BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of The Dayton Power and Light Company To Establish a Fuel Rider.	: : :	Case No. 12-2881-EL-FAC

INITIAL BRIEF
SUBMITTED ON BEHALF OF THE STAFF OF
THE PUBLIC UTILITIES COMMISSION OF OHIO

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I. INTRODUCTION

The recommendations by Energy Ventures Analysis, Inc. (EVA) and its subcontractor, Larkin & Associates PLLC (Larkin) (collectively the Auditor) in the 2012 Auditor Report should be adopted by the Public Utilities Commission of Ohio (Commission). The Dayton Power & Light Company (DP&L or the Company) is a public utility as defined in R.C. 4905.02 and is subject to the jurisdiction of the Commission. DP&L is required to make quarterly filings related to its fuel and purchase power costs and have its costs subject to an annual audit by an independent third-party or PUCO Staff. EVA and Larkin, were selected by the Commission to perform the 2012 management/performance and financial audit.

DP&L disagrees with several of the Auditor's findings including: [redacted]; replacement coal costs related to an unexercised option;[1] adjustments related

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1 The auditor updated the recommended disallowances for the [redacted] and unexercised options at the hearing.

to imprudent [redacted]; and other optimization disallowances. DP&L claimed credits for thirteen optimizations during the audit period and the Auditor concluded that five of the thirteen optimizations did not qualify as optimizations and the values of two of the remaining eight should be adjusted. The Auditor's reasons for the adjustments include: timing, mischaracterization of existing positions, and the imprudence findings related to DP&L's 2010 failure to exercise a competitive option and coincident purchase of excessive [redacted]. DP&L's challenges to the findings of imprudence lack merit.

The 2011 Stipulation for DP&L's fuel case governed many of the issues in this proceeding. The 2011 Stipulation, however, reserved the Auditor's right to review, audit and challenge certain coal purchases for imprudence. DP&L's position is not generally based upon the merits of the Auditor's findings rather on technicalities. DP&L asserts the 2011 Stipulation precluded the imprudence valuation. DP&L asserts precedent precluded other optimizations. For the various reasons discussed below, none of DP&L's technicalities are valid with respect to the Auditor's findings. The Auditor appropriately analyzed DP&L's fuel purchases and made its recommendations. The Auditor's recommendations in the 2012 Auditor Report should be adopted by the Commission.

II. ARGUMENT

A. The 2010 and 2011 Stipulations do not preclude disallowances related to imprudent purchases.

A prudent decision, for purposes of evaluating utility rate-making decisions in Ohio, is defined as "one which reflects what a reasonable person would have done in light of conditions and circumstances which were known or reasonably should have been known at the time the decision was made."[2] The Stipulation in DP&L's 2011 fuel case carved out the review/audit of imprudent purchases.[3] The 2011 Stipulation states:

> E. Notwithstanding any provision within Section 2.G. that could be read to the contrary, for the 2012 Audit Period the Signatory Parties explicitly reserve the right to challenge any recovery of costs related to the transactions challenged by the Auditor in Major Management Audit Fining No. 15 in the 2010 Fuel Audit Report.[4] The Signatory Parties reserve the right to challenge the Auditor's findings and conclusions regarding such transactions and may seek either recov-

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[2] *City of Cincinnati v. Pub. Util. Comm.*, (1993) 67 Ohio St.3d 523, 527-528, 620 N.E.2d 826, 830.

[3] Company Ex. 1 and 1A (Crusey Direct Testimony) at DJC-1 at 8.

[4] Major Management Audit Finding No. 15 in the 2010 Auditor Report (filed on Apr. 29, 2011 in Case No. 09-1012-EL-FAC) states:

> EVA questions DP&L's decision in 2010 to not exercise an option for up to [redacted] of high sulfur coal for delivery in [redacted] and to purchase a similar amount of NYMEX contracts. DP&L indicated it believed that the coal was priced slightly above market, a position that EVA disputes. DP&L indicated that its rationale was related to its existing hedged positions. EVA's review indicates at the time of the option, DP&L only had [redacted] tons of high sulfur coal under contract, an amount significantly below DP&L's expected high sulfur coal requirements in [redacted]. Further, DP&L purchased a similar amount of NYMEX future contracts at about the same time. DP&L stated that these NYMEX purchases are justified due to the combination of the uncertainty with the Company's projected bums and the high level of customer switching it has been experiencing.

The Auditor stated and DP&L confirmed it did no analysis at the time or subsequently to determine whether DP&L's strategy was in the best interest of jurisdictional customers which the Auditor believes is a minimum requirement to determine prudence.

ery or disallowances of costs including any charge-back of associated Optimization Gains.

F. For the 2012 Audit Period, the Signatory Parties explicitly reserve the right to challenge the calculations of any optimization of contracts for coal deliveries in 2012, regardless of the execution date of the optimization transactions. This reservation of rights is to ensure that Optimization Gains were calculated using the appropriate adjustments (as generally described in the 2011 Audit Report at pp. 4-4 through 4-6), and were properly recorded, trued-up, and charged consistent with section 10 of the 2010 Fuel Stipulation.

G. Excluding the transactions described in section 2.E., which are to be addressed as reserved in section 2.E., the Signatory Parties explicitly reserve the right for the 2012 Audit Period to challenge any fuel costs for which DP&L seeks recovery on the grounds of imprudence, with respect to the incurrence of such costs. But, with respect to Optimization, the Signatory Parties shall not challenge the Optimizations based on general views that alternative ratemaking structures, alternative contracting approaches taken prior to April 29, 2011, or alternative hedging strategies, could have resulted in a more favorable end-result for customers.[5]

Had the 2011 Stipulation limited this review, the Auditor, with the knowledge of Staff, would not have pursued this area. Also, the 2011 Auditor Report stated that the intention of the audit was to quantify the magnitude of the 2010 imprudence findings in 2012.[6] This was never addressed by DP&L in light of the Auditor's previous

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[5] Major Management Audit Finding No. 15 in the 2010 Auditor Report (filed on Apr. 29, 2011 in Case No. 09-1012-EL-FAC).

[6] Staff Ex. 3 (2010 Auditor Report) at 3-15, footnote 20 (Apr. 27, 2012) (Case No. 11-5730-EL-FAC).

recommendations. As such, the 2010 and 2011 Stipulations did not preclude the Auditor's 2012 disallowances related to imprudent purchases.

B. DP&L's decision to not exercise its option under the [redacted] contract was imprudent.

In 2010, DP&L failed to exercise a contract option for [redacted] for 2012 combined with DP&L's purchase of a similar quantity of [redacted] contracts for 2012 delivery.[7] This finding was made in 2011 as part of the 2010 audit and considered all factors extant at that time.[8] The Auditor noted in the 2011 audit that at the time "the decision to purchase [redacted] coal instead of high sulfur coal from [redacted] under the option or from other sources at comparable prices available in the market could increase DP&L's 2012 fuel costs by [redacted] but acknowledged "the actual impact on 2012 costs is not known at this time and actions could be taken by DP&L in the interim to eliminate the cost consequences."[9]

DP&L did not perform any contemporaneous analysis of the option under the [redacted] contract and its justification for not exercising the option was inconsistent with the facts.[10] DP&L inaccurately claimed it was over-committed and the option was

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7 Staff Ex. 1 and 1A (2012 Auditor Report) at 1-9 (Jun. 14, 2013).

8 *Id.*

9 *Id.*

10 Staff Ex. 3, (2010 Auditor Report) at 1-5, Major Management Audit Findings 12 and 3-29 (Apr. 27, 2012) (Case No. 11-5730-EL-FAC).

"out of the money."[11] DP&L failed to perform the minimum analysis to confirm whether that option was indeed "out of the money."[12] It is unclear from the record whether DP&L knows how to properly complete this analysis. DP&L gave no value to the sulfur difference and did the analysis on a FOB barge basis rather than delivered to the plant.[13] DP&L did not consider the variable operating costs of the scrubber in evaluating the quality characteristics for the specific coal under option which were lower than the ICAP price upon which it claims to have relied even though there was no contemporaneous evidence of this fact, which is an industry standard when evaluating coals with different sulfur contents.[14]

The evidence shows that DP&L was not seriously pursuing high sulfur coal.[15] DP&L did not solicit bids to determine the market price which is the standard procedure

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[11] Staff Ex. 3 (2010 Auditor Report) at 1-5, 3-29 and 3-30 (Apr. 29, 2011) (Case No. 09-1012-EL-FAC).

[12] The Auditor noted in the 2010 Auditor Report that DP&L had successfully used [redacted] contracts to hedge its position when DP&L burned exclusively Central Appalachia coal in its units but questioned the prudence of this strategy in the context of DP&L's new supply mix. DP&L indicated that it had never analyzed whether the use of [redacted] contracts was appropriate going forward. The Auditor recommended that DP&L perform an analysis that considered [redacted] contracts as well as other tools. DP&L never conducted this analysis.

[13] Tr. Vol. I. at 114.

[14] Tr. Vol. II at 357-359.

[15] Staff Ex. 3 (2010 Auditor Report) at 3-29 and 3-30 (Apr. 29, 2011) (Case No. 09-1012-EL-FAC).

in the industry.[16] DP&L did not contract with any other suppliers at that time to fill its open position to hedge target levels.[17]

The optimization accounting was part of the ESP at this time and the evidence also shows that Mr. Crusey had a vested interest in optimizations as his compensation was tied to the level of optimizations.[18] The evidence also shows that despite the Auditor's finding of imprudence following the 2010 audit, DP&L chose not to do any analysis in 2011 that may have supported its decision focusing instead on trying to craft a stipulation to protect itself of a disallowance.

The evidence demonstrates that DP&L did not want to contract for high-sulfur coal at that time. The logical explanation is that DP&L knew such a purchase would limit its ability to generate optimization gains. This is contrary to the intent of the optimization accounting which is that the existing position from which an optimization occurred was prudent. Therefore, DP&L's decision to not exercise its option under the [redacted] contract was not made in a prudent manner.

C. DP&L's decision to purchase one million tons of [redacted] in the last four months of 2010 was imprudent.

DP&L's explanation for purchasing the one million tons of [redacted] in the last four months of 2010 was inconsistent, telling the Auditor the primary motivation

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16 Staff Ex. 3 (2010 Auditor Report) at 3-30 (Apr. 29, 2011) (Case No. 09-1012-EL-FAC).

17 *Id.* at 3-29 and 3-30.

18 Tr. Vol. I at 95.

was volumetric risk but then testifying the primary reason was the need for low sulfur coal.[19] The responses made by DP&L to the Ohio Consumers Counsel (OCC) were also confused, with the initial response showing different commitments. DP&L admittedly did no analysis at the time as to whether jurisdictional customers were better off:

> Q. (By Attorney McNamee) Sure. Given the company's stated concern about volumetric risk, did Dayton perform any studies to determine whether the course of action that it took, that is to say, purchasing [redacted], was the least costly method of dealing with that perceived volumetric risk?
>
> A. Not to my knowledge, no.[20]

Despite having the obligation and opportunity to do such analysis after the audit report was completed, DP&L failed to do so. DP&L's inexperience with purchasing high-sulfur coal is not a justification for purchasing a non-economic coal as DP&L witness Crusey argued in his testimony.[21]

For jurisdictional customers, the problem with using [redacted] in optimizations is that the jurisdictional customer is almost assuredly worse off.[22] As explained in the 2012 Auditor Report:

> The best analogy is between premium and regular gasoline. DP&L is buying a premium fuel [redacted] which it is then selling and replacing with regular [redacted]. Since DP&L flows the gains or losses on the [redacted] sale through the FUEL Rider,

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19 Tr. Vol. I at 105, 121-122.

20 *Id*. at 107-108.

21 Company Ex. 1 and 1A (Crusey Direct Testimony) at 26.

22 Staff Ex. 1 and 1A (2012 Auditor Report) at 4-3 (Jun. 14, 2013).

> DP&L is protected against any loss on the sale of the initial purchase. Given it only optimizes when the [redacted] sale price is higher in cost than the replacement, DP&L locks in an optimization gain. In other words, this is a "win-win" outcome for DP&L and potentially a "lose-lose" outcome for jurisdictional customers.[23]

When questioned, DP&L states that the [redacted] are the only way to protect itself against volume swings.[24] Yet the Portfolio /Analytics Group, which has demonstrated its ability to perform very sophisticated analyses of complex procurement decisions, has not performed an analysis that demonstrates the [redacted] to be the preferred strategy.[25] As a result, DP&L's decision to purchase one million tons of [redacted] in the last four months of 2010 was imprudent.

D. DP&L's failure to actively manage the one million tons of [redacted] in 2011 was imprudent.

To the extent that some of the coal was potentially needed in 2012 at the time it was purchased, DP&L acknowledged it had an obligation to manage its portfolio.[26] DP&L watched the coal price go up for reasons well understood in the market, did nothing to unwind the position, and did no formal analysis of its decision.[27]

> Q. (By Mr. McNamee) Did Dayton consider unwinding its [redacted] earlier than 2012?

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23 Staff Ex. 1 and 1A (2012 Auditor Report) at 4-3 (Jun. 14, 2013).

24 *Id.*

25 *Id.*

26 Tr. Vol. I at 109.

27 *Id.*

> A. I believe we had that -- I believe we discussed that or considered it, felt that the prudent decision was to keep that [redacted] in to maintain liquidity and flexibility.
>
> Q. Was there a formal analysis that was done?
>
> A. I don't believe so, no.[28]

The Auditor in early 2011 concluded that the purchases were imprudent and concluded DP&L had done no analysis of its decision.[29] Even following these findings, DP&L failed to do any analysis of whether [redacted] was the prudent strategy for jurisdictional customers. Therefore, DP&L's failure to actively manage the one million tons of [redacted] was imprudent.

E. DP&L's challenges to the Auditor's imprudence findings regarding optimization have no merit.

1. Optimization prior to the commencement of DP&L's ESP period is not a proper optimization.

DP&L failed to disclose several optimizations in 2011 and claims that the lack of the requested mapping made this conclusion difficult until 2013.[30] The Auditor is dependent on the Company to show the correlation (or mapping) of transactions. The audits show that this mapping was not provided until the most recent case.[31] Because the

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28 Tr. Vol. I at 109

29 *Id.* at 109-110.

30 Company Ex. 3 and 3A (Cooper Direct Testimony) at 16.

31 Staff Ex. 3 (2010 Auditor Report) at 1-9, Finding 19 (Apr. 29, 2011) (Case No. 09-1012-EL-FAC); Staff Ex. 4 (2011 Auditor Report) at 1-9, Findings 10-13 (Apr. 27, 2012) (Case No. 11-5730-EL-FAC); and Staff Ex. 1 and 1A (2012 Auditor Report) at 1-16, Finding 15 (Jun. 14, 2013).

2011 optimizations were not disclosed, the Auditor could not challenge them. Further, there was no change to DP&L's behavior as the sale/purchase occurred before the ESP started anyway. Finally, the optimizations were not disclosed to the Auditors in 2010 or 2011 despite repeated requests that all optimizations needed to be disclosed in the year they were performed not the year in which the coal traded.[32]

2. Optimization purchases could occur months after optimization sales were complete.

The Auditor explained that the lack of the requested mapping made this conclusion difficult until 2013 and that had it been clear it would have been challenged.[33] There was no documentation in DP&L's files when it sold its [redacted] showing that it intended to optimize. As a result, optimization purchases could occur months after optimization sales were complete, which is imprudent.

3. The Optimizations of the [redacted] purchased in 2010 were covered by the 2011 Stipulation and imprudent.

The 2010 audit report was clear about the imprudent transactions.[34] The 2011 Auditor Report included a footnote about the plans to quantify these imprudences in

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32 Staff Ex. 4 (2011 Auditor Report) at 1-9, Finding 10 (Apr. 27, 2012) (Case No. 11-5730); Staff Ex. 1 and 1A (2012 Auditor Report) at 4-6 and 4-7 (Jun. 14, 2013).

33 Staff Ex. 3 (2010 Auditor Report) at 1-4, Finding 8) and 1-6, Recommendations 19 and 20 (Apr. 29, 2011) (Case No. 09-1012-EL-FAC); Staff Ex. 4 (2011 Auditor Report) at 1-4, Finding 3 and 1-10, Finding 13 (Apr. 27, 2012) (Case No. 11-5730-EL-FAC).

34 Staff Ex. 3 (2010 Audit Report) at 3-30 (Apr. 29, 2011) (Case No. 09-1012-EL-FAC).

2012.[35] Again, as mentioned above, the 2010 and 2011 Stipulations carved out imprudence.[36] The Auditor would not have evaluated the imprudence had it been told this was covered by the 2011 Stipulation. Therefore, the optimizations of the [redacted] purchased in 2010 were imprudent.

4. Optimization 1 was challenged due to the fact that the optimized position existed prior to the beginning of the 2011 Stipulation allowing optimization accounting.

Optimization 1 existed prior to the 2011 Stipulation allowing optimization accounting. DP&L did not refute the timing and, rather, made two arguments: precedent and date of delivery.[37] Again, the mapping of transactions was previously unavailable. The Auditor acknowledged its earlier error. However, the date of delivery is not relevant vis-à-vis optimization accounting as the question for optimization accounting is whether an existing position was improved. The existing position as of the ESP date was the optimized position.

5. Optimizations based upon imprudent transactions are not proper optimizations.

It cannot be that an optimization could occur from an imprudent position. To allow optimization treatment from an imprudent position is to allow the Company to profit from imprudent actions. While unwinding an imprudently created position could

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35 Staff Ex. 4 (2011 Auditor Report) at 3-15, footnote 20 (Apr. 27, 2012) (Case No. 11-5730-EL-FAC).

36 Company Ex. 1 and 1A (Crusey Direct Testimony, DJC-1 at 8).

37 Company Ex. 3 and 3A (Cooper Testimony throughout).

reduce the harm to ratepayers, there can be no justification for rewarding the imprudent Company. Fuel procurement departments are required to actively manage their positions including unwinding unneeded [redacted]. This is so self-evident that even the Company witness agrees.[38]

It will be argued that the Auditor failed to identify problematic optimizations earlier. This has no merit. The tie between a sale and a purchase so as to constitute an optimization is not something that can be objectively observed. Purchases and sales are inherently independent. A relationship exists only because the DP&L says it does. Thus, the Auditor is entirely dependent on the Company to show the alleged mapping between the two. The audits show that this mapping was not provided until the most recent case.[39] Thus, the Auditor identified the problems as soon as the information was available to do so.

6. Optimizations attempting to take credit for exercising optionality are not optimizations

Optimizations J and K in the 2012 audit arise from the Company's decision not to exercise options under existing contracts.[40] DP&L is claiming the coal not purchased as a result of the exercise of the option can be optimized. This is simply not a basis for an

38 Company Ex. 2 and 2A (Heller Testimony) at 17.

39 Staff Ex. 3 (2010 Auditor Report) at 1-9, Finding 19 (Apr. 29, 2011) (Case No. 09-1012-EL-FAC); Staff Ex. 4 (2011 Auditor Report) at 1-9, Findings 10-13 (Apr. 27, 2012) (11-5730-EL-FAC); and Staff Ex. 1 and 1A (2012 Auditor Report) at 1-16, Finding 15 (Jun. 14, 2013).

40 Company Ex. 3 and 3A (Cooper Direct Testimony) at 25.

optimization. It is akin to saying the Company can optimize something it was going to purchase but did not. At the point these optimizations occurred, the Company correctly concluded the options were "out of the money." Therefore, DP&L exercised the option and purchased its additional coal requirements. The two actions are independent in that the exercise of the downward option is required to implement the contracts is a prudent manner. The subsequent purchase which was based upon the need for coal was executed through the purchase of the coal with the lowest evaluated costs. This is not an optimization in any context because DP&L was simply doing its job. There was no existing position from which to optimize.

The Company's own description reflects this. DP&L witness Cooper stated:

> Optimization if a process by which the Company reviews and compares its existing portfolio of coal supply contracts, including both price and quality characteristics, against the current prices available in the market were it to sell coal in its portfolio and buy a replacement coal for delivery to DP&L operated generating stations.[41]

That did not occur with Optimizations J and K. The Company sold nothing. It merely exercised its contractual obligations given the market price and purchased coal on a least cost basis. Had DP&L not exercised an "in-the-money" option it would have been found imprudent for such a failure. Rewarding the Company to do what it is already obligated to do makes no sense. DP&L's representation that it deserves compensation for these transactions is emblematic of its failure to minimize costs for jurisdictional customers.

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[41] Company Ex. 3 and 3A (Cooper Direct Testimony) at 3.

F. DP&L's expert failed to perform adequate analysis to support his findings

DP&L's expert Heller lists four criteria to determine the prudence of fuel procurement activity but performed little to no investigation to see whether they had occurred:

> [1] Explicit consideration of quality, quantity and price uncertainties in development of the fuel purchase portfolio;
>
> [2] Management of a portfolio of purchases designed specifically to moderate price risk and to provide adequate upper and lower bound of deliveries;
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> [3] Use of multiple means to provide tonnage flexibility including contract duration, portion of uncommitted coal (including provision for spot purchases), flexibility in tonnage nomination in contracts (recognizing that this flexibility is never costless), and contractual and market ability to resell excess coal; and,
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> [4] Active monitoring of market conditions and expected coal needs and regular readjustments of strategy.[42]

These criteria are of interest because it appears from the record that the Company did not follow them. DP&L did not explicitly consider quality, quantity and price uncertainties in the development of its purchase strategy. Indeed there was no documented strategy at all for the Company's [redacted].[43] No studies were done regarding the advisability of buying the [redacted].[44] No studies were done regarding the possible

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[42] Company Ex. 2 and 2A (Heller Testimony) at 17.

[43] Staff Ex. 3 (2010 Auditor Report) at 3-18 (Apr. 29, 2011) (Case No 09-1012-EL-FAC).

[44] Tr. Vol. I at 107-108.

unwinding of the NYMEX contracts.[45] Thus the Company did not monitor the market to readjust its strategy. Although staggering contracts is an important part of portfolio strategy, the Company did not stagger its contracts. All but one ended in 2010.[46] Until prodded by the Auditor, the Company did not regularly perform RFPs to assess the markets. Rather the Company relied on a publication, ICAP, for this purpose.[47] This is despite the fact that market prices vary from the ICAP levels.[48] Even DP&L's own witness recognized that RFPs are a superior way to gauge market prices particularly when seeking larger purchases or when a Company is not in the market often.[49] Even though the Company lacked experience in buying high-sulfur coal, it did not choose to bring in experienced personnel to address the problem.[50]

In sum, the Company did not follow reasonable practices in managing its coal acquisition. As a result, ratepayers experienced the higher costs associated with the imprudent transactions identified by the Auditor.

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45 Tr. Vol. I at 109, 182.

46 Staff Ex. 3 (Auditor Report) at 3-10 (Apr. 29, 2011) (Case No. 09-1012-EL-FAC); Tr. Vol. I at 187.

47 Tr. Vol. I at 114.

48 *Id.* at 196.

49 *Id.* at 195.

50 *Id.* at 111.

G. DP&L witness Heller's analysis is irrelevant.

DP&L's witness Heller developed a sample of utilities to show that other utilities purchased more low-sulfur coal than DP&L during a comparable period.[51] DP&L's witness Heller concluded DP&L was in the pack because there were two plants, Amos and Cardinal, which purchased more low-sulfur coal.

The Amos plant is designed for a lower sulfur coal than Stuart (4.5 pounds versus greater than 7.0 pounds) and historically has burned a blend of low-sulfur and high-sulfur coal to reach the 4.5 pounds.[52] Therefore, it is not comparable to Stuart. Although DP&L's expert Heller knew the plant was designed for 4.5 pound coal, he neglected to mention that fact in his report. Rather, Heller defends his position by stating Amos could have purchased 4.5 pound coal when in fact it could not.[53] The Cardinal Plant is also not comparable to Stuart. The Cardinal Plant was retrofitted with a scrubber utilizing bubbling bed reactor technology. This is the same technology retrofit on Conesville 4 which DP&L is a part owner. All plants equipped with this technology had enormous operating problems in the relevant years.[54] These problems would have explained higher uses of low sulfur coal.

DP&L witness Heller, as an industry expert, should have known that or should have researched Cardinal before reaching any conclusions about its low sulfur coal use.

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51 Company Ex. 2 and 2A (Heller Testimony) at 10-13.

52 Tr. Vol. I at 179.

53 *Id*.

54 *Id*. at 116.

DP&L witness Crusey, who is the executive sponsoring the testimony, knew it. Without Amos and Cardinal, the conclusion is totally different. Stuart had the highest use of low-sulfur coal during the relevant period.

H. Quantification of Auditor Recommendations

1. Losses on Imprudent NYMEX Purchases.

The 2012 Auditor Report quantified the total fuel cost impact of the imprudent [redacted] purchases to be $[redacted].[55] To derive the impact on jurisdictional fuel costs, three levels of allocations were applied: (1) for DP&L's [redacted] ownership percentage in the Stuart Station; (2) for a wholesale allocation; and (3) for the DP&L retail ratio. Staff Exhibit 1C reflected a corrected amount of jurisdictional fuel cost impact from these imprudent [redacted] purchases for the 2012 auditor period of $[redacted].

2. Replacement Coal Cost Related to Unexercised Option.

The 2012 Auditor Report quantified the total fuel cost impact of the replacement coal related to the imprudent decision not to exercise an option at [redacted].[56] The Auditor quantified this attributing [redacted] for the Stuart Station and [redacted] for the Killen Station. These incremental replacement coal cost amounts are before allocations (1) for DP&L's ownership percentage at each plant; (2) for a wholesale

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[55] Staff Ex. 1 and 1A (2012 Auditor Report) at 1-11 through 1-13 and Exhibit 1-3 (Jun. 14, 2013).

[56] *Id.* at 1-10 and Exhibit 1-4.

allocation; and (3) for the DP&L retail ratio. Staff Exhibit 1C reflected a corrected amount of jurisdictional fuel cost impact from the cost of replacement coal for unexercised option, after applying the above-noted allocations of $[redacted].

3. Seven Challenged Optimizations.

The Auditor's recommendations concerning the impact on jurisdictional fuel costs of each of the seven Optimizations that were challenged quantified a total disallowance amount of $[redacted],[57] consisting of the amounts noted below for the contested Optimizations[58]:

Optimization A - $[redacted];

Optimization B - $[redacted];

Optimization C - $[redacted];

Optimization H - $[redacted];

Optimization I - $[redacted];

Optimization J - $[redacted]; and

Optimization K - $[redacted].

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[57] Staff Ex. 1 and 1A (2012 Auditor Report) at 6-87 and Exhibit 6-51 (Ju. 14, 2013).

[58] The Auditor did not include an adjustment in Exhibit 6-51 for Optimization D, due to the extremely de minimus impact. (See, e.g., Tr. Vol. II at 333-334).

III. CONCLUSION

The Auditor appropriately analyzed DP&L's fuel purchases and made its recommendations. The Staff requests that the Commission adopt the Auditor's recommendations in the 2012 Auditor Report as indicated above.

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PROOF OF SERVICE

I hereby certify that a true copy of the foregoing **Initial Brief** submitted on behalf of the Staff of the Public Utilities Commission of Ohio was served by electronic mail upon the following parties of record, this 3rd day of March, 2014.

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