consumers are willing to pay for in the form of long-term supply contracts"? Do you see that?

A. I do.

Q. Okay. And in this case should the Commission approve the PPA rider, consumers really wouldn't be given a choice, they would -- Ohio consumers would have to take advantage of or they would have price stability forced on them; isn't that right?

A. But I view that the Commission has to make the policy judgment here whether agreeing to the PPA rider, the long-lived PPA rider that would provide insurance for customers beyond the length of time that customers could contract on their own for a similar hedge, and so I think it's a policy judgment that this Commission will have to make.

Q. Wouldn't you agree with me that one of the other lessons of the California situation is it's awfully difficult to figure out what's going to happen to the electricity markets 10, 15, 20 years out in the future?

A. I believe that's an accurate statement.

MR. YURICK: I don't have any further questions at this point. I would move for the admission of Kroger's Exhibit 1.

EXAMINER SEE: Let's go off the record for a minute.

(Discussion off the record.)

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

Mr. Kurtz.

MR. KURTZ: No questions, your Honor.

EXAMINER SEE: Let's go off the record a

second.

(Recess taken.)

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

Mr. Settineri.

MR. SETTINERI: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Settineri:

Q. Good afternoon, or almost good evening, Mr. Fetter.

A. Good evening.

Q. My name is Mike Settineri. I represent a number of parties in this proceeding including the Retail Energy Supply Association, and I just have a few questions for you.

A. Okay.

Q. Just to clarify for the record, you had mentioned earlier that shopping in Michigan is currently limited to 10 percent.

A. Yes.

Q. When you say 10 percent, 10 percent of what?

A. Oh, I'm not sure if it's 10 percent of customers or 10 percent of load. And I'm not sure which of those numbers. I know that they brought it down from pretty wide-open down to the 10 percent figure.

Q. Okay. Would you agree with me that it's typical for financing to close before major construction starts on a power plant?

A. I lost a word there.

Q. Sure.

A. Could I hear it again?

Q. You would agree with me, wouldn't you, that it is typical for financing to close before major construction starts on a power plant?

A. Yeah. I would -- in a substantial degree it would be pretty much set.

Q. And if new generation plants are being built in Ohio today, you would agree with me that new generation investment has been attracted to the state, correct?

A. Well, as I said earlier, plans for plant and finally being constructed doesn't always line up a hundred percent, so it appears there's some interest, and as construction plans move forward and plants come to completion, then I certainly would track what you said.

Q. Okay. So just to be clear then, so would you agree once those plants start being constructed, at that point new generation investment has been attracted to the state at that point.

A. And then I would expect potential new developers will look at the experience of the first movers and make judgments as to how it worked out.

Q. Okay. Earlier there had been a series of questions, and I believe you have an understanding of what the terms that AEP Generation Resources, what AEP Generation Resources is receiving under the PPA and what the customers would be receiving.

A. Yeah. How it would flow through, yeah.

Q. Let me ask you this question, under the PPAs within the PPA rider, who is receiving more financial certainty, AEP Generation or Ohio Power's customers?

A. Well, I'd say that the description of what AEP Gen gets is much fuller than what the PPA rider will provide. Dr. Pearce offers his forecast of quite positive results and then, you know, as I shared with Mr. Darr, even if there was a dollar benefit, I see it as a lot of nonfinancial benefits which the Commission might be interested in furthering within the state of Ohio.

Q. So when you say more "fuller" as to

Generation Resources, that would be more financial certainty for Generation Resources, correct?

A. More clear. More defined.

Q. Okay. So you're agreeing with me that Generation Resources would have more financial certainty, correct?

A. Okay.

Q. Thank you.

You've also mentioned throughout the day that as a former Michigan commissioner when you were at the Michigan -- Public Service Commission?

A. Yes.

Q. -- you would consider many different aspects and issues when you made decisions, correct?

A. Yes.

Q. Okay. And so in this matter you would agree with me, then, that an important consideration is whether the PPA plants are at risk of closing, correct?

A. I believe that's an important consideration.

Q. Okay. Now, you'd also agree that the impact of the PPA rider as it would be affected by the PPA itself, the impacts on all classes of retail customers is an important consideration in this matter as well, correct?

A. Yes, I looked at that.

Q. And you'd also consider any state policy that's been written into law when ruling on such a matter, correct?

A. As I said, I always attempted to follow the law.

Q. Okay. Let me ask you this question, do you know how the PPA rider will be assessed amongst the different classes of Ohio Power's customers?

A. I just know it will be a charge or a credit. I'm not sure if you're saying there's rate design involved or whether everyone will be treated the same.

Q. Do you know on what basis that charge will be allocated?

A. I'm not sure.

Q. Thank you.

If you could turn to page 6 of your testimony, lines 14 to 16 --

A. Okay.

Q. -- line 14 starts "The evidence put forward by the Company makes it clear that, on a going forward basis," I'll continue, "it will be virtually impossible for many of its existing generation plants." The word "its" there, should that really refer to AEP Generation?

A. As I was reading it earlier, it was a little -- not as smooth as one would want it written, but that's what it intends.

Q. And so as of today, AEP Generation Resources is competing in the wholesale markets for energy and capacity, correct?

A. Yes.

Q. And owners of other generation units today are competing in those same markets, correct?

A. Yes.

Q. You would agree with me, wouldn't you, that the state of Ohio should support the development of new generation units in Ohio?

A. When you say "support," do you mean provide subsidies or just have policies that lets developers try to find financing and move forward?

Q. The latter.

A. Yeah, the latter I think would be okay.

Q. And that would be just policies.

A. On a policy ground.

Q. Okay. You'd also agree with me that the state of Ohio should support new economic development in Ohio, correct?

A. I think new economic development is important everywhere.

Q. And when a company looks to move operations into a state, would you agree with me that electricity pricing could be a factor that the company would consider before relocating into a state?

A. It is, and one of the things that would concern it would be a greater volatility in pricing. The more stability would be more attractive.

Q. Would you agree with me that in a, what we might characterize as a good economy, some industries could be suffering in a good economy based on events in their own industry, correct?

A. Yeah. Yes. Yes.

MR. SETTINERI: No further questions. Thank you, Mr. Fetter.

THE WITNESS: Thank you.

EXAMINER SEE: Mr. Miller, redirect?

I'm sorry, Mr. Beeler.

MR. BEELER: No questions, your Honor.

EXAMINER SEE: Mr. Miller, any redirect?

MR. MILLER: No, your Honor.

EXAMINER SEE: AEP had already moved for the admission of AEP Exhibit 3. Are there any objections?

(No response.)

EXAMINER SEE: AEP Exhibit 3 is admitted into the record.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER SEE: Kroger already moved for Kroger Exhibit 1. Are there any objections to the admission of Kroger Exhibit 1?

(No response.)

EXAMINER SEE: Hearing none, Kroger Exhibit 1 is admitted into the record.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER SEE: Thank you, Mr. Fetter.

THE WITNESS: Thank you.

EXAMINER SEE: We'll resume tomorrow at 9 a.m.

(Thereupon, at 6:24 p.m., the hearing was adjourned.)

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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 Wednesday, September 30, 2015, and carefully compared with my original stenographic notes.

_______________________________
Maria DiPaolo Jones, Registered Diplomate Reporter and CRR and Notary Public in and for the State of Ohio.

My commission expires June 19, 2016.

_______________________________
Karen Sue Gibson, Registered Merit Reporter and Notary Public in and for the State of Ohio.

My commission expires August 14, 2020.

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