

## BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

- - -

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

In the Matter of the :  
Application of Ohio Power :  
Company for Approval of : Case No. 14-1694-EL-AAM  
Certain Accounting :  
Authority. :

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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 9:00 a.m. on Thursday, October 15,  
2015.

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## VOLUME XI

REDACTED SECTION

- - -

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( PORTION.)

MR. NOURSE: May I approach?

EXAMINER PARROT: You may.

Q. (By Mr. Nourse) Mr. Chernick, I just want to hand you this and ask you to verify that's part of your workpapers. This relates to page 65, Subcost Table?

A. Yes, I believe that is correct.

MR. NOURSE: I'd like to mark this AEP Ohio Exhibit 29.

(EXHIBIT MARKED FOR IDENTIFICATION.)

MR. NOURSE: And that's confidential, your Honor, to be clear.

Q. Mr. Chernick, so in this exhibit I've



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1 taken the top half, which is your workpaper you just  
2 verified, and I want to talk about an ADIT adjustment  
3 with you.

4 MS. HENRY: Can you reread the question?  
5 I couldn't hear it.

6 MR. NOURSE: I just said that I took the  
7 workpaper that he just verified in this exhibit.

8 Q. It's the top half before the net plant,  
9 okay? Do you see that, Mr. Chernick?

10 A. Yes, I see that.

11 Q. And I'd like to hand out another exhibit  
12 in order to get all the numbers right. So I would  
13 like to mark this as AEP Exhibit 30 Confidential.

14 (EXHIBIT MARKED FOR IDENTIFICATION.)

15 Q. This is company workpaper, Exhibit KDP-2,  
16 a portion of which has already been admitted through,  
17 I think, an IEU exhibit. Mr. Chernick, does KDP-2  
18 information look familiar?

19 A. Yes. This is the detail page for  
20 supporting Mr. Pearce's Exhibit 2, the last three  
21 pages.

22 Q. Before we get into the numbers, your  
23 calculation of live costs are akin to rate-base  
24 calculations, aren't they?

25 A. I think live cost here was just left over

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1 in the spreadsheet from which set of costs and  
2 revenues were being used in a particular run of the  
3 model. So I was attempting here to identify the sunk  
4 costs of a plant -- excuse me -- of each unit so that  
5 I could look separately at the economics going  
6 forward.

7 Q. But would you agree in looking at sunk  
8 costs, we should reflect ADIT accumulated deferred  
9 income taxes in order to show the true sunk costs?

10 A. Yes. The ADIT from the preexisting cost,  
11 from the sunk costs, should be reflected, and exactly  
12 how you would do that, what tax treatment you assume,  
13 well, obviously varies depending upon whether you're  
14 continuing to run the plant or you're shutting down,  
15 and I hadn't thought about the details of how you  
16 take that into account for the shutdown.

17 Q. But ADIT is a rate base?

18 A. Yes. But that's a ratemaking concept,  
19 not a -- and the point here was to strip out the sunk  
20 cost as much as possible to try and look at just the  
21 going-forward costs, and it's certainly possible that  
22 I should have adjusted the sunk cost to take into  
23 account the fact that they were offset by some ADIT.

24 Q. Let's look at the KDP-2 workpaper,  
25 Exhibit 30. And I'm just going to run through an

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1 example for 2016 as it relates to this live costs  
2 exhibit. So on page 2, which is just behind the  
3 summary table there, do you see on page 2 under the  
4 2016 column there's a capacity cost section?

5 A. Yes.

6 Q. And in that capacity cost section for  
7 2016 it lists [REDACTED] for the plant service CWIP, less  
8 accumulated depreciation?

9 A. Yes.

10 Q. That matches up with your live cost  
11 calculation for 2016, right?

12 A. Yes.

13 Q. And I think I skipped a step. Your live  
14 cost workpaper actually uses the number [REDACTED] for  
15 2016, right?

16 A. Yes.

17 Q. And if we add CWIP and then we offset  
18 with the ADIT adjustment, that brings us down to  
19 [REDACTED], right, for 2016?

20 A. Right. Mechanically, that's correct,  
21 yes.

22 Q. And the [REDACTED] ADIT at the offset for 2016  
23 is the same number that's in KDP-2 workpaper on page  
24 2 under capacity costs?

25 A. Yes.

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1           Q.    We can do the same calculation for each  
2           of the other years and show what the net book value  
3           of ADIT would be for each of those years, right?

4           A.    Let me just check and make sure that  
5           we're working from the right workpaper here.

6                    I'm sorry, you found a page that was left  
7           in the workbook by my research analyst that was a  
8           draft and it's not actually what I used. My analysis  
9           is based on the difference between the workbooks that  
10          I provided confidentially, that's from Pearce  
11          workpaper 2 competitively sensitive confidential net  
12          book forecast and then I created a version called "No  
13          Adds," and it's the difference between that and the  
14          version with the additions.

15                   So let me just see what I changed in that  
16          and because for 2016 I have a net book value of

17          ████████

18                   I'm sorry, I made a mistake trying to  
19          open up another large file at the same time.

20           Q.    You're saying, just to be clear, that the  
21          outset of the question I asked about the workpaper  
22          "Live Costs," and it has the actual file name at the  
23          bottom that you gave us, is one of your workpapers.

24           A.    Yes, it was one of my workpapers. It  
25          happened to be a page that we didn't use in the

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1 final. I recognize that it was treating -- I believe  
2 it was not accurately modeling the sunk cost, and I  
3 did a different analysis.

4 Q. Did you give us a separate workpaper that  
5 reflected updated analysis?

6 A. Yes.

7 MR. NOURSE: Your Honor, can I make an  
8 offer and save time at this point? Can we agree to  
9 work with Sierra Club counsel and --

10 MS. HENRY: We've provided it to you  
11 already.

12 MR. NOURSE: Can I finish?

13 MS. HENRY: Sure.

14 MR. NOURSE: I'm offering to try to  
15 update with the actual numbers, because he confirmed  
16 earlier that was his workpaper, went through this  
17 whole exercise based on that confirmation. So now at  
18 the end he's saying it's not his workpaper so I'm  
19 trying to be efficient here, if we can agree to work  
20 with Sierra Club to update our exhibit which I didn't  
21 write down the number of.

22 THE WITNESS: 30?

23 EXAMINER PARROT: 29, Mr. Nourse.

24 MR. NOURSE: 29, thank you. To update  
25 this to reflect this update worksheet that he

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1 mentioned.

2 MS. HENRY: If I may?

3 EXAMINER PARROT: You may.

4 MS. HENRY: They deposed Mr. Chernick  
5 last week. They asked him numerous questions about  
6 his worksheets. There were many different workpapers  
7 that were provided. This was one of them. This was  
8 a draft, and he said that the other one was also  
9 included, which is how the calculation was derived.

10 If this was important, you could have  
11 asked him in his deposition about how the numbers in  
12 Table 22 were derived and he could have walked you  
13 through it. The fact that you did not take that  
14 opportunity during the deposition to go through that  
15 doesn't mean that we're now going to allow you to  
16 take the opportunity in the future.

17 MR. NOURSE: Your Honor, we all know that  
18 not everything is covered in deposition that's  
19 covered in the hearing, but the fact is he just made,  
20 apparently, the same mistake we did and didn't  
21 realize there was a wrong workpaper and a right  
22 workpaper. I don't know if he found the workpaper  
23 was in there. You look further for something else,  
24 but, obviously, it was caused by him submitting two  
25 workpapers for the same table, apparently.

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1 MS. HENRY: I believe are you talking  
2 about AEP 29. Which workpaper are you referring to?

3 MR. NOURSE: It's off of that exhibit,  
4 it's his workpaper he confirmed earlier was his  
5 workpaper. Now he's saying it wasn't. So, yes.

6 MS. HENRY: I mean, this is not -- this  
7 is a document created by you.

8 MR. NOURSE: We've already been through  
9 all this on the record, your Honor. The top half is  
10 the base for calculation. It was the workpaper he  
11 gave us. Apparently there was another paper that was  
12 the real workpaper. But if we don't want to do this  
13 time-saving thing, we'll take a break, try to print  
14 out the other one, go through the same exercise.

15 EXAMINER PARROT: All right. Sounds like  
16 that's what we need to do, I guess. Thank you for  
17 the offer, though.

18 Take a short break.

19 (Recess taken.)

20 EXAMINER PARROT: Back on the record.

21 Q. (By Mr. Nourse) Mr. Chernick, we're going  
22 to move on to another topic and come back to that.

23 So, your Honor, can I approach? I'd like  
24 to mark AEP Ohio Exhibit 31.

25 (EXHIBIT MARKED FOR IDENTIFICATION.)

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1           Q.   Mr. Chernick, this, I hope, is one of  
2 your workpapers as indicated by the bottom reference  
3 there. Do you recognize this?

4           A.   Yes.

5           Q.   You have some tables that are, I guess,  
6 depending how you look at it, the second, third, and  
7 fourth tables down there that indicate these are  
8 percentages of annual hours where revenues are  
9 greater than or equal to costs. Do you see that?

10          A.   Yes.

11          Q.   And let's look at what I would call the  
12 third table here, RII Modified Forecast. Do you see  
13 that?

14          A.   Yes.

15          Q.   And some questions about this. So this  
16 would be -- this table would be based on your  
17 spreadsheet that you reran after you reduced the  
18 revenues, the number, the percentage for each year  
19 for each unit where the revenues would be greater  
20 than other equal to the costs, correct?

21          A.   Yes. I believe this calculation refers  
22 to running costs.

23          Q.   Okay.

24          A.   I don't think we were -- we were looking  
25 here at changes in dispatch and whether it would be



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1 easy to make sense out of what happened, and this  
2 particular analysis didn't actually wind up affecting  
3 my testimony.

4 Q. Okay.

5 A. But it was an analysis that we did of how  
6 often the plants were in the money on an hourly basis  
7 given the base-case forecast that was provided to us  
8 on an hourly basis, and then with the modification,  
9 adjusting the prices monthly on and off peak to be  
10 consistent with the forecast.

11 Q. You said that was based on running costs?

12 A. Yes, I believe so.

13 Q. And that's the same thing as incremental  
14 costs?

15 A. Yes, the fuel and available O&M  
16 allowance.

17 Q. And that's lower than embedded costs,  
18 full costs?

19 A. Right. That does not show the sunk costs  
20 or the costs that are fixed annually.

21 Q. Okay. Now, 2015, this table has some  
22 markedly lower percentages than the years that  
23 follow?

24 A. Yes. I think that's because we're  
25 talking here about percentage of the year-end. AEP

2865

1 didn't run it the whole year, dividing by 8,760, and  
2 we didn't have 8,760 hours in there.

3 Q. In other words, for 2015, the period you  
4 were originally looking at would have just included  
5 fourth quarter of 2015?

6 A. No. We did this earlier than that, so it  
7 would have been probably half the year. I forget  
8 exactly how many months. I could look that up. The  
9 workpapers would support it.

10 Q. Well, I wanted to know why they were so  
11 low. I thought it was based on three months, which  
12 seems to correspond roughly to the numbers.

13 A. If it were based on three months, then  
14 the Cardinal 1 value, for example, if you multiply  
15 that by four, that would bring it over a hundred  
16 percent; so I don't think it's three months. I think  
17 it was more like six months.

18 Q. I'm sorry I see ■ percent for Cardinal  
19 1.

20 A. Oh, that's with hour prices. With the  
21 base-case prices, it was ■ percent, so that's why I  
22 think it was more than half. But I'd have to look  
23 back, and we didn't always use all the months that  
24 AEP had given us, because some of them were clearly  
25 before the PPA would kick in. So I'd have to check

2866

1 exactly what we did for 2015, but six months is a  
2 reasonable guess.

3 Q. It was something less than a year, and  
4 you divided by 8,760?

5 A. Yes. This was an early calculation,  
6 which I think we didn't use.

7 Q. And to be clear, 8,760 refers to 8,760  
8 hours in a year?

9 A. Yes.

10 MS. HENRY: Just to be clear, you said  
11 that was not used in your testimony?

12 THE WITNESS: I don't think this affected  
13 anything in my testimony.

14 Q. (By Mr. Nourse) That remains to be seen.  
15 So in years 2022, 2023, it shows zeros?

16 A. Yes.

17 Q. Meaning even if you look at the smaller  
18 portion of cost, the incremental running costs, that  
19 the revenues under your forecast never exceeded, the  
20 running costs for all those units for those years?

21 A. That was our calculation.

22 Q. Okay. And would you expect 2024 to be  
23 the same? You didn't list it here, but --

24 A. Yes.

25 Q. And would you expect the same result for

2867

1 the OVEC units?

2 A. I don't know. I'd have to look at their  
3 running costs. And we got less data for OVEC, so I'm  
4 not sure exactly.

5 Q. Okay.

6 MR. NOURSE: Your Honor, I'd like to  
7 approach and mark Exhibit 32 Confidential.

8 (EXHIBIT MARKED FOR IDENTIFICATION.)

9 Q. Mr. Chernick, again, this is from your  
10 workpapers, as indicated at the bottom of the page,  
11 correct?

12 A. That is correct.

13 Q. And what I'd like to do is to ask you  
14 if -- we had a discussion earlier this morning,  
15 remember back to that, about operators not running  
16 plants, they're going to lose money, recall that?

17 A. Yes.

18 Q. And so for the -- I want to look at the  
19 last three years, 2022, '23, and 2024, to take a look  
20 at the costs that you included in your net cost  
21 analysis that relate to those three years. You with  
22 me?

23 A. Yes.

24 Q. All right. And if you look at page 2 --  
25 well, let's just explain this workpaper a little bit.

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1 So at the top there's an indication that C4, that's  
2 the base case from discovery where it says "Current"?

3 A. Yes, that's correct.

4 Q. And if you're in '04, that's your  
5 forecast, right?

6 A. Yes.

7 Q. So this first page is AEP base case,  
8 right?

9 A. That's correct.

10 Q. Second page is your forecast, and for the  
11 three cases there, this is revenues -- these are the  
12 revenues from your case that you reduced, right?

13 A. Yes.

14 Q. And then page 3, these are energy costs,  
15 and you see from the top this is the AEP base case.  
16 I'd like to draw your attention to the total. Let's  
17 just talk about the 5 percent lower as an example,  
18 because that's the one that we're talking about in  
19 the other exhibit.

20 So at the bottom of the page of this  
21 exhibit we have total energy costs for 2022,  
22 ■■■ million; 2023, ■■■ million; and 2024,  
23 ■■■ million; is that correct?

24 A. Yes.

25 Q. And the same numbers appear and

2869

1 reflect -- in the last page of this exhibit your  
2 forecast incorporated all those same costs during the  
3 last three years of the study period, correct?

4 A. Yes.

5 Q. And those three numbers for the lower  
6 case amount to \$ [REDACTED] billion, correct?

7 A. I'm sorry, which numbers?

8 Q. The three numbers we just talked about  
9 for the three years, the 5 percent lower.

10 A. This is something I need to add up.

11 Q. Okay.

12 A. For the costs?

13 Q. [REDACTED] plus [REDACTED] plus --

14 A. I just wanted to make sure we -- that  
15 would be about \$ [REDACTED] billion. Is that what you said?

16 Q. Yeah. Now let's move back to the prior  
17 topic of the workpaper that we needed to find.

18 MR. NOURSE: And let's mark that 33,  
19 Exhibit 33, your Honor, confidential.

20 (EXHIBIT MARKED FOR IDENTIFICATION.)

21 Q. Mr. Chernick, to refresh your memory, we  
22 were talking about the sunk cost table in page 65 of  
23 your direct testimony, Table 22.

24 A. Yes.

25 Q. And we wanted to confirm that this Inputs

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1     Worksheet from your workpapers reflected in your  
2     calculation of, essentially, net book value?

3             A.    This is the net book value year by year  
4     for the AEP Generation units, just the portion that's  
5     related to the pre-2016 costs, the sunk costs.

6             Q.    And referring back to Exhibit 29, which  
7     you talked about earlier, before discovering we were  
8     looking at the wrong workpaper --

9             A.    Yes.

10            Q.    -- if we were to plug the information you  
11    just confirmed from your workpapers in the sunk cost  
12    calculation, Exhibit 33, into the top half of  
13    Exhibit 29, we could make the same ADIT adjustment  
14    and have a different percentage, but could use the  
15    same method and the same ADIT values that are listed  
16    in Exhibit 29 to determine that net?

17            A.    I don't believe I made an adjustment for  
18    the sunk tax benefits, and I think that was because I  
19    looked at the spreadsheet, and I could not figure out  
20    how to separate out the taxes, the tax benefits  
21    related to a sunk plant and to the new additions, so  
22    I left that out.

23            Q.    Okay. But you may recall that we talked  
24    earlier about AEP Ohio Exhibit 30, which is KDP-2  
25    detail, and we found on page 2 the ADIT values for

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1 each year?

2 A. Right. And the ADIT that's related to  
3 the sunk plant would be lower, I assume, because I  
4 would assume that you would be adding in taking  
5 account of accelerated depreciation for capital  
6 additions as you went along. So all of your  
7 environmental expenditures in 2016, '17, '18, '19,  
8 for example, would wind up in the ADIT for years.

9 So you shouldn't really be taking out  
10 this line, and I didn't know how to break up that  
11 line, and I probably just put that issue off to the  
12 side and then forgot to come back and do anything  
13 about it.

14 Q. Okay. But you agree that you did not  
15 make an ADIT offset for the values in AEP Ohio  
16 Exhibit 33, correct?

17 A. That is correct, I did not. I did not  
18 take ADIT into account.

19 Q. And if we wanted to show that kind of net  
20 base-rate calculation, we'd still need to do that,  
21 right?

22 A. Yes. And, yes, you would have to break  
23 out that ADIT in some way to get sunk costs.

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



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1 Thank you, Mr. Chernick.

2 EXAMINER PARROT: Any redirect on the  
3 confidential portion?

4 MS. HENRY: If we could just take a break  
5 and confer.

6 EXAMINER PARROT: Take a brief break and  
7 then we'll see if we need to stay confidential or go  
8 back to public.

9 Thank you.

10 (Recess taken.)

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

13 Do we have any redirect questions for the  
14 confidential session?

15 MS. HENRY: Yes, your Honor.

16 EXAMINER PARROT: Let's start with those,  
17 and then we will work our way around with recross on  
18 that portion before we go back into the public  
19 session.

20 - - -

21 REDIRECT EXAMINATION

22 By Ms. Henry:

23 Q. Mr. Chernick, in AEP Exhibit 32, you were  
24 asked some questions by Mr. Nourse about your cost  
25 projections, specifically in the years 2022, 2023,

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1 2024. Do you remember those questions?

2 A. Yes, I do.

3 Q. And, let's see, I believe Mr. Nourse was  
4 talking about the 5 percent lower case in his  
5 example; is that correct?

6 A. That is correct.

7 Q. And what was the number? Let's just look  
8 at the year 2022, and what was the number there?

9 A. So for the revenues with my forecast, for  
10 2022 the revenues were [REDACTED] million.

11 Q. And where were the cost numbers?

12 A. The costs were [REDACTED] million.

13 Q. And where did you derive that cost number  
14 from, sir?

15 A. That was the company's value that they  
16 estimated given their projections of coal costs and  
17 other operating costs.

18 Q. And if I refer you to -- Mr. Nourse  
19 handed around a document which was Exhibit KDP-2. I  
20 don't believe he had it marked as an exhibit.

21 A. I have that.

22 MR. NOURSE: It was marked.

23 MS. HENRY: It was marked?

24 A. KDP-2 in Mr. Pearce's --

25 Q. If I look on AEP 30, can you show me

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1 where that number is derived from?

2 A. No, I can't, not from the summary table,  
3 because these values in Exhibit AEP 32 are just the  
4 energy costs. So you have to go into the  
5 confidential exhibit, which is AEP -- well, I'm not  
6 sure that he provided quite the right page. You'd  
7 have to look at the workpapers to find that specific  
8 value.

9 Q. And I'm looking at the workpapers, and I  
10 believe I see the value. I was wondering if you  
11 could direct -- I mean --

12 A. Are you looking at Exhibit 30?

13 Q. I'm looking at the exhibit which is  
14 IEU\_RPD-1-003, Confidential Attachment 1-B in the  
15 corner, which I believe was marked as AEP 30,  
16 correct?

17 A. Oh, yes. We were looking at the same  
18 document and calling it by different names.

19 Q. And if I am on --

20 A. Oh, yes, the total value, of course, the  
21 totals are in here. The total energy costs in the  
22 5 percent lower low case, which is the third page of  
23 Exhibit AEP 30, for 2022 the value is [REDACTED] million,  
24 the same as in AEP 32, which is from my workpapers.

25 Q. And if I look at 2023, would I get the

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1 same number there as well?

2 A. Yes. The numbers are the same in  
3 Exhibit 30 as they are in Exhibit 32.

4 Q. And I'm sorry. What's the significance  
5 between the energy revenue and the energy cost?

6 A. Well, the significance is that you would  
7 normally expect that the energy revenues would exceed  
8 the energy costs, since over any commitment period,  
9 whether that's a day or a week, when you have to make  
10 decisions about whether to run a plant, you would  
11 only run it if you thought that the revenues were  
12 going to exceed the running cost. That is the energy  
13 costs.

14 And as Mr. Nourse pointed out, with my  
15 forecast or just using the current forwards for 2022  
16 to '24, the energy revenues are less than the energy  
17 costs; in other words, you would lose more money  
18 running the plant, in addition to the money you lose  
19 on the sunk costs and the money you lose on  
20 continuing to invest in operation and maintenance to  
21 keep the plant open. You lose money for actually  
22 running it in those last three years.

23 Now, the magnitude of that loss is due to  
24 the fact that I didn't have any easy way of adjusting  
25 the production downward. I tried to do an

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1     extrapolation from their base and low cases about  
2     what would happen to the capacity factor for the  
3     plants if -- with the lower futures prices, with  
4     forwards prices, and I got a capacity factor of zero,  
5     which probably isn't right, because there's probably  
6     some days in which it would pay to start the plant up  
7     to meet load, high-cost hours and high-cost days.

8             But as I discussed earlier, when you  
9     start this much in the hole, you can cut your losses  
10    somewhat by running the plant less, but even if it  
11    turned out that 5 or 10 percent of the hours was  
12    cost-effective to run the plant, it would -- you  
13    would have very little energy revenue to -- very  
14    little energy margin available to offset the  
15    operating costs of the plant.

16            And the implication is that for this  
17    group of plants as a whole, they would not be  
18    cost-effective to keep running after 2022, given the  
19    prices indicated by the forward markets. Some of the  
20    individual units might be.

21            Q.    But AEP did not do an individual unit  
22    analysis, correct?

23            A.    They did not offer the Commission an  
24    option of selecting individual units, no.

25            MR. HENRY:   That's all I questions I have

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1 in the confidential section.

2 EXAMINER PARROT: All right. Any recross  
3 for the confidential session, Ms. Fleisher?

4 MS. FLEISHER: No.

5 EXAMINER PARROT: Ms. Petrucci?

6 MS. PETRUCCI: No. Thank you.

7 EXAMINER PARROT: Ms. Ghiloni?

8 MS. GHILONI: No, your Honor.

9 EXAMINER PARROT: Ms. Bair?

10 MS. BAIR: Nothing. Thank you.

11 EXAMINER PARROT: Mr. Pritchard?

12 MR. PRITCHARD: None, your Honor.

13 EXAMINER PARROT: Mr. Yurick?

14 MR. YURICK: No, your Honor.

15 EXAMINER PARROT: Mr. Kurtz?

16 MR. KURTZ: No, your Honor.

17 EXAMINER PARROT: Mr. Nourse?

18 MR. NOURSE: No questions, your Honor.

19 EXAMINER PARROT: Mr. Margard?

20 MR. MARGARD: No. Thank you.

21 (OPEN RECORD.)

22

23

24

25

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Summary: Transcript of Paul Chernick electronically filed by Mr. Steven T Nourse on behalf of Ohio Power Company