BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO

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Case No. 16-0395-EL-SSO

In the Matter of the Application of The Dayton Power and Light Company for Approval of Its Electric Security Plan.

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Case No. 16-0396-EL-ATA

In the Matter of the Application of The Dayton Power and Light Company for Approval of Revised Tariffs.

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Case No. 16-0397-EL-ATA

In the Matter of the Application of The Dayton Power and Light Company for Approval of Certain Accounting Authority Pursuant to Ohio Rev. Code § 4905.13.

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Deposition of: CRAIG JACKSON
Volume I

Date and Time: Thursday, December 15, 2016
8:48 a.m.

Place: Faruki, Ireland & Cox, PLL
110 North Main Street
Suite 1600
Dayton, Ohio

Reporter: Julieanna Hennebert, RPR, RMR
Notary Public - State of Ohio

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Ms. Doris McCarter
Mr. Jim Zell
Mr. Joe Buckley
Mr. Mike Schuler

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Thursday Morning Session,
December 15, 2016.
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MR. FARUKI: Let's take appearances for the court reporter. Charlie Faruki and I represent the Dayton Power and Light company.

And, Chris.

MR. BZDOK: Christopher Bzdok on behalf of the Sarah Club.

MR. OLIKER: This is Joe Oliker on behalf of IGS Energy.

MR. PRITCHARD: Matt Pritchard on behalf of IEU Ohio. Evan Betterton, B-e-t-t-e-r-t-o-n, is here on the phone.

MR. FARUKI: And for her is Evan counsel or also a present?

MR. OLIKER: He is an also present analyst with IGS.

MR. FARUKI: Have anybody besides Chris and Matt and Joe who has not entered an appearance and who is on the phone?

MR. KUMAR: Yes, Ajay Kumar from the Ohio Consumers' Counsel.

MS. BOJKO: This is Kim Bojko and Jim Perko with OMA.

MR. FARUKI: For her, Kim, both those names I think.

MS. BOJKO: B-o-j-k-o, and P-e-r-k-o.

MR. MURRAY: Also on the phone is Kevin Murray with the Industrial Energy Users-Ohio.

MR. FARUKI: Morning Kevin. And we have various PUCO staff on the line. Could you identify yourselves?

MS. McCARTER: I know me, Doris McCarter and I know Jim Zell, Z-e-l-L. Joe Buckley from the staff is also here.

MR. ALEXANDER: Trevor Alexander on behalf of Dayton and Honda.

MS. WHITFIELD: Angie Paul Whitfield on behalf of Kroger.

MR. SCHULER: Mike Schuler, S-c-h-u-l-e-r, DP&L.

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CRAIG JACKSON,

being by me first duly sworn, as hereinafter certified, deposes and says as follows:

CROSS-EXAMINATION

BY MR. OLIKER:

Q. Good morning, Mr. Jackson.

A. Good morning.

Q. My name is Joe Oliker, we've met before. I represent IGS Energy. Just a few questions for you this morning in this case.

I understand that you've had your deposition taken before; is that correct?

A. In a prior case, that is correct.

Q. And so you understand that if you do not understand any of my questions, then you'll ask for clarification. And you will only answer with yes or no. Head nods don't exactly come up well on the transcript.

A. Yes, I understand that.

Q. First, did you look at the notice of deposition that was served on DP&L that required you to be here today?

A. Yes, I did see that.

Q. And in accordance with that notice to DP&L what documents have you brought with you today?

A. I have my testimony with me today and the related schedules, or exhibits.

Q. And when you say that, you mean the documents that were filed with the Public Utilities Commission of Ohio?

A. Yes, I do.

Q. Did you bring any other documents with you?

A. I just have a blank pad that I've just written a few names of the people that are on the call, but other than that I have no other documents.

Q. And what documents did you look at before in preparation for this deposition?

A. Certainly I reviewed my testimony, I reviewed certain aspects of some of the intervenor testimony, and then other testimony in the case relative to the DP&L side.

Q. And which intervenor testimony did you look at?

A. I read through Mr. Malinak's testimony in particular.

Q. And that's on the DP&L side. Which intervenor testimony did you look at?

A. I'm sure I will get some of the names incorrect, and I don't have the list with me. Bowser I think was one. Again, I don't have the full names in front of me. Just can't recall all the names right offhand. Bowser certainly was one of those.

Q. Did you read Matt White's testimony?

A. I don't believe that I read through his testimony.

Q. And prior to -- scratch that.

In preparation for this deposition did you look at any discovery responses?

A. Sure. Yes.

Q. Do you recall which ones?

A. I responded to many discovery in this proceeding, so I couldn't isolate or pinpoint exactly which one, but several.

Q. Did you review any documents that were not testimony or discovery responses in preparation for this deposition?

A. Can you repeat that question.

Q. In preparation for this deposition did you review any documents that were not discovery responses or testimony?

A. I do not believe so. I think the documents that I have reviewed are all related to or have been provided or pertaining to this case.

Q. Okay. Now turning to your testimony, on page 1 it indicates you are the chief financial officer of DP&L and DPL; is that correct?

A. That is correct.

Q. And you've been in that role since May of 2012, correct?

A. That is correct.

Q. And from June 2004 to May 2012 you were within the treasury organization of DP&L; is that correct?

A. Yes, that is correct.

Q. And immediately before you were the CFO you were the vice president and treasurer of DP&L; is that correct?

A. Yes. As I noted in my testimony, that is correct.

Q. And how long did you hold that role?

A. The treasurer position?

Q. Yes.

A. I held -- I'm just thinking back to the time when I was moved into the treasurer role. I believe it was approximately 13 months. It may have been 15 months. Somewhere in that range. Between a year and a year and a half.

Q. And just so I can clarify, your testimony says you were the vice president and treasurer. Are those different positions?

A. No, they're not.

Q. So for that 13-month period you were the vice president and treasurer of DPL.

A. That is correct.

Q. And can you explain what your responsibilities were in that role.

A. Yes. As treasurer, vice president and treasurer, I had responsibility for all of your treasury-related activity, so your financial rolled up through me, refinancing, certainly cash management, financial planning and analysis, FP&A, and risk management as well. Those three core functions reported through me while I was the vice president and treasurer.

Q. So in that role as the vice president and treasurer of DPL were you involved in the negotiation of the acquisition of DP&L and DPL?

A. I was not actively involved in or directly involved in the negotiation with AES.

Q. And if I could rewind a second as well. In your role as vice president and treasurer of DP&L, did you have responsibilities that relate to DPL?

A. Yes, I did.

Q. Could you explain what those responsibilities were?

A. Those responsibilities were very identical to the ones I noted for DP&L.

Q. And can you explain how you split your time? Do you have a percentage you would allocate to either organization?

A. Yes. There was a percentage of my time that was allocated to DPL and to DP&L. I don't recall the exact percentage that was done at that point in time but certainly there was an allocation of my time between the two entities.

Q. And you had indicated that you were involved in the negotiation of the acquisition of DP&L and DPL. Were you involved in any of the regulatory filings involving the acquisition of DPL and DP&L by AES that happened in 2011?

A. Not that I recall. Not directly involved in the filings.

Q. And starting -- actually, let's go back one more step.

Before you were the vice president and treasurer of DP&L and DPL, what was your role?

A. I had the title of Assistant Treasurer prior to that. And the responsibilities were very similar. I'm trying to recall if at that time I had responsibility for risk management, that may be the one area that I added once I became the vice president and treasurer, but in large part the role is similar.

Q. And that was for DP&L and DPL?

A. That's correct.

Q. And how long did you hold the assistant treasurer position?

A. This would be subject to check, but I want to say it was a few years. I think two years.

Q. So about 2009 period when you started that?

A. I think that is correct, yeah. Again, subject to check. I'd have to confirm that, but I think that's approximately right.

Q. So in May of 2012 when you were promoted to a chief financial officer position at DP&L, how did your role change from when you were the vice president and treasurer?

A. So as CFO the additional areas of responsibility that I took on were accounting, so obviously which includes all of our SEC filings, the closing of the books, your traditional accounting responsibilities. Also included tax and internal audit was a kind of a dotted line in to me. They certainly report in through the board.

Q. And do you have background in accounting or tax?

A. My undergraduate degree and most of my prior experience had been on the treasury FP&A and risk management side.

Q. And what does "FP&A" stand for?

A. I'm sorry. That's financial planning and analysis.

Q. And as the vice president and treasurer, this is going back to prior to May 2012, did you review or prepare documents that were filed with the Securities and Exchange Commission?

A. Yes, I did.

Q. And would your answer be the same for when you were the assistant treasurer?

A. Yes.

Q. And those documents were on behalf of DPL, Inc. and DP&L; is that correct?

A. Yes, that is correct.

Q. And likewise in your role as the chief financial officer of both DP&L and DPL, Inc., you reviewed documents that were filed with the Securities and Exchange Commission; is that correct?

A. Yes, it is.

Q. And you also signed those documents, correct?

A. Yes, I do.

Q. And would you also agree that you reviewed investor presentations in your role as the chief financial officer?

A. So in my role as chief financial officer when you say "investor presentations," can you clarify who you're referring to?

Q. In general. I'm just speaking high level. Would you agree that from time to time in 2012 and 2013 AES, DP&L, and DPL were involved in preparing presentations for their investors?

A. I would say, yes, I have reviewed investor presentations.

Q. Okay. And now in May 2013 you accepted your current position which is the chief financial officer of the AES Corporation?

A. Not of the AES Corporation. Of AES U.S. Services, LLC.

Q. Okay. Can you explain the difference between the AES Corporation and AES U.S. Services, LLC?

A. Certainly. AES Corporation is the ultimate parent, the CFO of that is a different person altogether. AES U.S. Services is the services organization that was established for the U.S. market that provides services to DPL, DP&L, and then other entities within the U.S.

Q. And what other entities are there that you have not named so far that you can recall?

A. The other entities include IPALCO

Enterprises, Indiana Power & Light, IPL, and then there are several generation assets that are established as individual businesses that also fall under the U.S. market.

Q. Would you agree that AES also invests in batteries?

MR. FARUKI: You mean AES the parent, Joe?

Q. Actually, let's -- let me reask the question. Are there AES entities or companies in the United States that invest in battery technology?

A. Yes. I would agree with that.

Q. Do you know which entities have those investments?

A. Yes. IPALCO -- I'm sorry. IPL through, and IPALCO is its parent, has an investment in a battery storage technology. And we have a battery storage entity at our Warrior Run facility, at our Laurel Mountain facility, and I feel like I'm missing one. At our Tait facility here in Ohio. And those are --

Q. And when you use the word "facility," are you referring to a generating asset?

MR. FARUKI: Were you done?

THE WITNESS: No, I was not finished yet.

MR. FARUKI: He's still finishing here,

Joe.

Q. I'm sorry.

A. And when I say "those entities," they roll up under an energy storage entity in the U.S. So I gave you the location where the facilities were but they are under an energy storage legal entity.

Q. Do you know the name of that entity?

A. I think it's, again subject to check, I think it's AES Energy Storage, something along those lines.

Q. In your role as the CFO of AES U.S. Services are you involved in the preparation of SEC documents filed by any AES entity?

A. The entity that I review the SEC documents, as I noted earlier, certainly for DPL and DP&L. IPALCO Enterprises is also an SEC filer so I review those documents and sign off on those. And then I do review portions of the AES Corporation's SEC documents but I'm not a signatory to those documents.

Q. Which portions of the AES Corporation documents do you review?

A. Generally the portions that relate to the U.S. businesses.

Q. And are you involved in either the review or preparation of investor presentations that the AES Corporation makes?

A. Similar to my comment before, yes.

Q. Are you involved in any decisions regarding the dividend that the AES Corporation provides?

MR. FARUKI: AES Corp. would not be a dividending entity. Could you rephrase or clarify that, Joe? AES is the parent. I think you mean to ask something else.

MR. OLIKER: No, I'm asking about the dividend that the AES Corporation may provide to its investors.

MR. FARUKI: I see. Okay.

A. I'm not involved in that decision or those discussions.

Q. Are you aware of the decisions that the AES Corporation makes regarding dividends?

A. I am aware of those once they make a decision and they announce their dividend intentions.

Q. And are you also aware of the net income of the AES Corporation?

A. Yes.

Q. So you're also familiar with the AES Corporation's balance sheet?

A. Not in extensive detail I'm not. My focus is primarily on the U.S. businesses, as I noted earlier.

Q. And were you involved in the investor presentation that the AES Corporation prepared for the Barclays Beaver Creek Utilities Conference?

A. You know, I can't recall specifically if I was involved in reviewing that particular investor presentation. I just can't recall for sure.

Q. Okay. Turning to page 2 of your testimony, you have identified two cases that you've testified in, and that's Case No. 12-426 and Indiana Case No. 44339. And also 44576. Are there any other cases that you've testified in besides these three?

A. No, those are the only three.

Q. Now, would you agree from a high level that the subject of your testimony is the distribution modernization rider?

A. As I've noted on page 2 of my testimony beginning in lines -- beginning in line 20, it is for the distribution modernization rider, it's related to the financial integrity, DMR funds, that they should be excluded from our SEET, significantly excessive earnings test, and long-term debt, so it really covers those four items.

Q. You would agree that your testimony is that the Commission should authorize the DMR? Are you okay first that I refer to that distribution modernization rider as the "DMR"?

A. Yes. And actually I will as well. Thank you.

Q. Okay. And would you agree that you testify the Commission should authorize the DMR at a level of $145 million per year to ensure that both DP&L and DPL can maintain an investment grade credit rating?

A. To achieve and maintain an investment grade credit rating, yes, I agree with that.

Q. What is your background in credit ratings?

A. So in my prior role that we discussed earlier as in the vice president and treasurer and, prior to that, as the assistant treasurer, and even through to where we are today, I have ongoing discussions with the credit rating agencies and understand the importance of financial integrity on the overall credit ratings, so the impact on, from financial integrity on credit rating, the impact on credit metrics, on credit ratings. So I'm very familiar with that.

Q. And am I correct that the DMR does not

relate to physical plant that DP&L has invested in?
MR. FARUKI: I'll object to the form. Can you specify what you mean when you say "doesn't relate to the physical plant"?
Q. Sure. Let's talk are you familiar with distribution ratemaking, Mr. Jackson?
A. Yes.
Q. Would you agree that when DP&L puts a distribution line in place, it is able to earn a return on and of that investment?
A. Yes, I am aware of that.
Q. And in that example that we just provided there was a physical investment, correct?
A. Yes. And that physical investment is what you would get the return on, yes, I agree.
Q. And the DMR does not relate to a physical investment in distribution plant; is that correct?
MR. FARUKI: I'll object to the form. You may answer.
A. The DMR does not relate specifically to any assets.
Q. I'm sorry, I didn't mean to cut you off. Were you done?
A. Yes, I am.
Q. And so in return for the DMR, DP&L doesn't

actually provide a service to customers, correct?

A. I would disagree with that. The DMR is designed to ensure financial integrity and without financial integrity you have an impact on your ability to refinance it, to issue debt at reasonable rates, which results in increased costs. It could impact service quality, so I do believe that it could have an impact back to customers.

And, Joe, I would like to clarify one comment I made earlier, that there is no -- DMR is not associated with any physical plant. I did note in my testimony that the use of the DMR funds as I've laid out would be used to pay down debt. We could use that to invest in grid modernization. So in that respect it would be used for physical plant.

Q. Okay. In that example that you just provided, I was going to talk about that later but maybe we should address it now, to the extent DP&L uses DMR funds for a future investment, would you agree that at that time DP&L would anticipate and expect to receive a return of and on that investment?

A. Yes, I would agree with that.

Q. And we'll come back to that later.

I believe you just said that but the main focus of DMR is to maintain DP&L and -- actually, let's take it one at a time.

Would you agree the main focus of the DMR is to maintain DPL, Inc.'s financial integrity?

A. It is for the financial integrity of both entities DPL, Inc. and DP&L.

Q. And, as I read your testimony, you believe the financial integrity of DP&L and DPL is at risk as a result of several factors that you identify on page 8?

A. Yes, I agree with that.

Q. And before we talk about these factors, you would agree that DPL, Inc.'s future financial condition is largely dependent on the payments it receives from its subsidiaries.

A. Yes, from the dividends that it receives from its subsidiaries, that's correct.

Q. First, can you identify all of DPL, Inc.'s subsidiaries?

A. Yes, I can. So Dayton Power and Light Company; AES Ohio Generation which houses our certain gas-peaking facilities; Miami Valley Lighting, we commonly refer to that as MVLT; we have a captive insurer, MVIC, Miami Valley Insurance Corporation; and then we have -- I believe there are other small really not anything running through other subsidiaries. But the four primary subsidiaries are the ones I just mentioned: DP&L, MVIC, MVLT, and Ohio Generation.

Q. Let's see, the insurance entity that you identified, was that MVIC?

A. Yes, it was.

Q. Would you agree that that entity's earnings has a de minimus impact on DPL, Inc.'s financial integrity?

A. Yes, I would agree with that.

Q. And the lighting company, would you agree that that entity's earnings have a de minimus impact on DPL, Inc.'s financial integrity?

A. Overall, yes, I would agree. Certainly more than MVIC but, yes, I would agree with that statement.

Q. Turn back to page 8, I'd like to talk about each of these factors. No. 1 that you identify as driving the financial outlook of DP&L and DPL is anemic load growth and slow economic development -- actually, I'm sorry, slow economic recovery and increased energy efficiency holding down demand for electricity.

Could you explain a little more what you mean by No. 1?

A. Sure. So as we've seen over the last several years and as we are forecasting going forward, load growth, and this is specific to our distribution sales, has been relatively flat. I'm looking at this on a weather-adjusted or weather-normalized basis.

And as I noted here, there's a few reasons for that. One is just the Dayton area in general I would say is not a very robust economy in terms of growth. And then, secondly, with the energy efficiency impacts, that is also when you net the energy efficiency out that further reduces the load growth that historically the company may have seen.

So really those two items are what's driving flat load growth as we look out over the forecast and what we've experienced here in the recent past.

Q. And just so I can be clear, in No. 1, and I'm referring to load growth, do you believe that this factor impacts only DP&L's distribution or only the generation business or both?

A. When I refer to "load growth," this is distribution load growth, so this would be specific to the distribution revenues.

Q. Okay. For -- were you involved in the distribution rate case that DP&L filed, that's Case 15-1830?

A. Involved, yes. I'm not a -- I was not a witness to the proceeding but, yes, I was involved in that.

Q. What was your level of involvement?

A. Review. Review of some of the work that had been done. I did review various testimonies that had been drafted.

Q. And which testimonies did you review, if you can remember?

A. Mr. Mackay's, I believe Mr. Santacruz, Ms. Rabb, Emily Rabb, are the three that immediately come to mind.

Q. And what is your familiarity with distribution ratemaking from a high level?

A. As we discussed earlier, I believe I've got a good high level concept of distribution ratemaking.

Q. Could you give me your own high level summary of how that works?

A. Sure. You have the establishment of a rate base, the establishment of a, from that rate base, a revenue requirement. Obviously, your WACC, weighted average cost of capital, comes into play.

When I think about the regulatory ratemaking, it's the assets that have the ability to get a return on and return of those investments.

Q. And for distribution service would you agree that service is noncompetitive?

A. Yes, I would agree with that.

Q. And when DP&L files for distribution rate increases, that's to ensure they get a just and reasonable return on their investment, correct?

A. Yes, that is correct.

Q. And would you agree that it's safe to assume that the amount of revenue that DP&L requests in its application to increase distribution rates is a number that DP&L believes is just and reasonable?

A. That is what we have included, yes, and we believe that that's a just and reasonable number for our distribution rate case, yes.

Q. And would you agree that it's either three years from now or five years from now if DP&L determines that it doesn't believe it's earning sufficient distribution revenue, it could come back in and file another distribution case?

A. Yes, we have that ability to do so.

Q. And for purposes of your analysis today, am I correct your testimony states that you have assumed that the Commission approves the distribution rate increase that you've requested in the application that was filed in Case No. 15-1830?

A. Yes, I agree with that.

Q. Coming back to factor 1, would you agree that load growth does not necessarily prevent DP&L from earning a reasonable return on its distribution assets?

MR. FARUKI: Let me hear that back.

(Record read.)

A. As I think about that, that question, Joe, I think the answer is if we are in a rate case and our request and recovery of costs and getting a return in and of investment, then yes, I would agree in between rate proceedings declines in load growth still has an impact on the company.

Q. Are you familiar with the term "revenue decoupling"?

A. Yes, but I would say not -- actually, let me take a step back. I'm not very well versed on decoupling.

Q. What is your understanding of revenue decoupling?

A. As I've noted, I would say I'm not very well versed on decoupling.

Q. Okay. So you wouldn't feel comfortable answering questions on revenue decoupling?

A. That's correct.

Q. When you refer to "slow economic recovery," is it your testimony that economic recovery drives load levels?

A. Yes. I believe that economic recovery, employment, that they drive load levels. Certainly offset, though, by energy efficiency to the extent companies are participating in those types of programs.

Q. And when you're referring to energy efficiency holding down demand, does that also refer back to load growth?

MR. FARUKI: Object to the form. Do you mean is it -- are there two separate reasons? Can you clarify your question?

MR. OLIKER: That's fine.

Q. Mr. Jackson, when you're referring to increased energy efficiency holding down demand for electricity, in that portion of your statement is there another reason why you believe that load growth has not or is not likely to result in the future?

A. Yes. As I mentioned earlier, the reason for load growth being anemic as I've noted here is because of the slow economic recovery as well as the increased energy efficiency. So it is having an impact on our load growth.

Q. Are you familiar with the term "lost distribution revenues"?

A. Yes, I am.

Q. Would you agree that DP&L currently collects lost distribution revenues?

A. Yes, I would agree with that. But I would note that my understanding of the lost distribution revenues is associated with the energy efficiency programs that DP&L has implemented that customers participated in.

To the extent that there are energy efficiency practices, for lack of a better word, that companies have benefited from that are not programs of DP&L, certainly those -- that's not something that would roll through the lost distribution revenues.

Q. Have you attempted to quantify the amount of energy efficiency that takes place in DP&L's service territory outside of the approved energy efficiency portfolio plans that impact lost distribution revenues?

A. I do not have that calculation. I'm not aware of that being done.

Q. Moving to factor 2, you refer to the June 20, 2016, Supreme Court of Ohio reversal of the Commission's order in Case No. 14 -- 12-426; am I correct?

A. Yes, that is correct.

Q. And your testimony is that as a result of the Supreme Court of Ohio's reversal, DP&L began collecting significantly less revenue under a GSG1 rates than under its ESP II rates, correct?

A. Yes, that's correct.

Q. The difference that you've identified, would you agree that you're referring to the difference between the $110 million per year nonbypassable service stability rider and the approximately $75 million per year that was relating to the rate stability charge?

A. It's the -- yes, predominantly I believe the second number is approximately 73 million but, yes, that is generally the differential number that I'm referring to.

Q. And factor 3 relates to PJM capacity auction prices for the 2019-2020 delivery year, correct?

A. Yes, it does.

Q. And you agree that capacity is a

generation service?

A. Yes, capacity is a generation service.

Q. And you agree that capacity prices would impact the revenues produced by generating assets owned by DP&L and the affiliates.

A. Yes. Capacity -- yes. And when you say "affiliates," I'm referring to affiliates of DP&L which is AES Ohio Generation. Yes, I agree.

Q. Factor 4 relates to the impact that of historically low natural gas prices putting down pressure on power prices, correct?

A. Yes, that's correct.

Q. And in the statement you are indicating that coal-fired power plants owned by DP&L are at risk of earning less revenue due to lower energy prices, correct?

A. Yes, that is correct.

Q. And the categories that you've identified on page 8, these are all aspects that would impact a corporation's net income, correct?

A. All of these factors would impact net income. I think more importantly cash flow.

Q. Would you agree that income tax is also a category that would impact a corporation's net income?

A. Yes, I would agree with that.

Q. And on page 18 of your testimony you indicate that AES has foregone any dividend and tax sharing payments from DPL, Inc. since the end of 2012, correct?

A. Yes, I agree with that.

Q. First let's, starting with DP&L, does DP&L pay income taxes to the federal government?

A. DP&L does not pay taxes directly to the federal government. They have a tax sharing payment up to DPL, Inc. and then DPL has a tax sharing agreement with AES Corporation for their portion of federal income taxes.

Q. Is that another way of saying that the only entity within the AES, DPL, DP&L structure that pays federal income taxes is AES?

A. So I actually would rephrase that differently. So, yes, AES is the filer, but DPL does have responsibility for its share of income taxes. So DPL would pay federal income taxes but it's paid through AES and then AES as a filer would make the payment to the IRS.

Q. Okay. So I think you just answered this. We established that DP&L does not pay federal income taxes, and do you also agree that DPL, Inc. does not pay federal income taxes directly to the federal government?

A. So I guess I'll just repeat what I just said: DP&L makes a tax sharing payment to DPL, Inc. and in the normal course DPL, Inc. would make the same tax sharing payment to AES for its share of the income tax obligation, and then AES has the obligation as a corporation as a whole to make the payment to the IRS, to the federal government.

Q. Has AES foregone tax sharing payments from DPL, Inc. in its entirety?

MR. FARUKI: What do you mean by "in its entirety"? Do you mean all of the whole amounts due or do you mean something else?

MR. OLIKER: No, that's exactly what I'm saying, and I can rephrase it.

Q. Mr. Jackson, on page 18 when you indicate that AES has foregone any tax sharing payments from DPL, Inc., has it foregone those payments in their entirety?

A. So the tax sharing payment obligation still remains on DPL's balance sheet; however, through the -- since 2012, as I note here, and through the term of the ESP, we are not making any tax sharing payments to AES but, again, the tax liability will remain on the balance sheet.

Q. And is your answer the same for DP&L?

A. DP&L makes tax sharing payments up to DPL, Inc. So it is --

Q. And, I'm sorry, I'm probably not being very clear with my question.

Would you agree then that any tax sharing payments that DP&L makes to DPL, Inc., DPL, Inc. retains those tax sharing payments for itself completely?

A. That cash would be at the DPL, Inc. level, yes. I would agree with that.

Q. Okay. Thank you.

And would your answer be the same for any other entity that makes tax sharing payments to DPL, Inc.?

A. I believe the structure of the other entities is such that the remaining tax obligation for DPL just resides at the DPL, Inc. level. I think the only true tax sharing payment or tax sharing agreement that's in place is between DP&L and DPL, Inc.

So just to be clear, said another way, the tax obligation for those other entities resides with the holding company to which --

Q. Okay, yeah. I think I understand what you're saying, but maybe I'll just use an example so I'm clear. You mentioned that there is a company known as AES Generation, correct?

A. AES Ohio Generation, yes.

Q. To the extent that that company would have a tax sharing payment from AES Ohio Generation to DPL, Inc., would DPL, Inc. give that tax sharing payment on to its parent or would it keep the money to itself under the forbearance from AES?

A. All tax sharing or all tax obligations of DPL, Inc., whether it's related to DP&L or any other subsidiaries, both those payments are being foregone, so all of them are. No tax sharing payments are being made to AES.

Q. Okay. Thank you.

MR. FARUKI: Joe, when you get to a good point in your questions, why don't we take a quick break.

MR. OLIKER: Sure. Give me a few more minutes then I might be at a good stopping point.

MR. FARUKI: That's fine.

Q. Mr. Jackson, are you familiar with the approval of transmission rates by the Federal Energy Regulatory Commission?

A. Yes, I'm aware that FERC approves our transmission rates.

Q. Would you agree that the process is relatively similar to the approval of distribution rates?

A. Yes, generally speaking, I would agree with that.

Q. And to the extent DP&L would like to or believes its transmission rates are not just and reasonable, it can file for an increase at FERC, correct?

A. That is correct.

Q. And are you familiar, does DP&L have a formula rate for transmission, if you know?

A. We do not.

Q. But nothing would foreclose DP&L for requesting approval of the formula rate; is that correct?

A. That's my understanding.

Q. And could you for the record explain what a formula rate for transmission is?

A. I guess in the simplest terms I think of it as almost like realtime type recovery. So as you're spending dollars, you're getting recovery of it, if it's not a traditional rate case like we've seen in the past.

Q. Would you agree it's similar to a tracker?

A. I guess I would classify it along those lines, yes. Speaking to a nonregulatory person, yes, that's how I would classify it.

Q. And on similar grounds are you familiar with what DP&L has proposed as a distribution investment rider?

A. The DIR, yes, sir, I'm familiar with that.

Q. And would you describe that rider as more along the lines of a formula grade.

A. Formula grade tracker style type recovery, that's how would I describe it.

Q. Where the lag between a rate case is removed, correct?

A. That's correct.

Q. And I'm sorry to jump around. Going back to our discussion about transmission rates, would you agree that DP&L does, in fact, own transmission assets?

A. Yes. I agree.

Q. Am I correct that you are not claiming in your testimony that DP&L is currently earning an insufficient return on transmission assets?

A. That's correct.

MR. OLIKER: Charlie, this might be a good point to take a break. How much time do you guys need?

MR. FARUKI: I was just thinking five minutes, Joe, if that's okay.

MR. OLIKER: That works for me.

MR. FARUKI: We'll stay dialed in.

MR. OLIKER: Come back at 9:55?

MR. FARUKI: That's fine, we'll do that. Off the record.

(Recess taken.)

Q. (By Mr. Oliker) Mr. Jackson --

A. Yes.

Q. -- to the extent the Commission does not authorize the DMR, you're not testifying that DP&L would be unable to maintain reliable distribution service, are you?

A. I believe that if we do not receive the DMR, it could impair our ability to provide distribution service. And the reason I say that is we have obligations at the holding company level, at DPL, Inc. To the extent that we are not able to meet those obligations, refinance the debt, it could force us to have to reduce the level of capital spending related to our distribution assets which, in turn, could have an impact on distribution service.

MR. BZDOK: Joe, would you mind if I had that answer read back. Sorry about that.

MR. OLIKER: Sure.

(Record read.)

MR. BZDOK: Thank you. Apologize.

Q. Mr. Jackson, let's break that down a little bit. Would you agree that the -- that there are two pools of debt? There's DPL and there's DP&L, correct?

A. Yes, I agree with that.

Q. And in your testimony you are not testifying that DP&L without the DMR would have insufficient cash available to service its debt, correct?

A. At the DPL level that is correct.

Q. And to the extent that resides at DPL, Inc., would you agree that it is nonrecourse debt?

A. Yes, I would agree with that.

Q. And could you give a definition of what "nonrecourse debt" is, please.

A. In my mind it's no recourse back to the utility. So it's not secured by the assets of the utility.

And, actually, just before we go any

further, there was one clarification that I did want to make in my testimony and I believe it's on page 13.

MR. FARUKI: This is Charlie, Joe. While he's finding that, I meant to mention this at the beginning of the deposition. So if you want to have him give the clarification on page 13, I think it would be helpful.

MR. OLIKER: Sure.

Q. Go ahead, Mr. Jackson.

A. And it's beginning in line 7 where the line currently reads "Similarly, all the debt at DPL is unsecured," that needs to be changed to "Substantially all the debt at DPL is unsecured" and the rest of the sentence would remain the same.

MR. BZDOK: Can you read it as though --

THE WITNESS: So it will read, the change will read "Substantially all the debt at DPL is unsecured but nonetheless, supported primarily by the consolidated cash flows coming from DP&L."

MR. FARUKI: This is Charlie, just because there's so many on the phone, all he did was strike the word "similarly" and the comma after it and substitute the word "substantially." And at the hearing we would make that same clarification on the record on direct examination.

Q. Mr. Jackson, is it your testimony that without the DMR, DP&L will have insufficient capital available to make investments necessary to maintain distribution reliability?

A. As I noted earlier, without the DMR, DPL, Inc. will have -- we will have difficulty servicing the debt, retiring debt as we've planned out, and meeting its obligations. And, as I noted, one challenge that that presents is it may force us to reduce the level of capital spending at our distribution business which could have an impact on distribution service.

Q. I think that was a different question, Mr. Jackson. Let's try to take it from this angle. Assume that the Commission doesn't authorize the DMR and DP&L is prohibited from giving dividends to DPL, Inc. In that hypothetical would you agree that DP&L would have sufficient cash available to make capital investments to maintain distribution reliability?

MR. FARUKI: Let me hear the hypothetical again.

(Record read.)

MR. FARUKI: I'll object to the foundation of the hypothetical, but go ahead.

A. So there is one additional issue that would rise even in the scenario where dividends are restricted from being moved up to DPL, Inc. What would result there would be an immediate, in my view, an immediate downgrade of the credit ratings of DPL, Inc. and with the notching rules and definitions, particularly with S&P but the others as well, will have a direct impact on the credit rating of DP&L and the ability to refinance the debt becomes more challenging.

Now, I would -- to also answer your question, Mr. Oliker, yes, in a hypothetical if you restrict dividends from moving to the parents, then certainly just by math it creates additional cash at the utility. But if you look at the financial integrity of the overall entity and the ability to reduce debt, that would not be the -- would not be optimal for the company.

Q. But, to be clear, to the extent that did occur, the cash that would be available to the utility would be sufficient to maintain distribution reliability?

MR. FARUKI: Same objection. Go ahead.

A. Yeah, I think I would repeat, there would be some incremental cash available. The risk on the debt side would remain, particularly with the downgrading at the parent, which would lead to a following downgrade at the utility.

Q. And I understand your answer about the credit downgrade but assuming even that it happens, are you testifying that DP&L could not maintain distribution reliability in the hypothetical we've been talking about?

MR. FARUKI: Joe, I'll just take a continuing objection on the hypothetical and then I won't have to repeat it. Go ahead.

MR. OLIKER: That's fine, Charlie.

A. Again, as I noted, there would be incremental cash to provide distribution service by not moving dividends up. The challenge again is, I believe would occur would be the downgrade which creates challenges on refinancing debt, it would -- to the extent that we would need to or would want to improve the or modernize the grid, our ability to access the capital markets would become more challenged.

So in a short answer, yes, there would be incremental cash to provide distribution service. I think longer term it does create incremental challenges for the utility, as I've noted

Q. And would you agree there's a difference between maintaining distribution reliability and modernizing the grid?

A. Sure. I do agree that there are differences.

Q. And, I'm sorry, I didn't mean to interrupt you.

A. There are differences between those, yes.

Q. And the large difference is that you can maintain reliability without modernizing the grid, correct?

MR. FARUKI: Do you mean indefinitely, Joe?

Q. For the -- let me clarify it this way: Would you agree that for the term of the electric security plan DP&L could maintain distribution reliability if it did not modernize the grid with smart meter investment?

A. In your -- in the hypothetical where there is a dividend restriction, there would be cash available I believe to maintain the grid. I would note there is certainly efficiencies that you would lose, customer benefits that you would lose by not modernizing the grid, making the investments to modernize the grid.

Q. And thank you for that answer, that's helpful. And now let's maybe move beyond the hypothetical and just talk in terms of the differences between modernization and distribution reliability.

First let's -- would you agree that DP&L does not have smart meters deployed at this point in time?

A. I would agree with that.

Q. And when you refer to "grid modernization," are you referring to the deployment of smart meters or something else?

A. Smart meters certainly is an aspect of it. I would say the more finer details of a SmartGrid and grid modernization program, I'm probably not the best witness to address those questions.

Q. Would you agree that DP&L is maintaining reliable distribution service today?

A. Yes, we are providing reliable distribution service today.

Q. Can DP&L continue to do that throughout the electric security plan term even if it did not modernize its grid?

A. Through the term of the ESP, as I've noted before, if there is a -- if we did not receive the

DMR, that becomes significantly challenged.

Q. But you would agree that grid modernization is not a prerequisite to maintaining reliability?

A. Grid modernization, no. I would say it's an improvement to the overall system which would have benefits to our customers. And just like any aging system, eventually, yes, you're making capital investments to an aging system, but really to make significant improvements to improve overall efficiencies of the system would be through grid modernization.

Q. Now, on page 10 you indicate that due to the factors we discussed earlier on page 8, DP&L had to refinance --

MR. OLIKER: Make sure this isn't confidential.

MR. BZDOK: It's not.

A. This was included in our 10Q for the third quarter.

Q. On page 10 you indicate that DP&L had to refinance $445 million in first mortgage bonds with the six-year loan, correct?

A. It was a -- yes, we had a finance with a six-year loan in the high-yield market.

Q. And so DP&L will not have to refinance or pay off that loan until around 2022?

A. That's correct. Six years would take you through 2022. However, what I would note is this is a variable rate which does create risk for our customers. Certainly there's refinancing risk associated with a shorter term surety and in any traditional utility type bond you're generally looking to have a much longer dated paper.

Q. And are you permitted to discuss the current variable rate on the open record or does that have to be in the confidential portion?

A. Yeah, what I can say is that the rate is LIBOR plus 325. So, depending on how that moves, that rate would adjust accordingly.

Q. And when you say "325," could you clarify what you mean by that?

A. It's basically the spread that we're paying above LIBOR.

Q. Is that --

A. 325 basis points.

Q. Thank you.

And you indicate that DP&L was unable to obtain long-term financing when it entered into this loan; is that correct?

A. We were unable to attain in a traditional utility first mortgage bond financing. That market was not available to us.

Q. Did you have any offers?

A. Not that I'm aware of from discussions that we had with our bank group. All of the indications that we had received was we would not be successful in refinancing this in the first mortgage, the traditional market that we had originally issued to them.

Q. And when you say "successful," are you saying there were no options whatsoever or you thought the rate was too high?

A. No, we did not believe that it would be successful given the uncertainty in Ohio.

Q. So that's a way of saying nobody would give you money at all.

A. We did not believe that we would get the money needed to refinance the full 445 million.

Q. And did anybody, did any bank say no, that they would not give you any money, or did you not ask?

A. I guess I just want to make sure I understand the question. Is it referring to the debt that we actually ended up issuing or -- I'm just not understanding your question.

Q. Sure. The $445 million that you reference on page 10, did DP&L solicit offers for a longer term and get officially denied by any bank?

A. This was the term I believe proposed by the banks. I mean, certainly we've looked at or we had looked at other alternatives, but this was the best alternative for the company given its current situation.

Q. What other alternatives did you look at?

A. As I noted, we had discussions around was there an opportunity to refinance this in the traditional first mortgage bond market, of which our view from the advice of our banks was no.

This option here, although it is risky, certainly pending an outcome in this proceeding comparable to what we've asked for we believe we would then have the ability to refinance the debt into a longer dated maturity and thus remove the refinancing risk and the risk around interest rates.

Q. And when you indicate LIBOR, which LIBOR rate were you referring to?

A. You know, I have to confirm that one, whether it's three months or six. That one I have to confirm.

Q. Would you say it was potentially three months or six months?

A. That's what I need to confirm. I don't want to speculate on which one it exactly was.

Q. And, but to be sure, it wasn't the one year LIBOR or the one month LIBOR.

A. Again, my answer -- I don't want to answer that question until I would check to confirm what it was. I just can't recall offhand.

Q. Okay. You also indicate in your testimony that under this refinancing structure DP&L cannot borrow additional funds to invest in SmartGrid; is that correct?

A. Yes, that is correct.

Q. And you may have used the term "grid modernization," apologize if I got it wrong, but I tend to use them interchangeably.

A. As do I.

Q. Assuming the DMR is approved, would DP&L then be able to borrow money?

MR. FARUKI: You mean approved at what level? In full, Joe?

Q. At any level.

MR. FARUKI: Then I'll object to the question, but go ahead.

A. So I would say if the DMR were approved as we have asked, we would have the ability to refinance this debt in that covenant that we've noted here beginning on line 7. We believe that that would be removed and it would allow us then at some point in the future, once we stabilize the balance sheet, to be able to issue debt, to be able to make investments.

Q. And the covenant you've just identified, can you explain what that covenant is?

A. It's as I've noted here, it prevents us from raising debt at the utility.

Q. And what must occur for that covenant to be lifted?

A. So there are, one, certainly if we refinance and we have more certainty in Ohio with a plan to get our FFO-to-debt metric in line, we believe that this covenant would then be lifted in the refinancing.

Q. When you just referred to FFO-to-debt, are you referring to DP&L or DPL, Inc.?

A. I'm referring to at the DPL consolidated level.

Q. In your earlier statement you indicated that changes must occur to the balance sheet in order to be able to lift the restriction on additional financing. Can you explain whose balance sheet you're talking about in that statement?

A. Yes. I'm referring to the balance sheet of DPL.

Q. And you've also indicated that in order to obtain financing for grid modernization, this $445 million loan would have to be refinanced. Is that correct?

A. For long-term modernization investments, yes. If we needed to finance that through the capital markets, then yes, this covenant would have to be released through a new financing.

Q. And are there any ways to release DPL of the covenant without refinancing?

A. So there are, I don't have them listed out here for me today, there are some customary exceptions that we would request to lift this covenant. Our view is, again, given the uncertainty in Ohio, that it would be very challenging and likely impossible to be able to get that lifted in our current construct.

Q. I understand that you don't have the agreement in front of you, but can you from memory, do you recall any of those exceptions?

A. Not specifically.

Q. You indicate on page 10 also that if the Commission does not take action to maintain DPL's financial integrity, they may be at constant risk of increases in overall costs which would result in higher rates for electric service.

In this statement are you referring to the impact of a credit rating downgrade at the DP&L level impacting the cost of borrowing?

A. Yes, I am.

Q. Have you quantified the impact a credit rating downgrade may have on borrowing costs?

A. I have not quantified a specific impact on a downgrade.

Q. Do you know how many basis points downgrade on DP&L's credit rating would have on borrowing costs?

A. You know, certainly would depend upon the pricing at that time. When we were looking to issue the debt, so, I mean, it's a difficult question to answer now trying to look ahead to whether at one rating or another rating, but just knowing that certainly a lower credit rating will result in higher cost per customer just by nature of the risk of the covenant.

Q. If you know, does a noninvestment grade utility face a hundred basis points higher borrowing cost? 200 basis points higher? If you have a range.

A. Again, don't have a range for it. Ultimately depends on where you sit on the ratings grid, you know, whether you're at a triple-B or you're at a double -- it really just depends on how far the ratings move, so I don't have a specific range for you.

Q. What's the worst-case scenario, what's the highest amount of an impact you would see from a basis points perspective?

MR. FARUKI: I'll instruct you not to guess or speculate, Craig. She'll read the question back, and if you can answer without guessing, do so, and if not, say that.

(Record read.)

A. Yeah, I would purely be speculating so I would not be able to answer that.

Q. Did you look at any of the borrowing costs of utilities with noninvestment grade credit ratings?

A. There are very few that I'm aware of. I'm not sure -- DP&L is probably less than a handful -- I don't recall looking specifically at other utilities that are -- my understanding, that we are one of --

there are very few noninvestment grades on utilities.

Q. And can you identify any of them as you sit here today?

A. Not offhand. Just from what I understand, there's very few.

Q. And you don't recall any of the borrowing costs for any of those utilities?

A. I don't, no.

Q. Going back to the 445 million that DP&L has borrowed, you're not testifying that without the DMR DP&L will have a problem servicing that debt.

A. So our ability to -- so this debt will be coming due in six years and certainly we are looking to reduce debt at the DP&L level. So yes, I actually do think it will be -- when you say "servicing the debt," obviously, you can meet your interest obligations, but looking to take debt out to the right side of the balance sheet of the overall company including DP&L, it will be -- without the DMR we're not going to be able to do that.

Q. But the interest component itself, DP&L will not have a problem servicing the interest on the 445 million; is that correct?

MR. FARUKI: Without the DMR you mean?

Q. Without the DMR.

MR. BZDOK: Just for everyone on the phone, can I ask the witness to identify what exhibit he's looking at.

THE WITNESS: I was looking back to Exhibit CLJ-4, which is The Dayton Power and Light --

MR. FARUKI: CLJ-4 is confidential --

THE WITNESS: Yes.

MR. FARUKI: -- so if, can you give Joe an answer without --

THE WITNESS: Yes, I can.

MR. FARUKI: -- confidential information from it. Why don't you do that.

A. So the interest obligations yes, I think we can meet those. The term of the ESP, this debt would ensure during the term, and as I've noted earlier, it would be very difficult to refinance that debt. And then, secondly, certainly would not be able to pay that debt down without the DMR.

Q. And you agree the ability to refinance that debt would be based upon the conditions that exist in 2021, correct?

A. I believe it would be based on the conditions that are set forth in this ESP proceeding leading up to 2021-2022 when we're looking to refinance or to pay it down.

Q. Now, am I correct that one of the purposes that you've identified for the DMR is to allow DP&L and DPL to reach what you believe is an appropriate capital structure?

A. Appropriate capitalization and appropriate FFO-to-debt ratio.

Q. You clarified my question to indicate an appropriate capitalization. What do you mean by that?

A. An appropriate level of debt relative to the cash flow that is being generated.

Q. Is another way to pay capitalization through equity?

A. Your capital structure -- to make changes to your capital structure, yes, you can make changes through debt or through equity.

Q. And would you agree that one of the purposes of the DMR is to increase the amount of equity on the balance sheet of DP&L and DPL, Inc.?

A. By foregoing any dividends to AES, all of the revenues which then netting on expenses down to net income, yes, that ends up being a benefit to your equity position to the extent you have positive income.

Q. And whose balance sheet needs to be recapitalized? Is it DP&L, DPL, or both?

A. So as I've noted in my testimony, we are looking to repay debt at both entities, DPL and DP&L.

Q. And if you -- could you turn to CLJ-4. I recognize that most of it is confidential but not all of it. Let me know when you're there.

A. Yes, I'm there.

Q. On line No. 45 it indicates Asset Impairment Charge for 2017 and every year it indicates a number of I believe 584 million; is that correct?

A. That is correct.

Q. And this impairment charge relates to several of DP&L's generation assets, correct?

A. Yes.

Q. First, can you explain what an impairment is?

A. Sure. So an impairment is a comparison of your current value that you have on the books, current book value, you look at your expected future cash flows and if your cash flows on a discounted basis are less than what you're carrying on your books, the net result is an impairment charge.

If the present value of the future cash flow is greater than your carrying value, then there's no impact on the financial statements.

MR. OLIKER: And could I have that answer read back, please.

(Record read.)

MR. OLIKER: Thank you.

Q. And you would agree that the forecasted cash flows in this impairment were related to the market based revenues that DP&L anticipated it would earn for its generating assets.

A. It was, yes, it was related to -- let me clarify. It was related to market revenues, yes, for energy, for capacity, and for ancillary services.

Q. And would you agree that an asset impairment results in a reduction to common equity?

A. Yes.

Q. So would you agree on CLJ-4 if there's a 584 million reduction for an impairment, we can anticipate there's also been a 584 million reduction to the equity portion of the balance sheet?

A. Yes, I would agree with that.

Q. Would you agree that a reduction to common equity would tilt the capital structure toward a higher debt-to-equity ratio?

A. Yes, I would agree with that.

Q. And would you agree, slightly changing a little bit, on CLJ-4 -- this is a projected income statement, correct?

A. This is a forecasted income statement for DP&L, yes.

Q. And one of the numbers on this statement is net income, correct?

A. Can you repeat that question.

Q. Yes. One of the numbers that we would see for each year on CLJ-4 is for net income, correct?

A. Yes, that is correct.

Q. And you agree that from net income DP&L can send either all or a portion of that amount up to DPL, Inc. as a dividend.

A. DP&L, yes. DP&L can send dividends to its parent, DPL, Inc., yes.

Q. And the dividend is usually either the amount of net income or a smaller amount, correct?

A. So in the -- I have to look to make sure.

Yeah, I don't believe this is confidential. So, for example, I'm referring to page 11 of my testimony, line 10, in 2015 we paid $50 million in dividends to DPL so, but generally speaking, just for the last few years that has been the case that, yes, it's at or below the net income.

Q. And amounts that are not dividended up to the parent company that relate to profit are then attributed to retained earnings; is that correct?

A. Yes.

Q. And retained earnings are added to the previous common equity balance, correct?

A. That is correct.

Q. Before you mentioned that the purpose of the DMR is to recapitalize DPL, Inc.'s balance sheet, correct?

A. It's for the capitalization for both entities to ensure the financial integrity which we are aligning to the FFO-to-debt to ensure that we have investment grade like metrics.

Q. And for DPL, Inc., you're talking about paying down debt, correct?

A. I'm talking about paying down debt at both DPL, Inc. and DP&L, as I noted earlier.

MR. OLIKER: At this time could the court reporter please take out envelope No. 4.

(EXHIBIT 1 WAS MARKED.)

Q. Mr. Jackson, do you see a document that contains DP&L's response to interrogatory 4-1?

A. Yes, I do.

Q. And do you recognize this interrogatory response?

A. Yes, I do.

Q. And did you prepare this response?

A. Yes, I did.

Q. And we've been talking about the amount of debt that resides at the DPL, Inc. level. What amount of debt are we talking about, if that number is public?

A. Just in round numbers our debt at DPL, the balance today is approximately, I'm just going to confirm it. It's approximately $1.2 billion.

Q. And what portion of that debt is recourse debt?

A. I think we had discussed earlier the fact that that the utility, we don't have any debt that's recourse. The only -- there is a portion of the holding company debt that has, it's a $125 million series that's backed by the peaking assets that's in AES Ohio Generation.

Q. And am I clear you just indicated the amount of debt at DPL, Inc. was 1.25 billion?

A. Let me reconfirm that here.

I think it's approximately a billion dollars. We have --

Q. Billion, okay.

A. Yeah, I believe it's in that billion dollar range.

Q. And, just so we're clear, oftentimes when one were to look at the balance sheet of DPL, Inc., the debt of DP&L can appear on there as well, correct? But not in the answer you just provided to me.

A. Correct. And just to clarify, DPL, Inc., the parent, so yes, on our balance sheet of DPL, Inc. you would see the total consolidated company debt which today on a consolidated basis is approximately 1.9 billion.

Q. And on a DPL, Inc. level, it's approximately a billion with 125 million of that being recourse, correct?

A. 125 million is supported by the AES Ohio Generation peakers, which that entity sits outside of DPL.

Q. Okay. Just briefly can you explain what it means to have recourse debt?

A. In my view when I think of recourse, it's is there any recourse back to the utility. So does the utility have -- if you didn't meet the obligations of that debt, can they go back after the utility. So without having recourse, they could not go after the utility for that debt.

Q. Okay. And the $875 million in debt, DPL, Inc., would you agree that that debt largely resulted in the acquisition of DPL, Inc. by AES?

A. Just want to make sure I understand the question. I think you're referring to DPL, Inc.? I'm just not sure which entity you're referring to.

Q. I'm referring to DPL, Inc., the parent or mid-stream entity.

MR. FARUKI: Why don't you just reask your question, Joe, just so he understands.

Q. Maybe let's look at interrogatory 4-1. Would you agree that when AES Corporation acquired DPL, Inc., it partially financed that acquisition by taking out a $1.25 billion loan?

A. Yes. There was two separate issuances, it's my understanding, and equaling 1.25, that's correct.

Q. And the loan was taken out by an entity known as Dolphin Subsidy II, Inc., correct?

A. That is correct.

Q. And upon the consummation of the merger or acquisition, would you agree that DPL, Inc. assumed the obligation to repay the $1.25 billion loan?

A. Yes, that is correct.

Q. And since the acquisition, DPL, Inc. has paid back 520 million of that 1.25 billion, correct?

A. Since the -- there may be some nonpublic information in here, but it's in and around that number, correct.

Q. So is that a good indication that approximately 725 million of the 875 million of nonrecourse debt is related to the acquisition of DPL, Inc.?

A. Can you repeat the question.

Q. Sure. Well, let's break it down this way: Would you agree there's about somewhere in the range of 750 million of the 1.25 billion that still needs to be repaid?

A. The way I think about we have a total debt level at DPL and we have, what you noted earlier since the acquisition, we have taken out north of $500 million and have reduced the debt level at the holding company by that amount.

Q. So just a rough math of 1.25 billion minus 520, that would give us the leftover number from the acquisition debt, correct?

A. Just specifically if you were doing that math, that math is correct.

Q. So that's -- would you agree that the supermajority somewhere in the 90 percent level of the debt that resides at DPL, Inc. is nonrecourse debt related to the acquisition of DPL, Inc.?

MR. FARUKI: Can you read that back?

(Record read.)

MR. FARUKI: Thank you.

A. Yes, I would agree with that.

Q. Now, let's assume for a second that the DMR is not approved and DPL, Inc. is unable to pay the interest on the recourse debt associated with the generating facilities, the 125 million. What would happen in that scenario?

MR. FARUKI: I'll object to the incomplete hypothetical. For example, Joe, what do you want him to assume about the rate case? I mean, you've only given him two facts.

MR. OLIKER: I'm asking him to assume that DPL, Inc. cannot service the debt. And so let me just give you a few more facts to make you feel a little more comfortable.

Q. Let's assume that the Commission approves the distribution rate case and it approves every element of your ESP except for the clean energy rider, and it denies the DMR in its entirety and also terminates the existing rate stability charge. And then DPL, Inc. does not have sufficient cash flow available to service its debt. In that hypothetical what happens with the $125 million recourse debt?

MR. FARUKI: I'll object to the incomplete hypothetical, but go ahead.

A. To the extent we were not able to meet our interest obligations, we could be in default of that debt and the bondholders would have a claim to the assets.

Q. Okay. And what do you mean by "the bondholders would have a claim to the assets"?

A. The bank itself. It's a bank term loan, so they would have a right to the assets as I view it effectively as collateral. And some of this will get into the legal aspects of this to which I may not be able to get into all that detail.

Q. And that's on the recourse debt. Now let's assume the same hypothetical, what would happen with the nonrecourse debt?

MR. FARUKI: Same objection. Go ahead.

A. In the worst-case scenario if we didn't have the ability to meet our obligations and were not able to pay the debt off when it comes due, worst-case scenario, you could be moving into a potential bankruptcy scenario.

Q. And in a bankruptcy scenario would you agree that the creditors would then become owners of DPL, Inc.?

MR. FARUKI: I'll make the same objection. You're not specifying very much about the bankruptcy case.

But go ahead, Craig.

A. That's, again, my understanding. I'm not a bankruptcy expert, but that's my understanding.

Q. And that is because DPL, Inc. owns assets and the Bankruptcy Court would look to those assets ultimately to provide value to the creditors.

MR. FARUKI: Same objection. I'll tell you to answer that without speculating.

A. That would be my understanding. Again, I'm not a bankruptcy expert.

Q. Are you familiar with the term "ring fencing," Mr. Jackson?

A. Yes, I am.

Q. Could you give your understanding of that term?

A. It's basically to provide protection for the legal entity. As an example, ring fencing between DP&L and DPL, Inc., that could provide protection to the utility from the parent.

Q. And how does it provide protection?

A. So, for example, if you look at ring-fencing provisions, you generally want to have separateness between the two entities. One area that it provides protection is along the lines of, my understanding, along the lines of bankruptcy.

Q. And assuming DPL, Inc. were to go into bankruptcy, do you believe that would impact the ability of DP&L to maintain reliability of the distribution grid?

A. Absolutely. And the reason for that is the ability for DP&L to access even equity -- let's look at equity markets through its parent, DPL. So to finance future investments, it would not have access to that equity market.

And when I say "equity," it's through DPL, Inc. DPL, Inc. issues debt, pushes that debt down as equity to DP&L. So I firmly believe that that would have an impact on DP&L's ability to fund future investments.

MR. OLIKER: Could I have that answer read back please.

(Record read.)

Q. Would you agree that one of the possible outcomes of a bankruptcy would be the sale of DPL, Inc. to a third party and its assets?

MR. FARUKI: Object. Calls for speculation. You may answer.
A. That certainly could be a potential scenario.
Q. And as you sit here today you don't know -- scratch that.
At page 12 of your testimony you indicate that the DMR will not be used to support the generation business, correct?
A. That is correct.
Q. Are you familiar with the clean energy rider that DP&L has proposed in its application?
A. I am not the expert on the clean energy rider.
Q. Are you familiar with it?
A. Not enough to really address any questions on it.
Q. Would you agree that it involves investment in renewable generation resources? Are you comfortable with that level?
A. Again, I'm not the witness to address those questions.
Q. Do you understand the purpose of the rider at any level?
A. I would defer that to the appropriate

witness in the case.

Q. Maybe I can ask you from this way: Would you agree that without the DMR DP&L could not issue new debt to invest in renewable generation facilities?

A. Without the DMR, all the issues that we discussed earlier, it would create issues on whether it's renewable or grid modernization even challenges in the future around just normal investments. So I think it impacts our investments particularly on the grid modernization side as we've noted here in my testimony.

Q. Would you agree that, generally speaking, the DMR increases the amount of cash flow available to DP&L and DPL, Inc.?

A. So the DMR will increase cash flow certainly at DP&L and, as we've noted, we are dividending cash to DPL, Inc. to service and pay down debt at DPL, Inc. So through that mechanism, yes, it does create incremental cash flow at both entities.

Q. Would you agree then without the DMR there will be less total cash flow available to service the capital expenditures needed for generating assets?

A. So as I've noted in my testimony, the DMR is going to be used to pay interest obligations, make discretionary debt at DPL and DP&L, and for capital expenditures to modernize the company's structure. That's what we are planning to use the DMR for.

Q. Are there any restrictions in your application that DP&L has proposed that would prevent it from using cash flows from DMR to service its generation assets, debt, or capital expenditures?

A. I don't know that we've specifically called out any restrictions, but I would again reiterate that we are not using the DMR for any generation capital investments. It will be used for the items that I just noted.

Q. Would you agree that cash is fundable?

A. Not necessarily. I mean, again, the size of the DMR and what we have requested is specifically tied to my financial schedules, the paying down of debt. And, obviously, we'd look to see if there is an opportunity to make investments on the grid modernization.

Can I just ask if someone can put their phone on mute? I'm hearing a lot of talk in the background.

Q. And on page 13 you indicate that DP&L has no generation specific debt because of all the debt is backed by all the assets of DP&L, correct?

A. At DP&L, that is correct.

Q. You're not taking the position that none of the DP&L debt has been used in the past to finance generation related expenditures.

A. Our debt that has been issued to DP&L has been used to support DP&L the total entity, it's not been assigned or associated with specifically T and D or generation, it's been for the utility.

Q. So your position is that all of the debt has been used for financing all of the assets including the generation assets.

A. It was issued off of the full, as I've noted here on line 6, off the full faith and credit of the integrated utility and supported by the assets and the cash flow of that entity. And the assets include transmission, distribution, and generation.

Q. Would you agree that a portion of DPL's debt relates to pollution control bonds?

A. We have issued pollution control bonds in the past, yes.

Q. And what is a pollution control bond?

A. It's just a specific type of financing that is common amongst utilities. And when we issued it at that time, again, very consistent with what I've noted here, it was off the full faith and credit of the full utility and supported by the cash flows of the entire entity.

Q. Would you agree that they were, these types of bonds were intended to reduce pollution?

A. I guess I'm not understanding your question. It's a specific type of bond that you can issue, which we did. And, again, it was issued off the full faith and credit of the full entity, which is transmission, distribution, and generation.

Q. And that the full faith and credit goes to the collateral, correct?

A. It goes to effectively the, yes, the debt is secured by all the assets.

Q. But the expenditure itself was intended to relate to pollution control, correct?

A. At that time we had expenditures across the entire utility, transmission, distribution, and generation, so that the debt was issued again to support our capital program and then also was tied into the cash flows from all of those assets.

Q. And part of those expenditures were related to retrofits and pollution controls for generation facilities, correct?

A. Again, I'm not -- it was related to transmission, distribution, and generation, which I noted earlier, so which would include the capital expenditures that you referenced.

Q. Let's look a little more into the manner in which you have calculated the DMR. I believe it's page 13. Actually goes on to page 14. And feel free to either interrupt me or not answer the question if you believe the response is confidential, but I want to get as much as possible into the public portion of the record.

A. Okay.

Q. Am I correct that you utilized Exhibit CLJ-1 through CLJ-6 with targeted credit metrics you identified from Moody's Rating Service to calculate the DMR?

A. Yes, that is correct.

Q. And under bullet No. (a) on page 14 you reference a 13 to 22 percent number as being the appropriate FFO to debt range for an investment grade utility, correct?

A. Yes, I did.

Q. And are you comfortable talking about the process without talking about specific numbers that you used to come to calculate the DMR?

A. Yes. And I think, as we discussed earlier, if we get to a point where it feels like we have to talk numbers, I'll just mention that and I think we'll save it for the confidential portion.

Q. Okay. First, could you define what is FFO?

A. So the straight acronym is funds from operations. It's, as I've noted here, it's your pre-working capital cash flow that you generate from your operations.

Q. And the debt you were speaking of, that's long-term debt, correct?

A. It's long-term debt, and on my exhibits we reference a current portion of long-term debt. And, to be clear, that generally is debt that comes due within a 12-month period. That also is included in what we call long-term debt.

Q. And could you describe in your own words the process, without using numbers, that you utilized to calculate the DMR?

A. Sure.

Q. And I think that might be an easier way to do this without me suggesting something that might be confidential.

A. Sure. So we, as is noted on page 14, we started with what is the FFO-to-debt range and then, as we've noted here, 13 to 22 percent was the target range.

We calculated -- first we started with an overall FFO number, funds from operations, and we adjusted from that FFO number certain generation related cash flows. I won't speak to the number itself here. So we come up with what we're calling an adjusted funds from operations.

And this was absent any DMR. So looking at it pre-DMR.

We knew what our level of debt was at that time, so just by looking at the straight calculation, my funds from operations relative to my debt level yielded a certain percentage metric. That percentage metric relative to the 13 percent, which is the bottom end, was the net differential. And that's how we then ultimately determined what would the sizing of the DMR need to be to get that metric to 13 percent.

I would note that in my -- actually, I don't think I can say that in the public portion. But that, in its simplest form, that is how we computed the FFO-to-debt metric and ultimately the sizing of the DMR.

Q. And interrupt me if I cross the line here. Are you comfortable talking about the years for debt levels that you looked at and the categories you included in the analysis as to how you calculated DMR for today into the ESP period?

A. I think I could probably talk to some of that. Do you have a specific question that we can maybe address it that way?

Q. Sure. So as I understand what you just testified, you looked at the adjusted FFO that, which is the FFO of DP&L -- actually, let me scratch that. I just totally butchered that.

You looked at the FFO of DPL, Inc. in the end of ESP term and then you adjusted that downward to remove the DMR and the generation revenues and tried to determine what level of debt you believed DPL, Inc. would have to get to to support that debt at a 13 percent FFO-to-debt ratio.

A. I'm not sure I follow.

(Record read.)

A. We started out with a DMR, as I noted earlier, to determine what is the level of FFO and what was the level of debt that we had over that period and what the debt equates to in terms of an FFO-to-debt calculation.

That calculated number was compared back to a 13 percent target and the differential is what was used to size the DMR to allow us to get to an appropriate outstanding debt level with an FFO-to-debt metric of 13 percent.

The other comment, I think I can make this on the public portion, is we are sizing this to be an FFO-to-debt of 13 percent at the end of the ESP period. So the subsequent year to the ESP is when we would achieve that 13 percent.

Q. Okay. Yeah, I think we're on the same page. So another way of saying this, the simple calculation is from CLJ-3 you took the adjusted FFO number in 2023 and you divided that by around 13 percent and that gave you the debt number you thought DPL, Inc. had to get to.

A. Effectively the -- yes, the differential between the 13 percent and where we're coming out is what would drive the size of the DMR and then, ultimately, our reduction in debt level. I think we're saying the same thing.

Q. Okay. And to be clear, then, you have in your calculation of the DMR acted as if DPL, Inc. could not count on any generation related revenues from any of its subsidiaries.

A. Actually, I would say there are cash flows related to the generations that are attributing to some of the debt paydown as well, but it's predominantly from the DMR. But when we did the calculation of an adjusted FFO to debt was sized off of the T and D business as well as certain -- some of the other subsidiaries that we noted, like Miami Valley Lighting.

Q. Okay. But, to be clear, in calculating the FFO-to-debt number itself, it did not clear any generation revenues, correct?

A. The adjusted FFO-to-debt number, it included revenue from our peaking assets, so the gas peakers but not the coal generation assets.

Q. Okay. Thank you.

And FFO itself, or funds from operation, would you agree that looks at net income as a starting point?

A. Yes. And then adding back depreciation. You're looking traditionally at your cash flow which net income oftentimes is a starting point.

Q. So you add in depreciation and amortization, correct?

A. Correct.

Q. And normally would you also include tax, income taxes?

A. Yes. I believe that is correct, yes.

Q. And when I say "include" it, would you add it to the income and depreciation and amortization?

A. It is a -- you have income tax. To the extent you have income tax payments, that would be an impact from your cash flow or reduction to your cash flow.

Q. But because AES has agreed to forego tax payments, in this instance you would calculate the FFO number by taking the income, adding depreciation and amortization, and then adding what would otherwise be paid in federal income taxes, correct?

A. I think, if I can do this without talking to any numbers, if you go to CLJ-3, how we computed our funds from operations is laid out beginning on line 16 through 19 just in a general sense.

So you have your cash flow from operations less your income taxes, because we still have -- even though we're not making the payment on up to AES, that tax liability still remains. Then we back out the DMR, and that netted to your funds from operations is on a consolidated basis.

Then, as I noted earlier, we adjusted out the coal related cash from operations.

Q. Maybe help me, explain that part. Would you agree that by forgiving tax payments that DPL, Inc. and DP&L would ultimately have to make to the federal government, that increases the cash flow available to DPL, Inc.?

A. Yeah. It's, in fact, that's one of the pieces of incremental cash flow that we're able to use to pay down additional debt at DPL, Inc., by not having to make those tax sharing payments to AES.

Q. And the number on line 17, and I don't think this is confidential, does the number on line 17 for incomes taxes, does that reflect all of the income tax forgiveness that DPL, Inc. will recognize?

A. That would be the -- yes. Yes.

Q. And can you explain why it says "Less: Income taxes"? Why are income taxes being subtracted out for purposes of calculating the FFO number?

A. Because in our cash flow from operations that was not -- did not have the tax effect included in there.

Q. What do you mean by that? I'm sorry. I don't understand your answer.

A. So my cash flow from operations, line 16, that is a pretax number. Although we are not making a cash tax payment to AES, for purposes of what the FFO-to-debt would look like, assuming that we didn't have a DMR and were kind of out of the ESP period, you would assume then at that point in time you're making a tax sharing payment. You no longer have the DMR because, again, your ESP period has ended. So we're capturing what the true reflective FFO, funds from operations, would be without those two items, or accounting for those two items.

Q. I think I understand what you're saying. What you're saying is when you calculated the DMR, you wanted it to be based upon what DP&L and DPL, Inc.'s world would look like after the tax sharing forgiveness expires and after the DMR expires at that point in time, correct?

A. Yes. Our filing in our recommendation on the size of the DMR, the term of the ESP is that it's all positioned on DPL and DP&L reaching and maintaining the investment grade ventures, as of the end of the ESP period. So at that point then going forward.

Obviously, through this seven-year term it's going to take that period of time to reach that appropriate level.

Q. And would you agree it's possible that AES could continue to forego tax sharing payments after 2023?

A. I mean, I'd purely be speculating at this point.

MR. FARUKI: I'll tell you not to speculate.

Q. So as you sit here today you do not know one way or another.

A. Beyond the ESP term, no, I do not.

MR. FARUKI: Joe, when you come to a good point, let's take another short break.

MR. OLIKER: Sure. Try to keep going for a few more minutes, I might get to a good stopping point then.

MR. FARUKI: That's fine.

When did you want to stop for lunch? Let's go off the record a minute.

(Discussion off the record.)

MR. FARUKI: Back on the record.

Q. In your calculation of the adjusted FFO, I think you said that earlier, the adjusted FFO reduces the coal generation funds from operation but not the peak facilities?

A. That is correct.

Q. And the basis for removing that revenue from the FFO-to-debt calculation I think you indicated was because the credit rating agency would do that; is that correct?

A. Our review it's both the credit rating agencies as well as when we're looking at financing debt, the credit quality of the financial institutions as well, that they will discount the coal generation related cash flows.

Q. And they would not discount the peaking facility cash flows; is that correct?

A. Our review is the volatility that you see, there's two primary reasons why we think it's more attributable to the coal assets and it's what I've noted on the bottom of page 14 and over to the top of page 15.

But with one, it's the volatile energy margins and then I think, secondly, the risk around the finite lifespan to the extent there was unknown environmental legislation, we think that that's more closely aligned with your coal assets and the risk around those assets.

Q. And would you agree that if you did not adjust the FFO downward for generation revenue, would you agree that the FFO-to-debt calculation would be higher?

A. It would be higher but still within the range that we noted from Moody's.

MR. OLIKER: Can I have that answer read

back, please.

(Record read.)

Q. Which range are you referring to in that statement, Mr. Jackson?

A. The 13 to 22 percent. I don't want to get into specific numbers on that right now, we can do that later, but it's the 13 to 22 percent FFO-to-debt range that I noted in my testimony.

Q. Earlier, Mr. Jackson, we were talking about the ability of DP&L to invest in grid modernization. Do you remember that question from a high level?

A. Yes.

Q. And would you agree that there's two ways that could happen, DP&L could take out a loan to fund that investment, or it could use its retained earnings to do that?

A. As I noted earlier, in our current situation, no, we cannot issue any new debt at the utility. Assuming that that convenance -- that covenant didn't exist, then you could fund it through debt, through equity, an equity infusion from the parent down to DP&L, or through existing cash loans to the extent they were available.

Q. And to the extent DP&L invests in the grid modernization, one of the components of a rate associated with that investment would be the return on the investment, correct?

A. That is correct.

Q. And there's two components, there's the return on the investment, and there's the return of the investment. Correct?

A. Yes.

Q. The return of the investment relates to the recovery of depreciation?

A. That's correct.

Q. And the return on the investment is associated with a weighted average cost of capital multiplied by the rate base, correct?

A. Yes. That's effectively correct, yes.

Q. And a weighted average cost of capital is composed of debt and equity, correct?

A. Yes, it is.

Q. And the equity portion of the capital structure usually has a higher rate associated with it for interest purposes, correct?

A. When you say "for interest purposes," cost of equity generally carries a higher rate than the cost of debt. Cost of debt does have interest associated with it.

Q. And why is that?
A. Well, on debt you have an obligation, it's an interest payment, whereas on your equity it's just a return that you're providing back to your equity investor. The return's not a guarantee, but you do have an obligation to make your debt payments, debt obligations.
Q. And is that another way of saying that there's a higher risk for an equity investor so they expect to be compensated for that risk?
A. Yes.
Q. Because the equity investor has put their capital at risk in the investment, correct?
A. Yes, they have put their equity at risk.
Q. Are you familiar, Mr. Jackson, with energy efficiency portfolio plans?
A. Yes, but I'm by far an expert in the energy efficiency portfolio plan.
Q. Have you ever heard of the term called "shared savings"?
A. Yes, I have heard the term.
Q. And would you agree that DP&L may have the opportunity to earn shared savings on its energy efficiency portfolio plan?
A. That's my understanding.

Q. And in your calculation of your Schedule CLJ-1 through CLJ-6 did you attribute any amount of net income to shared savings?

A. Subject to confirmation, but I believe the answer is yes.

Q. And you would be able to identify that number in your workpapers in the confidential section, correct?

A. Yes, I believe that's correct.

MR. OLIKER: Can we go off the record for a second?

MR. FARUKI: Sure.

(Recess taken.)

Thursday Afternoon Session,
December 15, 2016.

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MR. FARUKI: Good afternoon, this is Charlie. We've got the same group in the conference room here; Chris Bzdok, the court reporter, the witness, Jeff Sharkey, Judi Sobecki, and me. Let's just run through and make sure everybody's back.

Matt Pritchard?

MR. PRITCHARD: Yep.

MR. FARUKI: Joe?

MR. OLIKER: I'm here.

MR. FARUKI: Ajay?

MR. KUMAR: I'm here.

MR. FARUKI: Kim Bojko?

MS. BOJKO: Yes, I'm here.

MR. FARUKI: Trevor?

MR. ALEXANDER: Yes, I'm here.

MR. FARUKI: And Angie?

MS. PAUL: Yes, I'm here.

MR. FARUKI: Any other questioning lawyers? We're still on the public line.

And people from the staff who are participating?

I'm here.

MR. FARUKI: Joe, go right ahead.

MR. OLIKER: Thank you, Charlie.

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CRAIG JACKSON

CONTINUED CROSS-EXAMINATION

BY MR. OLIKER:

Q. Mr. Jackson, I have a few more questions for you. Hopefully we can get this over as soon as possible but I definitely have some things I need to follow up on.

MR. FARUKI: Joe, we had one clarification or correction that Craig wanted to make and you also had an open question about the LIBOR rate.

Q. Sure, go ahead.

A. So the first thing -- actually I have just the one follow-up. So the LIBOR I still need to confirm. But the follow-up item is on the shared savings, we do not have that factored into the forecast, forecasted projections. I just wanted to confirm that. I think I mentioned I was going to check and I thought we did but we do not.

Q. Okay, thank you for that.

Is that all there is?

A. Yes.

Q. Okay. Mr. Jackson, regarding CLJ-1 through CLJ-6, were those projected income balance and cash flow statements created for any other purpose besides this proceeding?

A. We use our normal internal processes to develop these projections and very much align with projections that we look at internally for long-term planning purposes.

Q. And when I say that, these exhibits themselves, these reflect income numbers and cash flow numbers that DP&L utilizes for planning purposes?

A. One of the processes is very much the same and on working with counsel on expected outcomes of cases there may be some differences in terms of expectations about outcomes but beyond that, yes, largely consistent with what we have for any long-term planning purposes.

Q. And you would agree that the numbers on CLJ-1 through CLJ-6 are largely dependent on forecasts of future commodity and electrical and capacity prices?

A. Yes, I would agree with that.

Q. And this is not the first version of testimony that you've submitted in this proceeding, is it?

A. That is correct.

Q. Would you agree that the prior version of testimony that you submitted relied upon a very different forecast of future market prices, capacity prices, and commodity prices?

A. It was a different forward curve that was used in my prior testimony from an outside independent third party, yes.

Q. Did that prior version of Exhibit CLJ-1 through CLJ-6, is it your testimony that that reflected information that DP&L would not otherwise rely upon in its normal course of business?

MR. FARUKI: I'll object to the question because you're now asking about a withdrawn proposal. But go ahead.

(Record read.)

A. So we for our min- and long-term planning purposes we usually do not use external sources for our curves. We tend to use them as I would say check points, so that would be one difference that compared to what we would normally use for internal planning purposes.

Q. And the economic outlook that's contained on Exhibit CLJ-1 through CLJ-6 for purposes of forward market prices, has that material changed between when you submitted your first version of testimony and this version of testimony?

A. It has changed, yes.

Q. In what way?

A. Forward curves have come down. And I would say to the extent that that is detail questions around our current forward curve, we have another witness in the case that can testify to that.

Q. And are you an expert on market fundamentals for electricity, natural gas, or capacity prices?

A. I am not an expert on development of forward curves and things like that. No, that would be for another witness in this case.

Q. Is that witness Mr. Crusey?

A. Yes, it is.

Q. And therefore for purposes of any market forces that you identify in your testimony, you're relying upon Mr. Crusey to support those conclusions?

A. When I refer to the changes in capacity, changes in natural gas, those specific items, yes, that is correct.

Q. And your testimony when you're talking about metrics that credit rating agencies will consider, can you describe the timeframe that a credit agency looks at for the economic or financial integrity of a company?

MR. FARUKI: What page are you looking at, Joe?

MR. OLIKER: There's so much on credit ratings, it would be hard to identify one.

MR. FARUKI: Okay, let me hear the question back.

(Record read.)

A. Yes, I would say generally when rating agencies issue their reports and their credit opinions on companies, they're generally looking within a three-year window.

Q. And so I understand we're in 2016, the credit rating agency will be most concerned with the financial information of a company over the next three-year period; is that what you're saying?

A. Their reports, I wouldn't say that they're only concerned about the three years but their opinions and the research reports that they issue tend to focus on the three-year outlook.

Q. And what information do they consider? Is it their own information or is it DP&L's or a third party?

A. I would say it's a bit of a combination of all three of those. Certainly we meet with rating agencies at least in person once a year, throughout the year have conversations with them. So they certainly have some information from the company.

But their research opinions also it's my understanding take into consideration some of their own views whether it's internal or through point external information as well.

Q. And do they look at the actual FFO to debt of a company in realtime?

A. Can you explain what you mean by "realtime"?

MR. FARUKI: What does that mean?

Q. Well, I guess another way of saying it, in 2017 will Moody's or another credit rating agency be evaluating the FFO to debt of DPL, Inc. in 2017 or will they be more focused on the FFO to debt over the next three years or both?

A. So I guess it depends on what time of the year you're talking about in 2017. Certainly if it's in the early part of the year, they're looking at '17, '18, '19, and as years start to move further toward the end every year, that's when you would start adding on additional year on the back end of that. That's my understanding.

Q. Is it only a forward evaluation or are there also a portion of it that's retrospective?

A. Well, I mean your credit rating will be determined on what the expectation is going forward. Certainly your performance in the past gives them indication that are you doing what you said, are you executing on the plans that you have, and can you prove that. So certainly a track record I think goes a long way. But I think there's more emphasis on the forward look.

Q. And the information that's contained on Exhibit CLJ-1 through CLJ-6, have you given that to any credit rating agency?

A. No, I do not believe that I have. That we provided these specific schedules to the rating agencies.

Q. Could you identify what information -- I'm sorry, I didn't mean to interrupt you.

A. I was just going to say the information that we have provided to them would indicate some expectation of an outcome in these proceedings. So there would be some semblance of these numbers again with an expected outcome of these proceedings.

Q. And without revealing what your attorneys have told you about an unexpected outcome of these proceedings, what information have you given to credit rating agencies that would be different than what is on Schedule CLJ-1 through 6?

A. I'm not aware that there would be any material differences. Some of it could be obviously if you look back through last year, information we gave them could be a little bit different because forward curves have moved some. But compared to where we are this year, this is very consistent.

Q. And going back to CLJ-4, the impairment that was identified of the 584 million, would you agree that that amount is subtracted from the net book value of those generating assets?

A. At the time we took the impairment charge, yes, that was reduced, the impairment loss was reduced from the net book value.

Q. So remember my accounting rule, is it the net book value --

A. I'm sorry, from the carrying value.

MR. FARUKI: Let him finish. Go ahead, Joe.

Q. I think you understood where I was going. Is the impairment amount subtracted from the net book value or the gross value or does it not matter?

A. It's subtracted from your net book value.

Q. Okay. And the remaining value that you will have for those power plants at a net book value level, that signifies an amount that DP&L has determined based upon its forecast of future cash flows can be carried; is that correct?

A. That's correct.

Q. And DP&L has not taken any further generation asset related impairment since you filed your testimony, has it?

A. We have not.

Q. And I understand that your CLJ-4 provides a projected income statement for DP&L, Inc. as if it still owns generation assets, but would you agree that DP&L has indeed made a filing with the Federal Energy Regulatory Commission to transfer those assets to a separate entity?

MR. FARUKI: Joe, I think you misspoke. CLJ-4 is Dayton Power and Light and you said it was DPL, Inc.

MR. OLIKER: I said DP&L, Inc. But it's easy to get switched so I can restate the question just to make it clear.

Q. Mr. Jackson, just to be clear, you have modeled CLJ-4 as if DP&L owns generation, distribution, and transmission assets, correct?

A. That is correct.

Q. In reality DP&L has made a filing with the Federal Energy Regulatory Commission to transfer its generating assets to a separate entity, correct?

A. We have made a filing with the FERC related to generation separation. On the advice of counsel we have not made a decision as to if or when we would separate.

Q. And assuming that DP&L did in fact transfer its generating assets, that would change the income statement of DP&L, correct? Over time.

A. If we were to separate, yes, it would change the income statement.

Q. But is it your testimony that DPL, Inc. would not be materially affected by that separation to the extent that the generating assets were still owned by one of its subsidiaries?

A. That is correct. Because as we're representing DPL, Inc., it is on a consolidated basis.

Q. Would you agree that one of the alternatives that DPL, Inc. would have to servicing the debt on its books would be to selling the generating assets to an unaffiliated third party?

A. That is an option, yes.

Q. And do you know if either DP&L or DPL has issued a request for proposal to any party to buy those assets?

A. Not that I'm aware of.

Q. For purposes of calculating the DMR would you agree that customers effectively receive no value for the cash flow associated with generating assets?

A. Can you repeat that question?

(Record read.)

A. The DMR, as I noted before, the way that it was calculated looked at the differential between the 13 percent and what we were computing as an FFO to debt without a DMR. The sizing of the DMR itself does provide benefit back to the customers in that it will result in a company both DP&L and DPL, Inc. as financial integrity, has investment grade related ratings, and can service its debt obligations and be in a position to make modernization investments all of which are benefits back to the customers.

The generation cash flows, although not computed in the adjusted FFO-to-debt metric, still are a part of overall entity DPL, Inc.

Q. And have you performed any calculations that would indicate the size of the DMR that would be needed to the extent DP&L sold its generation assets to an unaffiliated third party?

A. No, I'm not aware that we have. And actually I don't know that it would change because the, just if you assumed that -- there's a lot of assumptions that would go into that or around what the value would be. If you assume that the value was attributable to the cash flows that we have on the generation assets in this forecast, you're effectively getting the cash up front on a discounted basis but it's kind of value for value.

I think the only incremental benefit would be if you got higher value than what your cash flow would otherwise suggest. But I have not done any specific calculation on that.

Q. Would you agree another potential option would be for DP&L to sell its generation assets and use that cash to refinance the $445 million of debt at DP&L?

A. I don't know that selling of the assets out of the gate would enable you to refinance the debt. I think more appropriately what would be done if we sold the assets, the cash proceeds would be used to retire debt.

I think you still have the similar issue on sizing of the DMR and the ability for the company to continue to right size its balance sheet and improve its FFO-to-debt metrics.

Q. And in that statement you're referring to DPL, Inc.

A. I'm referring to the FFO-to-debt metric as I noted on my exhibits.

Q. Am I correct that nowhere in your testimony do you claim that without the DMR DP&L will have an insufficient FFO-to-debt ratio?

A. That is correct.

Q. Just a few more questions, Mr. Jackson.

Earlier we spoke about the acquisition of DPL, Inc. and DP&L by AES. Do you remember that conversation?

A. Yes, I do.

Q. And would you agree that there was a proceeding at the Ohio Commission regarding approval of that acquisition?

A. Yes, that's my understanding.

Q. And have you reviewed any of the documents that were filed in that proceeding?

A. I have some basic understanding around some of the stipulations in the merger unit.

Q. Have you reviewed the stipulations that were filed in that case?

MR. FARUKI: You mean ever or recently?

Q. Ever.

A. I have in the past. Here more recently been focused more on just some of the components of the merger stipulation, certain components of it.

Q. Would you agree that since the acquisition by AES of DPL, Inc., AES has not provided an equity injection into DPL, Inc. at any time?

A. Not a direct equity infusion; however, we did make two definite payments I believe in 2012 that total just north of $60 million. Since that time we have not made any dividend payments which I view as an indirect benefit to our equity position. But they have not made a direct equity contribution.

Q. And by that you mean AES has not made a direct equity contribution to DPL, Inc., correct?

A. That's correct.

Q. And since 2012 are you aware of the total amount of dividends that DP&L has provided to DPL, Inc.

A. I don't have those numbers in front of me. I do know I had them on testimony that DP&L paid $50 million in 2015, and here in 2016 would anticipate a comparable amount. But I just don't have the numbers in front of me prior to 2015.

Q. Okay. You would agree it was in excess of $300 million over that period?

MR. FARUKI: Sorry, say that again? What was in excess of 300?

MR. OLIKER: The amount of difference denied from DP&L to DPL, Inc.

MR. FARUKI: Since '12?

Q. Total since 2012.

A. I would have to confirm that number. I don't have the numbers in front of me to confirm whether that's true or not.

MR. OLIKER: That's fine.

Just give me a moment and it's possible that I'm done, I just want to doublecheck some stuff.

(Off the record.)

Q. Mr. Jackson, I think I might only have one more question.

A. Okay.

Q. All else being equal, the only way that you believe that DPL, Inc. could service its ongoing debt obligations and achieve the required FFO to debt without the DMR is if capacity and energy prices went up a significant amount.

A. I think it's a combination of factors; if we saw significant economic growth in the service territory which would have an impact on our distribution revenues. Certainly to the extent that there is an improvement in the forward curve, that would have a benefit at well.

But I don't think you could isolate it to just the forward curve alone. I think there's other factors to consider as well.

Q. Assuming that distribution growth just remains the same, is the adjustment to the forward curve the only other way you could maintain the financial integrity of DPL, Inc. without the DMR?

A. Generally speaking, the DMR as I noted before it is to retire debt and to right size the balance sheet. If you freeze all other assumptions, then I guess the answer is again any other assumption you could possibly come up with, but the forward curve, then I guess the answer is yes. Because it's the only two factors that your hypothetical has limited me to address then.

MR. OLIKER: Thank you, Mr. Jackson, I believe those are all the questions I have in the public section. I will have additional questions in the confidential section although I'm not optimistic I'll get to that today.

THE WITNESS: Thank you, appreciate it.

MR. FARUKI: Who's next.

MR. PRITCHARD: This is Matt Pritchard, with IEU Ohio. I believe I'm up next.

MR. FARUKI: Okay, Matt.

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CROSS-EXAMINATION

BY MR. PRITCHARD:

Q. Good afternoon, Mr. Jackson. My name is Matt Pritchard, I'm with the Industrial Energy Users of Ohio. How are you today?

A. I'm doing well. How are you?

Q. Not too bad.

I've got a couple of follow-up on your background. Are you a CPA?

A. I am not a CPA.

Q. And in your prior role, professional roles, have you been involved in market price forecasts, in developing market price forecasts?

A. Not in the development of power price forecasts, no.

Q. And have you been involved in the development of market price forecasts in your current role as CFO?

A. Not in the actual development. Certainly review as is part of our normal process, internal processes, forward curves and rationales for change in forward curves. But the actual development of them, no, I have not, I've not participated in those.

Q. In your prior roles have you been involved in the development of modeling generation dispatch?

A. No.

Q. And in your current role as CFO are you involved in the modeling of generation dispatch?

A. No. And I think I would just give the same qualifiers. Certainly review the results that the dispatch modeling produces but the actual development of that model, no.

Q. And in the testimony you submitted in this case in October you have included exhibits which are pro forma financial projection of DPL, Inc. and DP&L, correct?

A. Can you repeat that question?

Q. Yes. Attached to your October testimony filed in this case are pro forma financial projections for DPL, Inc. and DP&L, correct?

A. That is correct.

Q. And these projections attached to your testimony are the basis for your DMR revenue requirement calculations, correct?

A. That is correct.

Q. And if we look at these exhibits attached to your testimony, on the far right-hand column it indicates the source of the information that's contained in your exhibits, correct?

A. Yes, it does.

Q. And much of the information and the source documents are identified as internal documents, correct?

A. That is correct.

Q. And do you remember discovery requests by parties in this case requesting those internal documents?

A. Yes, I do.

Q. And do you recall DP&L providing discovery responses with those internal documents?

A. I don't have the specific responses to those requests in front of me. I do know that we have turned over a copy of the financial model, much of which contains a lot of the detail in reference to internal documents here.

Q. Is it your recollection that the discovery response that was provided was a single Excel spreadsheet?

A. I've had a lot of discovery requests. We just need to see the request and the response just to confirm that.

Q. But it is your understanding that at least one Excel spreadsheet supporting the numbers in your exhibits was provided in discovery, correct?

A. Yes, if I remember correctly, yeah, at least one, yes.

Q. Now, I have a few questions about the Excel spreadsheet that was provided in discovery that supports and provides further support for your exhibits. I'm going to try to keep this at a high level but let me know if the high level discussion starts getting into confidential information.

MR. FARUKI: Are you going to show it to him?

MR. PRITCHARD: Well, I'm just going to, in the confidential section I'm going to address specifics about it but at least on the public section I'd like to just talk about generally what's in the Excel spreadsheet at a very general basis.

MR. FARUKI: Well, okay, that's fine, Matt.

Craig, if you remember, that's fine. But I don't want you to guess about what's in it since he's not showing it to you.

THE WITNESS: It would be better for me to see the document that he's referring to.

Q. We'll get there in the confidential section but as far as the public section, do you recall whether the Excel file you were provided would have had different tasks corresponding to different types of financial information?

A. Yes, I believe that that is the case. Again, without --

Q. Go ahead.

A. Without seeing the documents, again, I responded to a lot of discovery requests in this proceeding so it's a little bit challenging to see exactly what you're referring to.

Q. Fair enough. But there would be information, for example, income statement information, there would be balance sheet information, there would be cash flow information, and different kinds of assumptions along those lines that support your exhibits, correct?

A. Yes, that is correct.

Q. And within these different financial information there's information provided at DPL, Inc. and there's also information that was provided at DP&L, correct?

A. That is correct.

Q. And is it your recollection that the information at DP&L was segregated based on DP&L's separate business functions?

A. Yes, it's the -- it was separated out based on the legal entity that is DP&L and the entities or the functions that reside within it.

Q. For example, there would be generation, distribution, transmission functions within DP&L, correct?

A. That's correct.

Q. And the information that was presented in this Excel spreadsheet, all the various tabs sort of tie together, correct?

A. That's correct.

Q. So if we looked at a cost line on an income statement, that would -- there could be corresponding information contained on separate tabs that were specific to that cost, correct?

(Interruption.)

MR. PRITCHARD: Can you guys still hear me?

MR. FARUKI: Yes, but we're hearing some background music. I think somebody may be needing to mute their phone.

MR. PRITCHARD: Why don't we go off on the record.

(Off the record.)

MR. PRITCHARD: We're back on the record.

Q. Mr. Jackson, I believe before we were interrupted, forgive me if this is asking the same question again, but within the Excel spreadsheet that was provided that supports your exhibits, the information on the various tabs all tie back together, correct?

A. That's correct.

Q. And the Excel spreadsheet values tie to the values you provided with the exhibits in your testimony, correct?

A. That's correct.

Q. For example, we could look at the 2017 net income number for DPL, Inc. and it would match up to the 2017 net income number for DPL, Inc. in the Excel spreadsheet, they would both be the same number, correct?

A. Yes, they should be the same number.

Q. And switching to a different topic, I'd like to run through your FFO-to-debt calculation. Earlier you provided a definition of FFO to Mr. Oliker. Do you recall that definition?

A. Yes.

Q. For purposes of calculating FFO, do you start with net income and then add items back or do you just start with cash from operations and subtract items out?

A. We start it from our cash flow from operations which your cash flow from operations, that's a buildup to that number starts from net income. But for purposes of what I've shown on the schedule, the starting number that we represented on line 16, and this is on Exhibit CLJ-3, it was a cash flow from operations number and then we made the adjustments for income taxes in the DMR.

Q. I'd like to break that up into a couple parts. I believe you indicated that to get to your cash flow from operations number you started with net income; is that correct?

A. Yes, you would start with your net income.

Q. And so to give the net income from your cash from operations what adjustments are made?

A. So, for example, you have an adjustment, you add back your noncash related items such as your depreciation and amortization, there's deferred tax and it's your changes in your working capital.

So all of that is just a traditional operating cash flow statement that you would normally see in an SEC document. That's a buildup of the net cash from operations. You can look at cash from operations whether it's on a direct or indirect method one of which is starting from net income, that's the more traditional use.

Q. And what is the reason why you present an FFO-to-debt calculation in your testimony?

A. Because two reasons: One, I believe it's consistent with other proceedings in Ohio, that's one. I think more importantly an FFO to debt is a key metric that the rating agencies look at to determine credit ratings. I think one of the key financial metrics and we think in our view best represents from a financial standpoint the financial integrity, the financial health of the business.

Q. Are you aware in the FirstEnergy case that the staff's methodology was cash from operations preworking capital number?

A. Yes, I am aware of that.

Q. Is that the equivalent of an FFO number?

A. So the, that number was a preworking capital, our cash flow from operations was just a straight cash from operations with the adjustment for the income tax which I noted in the DMR. So that would be a difference. What I mentioned there was the adjustment for income taxes and the DMR, which I noted.

Q. So is the difference between an FFO number and a CFO preworking capital income taxes and working capital, are those the only two adjustments?

A. The reason I made the adjustment for the income taxes in the calculation of the FFO to debt, you may recall we're not making any tax year-end payments so in our cash from operations number that's the income tax payment would not have been reflected in there initially. We made the adjustments as you can see in line 17 on CLJ-3.

Q. I think my question is slightly different than your answer. As between just the FFO number in general and the CFO preworking capital number in general, is the difference only working capital or are there other adjustments?

A. It's my understanding it's only the preworking capital, the working capital adjustment.

Q. And Moody's uses a CFO preworking capital calculation, correct?

A. That is correct.

Q. And do you know how Moody's calculates the CFO preworking capital value?

A. I think they look at changes in your working capital and effectively adjust it out.

Q. Now moving on to the formula you used to calculate the DMR, I have a few follow-up questions from Mr. Oliker's questions this morning.

You indicated that the starting point was you looked at your adjusted FFO-to-debt ratio in the year subsequent to the ESP period, correct?

A. We are, I'm just getting to my portion of the testimony here.

MR. FARUKI: Take your time.

(Record read.)

A. We looked at the level of FFO to debt excluding a DMR and we're targeting to be at a 13 percent in the period that follows the term of the ESP.

Q. So at 2024 you took your projected adjusted FFO, divided it by 13 percent, that spits out a debt number, correct?

A. That spits out a number that the debt would need to change by, yes.

Q. So when you said "needs to change by," that's the level it needs to be reduced to from where it currently is, correct?

A. That is correct.

Q. And without listing the or identifying the number, you do include what that number is on page 14 of your testimony, correct?

A. Yes, I do.

Q. And that number's confidential, correct?

A. Yes, it is.

Q. And so once you developed that debt level, that debt level drives the debt repayments that you project annually between 2017 and 2023 in your exhibits, correct?

A. That is correct.

Q. Then the DMR calculation takes the projected annual adjusted FFO numbers, divides them by that projected debt number and you arrive at an adjusted FFO-to-debt ratio for each year, correct?

A. Yes. Just to restate, we take the adjusted FFO on line 23 of CLJ-3 and divide it by our debt level. Yes, that is correct.

Q. Then that produces a ratio, then you add the DMR revenues back over the -- for each calendar year and average that seven-year number out and that seven-year average provides $145 million when grossed up for taxes, correct?

A. That is correct.

Q. And as we've just been discussing, that DMR calculation that generated the 145 million is based on what you have labeled the adjusted FFO number, correct?

A. Just want to make sure, can you repeat that back, please?

(Record read.)

A. Yes, that is correct.

Q. And in your Exhibit CLJ-3 you provide the unadjusted FFO number, correct?

A. We provide on CLJ-3, we provide both; we provide our FFO cash numbers and we provide an adjusted FFO number as well.

Q. And then you, as you discussed with Mr. Oliker, the FFO number is based on the market price forecast that was provided by Witness Crusey, correct?

A. That is correct.

Q. And the adjusted FFO number takes Mr. Crusey's number and discounts the whole generation asset revenue to zero, correct?

A. That is correct.

Q. Do you know if the credit rating agencies discount the coal generation revenue to zero when they perform their credit rating analyses?

A. I believe in the very near term they may not necessarily adjust the coal assets out. Our view is that long term and certainly with the financial institution it is, so not just the rating agencies that they will be discounted.

Q. Did you do a DMR calculation that was based on the FFO to debt rather than the unadjusted FFO to debt?

A. No.

Q. Why not?

A. Because in our view, as I've noted in my testimony, we believe that those generated related cash flows would be discounted by the rating agencies as well as the institutional investors and the more appropriate measure to be looking at would be on an adjusted FFO-to-debt basis.

Q. Can you identify any specific documents where a financial institution indicated that it discounted your whole asset generation revenue to zero?

A. Not a specific document; however, I think the recent financing that we did, the $445 million first mortgage bonds, the challenge that we had refinancing those I think was a clear indication of the uncertainty that the investors put on those cash flows. But I did not have a specific document.

Q. In those -- in the process of doing that recent refinancing of the first mortgage bond did any of the financial institutions explicitly state to DP&L that they discounted the generation revenues from the coal asset to zero?

A. Their comments were a couple of things. So one, as I mentioned earlier, just given the uncertainty in Ohio is one, and then second, given the uncertainty around the cash flows of the generation assets make this, which ultimately ended up us not being able to issue this debt in the traditional first mortgage bond market.

Q. The information they relayed to you that you just identified two points, were those oral representations to yourself personally?

A. These were discussions that we had, our internal team with the banks.

Q. Were you personally involved in those discussions with the banks?

A. I was involved in, not in the day-to-day discussions but certainly in some of the key discussions but not all of them.

Q. Were you ever personally present at discussions when the banks indicated that they were discounting the generation revenues from your coal assets?

A. As I -- I'll answer that this way: As I noted, they, the two areas was the uncertainty in Ohio, and certainly the concern around volatility in the markets and the cash flows of the generation assets. Most of those conversations were held with our treasurer Jeff Mackay.

Q. And so the answer to my question is you weren't personally present when the bank made those representations.

A. Yes, I believe that is correct.

MR. BZDOK: Matt --

Q. Earlier you indicated in response to a question from Mr. Oliker that you had reviewed at least some intervenor's testimony in reviewing for this deposition. Do you recall that question and answer?

A. Yes, I do.

Q. And do you recall responding that you had remembered that you had at least reviewed Mr. Bowser's testimony?

A. There was a piece of that testimony that, yes, I did review. There was several pieces of testimony but that's the one name I remember.

Q. And do you recall attached to Mr. Bowser's testimony he had an exhibit that recalculated the DMR based on the unadjusted FFO to debt?

A. Yes, I do recall that. I don't have the document in front of me but I do recall that.

Q. When you were reviewing it, did you identify any errors in Mr. Bowser's calculations?

A. So in the, again if I recall correctly too, the number of the FFO to debt that was attributable to all of the cash flow relative to the debt outstanding, I believe the numbers were comparable to what I'm showing on CLJ-3 line 21.

And again, I have to see the exhibit to recall in particular, but to the extent that there was a, I recall a question I think I raised on the level of debt if you had assumed a lower nonbypassable. I'm sorry, lower DMR.

If you assumed a lower DMR, you can't use the same level of debt over that period. I just can't remember if that's the document I was referring to. I just have to see the document here to remember.

Q. The difference again between the FFO number and the adjusted FFO number is the generation revenue from the coal assets, correct?

A. That is correct.

Q. And so if we don't discount that revenue, all else equal, the DMR would be, need to be less if those coal assets did in fact produce generation, positive generation revenue, correct?

A. I would say not necessarily because we still, one, remain in the range that I identified earlier from Moody's, that 13 to 22 percent range. And as you know, there certainly is volatility in the market.

And then lastly, I just come back to I firmly believe that the rating agencies and the lending institutions would discount the coal generation cash flows to an adjusted FFO number.

Q. Putting aside what the credit rating agencies will discount, just from the pure mass of your DMR calculation, if we said we're going to recalculate the DMR next year based on actual revenues if in fact the coal assets generated positive revenues, all else equal, the DMR would be reduced, correct? From the level you project?

A. If the generation assets produced more than what we have reflected in here, that would be incremental revenue that could be used to offset the DMR or pay down debt.

Q. Switching to a slightly different area of the same DMR but different topic, do you recall questions from Mr. Oliker about your testimony that you had filed in February in this case?

A. Yes, I do.

Q. And you indicated in response to his questions that one of the differences was the February testimony was based on the market price projection of an outside consultant, one Mr. Meehan, correct?

A. I believe that was the witness, yes.

Q. And did you calculate what the DMR would have been if you relied upon Mr. Meehan's market price projections instead of Mr. Crusey's?

A. No.

Q. Why not?

MR. FARUKI: I'll object, the proposal and the testimony have been withdrawn. This is part of a new proposal.

You may answer.

A. Because the view on the forward curve from Mr. Crusey is different and it is reflective of what our current view of the market is.

Q. And if we wanted to calculate a historical FFO-to-debt ratio, we could look at one of your SEC 10K filings, correct?

A. Yes. Generally speaking, yes. And the rating agencies, I believe I may be getting this mixed up, I believe that they provide some of that information in some of their reports as well.

Q. And if I was looking at the SEC 10K for DP&L, what would be the starting value to calculate the FFO?

A. I would start with the cash flow from I think it says net cash provided by operating activities.

Q. And what adjustment will we make to that line to get to the FFO?

MR. FARUKI: I'll object to this line since you're not showing him the document.

Answer if you can.

A. Yeah, similar adjustments to what we had discussed earlier. If this is DP&L, I believe the tax number is already reflected there. If it's DPL, Inc., I would, for true representation of ongoing and longer term operating cash flow I would adjust for a tax component.

And then likewise I would adjust similarly to the DMR that we removed, I would also remove the, what is now in the annualized $73 million related to the charge that we're collecting from ESP 1.

Q. And you indicate in your testimony that the DMR revenue to be used to pay down debt at DPL, Inc. and DP&L, correct?

A. Yes, making discretionary prepayment at both entities.

Q. And to pay down debt at DPL, Inc., DP&L will issue dividends to DPL, Inc., correct?

A. Yes.

Q. Is there any other mechanism that money flows from DP&L to DPL, Inc.?

A. I think I mentioned this earlier. It's a tax sharing so there is a tax payment that DP&L would make to DPL, Inc. But those are the only two forms.

Q. And the tax sharing fees that you talked about, is that all taxes or just federal income tax?

A. I believe it's predominantly federal income tax. I mean that's in terms of the overall dollars too, that's the lion's share.

Q. We'll turn to a slightly different topic. I want to talk to you a little bit about the credit rating. You indicate in your testimony that a credit rating impacts the ability to access capital markets, correct?

A. That's correct.

Q. And you indicate that the, yes, in your testimony that credit ratings impact the overall cost of debt, correct?

A. Yes.

Q. And you had discussions with Mr. Oliker this morning about the recent refinancing of the $445 million first mortgage bonds, correct?

A. Yes, that is correct.

Q. And we established that the rate was LIBOR plus 325 basis, correct?

A. Yes.

MR. FARUKI: I think that was subject to check number.

A. It definitely is LIBOR but I just have to confirm whether it's a three month or six month.

Q. And on the 325 basis points, that's 3.25 percent, correct?

A. That is correct.

Q. And ballpark do you know what the current rate is?

A. The treasuries are still fairly low even obviously we had a rate hike here just this week. It's a small, I mean it's a fairly small number. I don't have the exact number.

Q. So overall rate somewhere around 4 percent?

A. I'd probably put it in, yeah, in between

4, 4 and a half, somewhere in that range.

Q. And when you were looking to refinance that debt earlier this year, did anyone offer you a fixed rate to refinance debt at?

A. I don't recall that. I'm thinking here more near term when we were actually able to get the -- there may have been a case earlier in the year but I don't recall right offhand. I certainly know at the time that we were leading up to the transaction itself that the market, that we had the opportunity and was the high yield market that I referenced there.

Q. And when you indicate in your responses that you couldn't participate in the traditional first mortgage market, what do you mean by the "traditional market"?

A. Just a first mortgage, traditional first mortgage bond that you issue 30-year fixed rate. You have your typical high quality investors that are investing in investment grade type entities.

Q. So was the issue the length or the interest rate when you were looking to refinance your first mortgage bond? Or both?

A. Here at the end it's, I believe it was both.

Q. And do you recall what the -- were there any offers to refinance the debt at a fixed rate?
A. Again, here at the time that we refinanced from what I recall it was the market that we went, that's where the offer was. That the guidance that we had from our lead banks in that process indicated that to be successful to get this deal refinanced, the best option was in the high yield market.
And again, that the risk, I mean certainly we could have taken a risk and try to do something more traditional. The risk that you run into is that if you're not successful in getting enough investor appetite, then you're left with debt that doesn't mature that you've got to resolve.
Q. It wasn't necessarily impossible to get a long-term fixed rate, it just might not have been on favorable terms. Is that a fair characterization of your testimony?
A. No, I think it was extremely risky and unlikely that we would be able to get this fully refinanced in the traditional market. That's where I'm coming from.
Q. Had your credit rating been in a position to participate in that traditional market, what is your expectation of what the fixed long-term interest

rate would have been?

A. Had we been able to long term, maybe in the 5 percent range, 5 and a half percent range. Just given that the rating of the utility. It's a guess on my part.

Q. Now, we've talked about the first mortgage bonds. Is information about the other debt and the maturity date and the outstanding principal for the other debt at DP&L and DPL, Inc. confidential?

A. I don't believe, no. Because the maturity dates, I don't believe that is confidential. And principal outstanding, no, I don't believe that is.

Q. So if we look at DPL, Inc., first I'd like to go through that starting at DPL, Inc. DPL, Inc. has a term loan, correct?

A. That is correct.

Q. And the original amount issued was 200 million?

A. I believe that is correct too. What I'm just looking at my testimony here in the exhibits, I do not have the DPL, Inc. data. I have the DP&L information but I'll answer to the extent I know the responses to your questions on DPL, Inc.

Q. Well, okay. There's a term loan with an outstanding principal, correct?

A. That is correct.

Q. And do you recall the amount of that loan that's left outstanding?

MR. FARUKI: You're at DPL, Inc. now, Matt?

MR. PRITCHARD: Yes.

MR. FARUKI: I'll tell you not to guess.

A. I'll have to see the schedule just to get the right number, the breakdown of the debt at DPL, Inc.

Q. Overall at DPL, Inc. how much debt -- let me ask it this way: Do you recall that there's five different types of debt outstanding at DPL, Inc., long-term debt?

A. We have several issuances of debt at DPL, Inc. that amount up to the approximate 1 to 1.1 billion of total debt outstanding at the holding company.

Q. Correct. There's a term loan, 2016 bond and 2019 bond, 2021 bond, DPL Capital Trust 2, and revolver, correct?

A. And we have the revolver as well, yes. We did note in my testimony that we were intending to take out the 2016 debt here in the fourth quarter. We could talk to that in the confidential portion.

Q. And of those items that I listed, the 2021 bond and that's debt that's associated with the AES acquisition, correct?

A. Those were part of the Dolphin debt that we discussed earlier which was associated with the AES acquisition of DPL.

Q. And the other debt issuances that I just mentioned are not associated with the AES acquisition, correct?

A. So the revolver is not, the term loan is not as well. And then I think I'm missing one in there. But generally the $800 million was the significant one related to the acquisition.

Q. And the maturity debt on the acquisition or the debt associated with the acquisition matures at 2021, correct?

A. Yes, that is correct.

Q. And turning to DP&L, DP&L has projected going into next year it will have the first mortgage bond, two pollution control bonds, Wright Patterson Air Force Base note, then a preferred series A, B, and C, correct? Does that sound like all the debt issuances?

A. That does sound correct. And again, in the confidential portion we can talk a little bit about the preferred shares.

Q. Sure. The first mortgage bond, you indicated that that was just recently refinanced and now has a maturity date of the 2022?

A. It is a six-year term with a 2022 date.

Q. And the 2006 Ohio Air Quality Pollution Control bond has a hundred million outstanding balance, correct?

A. I'm going to confirm that here.

Yes, that is correct.

Q. That was issued in 2006?

A. Yes.

Q. That matures in 2036?

A. September of 2036.

Q. And it's a fixed rate, correct?

A. That one is at a fixed rate, yes.

Q. And that fixed rate is 4.8 percent?

A. Yes, it is.

Q. And you also have another pollution control bond that has a $200 million outstanding balance, correct?

A. That's correct.

Q. With a maturity date of 2020?

A. Yes. August 2020.

Q. Now, when you discuss in your testimony the need to reduce debt at DPL, Inc. to improve the credit rating, would credit rating at DPL, Inc. be improved if consolidated debt was reduced?

A. Yes, it would.

Q. And so you could improve DPL, Inc.'s credit rating by reducing debt at DP&L, correct?

A. Yes, you can. However, certainly you want to look to optimize the debt that you're paying down, to the extent you have the ability to pay down a debt that carries a high interest rate would be better because it generates longer term interest rate savings. But, yes, we could see improvements in its credit rating if we were reducing consolidated debt.

Q. I'd like to turn to your definition of financial integrity at pages 4 and 5. You provide a definition of "financial integrity" that contains four subparts, correct?

A. Yes.

Q. And in part A you identify as part of your definition of financial integrity the ability to pay normal operating expenses, capital expenditures, taxes, general and administrative expenses, and other normal course expenses, correct?

A. That is correct.

Q. And your definition of part A you include depreciation expense in your definition.

A. That would be reflected in there, yes.

Q. And under Part B you identify the need to meet contractual debt obligations, correct?

A. Yes.

Q. So this subpart would be the ability to pay interest that's due on those debt obligations, correct?

A. Interest and when debt is maturing to either refinance or pay the debt off.

Q. And so you refinanced, under that you would also have refinancing costs that you would need to be able to pay, correct?

A. That's correct.

Q. And under part B of your definition you include the ability to meet the financial covenant in those debt obligations.

A. Certainly. Certainly.

Q. And at DP&L can you identify what the existing financial covenants are?

A. Yes, we have an, I believe this is in our revolver agreements, we have an EBITDA to interest and an EBITDA to debt ratio I believe.

Q. And that acronym you just provided in your answer, could you spell out the acronym and then define the acronym for the court reporter?

A. Sure. So EBITDA is earnings before interest, taxes, depreciation, and amortization. And it's --

Q. That is spelled E-B-I-T-D-A, correct?

A. That is correct.

Q. And at DPL, Inc. what financial covenants do you have?

A. At DPL, Inc., one, we don't have the ability to dividend out any cash up to the parent. Given, trying to remember exactly the financial covenant that we have there. I will have to confirm that one.

Q. Is it your understanding that there's only one or are there multiple financial covenants in that debt agreement?

A. I believe we have a few financial covenants there.

Q. Part C of your definition of financial integrity you define, include in the definition maintaining an appropriate capitalization ratio, correct?

A. Maintaining appropriate capitalization levels investment grade ratings.

Q. What do you consider an appropriate capitalization ratio?

MR. FARUKI: The words in the testimony are "appropriate capitalization levels." Is that what you mean to ask about?

MR. PRITCHARD: Yes, sorry. Let me rephrase that question.

Q. What do you consider an appropriate capitalization level?

A. I consider an appropriate capitalization level one that is consistent with maintaining an FFO-to-debt ratio of 13 percent.

Q. And here are you also talking about -- strike that and start over.

Are you only talking about maintaining that FFO-to-debt ratio or are you also talking about a debt-to-equity ratio?

A. I think for a utility long term an appropriate capitalization structure is in the range of 50/50. And I think that's consistent with what we have mentioned in this testimony certainly in the distribution rate case.

As I think about DPL, Inc., given the write-off of the goodwill that occurred a few years back, that metric is not as meaningful, the debt to total capitalization. But certainly the FFO-to-debt metric is key for DPL, Inc. as it is for DP&L.

Q. And in part D you indicate that your definition of financial integrity, the opportunity to earn a reasonable rate of return on equity, correct?

A. Yes, I do.

Q. What do you view as a reasonable return on equity for DP&L?

A. I would say it's comparable to what we have requested in our distribution rate case.

Q. And can you recall what the distribution rate case, what the level you requested was?

A. It's north of 10 percent.

Q. Less than 11 percent?

A. I believe, yes, I believe that it is.

MR. FARUKI: Matt, when you get to a good point, let's take a short break.

MR. PRITCHARD: Okay, I've got a few more questions on this topic and then we can take a break.

MR. FARUKI: That's fine.

Q. What do you view as a reasonable return on equity for DPL, Inc.?

A. I would do it very similarly. So if DPL, Inc. were to make an equity investment into DP&L, I would view a comparable ROE that I noted for the distribution rate case.

Q. Can you discuss on the public record whether your exhibit attached to your testimony project positive cash flows for the DP&L under various assumptions that you have specified or do you want me to save those questions for the confidential record?

A. Did you say for DP&L and DPL, Inc.? Can you just repeat the question?

Q. Yes. My questions I have are about cash flows for DP&L based on, and DPL, Inc. based on the FFO numbers. The adjusted FFO numbers and numbers without the DMR and just obviously the exact numbers you flagged as confidential, but are you willing to state what those numbers are as far as positive, negative on the public record?

A. I think with the DMR, I'll answer both with and without the DMR. With the DMR certainly it is positive. Without the DMR there will be periods where we have I believe negative cash.

Q. Is that answer true for DPL, Inc. or DPL, Inc. and DP&L?

A. I believe it is true for both. The one area where I'm just hesitating a little bit the projections here assume the debt level or the debt paid out over this period. So I can't look at it just by taking out the DMR itself. So there's other calculations that I would need to do to firm that up.

Q. Sure, I can handle that all on the confidential record.

MR. PRITCHARD: Charlie, I think this is a good breaking point in my line of questions.

MR. FARUKI: Okay, off the record.

(Recess taken.)

Q. Back on the record. One follow-up question, Mr. Jackson, and this is an earlier line of questions. Do you recall from questions and answers about whether you were present at the conversations with the banks about whether they would discount the coal assets revenue to zero?

A. Yes, I remember that.

Q. And switching from the financial institutions to the credit rating agency, have you ever been provided a document by a credit rating agency where they indicated that they discount the revenue from the coal assets to zero?

A. No.

Q. Have you ever been personally present at any conversations with credit rating agencies where they indicated orally to you that they discount the revenue from the coal generation assets to zero?

A. I have been in discussions with the rating agencies where they have said that they put less weight on the generation cash flows given the volatility of those cash flows. But not a discount to zero.

Q. And I want to talk a little bit now about that decision to discount the coal generation revenue to zero. Whose decision ultimately was it to make that adjustment to FFO?

A. Ultimately it came to me and then obviously with discussion, from discussions that I had with my team.

Q. Did you propose it or did someone at -- let me strike that.

Did you propose the adjustment to FFO or did someone else initially propose it?

A. I don't recall exactly who proposed it but it was just from discussions that we had, and "we" being Jeff Mackay our treasurer, myself, and some folks on Jeff's team that we had with the banks and with the rating agencies through those discussions that's where this was developed.

I don't recall if it was me or Jeff that said yeah, this is the -- let's go with this approach here because this is most realistic as to how the outside entities would treat us. Which is through discussions that we had where this was developed.

Q. And you just indicated these discussions were between you Jeff Mackay who was the treasurer, and who else was part of those discussions?

A. There were other members of the finance team, Mr. Santacruz was one, and I believe that may be it on the finance team.

Q. Were there anyone else from the nonfinance team present?

A. Certainly was we had discussions with the broader team reviewing the aspects of the case, but it was kind of what was presented up as our proposal for a filing case. At least the financial aspect of it. But not in the underlying discussions on establishing and adjusted FFO as the metric.

Q. And so the decision to adjust from FFO to the adjusted FFO was the result of discussion between you, Mr. Mackay, and Mr. Cruz?

A. Mr. Santacruz. And that is coming out of discussions that had been had with the rating agencies and with the financial institutions as well.

Q. And what is Mr. Santacruz's position?

A. He is the director of financial planning analysis.

Q. And are you aware of whether Mr. Santacruz is responsible for generation market price forecasting?

A. He is not.

Q. And are you aware if Mr. Santacruz is responsible for modeling generation dispatch?

A. He is not.

Q. Now, you indicated that you removed the generation revenue associated with the coal assets. Did you remove from your calculation the variable costs associated with those coal generation assets?

A. All of the cash from operations, so that would include all the revenues and all the expenses were removed from the cash and operations or the adjusted FFO to get to the FFO-to-debt metric.

Q. So the revenues that were removed would have been energy market revenues, capacity market revenues, and any projected ancillary market, correct?

A. That is correct.

Q. And what was removed from the cost side?

A. Any of your fixed costs associated with the plants, available related costs, any taxes associated with the plants, effectively all costs that are associated with the generation assets.

Q. So in effect your adjusted FFO number is as if the coal assets were shut down? Removed from DPL's consolidated books?

A. Yes. It's as if the cash, there were no cash lost from those entities, so completely removed.

Q. So the results of if these assets were completely off of DPL, Inc. books, the results were modeled equivalent to that, correct?

A. The FFO to debt calculation reflected that. I'm sorry, the adjusted FFO-to-debt calculation.

Q. The remainder of the exhibit specific to DPL, Inc., that would be CLJ-1 and 2 don't remove, don't have those same adjustments for the coal plants, correct?

A. There is no change on CLJ-1, no change on CLJ-2, and then on CLJ-3 all of the numbers down to line 21 include the generation cash flows. It's just the adjusted FFO on line 23 and then the resulting FFO-to-debt metric on line 24 that reflects the removal of those cash flows.

Q. So my questions on this line, I want to switch, I've got two more brief topics to follow up on from Mr. Oliker's questions this morning.

Do you recall his questions about taxes

under the AES tax sharing agreement and tax forgiveness?

A. Yes, I do.

Q. And do I recall your testimony correct that you indicated that the AES tax forgiveness made the liability on DPL, Inc.'s balance sheet?

A. We continue to have a tax liability, yes.

Q. Are the, are you accumulating on DPL, Inc.'s books all the foregone taxes deferring them as a liability?

A. Yes, we are.

Q. Is the expectation that at some point in time DPL, Inc. will have to pay those taxes to AES?

A. At this time the expectation is there won't be any payments made through the term of the ESP but that liability will remain and these post-ESP, that decision at this point has not been made. But the expectation -- the fact that we're carrying a liability at this point does suggest that there will be a payment made in the future.

MR. PRITCHARD: I believe those are all the questions that I have on the public record.

MR. FARUKI: Okay.

Q. Thank you for your time, Mr. Jackson.

A. Thank you.

MR. ALEXANDER: This is Trevor, I'll volunteer to go next if nobody else wants to.

MR. BZDOK: That's up to you.

MR. ALEXANDER: Okay, hearing nothing.

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CROSS-EXAMINATION

BY MR. ALEXANDER:

Q. Good afternoon, Mr. Jackson. My name is Trevor Alexander, I represent the City of Dayton and Honda in this proceeding. Can you hear me okay?

A. Yes, I can.

Q. I've attempted to eliminate topics that were already covered so I am going to jump around a little bit. So if you don't understand where I'm going, please just let me know and I'll give you a little more background.

A. Great, thank you.

Q. Starting on your Exhibit CLJ-4.

A. Okay.

Q. I'd like to focus on the net income projection.

A. Yes.

Q. At the end of the year, in a year where net income is projected to be positive, funds can be either dividended out to the shareholder, the parent

DPL, Inc., or kept as retained earnings, correct?
A. That is correct.
Q. So when you were creating Exhibit CLJ-4, if there were positive net income in a year, what did you assume happened with that positive net income when creating those projections for the following year?
A. We looked at timing of potential debt paydown, what level of cash was at DPL, Inc. to meet interest obligations, and ultimately those drove decisions around the level of dividends that would move from DP&L to DPL, Inc., and then whatever wasn't moved up, as you noted, would remain as retained earnings in the business.
Q. So --
A. I was just going to finish.
But it was largely dependent as well on the interest obligations at the parent company and the debt that we were looking to pay down over that period of time.
Q. And if I wanted to see assumptions you made with regard to the use of that net income, is there a way I could see that on your exhibits?
A. So, for example, on Exhibit CLJ-6, that would -- that on line 7 shows the amount of dividend

that was paid to DPL, Inc.

Q. Okay. And focusing on line 6 where it discusses repayment of long-term debt.

A. Yes.

Q. Are those repayments reflected in the interest projections included on CLJ-4, line 19?

A. Yes. And this is repayment of debt at the DP&L. So Dayton Power and Light level. And once that debt is paid down, the resulting interest savings would be reflected in line 19.

MR. FARUKI: On CLJ-4?

A. On CLJ-4.

Q. And is it your expectation that line 19 on CLJ-4 would match the interest expense in the Excel spreadsheet document No. 7958 you were discussing with Mr. Pritchard?

A. Can you repeat that question back for me, please?

Q. Sure. Is it your understanding that the annual interest expense found in CLJ-4, line 19, would correspond with the interest expense identified in the Excel spreadsheet you were discussing with Mr. Pritchard?

A. My expectation would be that, yes, it should align.

Q. And moving more generally in the manner in which your projections were created, am I correct that your projections do not include a DIR revenue?

A. That is correct.

Q. And your projections also do not include CER revenue?

A. Clean energy rider? Yes, that is correct as well. And I would just note that part of the reason that there's no assumption for revenue related to those, we do not have the investments reflected in either. So not only do we not have the revenue, we don't have the capital expense as well.

Q. And am I correct that your projections included the revenue assumptions from DP&L's recent distribution rate case?

A. From our filed case, yes, that is correct.

Q. And so the revenue assumptions there, did you adopt those solely from the as-filed case or did you make any adjustments to those revenues?

A. No, we assumed the as-filed case.

Q. And the redundant service rider included in DP&L's as-filed case, that is not included in DP&L distribution rate revenue projection; is that correct?

A. I believe that is correct.

Q. Does DP&L have projection of the revenue which would be created from the redundant service rider?

A. If we do, I am not aware of it. I haven't seen it. I believe that's the case.

Q. Is there any revenue associated with the redundant service rider included in your financial projections?

A. I don't believe there is.

Q. Now turning your testimony to page 5, starting at line 2.

A. Okay.

Q. I'm sorry, yes, it was page 5, line 18. Sorry for that bad reference there.

A. Okay. I'm there.

Q. Now, particularly the phrase "need to rationalize capital and operating expenses," does DPL, Inc. direct how DP&L makes capital investments?

A. DP&L, the utility, makes their capital investments that they project. Certainly we have a parent company DPL, Inc. through which DP&L consolidates up through. So there are discussions at the consolidated level around the budgets, our capital costs and our operating costs.

To the extent that there are challenges

with maintaining financial integrity at DPL, Inc. going forward such that we're unable to meet some of our debt obligations, it may force us to, as I note here, rationalize CAPEX, our capital costs.

Q. When you say "force us to rationalize," by "us" do you mean DPL, Inc. or DP&L?

A. In this instance I would say it's both.

Q. So it's your testimony that DPL, Inc. will direct which capital projects DP&L will undertake?

A. No, I think DP&L would look at their capital projects and make a determination on, based on cash flow that would be available what capital projects that they would then invest in.

Q. Okay. So DPL, Inc.'s financial condition would not enter into that decision-making process, correct?

A. So again, I would say just to reiterate, if DPL, Inc. is unable to meet its debt obligations, there would be a need to rationalize CAPEX and operating expenses that otherwise would be used to provide this stable and safe provision of a larger service, a reduction would need to be made. DP&L would determine what projects it would then be moving forward with.

Q. When you make that statement, are you assuming that DP&L would need funds from DPL, Inc. to perform those capital projects?

A. No, I'm not. I'm saying that DPL, Inc. would need to meet its debt obligations and it would require additional funding from DP&L meet those obligations. And the way for it to get additional funding may require DP&L reducing its CAPEX that it otherwise would use to provide safe and reliable service to customers.

Q. Okay, so you're saying that even if DP&L has sufficient revenue to fund the capital project, it may not fund those projects to meet its parent entities' financial integrity concerns?

A. If DPL, Inc. is in a, that type of a position, we may be forced to rationalize that CAPEX.

Q. And would your answers be the same with regard to operating expenses at the DP&L level?

A. Yes, as I've noted on line 18, it's both capital and operating costs.

Q. And suppose that the utility has sufficient revenue to meet its obligation but the parent entity does have financial integrity concerns. In that circumstance do you believe it's appropriate for the parent entity to withdraw funds from the utility if that withdrawal would impact the utility's abilities to provide safe and reliable service?

MR. FARUKI: I'll object to the form just because you're not indicating how severe the problems are.

But go ahead.

A. So I think one thing to clarify too is if DPL, Inc. has financial integrity issues, it will directly impact back to DP&L. As I noted earlier through the credit ratings DPL, Inc. will be lower, even below where they are now by virtue of some of the notching rules of the credit rating agencies that would have an impact back on the utility. So you can't just isolate DP&L by itself without looking to the parent as well.

Q. Sure, and we're going to talk about the credit rating issues a little bit later, but focusing on my question if DP&L has sufficient revenues but DPL, Inc. needs revenues to meet its financial integrity concerns, do you believe it's appropriate for DPL, Inc. to withdraw funds from DP&L if that would impact DP&L's ability to provide safe, reliable service.

MR. FARUKI: Same objection. Go ahead.

A. And I think my, or the answer to that is I believe that DP&L needs a healthy DPL, Inc. to continue to provide service back to its customers. And in order for DPL, Inc. to be financially healthy, it has to meet its debt obligations which may require us to rationalize the CAPEX and the operating expenses should we not receive the distribution modernization rider.

Q. And I understand your position regarding credit rating. Other than the credit rating issue are there any other reasons DP&L -- a healthy DPL, Inc. in order to provide safe and reliable service?

A. Yeah, I would say clearly as I've noted on page 5, if you continue below line 18, we would not have the funds or access to capital markets to raise money that may be required by the utility to invest in modernization or future projects.

We talked about the -- and then we did talk about the credit ratings themselves as well. So it's not only the credit rating itself, the decrease in the credit rating and the effect that that has but it's also the ability to refinance debt, to pay down debt which ultimately is a benefit back to customers.

Q. Turning to page 7, line 14, where you provide the credit ratings for DP&L. Tell me when you're there.

A. Yes, I'm there.

Q. How many levels is this above the investment grade cutoff?

A. Well, let's start with DPL. So DPL is below investment grade. And DP&L is at the investment grade level where we currently are. So if we were to be downgraded, which is a risk given the negative outlook that the three rating agencies would have, that would move DP&L below investment grade.

Q. Sure, but I want to sort of drill down into that. I was going to take this one at a time starting with DP&L page 7, line 14.

A. Yep.

Q. How many levels is DP&L above the investment grade cutoff? For example, start with Fitch, triple-B minus, and how many levels is DP&L above that?

A. So we're at or one level above I think on the investment-grade rating when you look at the three of these agencies.

Q. So DP&L could be downgraded to triple-B minus and still be investment grade but that's when we're downgraded again it would no longer be investment grade; is that correct?

A. If you're looking just solely at Fitch, that is correct.

Q. And then looking at DPL, Inc., I believe you said DPL, Inc. is currently below the investment grade cutoff; is that correct?

A. That's correct.

Q. And how many levels below the investment grade cutoff is DPL, Inc.?

A. So Fitch, we are a few levels below on Fitch. And one or two levels below on pretty much across the board one to two levels below. I believe that is.

Q. So there are between three and four levels currently between DP&L and DPL, Inc.; is that correct?

A. I think generally speaking the max you would generally see a three, three notch differential, and other rating agencies generally don't go beyond that. Unless there's specific circumstances that warrant it.

Q. Have you studied the correlation between movement in the DPL, Inc. credit rating and the DP&L credit rating?

A. Not specific correlations, no.

Q. Several places in your testimony you discuss the concept that downgrade of the parent entity could result in a downgrade to the utility therefore leading to higher borrowing costs. If you need a citation for that context, I would be provide to provide it, but are you generally familiar with that concept?

A. Yes.

Q. Have you attempted to quantify the likelihood that a parental downgrade will result in a downgrade to the utility?

A. Seeing as though both are on negative outlook, if we were to not receive the DMR, certainly my view is that we would absolutely be downgraded by all three of the rating agencies. I have not done a correlation analysis between Inc. and DP&L but given the negative outlook that we have, the current ratings are assuming that we get a reasonable outcome in this proceeding. Anything counter to that I firmly believe we would have a downgrade at both entities.

Q. Sure. My question isn't related to DP&L specifically, it's more to the concept. You address this at page 6 starting at line 2 about the notching facility in the holding company. If you want to go check that reference real quick, I'll wait.

A. No, I'm there.

Q. Have you quantified the correlation between rating changes to the holding company and rating changes to the utility subsidiaries?

A. And as I've noted before, we have not done a correlation calculation.

Q. Are there any studies or scholarly works you are aware of which address that reported correlation?

A. If there are, I'm not aware of specific ones.

Q. Are you aware of any written materials which address that reported correlation?

A. Not specifically. What I would note is that the rating agencies have certainly communicated to us a, not when you look at the overall notching that there would not be a -- they don't see a scenario where you would have certainly more than a three-notch differential between the two entities. Just given the overall profile of the business.

Q. Have any of those rating agency communications been in writing?

A. I would have to rereview those research reports to confirm that.

Q. And were any of those rating agency communications made to you personally?

A. They've been made to us in meetings that we've had with them, that I've been involved in, yes.

Q. That was orally then?

A. Yes.

Q. Have you attempted to quantify the likelihood that DPL, Inc. would be downgraded without the DMR?

A. Have not quantified that. However, as I noted before just from discussions with the credit rating agencies, absent a reasonable outcome in this case. So in the case you just described, no DMR, we will be downgraded. They have clearly stated that to us verbally.

Q. If we assume that DP&L will be rejected in total and DPL, Inc. would be downgraded, have you projected the levels to which DPL, Inc. would be downgraded to?

A. I don't have anything here in my testimony that speaks directly to that, what the resulting level would be. But certainly would be below the investment-grade rating.

Q. It's currently below the investment-grade rating.

A. I'm sorry, I was referring to DP&L.

Q. And just to be clear my question was on DPL, Inc. I'm not addressing DP&L on that.

A. Same response, I've not done a -- I do not have what the rating would be but given that we're at a B plus rating at Fitch, for example, any downgrade to that is a B and once you get below a B level, you're in more or less the junk status.

Q. And would a DPL, Inc. downgrade trigger any collateral obligations for DPL, Inc.'s debt instruments?

A. By "collateral" can you just clarify that?

Q. Sure. It's my understanding there are some debt instruments which are tied to the credit rating of the borrower such that the if borrower's credit rating is downgraded, the borrower has to provide additional cash collateral. Are you general familiar with that concept?

A. On our, so certainly our revolvers are directly linked the credit ratings. So to the extent you have changes in credit ratings, your pricing on the grid -- when I say "the grid," I'm referring to just the pricing grid that aligns to the credit ratings, that changes.

We have, I believe some of our bank loans, term loans that we have follow the same approach. To the extent we are downgraded, we could see increased pricing related to that debt.

Q. Would there be any increasing collateral obligations?

MR. FARUKI: Just so you're clear, Trevor, this is Charlie, you mean an increase in collateral to be posted as security, is that what you're asking?

Q. That is correct, yes.

A. I don't believe, offhand I don't believe so.

Q. And would a DPL, Inc. downgrade trigger any collateral obligations for DP&L?

A. No.

Q. Then if DP&L would be downgraded, have you projected the level at which DP&L would be downgraded too?

A. Just what I've noted before we believe it would be downgraded below investment grade but we have not estimated a specific credit rating.

Q. And if DP&L were downgraded below investment grade, have you calculated the expected long-term debt rate?

A. No, we have not. And/or at least I have not. However, the overall costs, as you know, with a downgrade would result in higher related costs for the business.

Q. And since you haven't calculated the long-term debt rate as a result of downgrade, I assume you also have not quantified the effect of that rate on DP&L's annual expenses.

A. On our annual interest expense?

Q. Correct.

A. That is correct.

Q. Do you believe that AES's credit rating has an impact on the credit rating of DPL, Inc. or DP&L?

A. I do believe that there could be some notching rules that also apply between AES and DPL. But that would be with regards to the issuer, with regard to an issuer rating.

Q. And it would be the same concept you discuss between DPL, Inc. and DP&L; is that correct?

A. That is correct.

Q. Is it possible that customers would be better off with DP&L being downgraded by avoiding the $145 million per year DMR if the increase in borrowing costs may be less than 145 million.

MR. FARUKI: Let me hear that again.

Q. I'll rephrase that.

Mr. Jackson, you have not quantified the increase in borrowing costs on an annual basis associated with the downgrade of DP&L, correct?

A. That is correct.

Q. Since you have not done that quantification, there's no way to determine whether that potential increase would be in excess of $145 million per year, correct?

A. So you're looking at this purely from a, just the interest costs? Or potentially the incremental cost?

Q. Yes.

A. All right. What you are not factoring in is the risk around being able to service debt and to pay off debt when it matures which put the company in a much more significant position.

I'll go back to the comment I made before: Could force us to have to rationalize the CAPEX and the O&M at the utility which would have a negative impact on reliability and would have an impact back to the customers.

Q. We're making that argument. You're arguing that the financial health of the parent could lead the financially healthy utility. When you're making that argument you're arguing the financial health of the parent could lead the healthy utility not to make capital investments?

A. I'm saying that the financial health of the parent is important back to the utility. One reason, as I noted before, for future -- as we look to access the market for future investments, one avenue out obviously is through the equity market. And when I say "equity market," DP&L is our parent, it would be pushing down potential equity so that DP&L could make an investment.

DPL, Inc.'s ability to push that equity down is contingent upon its ability to access the down market. So they are -- in my mind there is a natural link between DPL, Inc., the financial integrity of Inc. and the financial integrity of DP&L.

Q. And in your hypothetical you're assuming that equity needs to be pushed from DPL, Inc. down to DP&L.

A. Yes.

Q. Changing topics, Mr. Oliker asked you questions about whether DP&L was currently providing safe and reliable service. And I'm paraphrasing here, but you said something about without DMR, providing self and reliable service would be a challenge. Do you recall that?

A. Yes, I do.

Q. What is the challenge you were referring to in that response?

A. Not being able to make investments into the distribution network would create a challenge to continue to provide safe and reliable service.

Q. But not being able to make investments you're referring to unable to raise capital?

A. Ability to raise capital and having the cash flow to make investments into the distribution business. Yes.

Q. And turning to the 445 million referenced on page 9, line 19, you discussed this quite a bit with both Mr. Oliker and Mr. Pritchard with regards to DP&L paying that financing.

Could you be a little more specific as far as the steps that DP&L took to seek that financing?

A. Sure. We -- a traditional approach to financing we worked with several banks. Obviously discussed what we're planning to do around the refinancing, timing of the refinancing, what options are available to us in terms of markets. What the pricing's looking like for a refinancing or if it's a new issuance, then a new issuance. And that's generally the approach that we would have.

In the case of this 445, certainly the challenges around the Supreme Court order created some significant challenges for DP&L but just overall the uncertainty in Ohio prevented us from going to the traditional first mortgage bond market as I had noted earlier.

Q. I'm sorry, was your answer complete?

A. Yes, it was.

Q. And so did DP&L seek a traditional 30-year mortgage bond and fail? Or based on the advice of its advisers did it seek the shorter term debt only?

A. Based on the -- it would be extremely risky if the banks -- if we went the route of trying to issue a first mortgage bond knowing the risk behind it and we were not successful, it could immediately put the utility in default if we did not have the ability to pay that debt off. So given that the risk, given the guidance and the recommendations from the bank group, we went to the high yield market.

Q. Is there any other witness in this proceeding who is going to or who would be more appropriate about addressing debt refinancing to other than yourself?

A. No.

Q. You referenced Mr. MacKay earlier but he's not testifying.

A. That is correct.

Q. So those questions should be directed to you?

A. Yes.

Q. What specific banks did -- strike that.

Page 9, line -- forget that. Page 10, line 7. Are you there?

A. Yes, I am.

Q. What is the purpose of that covenant?

A. The purpose is to prevent the utility from raising incremental debt.

Q. So even if that debt was subordinate to the $445 million loan, that would constitute a violation of the covenant?

A. Yeah, we do not have the ability to issue new debt. I mentioned earlier there are some exceptions that we could request. I don't have those listed out here in front of me but there are some customary exceptions; however, our expectation is until we had more certainty in this proceeding, that we would not be able to issue any incremental debt at the utility.

Q. Is that an understanding or is it an expressed covenant of the debt instrument?

A. That is our understanding.

Q. Did DP&L have a revolving line of credit?
A. Yes, it does.
Q. Would draws of DP&L's revolving line of credit constitute violation of that covenant?
A. I do not believe it would.
Q. If DP&L were to borrow for the distribution modernization investment, would that constitute a violation of this covenant?
A. We would not be able to issue a new -- when I say new debt going to the market and issue new debts, I do believe, I would have to confirm, but I do believe that we could draw on, we could potentially draw on the revolver to fund some of that. I would have to confirm that.
Q. So I guess that answers the revolver question and now could new debt be issued on the distribution modernization initiative without violating this covenant?
A. I don't believe so. I don't believe we have the ability to issue new debt, you know, without asking for some type of an exception.
Q. Has that debt instrument ever been filed with the Commission to your knowledge?
A. We certainly filed and get approval I believe on the refinancing. Whether or not we have

filed the actual debt instrument itself with the Commission, again, I would have to confirm that.

Q. And suppose DP&L's financial condition improved due to some factor. Does DP&L have the ability to refinance that $445 million debt prior to its expiration date?

A. Yes.

Q. Do you know whether there's any prepayment penalty which would be associated with retiring that debt?

A. There may be a prepayment penalty and obviously payment of an accrued interest associated with it. I don't know the number at this point in time but we do have the ability to take, we could take the debt out if conditions allowed that.

Q. Turning to page 13, line 7, particularly where you change the word "similarly" to "substantially."

A. Yes.

Q. Did that change indicate that there is some DPL, Inc. debt which is secure?

A. Yeah, I noted before the $125 million series that is secured by the AES Ohio Generation peaking assets.

Q. The topic you discussed the $1.25 billion

debt with Mr. Oliker. Do you recall that?
A. Yes, I do.
Q. Was all of that 1.25 billion paid to shareholders?
A. What was paid to shareholders by AES was a value equivalent to $30 per share.
Q. To be clear, was any of that 1.25 billion invested in the distribution system?
A. Can you read that back that question, please.
(Record read.)
A. The 1.25 was debt obligation that was placed on DPL. So the work was not incremental cash that was pushed down to DPL otherwise invested into the business.
Q. So all of that 1.25 billion was merger premium paid to shareholders, correct?
A. So when I think about merger premium, I think of it a little bit differently. So in my mind the merger premium value of the transaction was $30 per share. Our stock at that time, depending on if you look at the average 30 day or average 620 day or however you want to measure it, it would reflect a premium of in the 8 to 10 percent to be a little bit north of 10 percent range which would reflect what's

called a 2 to $300 bill premium.

Q. I will rephrase. All of that 1.25 billion associated with merger consideration.

A. Can you continue with the question?

Q. Sure. Would you agree that all of the $1.25 billion was associated with merger consideration?

A. The 1.25 was part of the overall value of the transaction what AES paid.

Q. So then from an accounting perspective it's my understanding that 1.25 billion was booked as additional debt at the DPL, Inc. level; is that correct?

A. Yeah, as noted before, the debt was issued by Dolphin subsidiary and then that debt was assumed by DPL, Inc.

Q. Correct. And so then would there have been a corresponding adjustment to the equity portion of the balance sheet?

A. So effectively what got established on the balance sleet was the goodwill. We ended up, if memory serves correct, I think a goodwill entry of about $2.6 billion is what we had recorded in relation to the transaction.

Q. And would that goodwill entry have had any impact on the DPL, Inc. return on equity calculations going forward?

A. Let me think back to -- one, the goodwill has been completely written off. So when I look at the DPL, Inc.'s equity balance, there was a loss that we had incurred -- we're just turning the blinds down in here. The loss that we incurred associated with goodwill write-off did have a negative impact on our equity balance.

MR. ALEXANDER: Could I have that answer reread, please?

(Record read.)

Q. My question was just more general. When the adjustment was made as a result of the merger to the DPL, Inc. equity balance, does that then have a going-forward impact on the return on equity for DPL, Inc.?

A. To the extent your equity balances, equity balance increases, your return on equity calculation would result in a lower just pure mathematical calculation would be lower.

Q. Correct. And then what you're referring to was subsequent to the merger, there were impairments recognized by DPL, Inc., correct?

A. That is correct.

Q. And then those had the effect of decreasing the equity; is that correct?

A. The goodwill write-off, yes, had a negative impact on earnings and our equity balance.

Q. Turning to your calculation of FFO to debt, why did you calculate the FFO to debt of DPL, Inc. as opposed to AES?

THE WITNESS: I'm sorry, could you repeat that?

(Record read.)

A. Because we believe the financial integrity of DP&L is very closely aligned to the financial integrity of DPL, Inc.

Q. And is the financial integrity of DP&L also in your mind aligned with AES?

A. I look at the alignment much stronger between DP&L and DPL, Inc.

Q. And I believe you may have answered this earlier but just so the record is clear, you have not calculated the FFO-to-debt ratio for DP&L, correct?

A. That is correct.

Q. And you have not calculated the FFO-to-debt ratio for AES, correct?

A. That is correct also.

Q. And when you calculated the DPL, Inc.

FFO-to-debt ratio, did you use the same dividend assumption that we discussed earlier shown in Exhibit CLJ-6?

A. So when you compute -- short answer, all of the numbers that reflect the adjusted FFO to debt are the same numbers that roll through the other schedule. So any cash that's used for dividend payments between DPL up to DPL, Inc., that's all captured in there.

The FFO calculation itself is looking at your cash from operations with the adjustments we had discussed relative to your overall debt level.

Q. From a time being perspective with regard to the prepayment of debt by both DP&L and DPL, Inc., when would that prepayment actually take place? Every calendar year or at the -- when the debt is refinanced?

A. Certainly we would look to optimize to the extent we are able to. Yes, certainly when there's a debt maturity, we would look to reduce the debt at that time. And then others opportunistically looking to repay the debt, certainly we want to do it in such a fashion where we can minimize any prepayment penalties that we would incur on any of the debt that we have.

But generally speaking, around the maturity dates and then looking to optimize around prepayments thereafter.

Q. So just to take, for simplicity, using the $445 million debt at DP&L, would DP&L retain the funds which would be used to pay down that debt until 2022 when the debt is refinanced or pay those funds sort of in each year as we get moved from now to 2022?

A. You know, that question probably would be better answered in the confidential portion.

Q. Okay, we can. That's fine.

And the DPL, Inc. FFO-to-debt calculation, does that calculation assume that DPL, Inc. receives income from any other subsidiary?

A. The adjusted FFO-to-debt calculation, remember it's a cash flow number, not a net income number. But it is the cash flows for all of the entities within the business with the exception of the coal generation assets that we noted earlier.

Q. Sure. And that actually goes to my next question. If generation revenues are the things to be sort of adjusted, why were gas revenues included and coal related revenues excluded? Aren't those both generation revenues?

A. They are, and I would say similar to my response earlier I believe it was to Mr. Oliker's, may have been Mr. Oliker's question, there are I think two reasons related to this; one is the variability and volatility in the energy margins which from a gas peaker's standpoint most of their contribution to revenues comes from capacity.

And then secondly, given the risk around future environmental legislation and finite life, if you think about it from a finite life perspective, that has a -- carries a bigger risk for the coal assets and not the gas peakers.

So we believe that the gas peakers' rating agencies and the banks would attribute value to those cash flows.

Q. So your calculation of FFO to debt includes all the debt associated with the purchase of the generation, correct?

A. When you say "the purchase" --

Q. I'll rephrase that. Your calculation of FFO to debt includes all debt at the DPL, Inc. level, correct?

A. Yes, it does.

Q. And the debt at the DPL, Inc. level excludes debt associated with the construction of and purchase of that coal-related generation, correct?

A. The debt -- so let's break that into two pieces. So there's a portion of that debt that's related to DP&L and that debt is attributable to transmission, distribution, and generation assets. Then there's distribution debt at the DPL Holdco level some of which is unsecured and there's a small polar vortex that I noted earlier that is associated with the gas peakers.

Q. Yes, I think I understand your distinction. I understand it also includes the distribution and transmission related debt. My point is that is all associated with the generation FFO-to-debt calculation.

A. Yeah, and where I distinguish from that quite a bit is there isn't debt specifically associated with just generation assets at DP&L. All that DP&L did is associated with all the assets the utility which is transmission, distribution, and generation.

Q. Certainly, I understand your point.

In your conversation with I think Mr. Oliker with regard to, or Mr. Pritchard, looking at the financial statements for DPL, Inc. to determine operation to debt, I believe you said you would look to net cash operating activity to conduct that calculation; is that correct?

A. That's correct. Without getting into any specific numbers, for those that have Exhibit CLJ-3, you will see that the start of the FFO, the funds from operations calculation on line 16, that's your cash from operations debt equivalent to line 2 on that same schedule. So the starting point is your net cash provided by your operating activities.

Q. Sure, and I understand on a go-forward basis but if we were to look at the 10Ks, would you be using earnings from continuing operations before income tax or net income from continuing operation?

A. I would be looking at our net cash provided by operating activities and making the adjustments that I had noted earlier from the 10K.

Q. So you would use the after-tax number.

A. Similar to how we are computing it here.

Q. Was that yes?

A. Yes.

Q. Okay. And one of the adjustments you would make would be to remove noncash items; is that correct?

A. Your cash flow, I mean generally speaking your cash flow from an operations already has made adjustments for noncash items. I think we had talked earlier about depreciation and amortization, deferred tax, things like that. Those adjustments are already reflected in your net cash provided by operating activities.

Q. I just want to be more clear. Funds from operation to debt calculation would not include impairments, not cash impairments, correct?

A. That is correct.

Q. And I do have some questions as far as the comparison from historic to the projected so I'm going to save those for the confidential session, even though obviously the historic numbers are publicly available, I'm going save those for the confidential session.

A. Okay.

Q. Has DP&L changed its accounting practices with regard to reporting funds from operation in the last three years?

A. So DP&L, the SEC requirement is to report on your cash flow from operations. There isn't specific funds from operations calculation or reference in the SEC documents. So your net cash provided by operating activities.

Q. Yeah, and I just, my question's a little more general. Would there be any difference if we were to look at the reported financials for the last three years and compare those to the projection you've made for the next seven years from an accounting practice's perspective?

I understand the numbers are different but have of the accounting practices changed in the period?

MR. FARUKI: I don't understand the question.

A. Yeah, I just don't understand your question.

Q. Is DP&L still reporting net income in the same manner in its projections included in your CLJ-3 as it has done in its financial statements for 2013 to 2015?

MR. FARUKI: It's not reporting income in a projection, Trevor. I think are you trying to ask whether these projections were done with the same accounting principals to the recognition of income?

Q. That's it.

A. Yes, it's consistent.

MR. FARUKI: When you get to a good point, let's take another break.

MR. ALEXANDER: Let's go off for just a

minute.

(Off the record.)

Q. Let's go back on.

In response to questions from Mr. Pritchard, you said that the costs associated with the generation assets were not included in your projection of FFO to debt; is that correct?

A. In the adjusted FFO to debt we have excluded the cash flows associated with the generation assets. But it's the adjusted FFO, not just the straight FFO.

Q. And so when you made that adjustment, is there a workpaper that shows how the costs associated with generation assets were removed?

A. I'm trying to recall if we had provided anything. From the sound of your question it would indicate that through the interrogatories we may not have yet provided that. So again, given the significant volume of interrogatories, I just can't recall if that one was included in there or not.

Q. Sure. And to be clear, my question was does one exist.

A. We have information that provides the cash flow that is being adjusted out related to our coal assets.

MR. PRITCHARD: Can we go off the record for a second.

(Discussion off the record.)

Q. Let's go back on.

Mr. Jackson, would you agree that coal plants do not dispatch unless it is projected to be economic for them to do so?

A. Yes, I would agree with that.

Q. And would there be any circumstance in which generation plants would have variable costs in excess of their available revenue on an expected basis?

A. This is probably one that would be better suited for Mr. Crusey; however, there are certain limitations on the generating assets. I'll give you an example.

In an off peak hour, the generation asset may only be able to reduce to a certain load level. In that particular hour you could see a negative, I call it variable margin so the revenue runs through your variable costs. But in aggregate over the longer period of time just over the course of a day or again there's some restrictions on some of the units, you would expect to run those units economically and dispatch them providing the economics made sense.

But again, more detail around just mechanically how all that works and some of the restrictions is probably better suited for Mr. Crusey.

Q. Certainly there are issues with minimum run time and predicted key rates and stuff like that. My question was on an annual basis because if the plant would not be economic on an annual basis, for example, things like necessary capital infusions, then those capital infusions would typically not be made, correct?

A. Certainly looking at the generation assets, yes, we look at the capital costs of the assets relative to the projected revenues that we would anticipate receiving through the PJM market. So, yes, there is a conscious review of the capital program relative to the expected revenues.

Q. Can you think of any circumstance in which the projected revenues over variable costs for a coal plant would be a negative?

A. Yeah, probably -- I'm trying to think offhand. I'm not coming up with an initial scenario. But I would recommend that that question get pushed over to Mr. Crusey.

Q. Well, the reason I'm directing it to you is you've eliminated projected revenue in total from your FFO-to-debt calculation, and you think that might be overly conservative since even under the most pessimistic scenarios those coal plants are projected to provide some revenue.

A. So what we have backed out is not just the revenue though, right? It's the cash, the net cash flow provided by those assets. So you have to look at both sides, both the revenue and the cost, but that is what we have backed out.

Q. And would you agree that that's overly pessimistic since the projected net income associated with those plants will always be a positive number, variable basis?

MR. FARUKI: I'll object to that last part. The assumption that it will always be positive with that, I object to that on two grounds; one is to form, and two is to incomplete hypothetical.

MR. ALEXANDER: I'll rephrase the question.

MR. FARUKI: Okay.

Q. Mr. Jackson, since you can't think of a circumstance in which the net income associated with the coal plant would be a negative number, would you agree that your elimination of projected costs in revenues associated with the coal plants may be overly conservative?

A. So I think what you've phrased in your question is a little bit different than I stated it before. You were referring specifically to just variable costs earlier where when you factor in fixed costs associated with the plant, yes, you could have a scenario where you have negative cash flow.

So just when we distinguish between a variable cost versus a fixed cost and whether it's net income, no, the short answer to your question I don't believe we're being overly pessimistic in our view given the volatility in the markets and given the finite life of the coal assets getting potential future environmental regulations that are not yet known. I think those are the drivers behind excluding those cash flows out.

Q. Turning to CLJ-4, line 45, where you recommend the equity used in the ROE calculation include the recent impairment recognized by the DP&L. Do you see that?

A. Yes, I do.

Q. Why are you recommending that adjustment?

A. To reflect what I consider to be a normalized equity.

Q. Is that adjustment -- strike that.

Was Dayton Power and Light's equity balance affected in any way by the AES merger?

A. We've discussed so certainly the goodwill impact, the write-off of the goodwill had a negative impact on the equity of DP&L.

Q. So your calculation includes the debt associated with the merger but is removing the adjustment to equity associated with the merger?

A. We are adjusting for the impairment charge that we have taken. So it's effectively putting the equity back to where it otherwise would have been had we not had an impairment charge.

Q. I understand that but that equity adjustment is related in part to goodwill adjustment which was made in connection with the merger; is that correct?

A. It is -- we're talking about the DP&L here?

Q. Yes.

A. So I'm a little -- make sure here. On CLJ-4, 584 is not the goodwill impairment. These are the individual asset impairments that we had taken. Goodwill is not pushed down to Dayton Power and

Light, the goodwill is established at the DPL, Inc. level. So these are impairments just on the individual assets themselves.

Q. Okay, that's what I understood earlier.

A. Yeah.

Q. So I thought I'd asked you in this line of questions whether the merger had any impact on DP&L's equity balance. So did the merger have any impact on DP&L's equity balance?

A. No.

Q. That was my understanding.

A. Apologize for the confusion there.

Q. Are you aware -- new topic. Are you aware of any written terms which support your contention that credit agencies discount generation-related cash flows?

A. I think similar to the, I think question was asked earlier as well and I'm not aware of any written documentation.

Q. Are you aware of any other entity whose generation-related cash flows have been discounted by a rating agent?

A. I am not.

Q. And last topic, page 16, line 11, when you discuss how the DMR funds will be used.

A. So you said page 16?
Q. Yes.
A. Okay, yes, I'm there.
Q. Line 11.
A. Yes.
Q. By my rough calculation the DMR is 145 million over seven years for a total of $1.015 billion; is that correct?
A. Yes, I think --
MR. FARUKI: We'll accept the number subject to check, Trevor.
A. Yes.
Q. Certainly, yeah. I understand that. But at page 16, line 11, we discuss the 266 million at DP&L and the 665 million at the DPL, Inc. level. Do you see that?
A. Yes, I do.
Q. So again, subject to check, would you agree that's approximately $931 million?
A. Yes.
Q. And that leaves a difference of 84 million between DMR revenues and how those revenues will be used. Is there any workpaper or other document which shows where that remaining $84 million will be used?
A. First I think I refer you back to page 12

of my testimony. And beginning on line 20 where we list out some of the uses of the DMR. It's certainly to help pay interest obligations on existing debt at DP&L and DPL, Inc. and then as well to make the discretionary prepayments.

I've noted in C on that same question which begins on line 21 and carries over to the following page, that it also allow to us make capital expenditures to modernize the infrastructure in the projections itself were using the cash mainly to pay down debt. We have not allocated it for any of the infrastructure investments but certainly that would be an opportunity for us.

Q. So sort of the remaining 84 million, that would potentially fall into the additional distribution and transmission infrastructure investment bucket?

A. No, I think it's more along the lines of being able to pay interest obligations on existing DPL and DP&L debt.

Q. That would be in addition to the 266 and 65 million?

MR. FARUKI: I think the numbers you read were in confidential.

MR. ALEXANDER: I apologize.

MR. FARUKI: That's all right, I didn't catch it either. We'll just figure out that those three or four questions, whatever it was, will need to move over on the confidential side.

Q. Certainly, and with that I'm done, that was actually my last topic. I apologize for venturing into the confidential and we'll address that tomorrow.

MR. FARUKI: That's fine. Why don't we take a fourth break.

MR. ALEXANDER: So the record's clear I do have more questions for the confidential session.

MR. FARUKI: Yeah, I thought so.

Chris, you're next?

MR. BZDOK: My suggestion would be if there's somebody who has less questions than time remaining, they ought to go for efficiency. Otherwise I'm happy to start and continue tomorrow. But if there's anybody who has 30 minutes of questions.

(Discussion off the record.)

MR. FARUKI: We'll go back on the record and let's take a break and then we'll do that.

(Recess taken.)

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CROSS-EXAMINATION

BY MR. KUMAR:

Q. Mr. Jackson, my name is Ajay Kumar, I'm with the Office of Consumers' Counsel. Thanks to the diligent efforts of Mr. Pritchard, Mr. Alexander, and Mr. Oliker, I just have a very few questions for you.

Could you turn to page 22 of your testimony?

A. Sure. Okay, I'm there.

Q. If you look at line 5, you make the statement that although DP&L is no longer required to separate its generation assets. I was wondering what information did you rely on to I guess come to that conclusion?

A. I relied on the advice of counsel.

Q. Did you rely on any specific Commission orders or any other authority?

A. So I believe this was all attributable to the Supreme Court order that had come out earlier in the summer and then the following order from the PUCO which reverted us back to ESP 1. But beyond that it was from counsel, based on the advice that counsel had provided.

Q. Could you turn to page 26 of your testimony.

A. Okay.

Q. On lines 12 through 14 you describe a $445 million institutional loan that will take place at a future date after market and regulatory conditions in Ohio have stabilized. Do you see that?

A. Yes, I do.

Q. What, I guess what are the regulatory conditions that are described there that would need to be stabilized?

A. Clearly the ESP proceeding that we are in right now is the primary item that I'm referring to.

Q. So by finishing the ESP proceeding that would then stabilize the regulatory conditions?

A. It would give more certainty, more clarity around the next several years. Obviously the ability to refinance that new 445 million loan into a longer date of maturity if you focus on the credit rating of the company will be largely dependent on the outcome of this proceeding. But, yes, I think it's the clarity that we would receive from this proceeding itself.

Q. And I guess throughout the day today you've also often referred to uncertainty in Ohio. Is that uncertainty also related to I guess this ESP proceeding? Is that the uncertainty you're referring to?

A. Yes, it is.

Q. Is there any other uncertainty that you would be referring to?

A. I'm primarily referring to the uncertainty around the ESP. And when I refer to the market, I reference market conditions in Ohio, so there's a regulatory side and then the market conditions that's just the general risk around our commodities.

MR. KUMAR: That's all I have, Charlie.

MR. FARUKI: Okay. Thanks, Ajay.

We will just recess for now then and everybody that wants to participate can dial in on the original public line that Joe circulated and we'll resume at 8:30 tomorrow, if that's good for everybody.

MR. PRITCHARD: Before we get off the line, Charlie, do you know if Mr. Jackson has had an opportunity to see if the document 7958 that was referenced in the IEU discovery response I cited to you earlier was responsive to the workpaper for the FFO adjustment?

MR. FARUKI: We haven't had a chance to check that yet but we are doing so.

MR. PRITCHARD: Okay. I would expect that this line of questioning is going to come up during the confidential cross tomorrow and if we could resolve that issue maybe by the time we start the confidential cross tomorrow, that might be helpful to avoid a lengthy deposition tomorrow.

MR. FARUKI: Well, we'll attempt to do so. I can't promise because we're still checking that. But we're working on it.

MR. PRITCHARD: Sure, thank you.

MR. FARUKI: Everybody have a good evening we're going to ring off now.

(Whereupon, at 4:30 p.m.the deposition was adjourned.)

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CERTIFICATE

State of Ohio)
) SS:
County of Franklin)

I, Julieanna Hennebert, RPR and RMR, the undersigned, a duly qualified and commissioned notary public within and for the State of Ohio, do certify that, before giving his deposition, CRAIG JACKSON was by me first duly sworn to testify to the truth, the whole truth, and nothing but the truth; that the foregoing is the deposition given at said time and place by CRAIG JACKSON; that I am neither a relative of nor employee of any of the parties or their counsel and have no interest whatever in the result of the action.

IN WITNESS WHEREOF, I hereunto set my hand and official seal of office on this 23rd day of December, 2016.

Julieanna Hennebert

Julieanna Hennebert, RPR, RMR,
and Notary Public in and for the
State of Ohio.

My commission expires February 19, 2018.

(1855-JLH)

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