

BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

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In the Matter of the :
Application of The Dayton :
Power and Light Company : Case No. 16-395-EL-SSO
for Approval of its :
Electric Security Plan. :

:

In the Matter of the :
Application of The Dayton :
Power and Light Company : Case No. 16-396-EL-ATA
for Approval of Revised :
Tariffs. :

:

In the Matter of the :
Application of The Dayton :
Power and Light Company :
for Approval of Certain : Case No. 16-397-EL-AAM
Accounting Authority :
Pursuant to Ohio Rev. Code:
§4904.13. :

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PROCEEDINGS

before Mr. Gregory Price and Ms. Patricia Schabo,
Attorney Examiners, at the Public Utilities
Commission of Ohio, 180 East Broad Street, Room 11-A,
Columbus, Ohio, called at 9:00 a.m. on Tuesday,
April 2, 2019.

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VOLUME VII

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ARMSTRONG & OKEY, INC.
222 East Town Street, Second Floor
Columbus, Ohio 43215-5201
(614) 224-9481 - (800) 223-9481

- - -

APPEARANCES:

Faruki Ireland Cox Rinehart & Dusing P.L.L.
By Mr. Jeffrey S. Sharkey,
Mr. D. Jeffrey Ireland,
and Mr. Christopher C. Hollon
110 North Main Street, Suite 1600
Dayton, Ohio 45402

Dayton Power and Light Company
By Ms. Judi Sobecki,
General Counsel
and Mr. Michael Schuler,
Regulatory Counsel
1065 Woodman Drive
Dayton, Ohio 45432

On behalf of the Applicant.

Ohio Partners for Affordable Energy
By Ms. Colleen L. Mooney
P.O. Box 12451
Columbus, Ohio 43212

On behalf of the Ohio Partners for
Affordable Energy.

Boehm, Kurtz & Lowry
By Mr. Michael L. Kurtz,
Mr. Kurt J. Boehm,
and Ms. Jody Kyler Cohn
36 East Seventh Street, Suite 1510
Cincinnati, Ohio 45202

On behalf of the Ohio Energy Group.

McNees, Wallace & Nurick LLC
By Mr. Frank P. Darr
and Mr. Matthew Pritchard
21 East State Street, 17th Floor
Columbus, Ohio 43215

On behalf of the Industrial Energy Users
of Ohio.

- - -

1 APPEARANCES: (Continued)

2 IGS Energy
 3 By Mr. Joseph Olikier
 4 and Mr. Michael Nugent
 6100 Emerald Parkway
 Dublin, Ohio 43016

5 On behalf of IGS Energy.

6 Vorys, Sater, Seymour & Pease, LLP
 7 By Mr. Michael J. Settineri
 8 and Ms. Gretchen L. Petrucci
 52 East Gay Street
 Columbus, Ohio 43215

9 On behalf of Retail Energy Supply
 Association.

10 Carpenter Lipps & Leland LLP
 11 By Ms. Kimberly W. Bojko
 12 and Mr. Brian W. Dressel
 280 North High Street, Suite 1300
 Columbus, Ohio 43215

13 On behalf of the Ohio Manufacturers'
 14 Association Energy Group.

15 Carpenter Lipps & Leland LLP
 16 By Ms. Angela M. Paul Whitfield
 280 North High Street, Suite 1300
 Columbus, Ohio 43215

17 On behalf of The Kroger Company.

18 Environmental Law & Policy Center
 19 By Ms. Madeline Fleisher
 21 West Broad Street, Suite 500
 Columbus, Ohio 43215

21 On behalf of the Environmental Law &
 Policy Center.

22 - - -

APPEARANCES: (Continued)

Spilman, Thomas & Battle, PLLC
By Ms. Carrie M. Grundmann
110 Oakwood Drive, Suite 500
Winston-Salem, North Carolina 27103

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

Dave Yost, Ohio Attorney General
Mr. Thomas W. McNamee
Assistant Attorney General
30 East Broad Street, 16th Floor
Columbus, Ohio 43215

On behalf of the Staff of the PUCO.

Bruce Weston, Ohio Consumers' Counsel
By Mr. William Michael,
Assistant Consumers' Counsel
65 East State Street, 7th Floor
Columbus, Ohio 43215

On behalf of the Residential Consumers of
The Dayton Power and Light Company.

Calfee, Halter & Griswold LLP
By Mr. N. Trevor Alexander,
1200 Huntington Center
41 South High Street
Columbus, Ohio 43215

On behalf of Honda of America
Manufacturing, Inc., and City of Dayton.

Honda of America Manufacturing, Inc.
By Ms. Christine Schwartz
24000 U.S. Route 33
Marysville, Ohio 43040

On behalf of Honda of America
Manufacturing, Inc.

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1 Tuesday Morning Session,

2 April 2, 2019.

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4 EXAMINER PRICE: Let's go on the record.

5 Good morning. The Public Utilities
6 Commission of Ohio has set for hearing at this time
7 and place Case No. 16-395-EL-SSO, being in the Matter
8 of the Application of The Dayton Power and Light
9 Company for Approval of its Electric Security Plan.

10 This is our seventh day of hearing in
11 this proceeding. My name is Gregory Price. With me
12 is Patricia Schabo. We are the Attorney Examiners
13 assigned to preside over today's hearing.

14 Mr. Sharkey, would you care to introduce
15 your next witness.

16 MR. SHARKEY: Yes. The Dayton Power and
17 Light calls Gustavo Garavaglia to the stand, please.

18 (Witness sworn.)

19 EXAMINER PRICE: Please be seated and
20 state your name and business address for the record.

21 THE WITNESS: Good morning, your Honor.
22 Good morning, everyone. My name is Gustavo
23 Garavaglia. I received a Bachelor of electric
24 engineer from The State University --

25 EXAMINER PRICE: Just your name and

1 business.

2 THE WITNESS: Oh, I'm sorry. Gustavo
3 Garavaglia, One Monument Circle, Indianapolis,
4 Indiana.

5 EXAMINER PRICE: Mr. Sharkey will have
6 some questions for you.

7 - - -

8 GUSTAVO GARAVAGLIA
9 being first duly sworn, as prescribed by law, was
10 examined and testified as follows:

11 DIRECT EXAMINATION

12 By Mr. Sharkey:

13 Q. Do you have before you the October 11,
14 2016, direct testimony of Craig Jackson?

15 A. I do.

16 Q. Okay. And have you had the opportunity
17 to review and study that testimony?

18 A. Yes.

19 Q. And other than Mr. Jackson's professional
20 background and credentials, do you adopt that
21 testimony as your own sworn testimony?

22 A. Yes, I do.

23 Q. Okay. Can you summarize for the
24 Commission both your educational background and your
25 career background since you've graduated from

1 college.

2 A. Sure, absolutely. So I received a
3 Bachelor of electrical engineer from The State
4 University of Campinas in Brazil. After that, after
5 I graduated college, I also had the postgraduate
6 certificate from the Getulio Vargas Foundation in
7 Brazil in business administration. And after that, I
8 also studied for final certificate called -- called
9 CFA which means charter financial analyst which is
10 one of the most prestigious financial certifications
11 in the world.

12 With regards to my career, I joined AES
13 Corporation nine years ago in Brazil. In Brazil we
14 owned two distribution companies, AES Eletropaulo and
15 AES Sul and also owned generation company, so I
16 worked for the three companies in Brazil. I joined
17 AES, as I mentioned, over -- a little bit over nine
18 years ago right after college, and then I spent six
19 months -- I would say three or four years after I
20 joined AES, I spent six months in our Global
21 Headquarters in Arlington, Virginia, working with the
22 mergers and acquisitions team.

23 And then I went back to Brazil. In
24 Brazil I would say my -- most of my activities were I
25 would say almost all in finance, financial planning

1 and analysis, risk management, and mergers and
2 acquisitions.

3 After five -- five years in Brazil, I
4 moved to Panama, Central America, where I was the
5 head for AES of transactions and development for the
6 region which includes Mexico, Central America, and
7 the Caribbean, head office based in Panama. And
8 during this period -- I stayed four years in Panama.
9 During this period I was promoted to be also the head
10 of financial planning and analysis and risk
11 management for AES in the region.

12 And in January of this year, 2019, I
13 accepted to be the CFO for DP&L, DPL, and other AES
14 companies in the U.S.

15 MR. SHARKEY: Thank you very much. Your
16 Honors, I have got no more questions.

17 EXAMINER PRICE: Mr. Olikar.

18 MR. OLIKER: Thank you, your Honor.

19 - - -

20 CROSS-EXAMINATION

21 By Mr. Olikar:

22 Q. Good morning. And for my first question
23 I just have to clarify, is it Garavaglia or
24 Garavaglia?

25 A. It's Garavaglia, and it's an Italian last

1 name. My grandfather was Italian. Italy, yeah.

2 Q. Okay. Thank you. That's very helpful.
3 Turning to your testimony, what documents have you
4 brought with you today?

5 A. I brought Craig Jackson's testimony.

6 Q. Have you brought any other documents?

7 A. No.

8 Q. And what documents did you review before
9 providing your testimony today?

10 A. I reviewed the Amended Stipulation by the
11 Commission. I reviewed one of IGS testimony as well.
12 And I'm also witness to the DMR-E case which we filed
13 in January; and so, of course, I reviewed my
14 testimony and Jeff Malinak's testimony in this case.

15 Q. And which of the IGS testimonies did you
16 review?

17 A. I think it was Ed Hess's testimony, but I
18 am not 100 percent sure.

19 Q. Okay. Do you remember the subject of
20 that testimony?

21 A. I have vague memory. It's been maybe
22 three months that I -- or that I've read it.

23 Q. Based on your memory, what was the
24 subject of the testimony you reviewed?

25 A. I think challenging some of the reasons

1 for the DMR or challenging the position by AES on the
2 bill.

3 Q. Okay. And have you reviewed any
4 Commission orders from the PUCO?

5 A. Yes. I reviewed the order that resulted
6 in the Amended Stipulation.

7 Q. And what about the order authorizing the
8 distribution rate increase?

9 A. No, I haven't reviewed this one.

10 Q. Have you reviewed any documents from the
11 distribution rate case?

12 A. Not that I recall.

13 Q. Okay. Have you -- I think you said you
14 reviewed Jeff Malinak's testimony; is that right?

15 A. For the DMR-E case.

16 Q. Okay. But have you reviewed Jeff
17 Malinak's testimony in this case?

18 A. I don't remember. I don't think I have.

19 Q. And a few questions about your
20 background. Am I correct you started in the utility
21 industry in 2010?

22 A. Yes, that's correct.

23 Q. And you moved to Virginia. What year was
24 that?

25 A. This was in 2013, May 2013.

1 Q. And what were your responsibilities in
2 2013?

3 A. I was part of the mergers and
4 acquisitions/portfolio management team so basically
5 responsible for evaluating the opportunities for AES
6 to divest from -- from a couple assets in the world.

7 Q. When you say divest, are you saying that
8 your responsibility was to evaluate assets that AES
9 should sell?

10 A. Yes.

11 Q. And did you evaluate DPL Inc. at the
12 time?

13 A. No. I think the acquisition by AES of
14 DPL was in 2012, so when I was there, the acquisition
15 had been -- had happened already and when I was --
16 while I was there I hadn't done any analysis on the
17 DPL.

18 Q. What about DP&L?

19 A. No.

20 Q. Okay. And how long were you in Virginia?

21 A. Six months.

22 Q. And then where did you go?

23 A. I went back to Brazil after that.

24 Q. Okay. And then when did you come back to
25 the United States after going to Brazil?

1 A. I formally accepted my offer to be the
2 CFO for AES in the United States in -- in November
3 last year, so I more or less started some back and
4 forth to the U.S. and Panama, but I officially
5 started January 1, 2019.

6 Q. And so in total is your experience
7 addressing U.S. regulated utilities or U.S. utility
8 matters in Virginia for six months plus your time
9 since you started as the CFO for DP&L and
10 Indianapolis Power & Light?

11 A. That's correct, yes.

12 Q. Okay. And am I correct you have no
13 formal educational training in public utility
14 regulation?

15 A. So when I -- when I was working at AES in
16 Brazil, as I mentioned, AES owned two distribution
17 companies, one of them is the largest distribution
18 company in Latin America serving 7 million customers
19 or 20 million people. While I did not have any
20 formal training, I, of course, was very much involved
21 and had a lot of on-the-job training associated with
22 regulatory environment, regulatory framework.

23 Q. I think you went to answer both of my
24 questions. My follow-up question is all of your
25 public utility training is on-the-job training,

1 correct?

2 A. That's correct, yes.

3 Q. Okay. And your background in public
4 utility ratemaking largely stems from your education
5 in corporate finance?

6 A. Combined with my on-the-job training
7 associated with ratemaking cases, yeah.

8 Q. And I think you just said this, that
9 your -- you first became involved in DP&L's affairs
10 and matters in November of 2018 when you became the
11 CFO, correct?

12 A. That's correct, yes.

13 Q. And am I correct that you have not
14 reviewed Sharon Schroder's testimony?

15 A. You are right. That's correct.

16 Q. Am I also correct you have not reviewed
17 any textbooks on utility ratemaking such as Bonbright
18 "Principles of Utility Ratemaking"?

19 A. That's correct. I haven't reviewed any
20 of those textbooks.

21 Q. Okay. You also haven't reviewed any
22 treatises on utility ratemaking?

23 A. That's correct.

24 Q. And your testimony does not provide an
25 opinion regarding the test that the Commission

1 applies to determine whether the Electric Security
2 Plan is more favorable than a Market Rate Offer; is
3 that correct?

4 A. I don't understand the difference between
5 the two of them. I think that's correct, yes.

6 Q. And in your job capacity as the CFO, you
7 are not involved in any of the engineering planning,
8 for example, related to distribution lines; is that
9 correct?

10 A. What do you mean by "engineering planning
11 of the distribution lines"?

12 Q. For example, if DP&L is deciding whether
13 to put a substation in a different location or to
14 replace a transformer, that's not in your department,
15 is it?

16 A. So I'm not involved in discussions
17 associated to the finding where new substations would
18 be installed or the need for new substations. I do
19 discuss the overall CAPEX spend of the company
20 with -- with our senior management team for those
21 investments.

22 Q. So just so I understand your answer, you
23 are involved in the finance side to determine whether
24 there are funds available after other departments
25 determine what they want to spend?

1 A. Correct. As I mentioned, I don't
2 necessarily decide where new substations will be
3 located or where new even poles would be located.
4 That's defined by the engineering team.

5 Q. Okay. And you are familiar with the
6 concept of the regulatory compact, correct?

7 A. Maybe not on the regulatory term. If you
8 can explain to me what that means.

9 Q. From a high level, you would agree that
10 the goal of economic regulation is to provide an
11 opportunity for utilities to earn a fair and
12 reasonable rate of return on their investment; and in
13 return, they receive a monopoly and provide safe and
14 reliable service?

15 A. Safe and reliable service to the
16 customers. Maybe the word monopoly is not as
17 adequate as it could be.

18 Q. Would you be more comfortable with a word
19 like franchise?

20 A. No.

21 Q. What would you replace monopoly with?

22 A. I'll try to explain why I am not
23 comfortable with a monopoly word, and then we can
24 pick a word to replace it. So the utility companies
25 lives in Ohio or in the case of DP&L customers that

1 are served by the utility company have the ability or
2 the choice to buy, for instance, in a different
3 another suppliers, not only from DP&L. So to me at
4 least it doesn't seem it is a full monopoly for DP&L
5 over the energy supply for the customers.

6 Q. Okay. So we're limiting monopoly to
7 noncompetitive services such as distribution and
8 transmission. Are you okay with the definition I
9 provided with that clarification?

10 A. With regards to infrastructure?

11 Q. Yes.

12 A. Yes.

13 Q. We are on the same page.

14 A. Okay.

15 Q. And DPL Inc. does not have distribution
16 and transmission lines that it owns, correct? At
17 least not directly.

18 A. Yeah. As you know, DPL Inc. is the owner
19 of DP&L which owns distribution and transmission
20 investments, so indirectly DPL Inc. owns
21 distribution, transmission and distribution.

22 Q. The assets regarding the distribution and
23 transmission lines are actually owned by DP&L,
24 correct, and DPL Inc.'s ownership is residual?

25 A. So DPL Inc. consolidates DP&L, so if you

1 look at DPL Inc.'s balance sheet, the assets of DP&L
2 are included in DPL Inc.'s balance sheet.

3 Q. Yes. But that ownership is residual, is
4 it not?

5 MR. SHARKEY: Objection, not clear what
6 residual means, your Honor.

7 EXAMINER PRICE: Please rephrase.

8 Q. DPL Inc., if the assets of DP&L have been
9 pledged to someone else, DPL Inc. has no right to
10 call on those assets in a creditor priority line,
11 correct?

12 A. As I mentioned to you, DPL Inc.
13 indirectly owns the assets of DP&L as the owner of
14 DP&L. And the assets of DP&L are included in the DPL
15 Inc.'s balance sheet. So I don't really understand
16 the point you are trying to make.

17 Q. Can DPL Inc. pledge DP&L's assets to
18 someone else as collateral?

19 A. I am not a lawyer, so I don't necessarily
20 understand if DPL Inc. can do that or not.

21 Q. Okay. And you would agree DPL Inc. is
22 not a regulated public utility, correct?

23 A. It is -- DP&L is a regulated public
24 utility so DPL Inc. is not.

25 Q. Okay. And sticking with the regulatory

1 compact, you agree that there is a different cost for
2 obtaining equity and long-term debt to fund capital
3 expenditures?

4 A. Yes. Usually there is a cost of equity
5 component in the cost of debt component usually
6 there.

7 Q. And the combined cost of debt and equity
8 is commonly referred to as the cost of capital,
9 correct?

10 A. Yes. They usually call it the weighted
11 average cost of capital. It's a condition of the
12 cost of debt and cost of equity.

13 Q. And the cost of capital is what
14 compensates the lender of debt or the investor of
15 equity for the time value of money, correct?

16 A. For the investment they are making based
17 off of the risk/reward profile of each business, yes.

18 Q. And based upon that risk/reward, the cost
19 of equity is higher, correct?

20 A. That's usually the case, yes.

21 Q. And that's due to the payment priority,
22 correct?

23 A. So that's our -- so equity is usually
24 subordinated to that, so, yeah, that has priority
25 over equity distributions.

1 Q. Because equity -- equity holders are paid
2 after secured and unsecured debt holders, correct?

3 A. That's usually the case, yes.

4 Q. Would you agree that when DP&L is
5 obtaining equity or debt, its goal is to make sure it
6 applies that capital toward an investment that would
7 yield a return that is equal or greater to the cost
8 of obtaining that capital?

9 A. DP&L's ultimate goal is to make
10 investments in the grid that provide safe and
11 reliable service to its customers while making sure
12 that DP&L is also receiving the reasonable return
13 associated to those investments.

14 Q. And by reasonable return, the return
15 should be equal or greater than the cost of obtaining
16 the capital, correct?

17 A. That's correct. Otherwise the Company
18 would be losing money and that's not the goal for any
19 company.

20 Q. You have some familiarity with credit
21 ratings, correct?

22 A. Yes, I do.

23 Q. And the testimony you have assumed also
24 discusses credit ratings, correct?

25 A. That's correct, yes.

1 Q. Am I correct you do not know whether
2 Moody's applies a different methodology to regulated
3 and unregulated utilities?

4 A. I don't know the details on how Moody's
5 determines that.

6 Q. Have you reviewed Moody's credit rating
7 methodology?

8 A. What do you mean by Moody's credit rating
9 methodology?

10 Q. Would you agree that there is a standard
11 methodology that is published by Moody's that
12 describes the way they perform a credit rating
13 analysis?

14 A. Yes.

15 Q. Have you reviewed that document --

16 A. No, I have not.

17 Q. -- since it was published?

18 A. I have not.

19 Q. Now, your testimony addresses the DMR,
20 correct?

21 A. That's correct, yes.

22 Q. The DMR does not provide a return on
23 physical plant that DP&L has invested, correct?

24 A. So the purpose of the DMR is to, one, pay
25 interest to DP&L and DPL Inc.; two, pay down debt to

1 DP&L and DPL Inc.; and, three, position the DP&L for
2 future investments in the grid including position the
3 Company for future modernization of the grid.

4 MR. OLIKER: Could I have his answer read
5 back, please.

6 EXAMINER PRICE: You may. Can I have the
7 question too.

8 (Record read.)

9 MR. OLIKER: Your Honor, may I approach?

10 EXAMINER PRICE: You may.

11 Q. (By Mr. Olikier) Mr. Garavaglia, I took
12 your deposition in this case, did I not?

13 A. Yes.

14 Q. Has that document been put in front of
15 you?

16 A. Yes.

17 Q. And did you have a chance to review your
18 deposition after it was taken?

19 A. Yes, I have.

20 Q. And does the document in front of you
21 appear to be a true and accurate copy?

22 A. Yes, it appears to be.

23 Q. And turning to page 37, let me know if I
24 read this correctly on line 22. "Sure. I understand
25 what you said the DMR does, but I'm trying to

1 understand, am I correct that the DMR does not
2 provide a return on physical plant that DP&L has
3 invested?"

4 Going on to page 38, "The DMR does not
5 provide any return for any specific -- yeah, that's
6 right. Yes." Did I read that right?

7 A. Yes, you do.

8 Q. Thank you.

9 MR. SHARKEY: Your Honor, I would like to
10 object. The full answer, if you start on page 35,
11 line 16, it's essentially the same question.

12 Mr. Garavaglia gave the same answer. There's no
13 inconsistency here. It's selecting a narrow piece of
14 a line of cross that Mr. --

15 EXAMINER PRICE: On redirect it is
16 perfectly fair for you to bring that up.

17 MR. SHARKEY: All right. Thank you, your
18 Honor.

19 MR. OLIKER: Yeah. Thank you, your
20 Honor.

21 Q. (By Mr. Olikier) In your testimony at page
22 5, it states that for purposes of financial integrity
23 it is important for DP&L to maintain an appropriate
24 capitalization level. In your view close to 50/50
25 debt to equity would be appropriate, correct?

1 A. That's not what we have in our current
2 rate case.

3 Q. And your current rate case has a target
4 capital -- let me state that again.

5 Your current rate case utilizes a
6 hypothetical capital structure of 52 percent debt to
7 48 percent equity?

8 A. I wouldn't say it's a hypothetical
9 capital structure. I would say it's a target capital
10 structure.

11 Q. What's the difference between
12 hypothetical and target in your view?

13 A. Hypothetical may mean that there is no
14 goal or objective or for the Company to get there and
15 in a target there is a -- as the word suggests, there
16 is a target for the Company to get there.

17 Q. So it's an aspiration or a goal.

18 A. It's a goal. I think aspiration is less
19 obtainable than a goal so.

20 Q. And at the time this testimony was
21 originally submitted by DP&L back in 2016 -- let me
22 rephrase that.

23 At one point over the last two years,
24 would you agree DP&L's capital structure was closer
25 to 33 percent equity and 66 percent debt due to the

1 economic impairments of the generation?

2 A. It may have, but two years ago we also
3 did not have a rate case.

4 Q. And I think you said this earlier, you
5 did not review any of the documents from the
6 distribution rate case; is that correct?

7 A. I think I have answered that already,
8 yes.

9 Q. Yes, okay. But you learned through
10 talking to colleagues regarding the capital structure
11 authorized by the Commission in the distribution rate
12 case, correct?

13 A. That's correct. And as you know, the
14 rate case was only applied in October or November of
15 2018, so two years, two or three years after this
16 testimony was filed.

17 Q. And the capital structure authorized by
18 the Commission in the distribution rate case is
19 important to you because it determines the rate of
20 return that is applied to any of the riders that DP&L
21 has proposed in this case, correct?

22 A. Not only the riders but for the whole --
23 for the whole company.

24 Q. And you are familiar with the concept of
25 return on equity, correct?

1 A. Yes, I am.

2 Q. And you believe that the currently
3 authorized -- let's take a step back.

4 You are aware that the Commission
5 approved a stipulation in the distribution rate case?

6 A. Yes, I am.

7 Q. And as part of that stipulation, DP&L was
8 provided a 9.9 percent return on equity in the
9 capital structure, correct?

10 A. I think it was 9.99.

11 Q. Okay. I'll accept that clarification.
12 And you believe that a 9.99 percent return on equity
13 is reasonable, correct?

14 A. If the Company didn't think so, we
15 wouldn't have signed the Stipulation.

16 Q. From a credit rating perspective, you
17 agree that although return on equity can be
18 important, funds from operation is a more important
19 metric, correct?

20 A. For the credit rating agencies, they look
21 a lot to free cash flow, yes, operation of the cash
22 flow.

23 Q. Do they look at free cash flows for funds
24 from operations?

25 A. It's funds from operations.

1 Q. Free cash flow is funds from operations
2 minus depreciation, correct, or minus capital
3 expenditures?

4 A. Minus investments, yeah, I agree. But,
5 of course, return on equity at the end of the day
6 plays a big role on your funds of operations, so you,
7 of course, care about your return on equity
8 associated to any rate case.

9 Q. And return on equity is simply calculated
10 by net income divided by the equity balance, correct?

11 A. Yeah, that's the calculation, the
12 accounting calculation, yes.

13 Q. And let me make sure. On page 18 --

14 A. Of my testimony or the deposition?

15 Q. Yes, of your testimony.

16 EXAMINER PRICE: You can set the
17 deposition aside for now.

18 A. I'm there.

19 Q. Sorry. My apologies. I think it may be
20 on a different page. I think it may be on page 11.
21 My apologies. You say DPL Inc. has not made dividend
22 payments since 2012. You agree that AES hasn't made
23 any equity investments in DPL Inc. since the
24 acquisition of DP&L, correct?

25 A. I do not agree with this statement.

1 Q. And your -- the reason why you disagree
2 is because you believe that the forbearance or
3 foregoing the collection of tax payments is an equity
4 injection, correct?

5 A. For basically two reasons. The first one
6 is DPL Inc. not paying dividend, yes, it could be
7 seen as the company contributed equity to the DPL
8 Inc. as we are keeping funds within the DPL Inc./DP&L
9 complex and, of course, the fact that AES is
10 foregoing any tax payments from DPL Inc. to AES is a
11 significant contribution for the Company into the
12 business.

13 Q. But AES has given no cash to DPL Inc.,
14 correct --

15 A. There --

16 Q. -- other than what you just described?

17 A. There has been no cash contribution from
18 AES after 2012 which, as discussed, doesn't mean
19 there hasn't been any equity contribution from AES as
20 we discussed.

21 Q. And DPL Inc. has given no cash to DP&L
22 since 2012, correct?

23 A. Not that I am aware of.

24 Q. Okay. And you agree that neither DPL
25 Inc. nor DP&L pays taxes directly to the Federal

1 Government. Those taxes are paid by AES, correct?

2 A. So the DP&L and the DPL Inc. are
3 consolidated at AES from a tax standpoint, so the
4 flow of cash tax payments would be DP&L pays its cash
5 taxes to DPL Inc. who consolidates its tax position.
6 Putting the Stipulation aside for a second, DPL Inc.
7 would pay cash taxes to AES, and AES would
8 consolidate its cash positions and pay taxes to the
9 government. So when AES foregoes tax payments from
10 the DPL Inc. to AES, it means AES is getting less
11 cash every year as a result of the agreement, and
12 this cash is staying at the DPL/DP&L complex.

13 MR. OLIKER: Your Honor, I would move to
14 strike when he said, so AES foregoes tax payments.
15 My question was simply does DP&L or DPL Inc. pay
16 taxes to the federal government, and he did start to
17 answer that in a very long-winded answer but then
18 there was a lot more.

19 EXAMINER PRICE: I think his answer was
20 helpful for the record. If you care to narrow it
21 down to a "yes" or "no" question, I am sure we can
22 elicit that answer.

23 Q. So the answer is, no, neither DPL Inc. or
24 DP&L pay taxes to the federal government?

25 A. As explained earlier, they do not pay

1 directly to the government; they pay to AES.

2 Q. And am I also correct that even with the
3 tax sharing forgiveness, DP&L has continued to pay
4 its federal income taxes share to DPL Inc.?

5 A. DP&L continues to pay its tax sharing to
6 DPL Inc., correct.

7 Q. Okay. And --

8 EXAMINER PRICE: One second. It's fair
9 to say, however, that because of the reduction in
10 federal income tax from the Tax Cut and Jobs Act,
11 that the equity contributions AES is making in terms
12 of foregoing tax payments have turned out to be less
13 than was originally projected in your testimony; is
14 that correct?

15 THE WITNESS: Your Honor, I would not
16 characterize this way, if you may. So I think the
17 ultimate purpose of having this clause as part of the
18 stipulation was to make sure that the 100 percent of
19 the DMR was kept within the DPL Inc./DP&L complex.
20 So at the end of the day, it doesn't matter what's
21 the actual tax rate for this purpose because all the
22 cash stays within the complex.

23 And I can use a very quick mathematical
24 example, if you will allow me to. So we have 105 of
25 the DMR. In the part when the Stipulation was

1 signed, the tax rate was 35 percent. So we do a
2 quick math 35 percent over 105, that's 36, 37 million
3 dollars. So the DP&L would pay let's say \$37 million
4 of tax to the DPL Inc., and the DP&L would remain
5 with \$68 million of aftertax cash, right?

6 DP&L would then use this proceeds as per
7 the Stipulation to pay down the interest or position
8 the Company for future investments. The \$37 million
9 cash tax at DPL Inc. would be converted into the full
10 105 remains within the Companies.

11 When it changes to 21 percent, the
12 mathematical remains the same. The only difference
13 is now the DP&L instead of paying \$37 million to the
14 DPL Inc., DP&L would be paying \$23 million, that's
15 cash taxes to the DPL Inc., but the total 105 remains
16 at the complex because then now DP&L would have 82,
17 if my math works, of aftertax cash. DP&L would still
18 use the total after the tax cash to pay down that,
19 pay interest for future investments including
20 upstream cash to DPL Inc. for DPL Inc. to make
21 payments and also interest payments.

22 So at the end of the day, it doesn't
23 really matter what the tax rate because the full 105
24 remains at the complex which is again the ultimate
25 goal of this -- of this clause in this Stipulation.

1 EXAMINER PRICE: That's helpful. Thank
2 you.

3 Q. (By Mr. Olikier) But the big difference is
4 now AES is contributing less equity than it would
5 have been if the tax rate was 35 percent because, all
6 else being equal, with a 21 percent tax rate AES is
7 paying less taxes, correct?

8 A. But I think the goal is not -- we are not
9 trying to -- my view not trying to define who's
10 contributing more or less. We are -- what really
11 matters right now is the same amount of cash is
12 remaining at the complex, so the complex is help --
13 it doesn't matter for the Company or the DP&L or DPL
14 Inc. where this cash is coming from. What matters is
15 that this cash is remaining within the complex and
16 the complex will be better in the future with the
17 DMR.

18 Q. The difference between 21 and 35 percent,
19 that's about 14 percent times 105, right?

20 A. Yes.

21 Q. That's the reduction in AES's tax bill,
22 correct? 14 percent times 105 million?

23 A. But, again, the full 105 remains at the
24 complex, so I really don't see the point. So there
25 is no change in the cash position of DP&L and DPL

1 Inc. as a result of the change in the income tax
2 rate.

3 MR. OLIKER: Your Honor, I would move to
4 strike. I asked a question about what the reduction
5 in AES's tax bill was, and he didn't answer that
6 question. He said something totally different.

7 EXAMINER PRICE: I am going to grant the
8 motion to strike this time.

9 Q. (By Mr. Oliker) Now, my question is the
10 reduction in AES's tax bill is 14 percent times
11 105 million, correct, as a result of the Tax Cut and
12 Jobs Act? Is that correct?

13 A. I'm thinking.

14 Q. Okay.

15 A. I am going to answer your question. If
16 the Stipulation didn't exist, you are 100 percent
17 right. As the Stipulation exists, the full cash
18 remains at DPL Inc. and DP&L. Does that answer your
19 question?

20 Q. And if at the time the Stipulation was
21 passed there was an assumption that AES is going to
22 contribute an equity investment, equal to the
23 foregone tax payment of that additional 14 percent
24 times 105 million, now, the signatories to the
25 Stipulation and the Commission would have an

1 expectation that that's the amount of money that AES
2 is going to be contributing to DPL Inc.; is that
3 correct?

4 MR. SHARKEY: Objection.

5 A. I do not agree with this statement.
6 Sorry.

7 Q. Well, the Commission could be within its
8 rights to determine that AES said it would contribute
9 tax sharing payments based upon, you know, 35 percent
10 tax rate, and when the tax rate goes down, instead of
11 giving the tax break to AES, let's give the tax break
12 to customers and reduce the size of the DMR, correct?

13 MR. SHARKEY: Objection. He is asking
14 questions about the scope of the Commission's powers
15 which I think are beyond the expertise of this
16 witness.

17 EXAMINER PRICE: Can I have the question
18 back again. That's not the way I heard it but I
19 could be wrong.

20 (Record read.)

21 EXAMINER PRICE: I think he can answer
22 the question to the best of his knowledge.

23 A. So to the best of my knowledge, and as I
24 explained before, the purpose of this clause was to
25 make sure that the 105 remained at the complex,

1 right? So with the change in tax law, this scenario
 2 doesn't change, so the full 105 remains at the
 3 complex. So if the Stipulation were to say something
 4 different, the result of that would be that at the
 5 end of the day the total cash that the complex would
 6 have would be more than 105 which is not what's
 7 determined by the Stipulation. Do you understand
 8 what I am getting?

9 Q. Well, if we -- if we could reduce the DMR
 10 by 14 percent times 105, if AES simply provided cash
 11 to make up the difference, then all of the
 12 expectations of the parties would remain the same,
 13 would they not?

14 A. I don't think so.

15 Q. Now, DP&L has divested its generation
 16 assets; is that correct?

17 A. Divested or shut down.

18 Q. Okay.

19 A. Let me -- let me reanswer this one. So
 20 DP&L has transferred the generation assets to another
 21 legal entity in DPL Inc., and this company has shut
 22 down or exited the generation assets.

23 Q. Okay. And as a regulated distribution
 24 utility that owns distribution and transmission
 25 assets, if DP&L believes that its distribution

1 business is not earning a sufficient rate of return,
2 DP&L can file a distribution rate case to increase
3 its rates, correct?

4 A. That's usually how it works, yes.

5 Q. And likewise DP&L could file an
6 application before the Federal Energy Regulatory
7 Commission to increase its transmission rates if it
8 believed it wasn't earning a sufficient rate of
9 return, correct?

10 A. That's also correct.

11 Q. And looking at DP&L's distribution rates
12 in a vacuum, you believe that those rates
13 sufficiently compensate DP&L for the provision of
14 distribution service, correct?

15 A. Can you repeat that question, please?

16 Q. Sure. Looking at DP&L's distribution
17 rates in a vacuum, you believe that those rates
18 sufficiently compensate DP&L for the provision of
19 distribution service?

20 A. What is in a vacuum means?

21 Q. Could you turn to page 47 of your
22 deposition.

23 A. I'm there.

24 Q. And starting on page 47, line 12,
25 "Question: Sure. Looking at DP&L's distribution

1 rates in a vacuum, do you believe that those rates
2 sufficiently compensate DP&L for the provision of
3 distribute service?

4 "Answer: The answer is yes, and that's
5 why we signed the -- we agreed with the rate case
6 last year." Did I read that right?

7 A. Let me read. I learned from past
8 experience so.

9 Q. My question is did I read that right?

10 A. You read it right. I want to have the
11 right to read what is above. Yes, correct. You are
12 right.

13 Q. Okay. Thank you. And turning back to
14 the testimony that you are sponsoring today or
15 assuming, am I correct that there are financial
16 projections in many exhibits attached to the
17 testimony, correct?

18 A. That's correct, yes.

19 Q. And the projections, although they are
20 confidential in large part, you agree that these
21 projections assume zero financial impact one way or
22 another from the distribution investment rider
23 otherwise known as the DIR?

24 A. Yes. At the time the -- the testimony
25 was filed, we didn't have the DIR, so neither the

1 investments nor the revenue associated to it were
2 included.

3 Q. And as we are looking at the distribution
4 financial projections you provided in this case, they
5 contain capital expenditures for purposes of
6 maintaining the grid to provide safe and reliable
7 service and to grow the grid as new customers join;
8 is that correct?

9 A. Yes, that's correct. When we -- when we
10 filed this testimony, we still didn't have the grid
11 mod plan so it was included in here so it was
12 basically T&D investments to the grid.

13 Q. And are you familiar with the energy
14 efficiency portfolio mandates?

15 A. I don't have the details.

16 Q. And because you don't have the details,
17 you do not know whether the Commission has authorized
18 DP&L to earn shared savings of \$7 million a year
19 aftertax until 2020.

20 A. As I mentioned, I don't have the details.

21 Q. And because you don't know those details,
22 would you agree that you can't identify any
23 assumptions for shared savings in your financial
24 projections?

25 A. That's correct.

1 Q. Okay. Okay. Earlier we talked about an
2 example with a distribution substation. And now
3 changing lenses to the transmission side, am I
4 correct you were not involved in any of the
5 engineering issues for the transmission and business,
6 your involvement is related to providing financial
7 advice regarding the amount of the investments?

8 A. That's correct. Similarly to the
9 distribution example I gave, I don't -- I don't
10 participate in discussions around new transmission
11 substations or new transmission poles would be
12 located. It's more in the how are we going to fund
13 those investments, do we have any cash to fund those
14 investments.

15 Q. Okay. And your testimony discusses
16 DP&L's refinancing that occurred in August of 2016;
17 is that correct?

18 A. Yes, yes.

19 Q. And at that time DP&L still owned
20 generation assets, correct?

21 A. That's correct, yes.

22 Q. And if DP&L's generation assets were cash
23 flow negative at the time of the refinancing, then
24 that would have had a negative impact on the
25 refinancing, correct?

1 EXAMINER PRICE: Can I have the question
2 back again.

3 (Record read.)

4 A. So financing is -- ratings are usually
5 based off of the company's credit rating which, as we
6 discussed, are very much driven by the free cash
7 flow -- of the -- I'm sorry, of the operations of
8 cash flow of the company. So if a portion of the
9 company has negative cash flows, it reduces operation
10 of free cash flow, so it has an impact on the
11 financing of the company.

12 Q. And the impact is negative, correct?

13 A. If the cash flows are negative, yes.

14 Q. Okay. And am I correct that the first
15 time you reviewed the August 2016 refinancing
16 arrangement was at your deposition?

17 A. I didn't fully review the document. I
18 read one of the clauses that you -- that you showed
19 me during my deposition. I think it was Section 7.

20 Q. So I will restate the question. So the
21 first time you reviewed a portion of the August 2016
22 refinancing arrangement was at the deposition.

23 A. That's correct, yes.

24 Q. Okay.

25 MR. OLICKER: And can we go off the record

1 a second?

2 EXAMINER PRICE: Yes.

3 (Discussion off the record.)

4 EXAMINER PRICE: Let's go back on the
5 record.

6 MR. OLIKER: Thank you, your Honor.

7 Q. (By Mr. Oliker) Mr. Garavaglia, do you
8 have in front of you IGS Exhibit 1001 which contains
9 a credit agreement dated August 24, 2016?

10 MR. SHARKEY: I am just going to object
11 to questions being ask of the witness about a
12 document he has testified that he has never seen
13 other than what was shown to him at deposition.

14 EXAMINER PRICE: Mr. Oliker.

15 MR. OLIKER: Your Honor, he cites to this
16 document in his testimony and --

17 EXAMINER PRICE: Show me where.

18 MR. OLIKER: I'm sorry?

19 EXAMINER PRICE: Show me where.

20 MR. OLIKER: He cites to it on page 24 as
21 well as on page 10 when he talks about the covenant
22 package that, among other things, prevents the
23 Company from raising debt to modernize the
24 transmission and distribution system. He says
25 something similar again on 24.

1 EXAMINER PRICE: Well, you haven't
2 established that his basis of knowledge was that
3 document so why don't we take a shot at that and then
4 we will go from there.

5 Q. (By Mr. Olikar) And, Mr. Garavaglia,
6 you're familiar with -- you reviewed Craig Jackson's
7 testimony before assuming, correct?

8 A. Yes, I have, yes.

9 Q. And you are aware of the negative
10 covenants that Mr. Jackson cited to in the testimony
11 regarding DP&L's ability to borrow money?

12 A. Yes.

13 Q. And those covenants were contained in a
14 formal document with creditors, correct?

15 A. That's correct, yes.

16 Q. And that document was entered into in
17 August of 2016, correct?

18 A. That's correct.

19 Q. And to your knowledge, is the document
20 that is marked as IGS Exhibit 1001 the document that
21 contains the negative covenants that Mr. Jackson
22 referred to in the testimony?

23 A. That's correct.

24 MR. SHARKEY: Objection, your Honor. He
25 hasn't established that Mr. Garavaglia has personal

1 knowledge of the document. He has established he has
2 not even seen it other than his deposition.

3 MR. OLIKER: That's what I just asked, if
4 that's the document that was referenced in the
5 testimony.

6 EXAMINER PRICE: What I don't think
7 you've asked him yet is the reference in the
8 testimony based solely on the document or upon
9 something else.

10 MR. OLIKER: Happy to do that, your
11 Honor.

12 Q. (By Mr. Olikier) So can you turn to page
13 10 of your testimony where it references a covenant
14 package that, among other things, prevents the
15 Company from raising debt.

16 A. To modernize the transmission and
17 distribution system during the term of the loan?

18 Q. Yes.

19 A. Yes.

20 Q. And --

21 A. Because I think that's one of the most
22 important pieces of the phrase so that's why I am
23 just highlighting it.

24 Q. And your understanding of that
25 provision -- well, first, do you agree that page 10,

1 line 7, referencing the covenant package, that
2 covenant package is related to a formal document,
3 correct?

4 A. Yes.

5 Q. And have you had the opportunity to
6 review that document?

7 A. As I -- as I answered to you a couple
8 questions ago, I haven't reviewed the whole document.
9 I have reviewed the Section 7 of this document with
10 you during my deposition.

11 Q. Okay. And to be clear, the covenant
12 package that's referenced on page 10, that is also
13 discussed in IGS Exhibit 1001, correct?

14 MR. SHARKEY: Objection.

15 A. Yes.

16 EXAMINER PRICE: Sustained. He has no
17 familiarity with the document. He already said that.

18 MR. OLIKER: Your Honor, he just -- then
19 I would move to strike page --

20 Q. You haven't reviewed the document that
21 describes the covenant package you discussed in your
22 testimony, correct?

23 A. I think that's the third time I'm
24 answering this one. I haven't reviewed the whole
25 document. I have reviewed Section 7 during my

1 deposition with you I think last week.

2 MR. OLIKER: Well, I am in quite a
3 conundrum here. Either I can ask him about a
4 document that we talked about earlier, or he's giving
5 statements in testimony without having any direct
6 knowledge. We either have to strike the testimony --

7 EXAMINER PRICE: I don't accept your
8 hypothetical as an either/or.

9 MR. OLIKER: I'm sorry?

10 EXAMINER PRICE: I don't accept your
11 assertion as either one or the other.

12 Q. (By Mr. Olikier) Mr. Garavaglia, do you
13 have direct knowledge regarding the covenant package
14 on page 10 of the testimony?

15 A. I think I can talk about it.

16 Q. What is the basis for your direct
17 knowledge?

18 A. I have reviewed Section 7 and also on the
19 job speaking with my colleagues.

20 Q. So am I correct you have reviewed Section
21 7 of IGS Exhibit 1001?

22 A. Yes, I have.

23 Q. And you believe Section 7 relates to the
24 covenant package that is identified on page 10.

25 MR. SHARKEY: Objection, your Honor. He

1 continues to ask questions about a document that
2 he's -- Mr. Garavaglia testified he only --

3 EXAMINER PRICE: He just tes -- he just a
4 second ago acknowledged that was his understanding
5 that's where it came from. He didn't say I learned
6 this from advice of counsel or I learned from
7 Mr. Jackson. He added I also learned it from the
8 document. He opened the door. You had me on
9 foundation until he opened the door.

10 Go ahead and ask your questions,
11 Mr. Olikar.

12 MR. OLICKER: Thank you, your Honor.

13 Q. (By Mr. Olikar) Now, the credit agreement
14 that is marked as IGS Exhibit 1001, to be clear, you
15 have reviewed Section 7, and you believe that's the
16 section that's titled "Negative Covenants," correct?

17 A. Yes.

18 Q. And I am trying to streamline this
19 conversation, based upon your review of the document,
20 recognizing you are not a lawyer, there are
21 restrictions on the ability to borrow additional
22 funds on DP&L, but under Section 7.01 "Indebtedness,"
23 there are exceptions, correct?

24 A. If my memory is not failing, there are
25 exceptions, very limited, in providing very, very

1 little flexibility.

2 Q. And, for example -- I'm sorry. I didn't
3 mean to --

4 A. No, for the company.

5 Q. And, for example, one of the exceptions
6 relates to the \$200 million revolver that is
7 identified under Section (b); is that correct?

8 A. So can I read again what's included in my
9 testimony page 10, letter (c)?

10 "A covenant -- a covenant package that,
11 among other things, prevents the Company from raising
12 debt to modernize -- modernize the transmission and
13 distribution system during the term of the loan."
14 The revolver you mentioned, the Company already has
15 the revolver in place. Revolvers are not meant to be
16 long-term debt. They are meant to help through
17 short-term working capital needs.

18 Q. And the \$200 million revolver has a
19 payback time period of between 12 and 24 months,
20 correct?

21 A. Usually that's the -- that's the case,
22 yes.

23 Q. Okay. And under Section (c) there is
24 another exception that permits borrowing up to
25 \$100 million after the consummation of the separation

1 transactions for improvement of any fixed or capital
2 assets; is that correct?

3 MR. SHARKEY: I am going to object. He
4 didn't read the entirety of the clause. That's a
5 pretty lengthy clause.

6 MR. OLIKER: He can disagree with me.

7 EXAMINER PRICE: The witness can take as
8 much time as he needs to review Section (c), and then
9 he can answer the question.

10 Do not feel pressured to -- we're here
11 all day.

12 THE WITNESS: Give me one second.
13 Section (c) you mean of 7.01?

14 Q. Yes.

15 A. And -- I'm not a lawyer. There are a lot
16 of defined terms but I think you really want to talk
17 about that. I think I have a couple of points to
18 make. The first one is -- so Section (c) it also
19 says the following: "Indebtedness of the Borrower
20 incurred to finance the acquisition, construction or
21 improvement of any fixed or capital assets, including
22 Capital Lease Obligations and any Indebtedness
23 assumed in connection with the acquisition of any
24 such assets or secured by a Lien on any such assets
25 prior to the acquisition thereof, and extension,

1 renewals and replacements," and here it comes,
2 important piece, "of any such Indebtedness that do
3 not increase the outstanding principal amount
4 thereof."

5 Q. Is there anything else you have?

6 A. And, again, the time DP&L issued this
7 debt, it was issued in the junk market, so it
8 provides those restrictions, negative covenants. It
9 was a short-term relatively expensive debt floating
10 rate so not ideal for a utility. And when you go
11 back to my testimony, when it says that prevents the
12 Company from raising debt to modernize transmission
13 and distribution system, here you talk about the
14 potential \$100 million, and I'm sorry, but we just
15 filed the distribution modernization plan in December
16 which is essentially exactly to modernize the grid,
17 and we are planning to invest \$576 million in the
18 grid to modernize the grid and associated to that
19 we'll be erasing \$425 million of debt. So this
20 agreement does not allow us to modernize the grid as
21 is stated in my testimony.

22 Q. And in this case your grid modernization
23 proposal is not before the Commission; is that
24 correct?

25 A. When I filed this case?

1 Q. In this case, there is no revenue
2 requirement, correct, for grid modernization?

3 A. In -- under the projections included in
4 the 2016, there's no revenue requirement. There are
5 also no investments associated to the grid mod.

6 Q. And, for example, the Commission could
7 simply conclude that it doesn't like smart meters and
8 decide that the grid mod budget just doesn't make
9 sense, correct?

10 A. I don't think I can talk for the
11 Commission, but they launched last year the
12 PowerForward Initiative, so I believe they would be
13 looking for investments in the SmartGrid world.

14 EXAMINER PRICE: Let me put it a
15 different way, do you believe it's realistic to do
16 any portion of grid modernization with \$100 million
17 in borrowing ability in this document?

18 THE WITNESS: No, your Honor.

19 Q. (By Mr. Olikar) And under Section (h),
20 there's also an exception to "other unsecured
21 indebtedness in an aggregate principal amount not
22 exceeding \$25 million," correct?

23 A. That's what's written here and I think it
24 goes to the same points. I don't think 25 million is
25 enough for the company to modernize its grid.

1 Q. And on page 7 --

2 A. Of my testimony?

3 Q. Yes.

4 A. Give me one second.

5 EXAMINER PRICE: Are you done with the --

6 MR. OLIKER: Credit agreement?

7 EXAMINER PRICE: -- credit agreement?

8 MR. OLIKER: Yes, I am for now

9 potentially.

10 A. Okay.

11 Q. Your testimony says on page 7, line 9,
12 "in a worst case, a utility may be unable to access
13 the capital markets altogether to refinance existing
14 obligations or to finance required capital
15 expenditures." You cannot, however, identify any
16 examples where a public utility was unable to access
17 the capital markets, right?

18 A. The capital market as a whole, at least
19 not that I am aware of, but as mentioned in 2016, at
20 least the investment grade market was not there for
21 DP&L, and we needed to access the general market with
22 less favorable terms than what we would expect.

23 Q. And the current interest rate that DP&L
24 is paying on its long-term debt is approximately 4.8
25 percent?

1 A. As of today, I would say between's 4.5
2 and 4.8.

3 Q. And that rate is a monthly floating rate
4 but you do not know the factors that influence how
5 the rate can change.

6 A. Actually after my deposition, I checked.
7 It's -- it's labor, one-month labor plus 200 base
8 points.

9 Q. And I think you just said this, but you
10 didn't know that answer before your deposition.

11 A. I didn't know during my deposition, yes.

12 Q. And in your testimony when you refer to
13 achieving a more favorable capital structure, you are
14 referring to either adding equity to the balance
15 sheet or reducing debt, correct?

16 A. Those are the two ways that usually a
17 company pursues to improve its -- its capital
18 structure, to reduce debt to the balance sheet or
19 increase equity.

20 Q. And you are familiar with what is known
21 as an economic impairment charge, correct?

22 A. Yes, I am familiar with this -- with this
23 term.

24 Q. And that is the reduction of the book
25 value of an asset to reflect its fair market value,

1 correct?

2 A. That's pretty much it, yes.

3 Q. And an impairment charge results in a
4 dollar-for-dollar reduction to the equity balance on
5 the balance sheet, correct?

6 A. That's correct, yes.

7 Q. When DP&L takes an economic impairment,
8 does it have to tell the -- the Securities and
9 Exchange Commission?

10 A. I'm not a lawyer, but usually I think we
11 need to issue an 8-K, or it was included in the 10-Ks
12 or the 10-Qs.

13 Q. And do you know the size of the
14 impairment charge that DP&L reported in its 8-K in
15 2016?

16 A. I don't recall the exact number. You can
17 help me but maybe 500 million range.

18 Q. Okay. And the impairment charge that
19 DP&L incurred resulted in the capital structure
20 tilting more toward debt, correct?

21 A. Yes. As we discussed earlier, when it --
22 when it's equity impairment, your equity reduces, and
23 when your equity reduces, your debt-to-equity ratio
24 deteriorates, or it's more inclined, so it's debt
25 based on this accounting increment.

1 Q. And an impairment results to a reduction
2 in net income as well, correct? You can deduct it as
3 an expense.

4 A. So impairments goes against -- it's an
5 expense in your income statement, so it reduces your
6 net income, that's correct.

7 Q. DP&L took another impairment in 2017,
8 didn't it?

9 A. I'm not aware of this one.

10 Q. Do you know of any impairments that DP&L
11 took subsequent to the one identified in your
12 testimony?

13 A. Being very transparent, I think we
14 discussed this in my testimony. I think you
15 mentioned something around \$100 million, but I didn't
16 have time to check.

17 Q. If DP&L did take an economic impairment
18 in 2017, that would have reduced DP&L's net income
19 and federal income taxes, right?

20 A. So if that's the case, as I explained,
21 impairments in expense, that goes into the income
22 statement and reduces net income and as every
23 expenses, expenses provide tax shields. If you allow
24 me to, I think -- sorry. I was also hearing you
25 talking about impairments with Mr. Malinak's

1 testimony, and to me at least, I had the impression
2 that the way you talk about impairment is also like a
3 good thing. And I really wanted to, if you allow me
4 to for 30 seconds or so, just give my opinion.

5 EXAMINER PRICE: I don't think that's
6 going to work.

7 THE WITNESS: Okay.

8 EXAMINER PRICE: However --

9 THE WITNESS: Very quickly.

10 EXAMINER PRICE: However, Mr. Sharkey
11 will have a chance on redirect to address why
12 impairments are not a good thing.

13 THE WITNESS: Yeah.

14 Q. (By Mr. Olikier) Okay. And to follow up
15 on that question, if DP&L's net income was reduced in
16 2017 as a result of \$100 million economic impairment,
17 and that reduced the amount of taxes that DP&L would
18 have been passing on through the tax sharing payments
19 and that thereby reduced the amount of tax
20 forgiveness that AES was providing, you agree that an
21 economic impairment ultimately results in less of a
22 contribution from AES?

23 A. I think we -- we had similar discussions
24 in the past, and I think what really matters here is
25 the amount of cash that remains at the DP&L Inc. and

1 DP&L complex. So, again, impairment might have this
2 one time -- it is not that we are creating tax out of
3 the blue. It is just a timing thing because you
4 would have tax benefit over time anyways as a result
5 of the depreciation of the assets. But, again,
6 impairment means that it's less than it was one year
7 ago.

8 EXAMINER PRICE: I think in all fairness,
9 Mr. Olikier, now that you have given your caveat, why
10 don't you go ahead and answer his question directly.
11 Will the impairment result in less of an equity
12 infusion by AES for that one year?

13 Q. Assuming there was \$100 million
14 impairment.

15 EXAMINER PRICE: From an accounting
16 basis, nothing else.

17 THE WITNESS: Yeah. From an accounting
18 basis, the tax forgiveness for AES that specific year
19 would have been higher if no impairment would have
20 happened.

21 Q. Thank you. And to be clear the need to
22 recapitalize the balance sheet is at least partially
23 the result of the generation asset impairment charge
24 that was recorded in 2016.

25 A. As a result of the impairment in 2016, as

1 we talked about, the debt to equity were more
2 inclined towards debt, so it deteriorated the cash
3 structure of the company.

4 Q. So the answer is "yes"?

5 A. So the answer is "yes."

6 Q. And you agree that the equity balance at
7 the end of the year is ultimately calculated by
8 taking the existing equity balance and adding net
9 income but net of the dividend.

10 A. Yes. So retained earning for the current
11 year is what you had in last year plus whatever net
12 income you have this year minus any dividend that is
13 upstream to the parent company.

14 Q. And the DMR is simply attributed as
15 revenue on the income statement, correct?

16 A. As per the Stipulation, the DMR is
17 treated as revenue in the income statement, yes.

18 Q. And, therefore, the DMR results in an
19 increase to net income relative to a situation
20 without the DMR, all else being equal?

21 A. All else being equal, net income is
22 higher with DMR than without DMR.

23 Q. And any amounts added to the income
24 statement from the DMR, and by amounts I mean
25 revenue, that are not dividended up to the parent

1 become rate obtained earnings, correct?

2 A. Not only revenues from the DMR but all
3 revenues that make up to that income that are not
4 distributed up to the parent increase retained
5 earnings.

6 Q. So the answer is "yes" but plus all the
7 revenue that's left over after paying expenses.

8 A. Yes.

9 Q. Okay. And retained earnings are
10 ultimately converted into equity, correct?

11 A. If not distributed up, yeah.

12 Q. Okay. And you would agree that the DMR
13 provides revenue that is greater than DP&L's total
14 annual interest payments by approximately 3-1/2 times
15 the total quantity?

16 A. So the pretax DMR is 105. DP&L pays
17 between 27 to 30 million dollars. So, yeah,
18 approximately -- approximately three times, yeah, the
19 interest payments only.

20 Q. About 3-1/2 times?

21 A. Yeah, 3-1/2.

22 Q. Okay. And isn't it true that
23 approximately 65 to 70 percent of the DMR revenues
24 are used to service or reduce debts of the DPL Inc.
25 level?

1 A. So money is fungible as you know. The
2 DMR from the cash management perspective is strictly
3 separate in different accounts within the Company,
4 and it's used to its three main purposes as I
5 discussed earlier. So the 105, I think the matter
6 you are trying to get, is to DPL Inc.'s interest
7 expense where -- is in the range of \$70 million.

8 EXAMINER PRICE: Let's go off the record.
9 (Discussion off the record.)

10 EXAMINER PRICE: Back on the record.
11 Please continue.

12 A. So I think that answers your question.

13 Q. To be clear, we could do the math as
14 \$20 million of interest of DPL Inc. and divide that
15 by the 105 and we can derive that 65 percent or so of
16 the DMR goes to DPL Inc.'s debt, correct?

17 A. Not necessarily. As I mentioned to you,
18 money is fungible in the collection of the DMR
19 revenues plus all other revenues DP&L help paying
20 interest expenses in DPL Inc. And I think one piece
21 of information that can help you, thinking through
22 this process, since we signed this Stipulation, we
23 have collected approximately \$140 million of DMR.
24 This was from November 2017 to today more or less, so
25 we have paid all the interest that you have

1 calculated already.

2 And on top of that between DPL Inc. and
3 DP&L, we've paid \$338 million dollars of debts
4 including \$60 million at DP&L. So, again, money is
5 fungible. What I can tell you is that the DMR funds
6 are being used for the three main uses determined by
7 the Stipulation.

8 MR. OLIKER: Your Honor, I don't believe
9 he answered that question, and then he provided a lot
10 of other information not related to what I asked, so
11 I would move to strike his answer.

12 EXAMINER PRICE: I have yet to give this
13 witness his warning, and so I will give you your
14 belated warning and deny the motion to strike.
15 Please answer counsel's questions directly and only
16 counsel's questions. If you believe additional
17 information or context was warranted, Mr. Sharkey
18 will ask you that on redirect.

19 And so why don't we -- Mr. Olikar, please
20 restate your question and I am sure the witness will
21 give a concise answer directly to that question.

22 Q. (By Mr. Olikar) And would you agree that
23 the DMR -- the majority of the DMR is used to pay off
24 debt at DPL Inc.?

25 A. So the DPL Inc. has more debt than DP&L.

1 The DMR is meant to support debt of both companies as
2 DPL Inc. has more debt than DP&L. I think your
3 statement -- I don't know what majority means, more
4 than 50 percent, yes.

5 Q. Okay. And if DP&L's existing
6 distribution cash flows and transmission cash flows
7 are sufficient to cover DP&L's interest expenses and
8 other expenses, correct? Sorry, and that's without
9 the DMR.

10 A. Without the DMR?

11 Q. Yeah.

12 A. Can you repeat this question, please.

13 Q. DP&L's existing distribution transmission
14 cash flows without the DMR are sufficient to cover
15 its interest expenses and other obligations.

16 A. Including?

17 Q. Including O&M expense, capital
18 expenditures.

19 A. Are we talking hypothetical?

20 Q. No. I am asking about their actual cash
21 flows that they have today.

22 A. So without the DMR, right, DP&L's I would
23 say base revenues, they do cover interest expenses at
24 DP&L level. They probably cover O&M expenses when I
25 think about -- did you also ask about the capital

1 investments? When I think about capital investments
2 without the DMR, DP&L would likely need to reduce
3 capital investments at the company upstream more cash
4 for DPL Inc. so DPL Inc. could make its debt service
5 obligations.

6 Q. Okay. And we'll come back to that a
7 little later in the confidential section, but if DP&L
8 didn't provide a dividend, it would be able to meet
9 all of its ongoing financial obligations that we've
10 just been discussing, correct?

11 A. In the hypothetical --

12 Q. Yes.

13 A. -- scenario? Again, in this hypothetical
14 scenario for some reason DP&L does not upstream cash
15 to the DPL Inc., then in this scenario, the base
16 revenues for DP&L would be enough for the Company to
17 pay its interest obligations, O&M, and what I call --
18 what I call the base capital investments on T&D. It
19 is not enough for grid mod as we filed in December
20 last year or future growth in transmission as well.

21 Q. Okay. And by growth you are referring to
22 numbers -- physical numbers that were not included in
23 the testimony you provided in this case, right?

24 A. That's correct. In 2016, we did not have
25 those numbers, yes.

1 Q. Thank you. And we've talked a little bit
2 about the debt that exists at DP&L. As we sit here
3 today, that number is about 595 to 93 million?

4 A. That's correct, yes.

5 Q. You would agree that the quantity of debt
6 at DP&L is sized as if DP&L owned generation and
7 distribution and transmission assets.

8 A. I'm sorry. Can you repeat this one?

9 Q. Would you agree that the debt that exists
10 at DP&L is sized as if DP&L owned distribution,
11 generation, and transmission assets?

12 MR. SHARKEY: I am going to object. It's
13 just vague. It is not clear what that question
14 means.

15 EXAMINER PRICE: Sustained. I didn't
16 understand it either.

17 MR. OLIKER: Sure.

18 Q. (By Mr. Oliker) The Stipulation contains
19 provisions regarding DP&L's generation asset
20 transfer, correct?

21 A. That's correct, yes.

22 Q. And under the Stipulation DP&L transfers
23 the -- the generation assets plus the non-debt
24 liabilities, correct?

25 A. That's correct, outside of the DP&L, yes.

1 Q. So implicit in that fact is that no debt
2 is transferred with the generation assets, correct?

3 A. No financial debt was transferred, yeah.

4 Q. And are you saying that none of the debt
5 that -- that resides at DP&L was used to fund the
6 construction of the generation assets?

7 A. So the -- well, the DP&L's generation
8 assets, I think there were many, many years ago,
9 maybe 50 years ago, and I don't think any of the debt
10 resided in DP&L today were used to finance those
11 constructions.

12 Q. Do you know?

13 A. I don't know. I mean, this one we talked
14 about the one issue in 2016 certainly was not.

15 Q. And do you know if the generation assets
16 were fully depreciated when they were transferred?

17 A. I don't know the information.

18 Q. And do you know what a pollution control
19 revenue bond is?

20 A. No.

21 Q. Does DP&L have pollution control revenue
22 bonds, if you know?

23 A. I don't know what that is.

24 Q. And the Stipulation provides for the
25 transfer of the non-debt liabilities. What are

1 non-debt liabilities?

2 A. I don't think I have a detailed
3 explanation for it, but my understanding is it's
4 probably most -- mostly like closure costs associated
5 to closing the plants.

6 EXAMINER PRICE: Environmental cleanup?

7 THE WITNESS: Yeah.

8 Q. And the entity that DP&L transferred its
9 generation assets to was AES Ohio Generation,
10 correct?

11 A. That's correct, yes.

12 Q. And as soon as the generation assets were
13 transferred, that reduced volatility at DP&L and
14 resulted in more stable cash flows, correct?

15 A. When DP&L transferred the generation
16 assets to AES Ohio Generation, it did reduce the
17 volatility of the cash flows at DP&L, yes.

18 Q. And if the DMR did not exist, credit
19 rating agencies would see the transfer of generation
20 assets to another entity as favorable relative to
21 retaining those assets.

22 A. I think it depends on the expected future
23 cash flow to the generation; but, yes, I think you --
24 in this particular case I would say that the
25 volatility associated to the generation asset at DP&L

1 probably were -- was viewed less credit from a credit
2 standpoint from the rating agencies.

3 Q. And you've reviewed the Stipulation in
4 this case, correct?

5 A. Yes, I have.

6 Q. And does the Stipulation provide that AES
7 Corporation will use the proceeds of the generation
8 asset sale?

9 A. I don't recall the words. I think the
10 memory I have is we -- we would be using the proceeds
11 to pay down debt.

12 EXAMINER PRICE: And did you?

13 THE WITNESS: Yes, yeah. 100 percent of
14 the net proceeds of the assets were used to pay down
15 debt.

16 EXAMINER PRICE: Thank you.

17 Q. (By Mr. Olikier) But the Stipulation says
18 that the proceeds of the sale will be used to pay
19 down debt at both DPL Inc. and DP&L, correct?

20 A. I don't have the Stipulation here with
21 me, but I think that's what's written.

22 Q. And the assets have actually been sold
23 today, but all of the proceeds went to burn down debt
24 at DPL Inc., correct?

25 A. So the assets were sold and the net

1 proceeds were used to pay down debt at DPL Inc.,
2 that's correct, yes, reducing the leverage of the
3 whole complex.

4 MR. OLIKER: Your Honor, could we go off
5 the record?

6 EXAMINER PRICE: Yes.

7 (Discussion off the record.)

8 EXAMINER PRICE: Back on the record.

9 Mr. Olikar, before you move to a new
10 topic I had a couple questions for the witness
11 regarding the Stipulation you mentioned earlier. In
12 the event that the DMR was eliminated by the
13 Commission, Dayton would need to cut back spending on
14 O&M and capital expenditures; is that correct?

15 THE WITNESS: Unfortunately, yes. DP&L
16 would need to treat more cash to DPL Inc. so it could
17 make its debt service and, as a result, would need to
18 reduce its investments in O&M expenses.

19 EXAMINER PRICE: And one way Dayton could
20 save money would be to not follow through with the
21 Stipulation provision implementing non-commodity
22 billing; is that correct?

23 THE WITNESS: Repeat this.

24 EXAMINER PRICE: One way Dayton could
25 save money, O&M capital expenditures, would be to not

1 implement the Stipulation provision providing for
2 non-commodity billing improvements; is that correct?

3 THE WITNESS: That's correct, yes.

4 EXAMINER PRICE: And Dayton could save
5 money, capital expenditures and O&M, by not
6 implementing the two-year supplier consolidated
7 billing program; is that correct?

8 THE WITNESS: That's also correct.

9 EXAMINER PRICE: And neither of those,
10 eliminating both of those programs, would have no
11 impact on safety and reliability of the distribution
12 system, would it?

13 THE WITNESS: That's correct, yes.

14 EXAMINER PRICE: Thank you.

15 Thank you, Mr. Olikar.

16 Q. (By Mr. Olikar) Mr. Garavaglia, what is
17 non-commodity billing, if you know?

18 A. So it is the possibility for our
19 customers to supply energy and generation from
20 companies from different -- from DP&L.

21 Q. Did you say "generation"?

22 A. The generation component of the bill.

23 Q. Do you know if DP&L currently has the
24 capability to list the generation charges of
25 alternative suppliers on its bill?

1 A. Can you repeat that question, please?

2 Q. Do you know if DP&L currently has the
3 capability to list the generation charges of retail
4 electric suppliers on utility consolidated bill?

5 A. I think so, yeah.

6 Q. And do you know if the upgrades needed to
7 implement non-commodity billing are O&M expenses or
8 capital expenses?

9 A. By upgrade, what do you mean?

10 Q. I think you had a conversation with the
11 Attorney Examiner a minute ago about non-commodity
12 billing.

13 A. Yeah.

14 Q. And the costs associated with
15 implementing non-commodity billing. Are those
16 capital expenses or operational and maintenance
17 expenses?

18 A. I don't know the answer.

19 Q. And are you familiar with how the costs
20 associated with non-commodity billing are collected
21 pursuant to the Stipulation?

22 A. The costs associated, no, I don't recall
23 this one.

24 Q. Do you know if the Stipulation identifies
25 how the costs associated with non-commodity billing

1 are collected?

2 A. I think it does. I just don't remember
3 how it is.

4 Q. Okay. And are you familiar with what is
5 known as supplier consolidated billing?

6 A. Can you give me your view of that?

7 Q. To your knowledge does the Stipulation
8 address the supplier consolidated billing?

9 A. It is included in there, yeah.

10 Q. And does the Stipulation contain
11 provisions regarding how costs related to supplier
12 consolidated billing would be collected?

13 A. I don't remember exactly.

14 Q. Okay. And do you know if the
15 investment -- let me say that again.

16 Do you know if the costs that DP&L would
17 have to incur to implement supplier consolidated
18 billing would be capital costs or operation and
19 maintenance costs?

20 A. As I -- as I told you, I don't know this
21 question.

22 Q. And, therefore, you are not aware of
23 whether implementing supplier consolidated billing
24 has a cash flow impact on DP&L.

25 A. I don't know for sure.

1 Q. And, likewise, you are not aware of
2 whether the implementation of non-commodity billing
3 would have a cash flow impact on DP&L.

4 A. So as I discussed with Attorney Examiner,
5 in an event in which there is no DMR, the DP&L would
6 need to look into every -- every single expense and
7 prioritize those expenses. And, of course, those
8 that are -- that do not impact SAIDI or CAIDI of the
9 company would be the first one we would be looking
10 into potentially reducing.

11 Q. And --

12 EXAMINER PRICE: And that assumes for
13 sake of argument that in the event there is no DMR
14 stipulation exists in any event, that one or more
15 parties or the Commission may simply dispense with
16 the Stipulation if there is no DMR.

17 THE WITNESS: Correct, yes.

18 Q. (By Mr. Olikier) And in your prior answer
19 when DP&L is looking to reduce its expenses, it's
20 goal is to ensure that revenues goes down -- revenues
21 stay the same, but expenses go down, correct, to
22 create more cash flow?

23 A. Generate more future cash flow, yes.

24 Q. And so the expenses that DP&L would not
25 be focusing on are the ones that are a wash from a

1 revenue perspective.

2 A. Depending on timing, timing is important
3 component as well.

4 Q. Right. But that's how the prioritization
5 would work, correct?

6 MR. SHARKEY: I'm sorry. It is not clear
7 what the question relates to, so objection.

8 EXAMINER PRICE: If you can rephrase.

9 Q. In the prior organization process you
10 referred to which assumed DP&L is trying to funnel
11 more cash up to its parent through dividends, it's
12 seeking to identify expenses that it can reduce
13 without raising revenues, correct?

14 A. I think on top would be looking into
15 making sure our efforts are where they should be and
16 No. 1 priority would be to -- with the limited
17 resources we have to keep providing as safe and
18 reliable service to the customers as possible. I
19 think these would be No. 1 priority. Then after
20 that, we would look into what else can we do, right,
21 and timing of recovery and so on and so forth.

22 Q. Turning to page 15 of your testimony --

23 MR. SHARKEY: I note that lines 7 through
24 13 on that page have been designated as confidential.

25 Q. Actually go up to page 14 when it says

1 "Why are you adjusting FFO in the aforementioned
2 calculations." Do you see that?

3 A. Yes.

4 Q. Actually before we go there, I wanted to
5 follow up something from earlier. You've mentioned,
6 I think, in some of your responses "the complex"; is
7 that correct?

8 A. When I am referring to the DP&L and DPL
9 Inc., I usually just say the complex.

10 Q. Okay. And you are referring to them as
11 the companies on a consolidated basis, correct?

12 A. Yes, that's correct.

13 Q. Okay. And go to page 14. You indicate
14 that you've made some adjustments to the funds for
15 operations calculations in your testimony; is that
16 correct?

17 A. That's correct.

18 MR. SHARKEY: Just interject so everybody
19 knows lines 8 through 17 have been designated as
20 confidential by the Company.

21 Q. And without talking about the numbers
22 that are confidential, would you agree mechanically
23 that you've eliminated the generation for the cash
24 flows from your adjustment? And I think it says that
25 in the bottom of 14.

1 A. Yes.

2 Q. And the reasons for that are contained on
3 15. There's two where it says the energy margins and
4 capacity prices are subject to significant market
5 volatility, which is largely uncontrollable by the
6 Company and then under 2 it says these cash flows
7 have a finite lifespan that could be dramatically
8 reduced in the event unknown federal legislation is
9 passed, (e.g. the Clean Power Plan).

10 And regarding the second point, do you
11 know if the Clean Power Plan has been repealed or
12 rendered a dead letter?

13 A. I don't know the status of the Clean
14 Power Plan.

15 Q. And when you say that, are you not
16 familiar with the particular proper noun Clean Power
17 Plan, or do you have any familiarity with the current
18 state of federal regulations on CO-2 emissions?

19 A. I am not familiar specifically with this
20 one. I know there is I would say global trend to
21 reduce carbon emissions, so I don't have the
22 specifics of this one.

23 Q. Okay.

24 EXAMINER PRICE: In any event the exact
25 status of the Clean Power Plan is a legal question

1 subject to a lot of dispute, but certainly a legal
2 question.

3 MR. OLIKER: Okay.

4 Q. (By Mr. Olikier) And to be clear, the
5 financial projections in your testimony are based
6 upon a view of DP&L that includes the ownership of
7 generation, distribution, and transmission, correct,
8 although you discounted the generation cash flows in
9 many parts of your testimony?

10 A. That's correct. In 2016, we owned three
11 pieces.

12 Q. Okay. And you've mentioned grid
13 modernization from time to time today. You agree
14 that if DP&L does not undertake grid modernization,
15 it can still provide safe and reliable service?

16 A. So I like to think of safe and reliable
17 over -- over a period of time. So I think what I
18 can -- my answer would be if you think about today,
19 maybe next two, three years, the answer would be yes.
20 Over a longer period of time, I don't know what safe
21 and reliable would mean and grid mod my -- my view it
22 would play a big role on that so nothing less than
23 the grid modernization today could have an impact in
24 the future on safe and reliable service to the
25 customers.

1 Q. But you don't know today, right?

2 A. As I mentioned, I don't know today.

3 Q. And today DP&L is providing safe and
4 reliable service without grid modernization, correct?

5 A. Today that's the case, yes.

6 Q. Okay. And you're familiar with what is
7 known as the customer average interruption duration
8 index, correct?

9 A. That's the CAIDI, correct.

10 Q. Is it commonly known as CAIDI?

11 A. CAIDI, yeah, CAIDI. Sorry for my bad
12 pronunciation. Working on that.

13 Q. And are you familiar with system average
14 interruption frequency index?

15 A. SAIFI.

16 Q. Is that SAIFI?

17 A. SAIFI. Not that good, sorry.

18 Q. I am worse at that one than you. I'll
19 forgive you. And are you aware if there are minimum
20 service requirements applicable to Ohio distribution
21 utilities involving the acronyms we've designed CAIDI
22 and SAIFI?

23 A. Yes. I understand there are regulatory I
24 will say parameters associated to those operation
25 indicators.

1 Q. Do you know if the Public Utilities
2 Commission of Ohio can fine a distribution utility
3 for failing to achieve their metrics under CAIDI and
4 SAIFI?

5 A. I don't know the details of exactly how
6 it works. But, of course, the better your indicators
7 are the better you should be.

8 Q. If the Commission did have the ability to
9 fine a distribution utility for violating their CAIDI
10 and SAIFI metrics, you agree that would provide an
11 incentive to maintain a reliable service in
12 accordance with the metrics.

13 A. An economic incentive, yes, but, of
14 course, that's not exactly why we want to have our
15 operator indicators better than what the regulatory
16 targets expect.

17 Q. Okay. And do you know if the Commission
18 can transfer a distribution utility's defined service
19 territory to another entity for failure to provide
20 safe and reliable service?

21 A. I don't know the answer to this question.

22 Q. We have -- am I correct that to the
23 extent the DMR is not authorized, one potential
24 outcome would be for there being insufficient
25 dividends from DP&L to DPL to service the debt at the

1 DPL Inc. level and that could result in the filing of
2 bankruptcy by DPL Inc.?

3 A. I don't think this would be the most
4 probable scenario but that's one interpretation, yes.

5 Q. Is the most probable scenario for the
6 creditors of DPL Inc. to agree to a reduction on the
7 total principal that is owed to them?

8 A. No. I think the most probable scenario
9 would be to have DP&L reducing its investments in O&M
10 to put more cash to the parent so the parent could
11 service its debt service.

12 Q. And if DPL -- assuming for a second
13 that -- strike that.

14 On the subject of bankruptcy, the only
15 public utility that you are aware of that has gone
16 through bankruptcy is PREPA in Puerto Rico, correct?

17 A. That's the information I had during my
18 deposition last week. I did some study after that,
19 and I think there is also PG&E in California which is
20 also under bankruptcy process.

21 Q. What about Energy Future Holdings?

22 A. Is it the one you discussed yesterday
23 with Mr. Malinak?

24 Q. Yes.

25 A. I heard about this one, yes, I did.

1 Q. Do you have any familiarity with the
2 process that Energy Future Holdings went through when
3 it declared bankruptcy?

4 A. Beyond what I heard yesterday, I do not.

5 Q. Okay. And PG&E has actually been in
6 bankruptcy twice at least, correct?

7 A. I don't know about the past. I know that
8 there is bankruptcy today.

9 Q. And with PG&E their issues are largely
10 related to natural disasters, correct?

11 A. That's -- that's my understanding, yes.

12 Q. Although back in the Enron area, PG&E
13 went bankrupt for different reasons, correct?

14 A. Yeah. I don't know.

15 MR. SHARKEY: Objection.

16 A. I don't know about the other one you are
17 mentioning.

18 Q. Okay. And the PREPA bankruptcy you are
19 familiar with was complicated by the national
20 disasters that occurred in Puerto Rico regarding
21 hurricane, correct?

22 A. So PREPA filed for bankruptcy before the
23 Maria Hurricane, so the financial situation of the
24 company was in very bad. Of course, the natural
25 disaster that happened in Puerto Rico further

1 deteriorated the situation of the company, but it was
2 not the root cause of the bankruptcy.

3 Q. And PREPA was an example of an actual
4 public utility owning distribution, transmission, and
5 generation assets going into bankruptcy, correct?

6 A. That's correct, yes.

7 Q. And likewise PG&E is an example of an
8 actual utility that owns distribution, generation,
9 and transmission assets going into bankruptcy,
10 correct?

11 A. I don't know PG&E's structure. I don't
12 know if it's integrated or not, but they are a
13 utility. I'm just not sure if they own generation as
14 well.

15 Q. And in the PREPA case that you've some
16 familiarity with, you agreed that the debt holders
17 ultimately agreed to accept payment of approximately
18 67.5 cents on the dollar?

19 A. I think the debt holders agreed to a
20 haircut under that. I don't know the exact number.

21 Q. And a haircut is a reduction from the
22 principal, correct?

23 A. Yes, yeah.

24 Q. And another possible outcome that could
25 exist in a bankruptcy case is that debt holders can

1 exchange their debt for an equity interest?

2 A. That's one of the potential that comes
3 out of the bankruptcy process.

4 Q. And earlier I think you mentioned that
5 the total amount of debt that exists at DPL Inc. is
6 approximately \$900 million, correct?

7 A. That's not the consolidated debt
8 including DP&L. Including DP&L it's \$1.5 billion but
9 only if you look at DPL Inc. the total debts is
10 likely below \$900 million.

11 Q. And isn't it true that without the DMR,
12 it is likely that the \$900 million in debt that
13 resides at DPL Inc. is greater than the entire value
14 of DP&L?

15 A. I don't know the answer of this question.
16 I think valuation depends a lot on people's view and
17 discount rates and so on and so forth.

18 Q. Can you turn to page 131 of your
19 deposition.

20 A. 131?

21 Q. Yes. Let me know when you are there.

22 A. I'm there.

23 Q. On line 10, "Hypothetically speaking, if
24 there's no distribution modernization rider, do you
25 believe that the debt that exists at DPL Inc. is

1 greater than the value of DP&L?

2 "Objection. Calls for speculation. You
3 can answer if you know.

4 "THE WITNESS: I haven't run a scenario
5 for that, but if there is no DMR -- again, valuation
6 depends. Each person has different views and
7 different parameters, but very likely DP&L's level
8 wouldn't be equal to the debt at DPL Inc." Did I
9 read that correctly?

10 A. And I think that's what I answered to you
11 30 seconds ago.

12 Q. Okay. And in a bankruptcy process, you
13 are aware that a bankruptcy court may hold an auction
14 to sell off the debts for the benefits of creditors?
15 Sorry. Let me restate that.

16 You agree that a bankruptcy court may
17 hold an auction to sell off the debtor's assets for
18 the benefit of creditors?

19 A. I think that is one of the potential
20 outcomes of a bankruptcy process.

21 Q. And if DPL Inc. were to enter into a
22 bankruptcy and creditors agreed to take 50 cents on
23 the dollar, you would agree that this would result in
24 a beneficial outcome because it would delever DPL
25 Inc.?

1 A. Every --

2 EXAMINER PRICE: Can I have that question
3 again, please?

4 MR. SHARKEY: I am going to object, your
5 Honor, on vagueness. Did you say if DPL declared
6 bankruptcy would be a beneficial outcome or actions
7 of bankruptcy that particular negotiation would be a
8 beneficial outcome which is vague what he is asking
9 about.

10 MR. OLIKER: And if the witness wants to
11 clarify, that's fine. I am simply asking about
12 whether the delevering would be beneficial.

13 EXAMINER PRICE: Why don't you rephrase
14 along those lines to be more clear.

15 Q. (By Mr. Olikier) If DPL Inc. entered into
16 bankruptcy and creditors took 50 cents on the dollar,
17 you would agree that that would result in beneficial
18 delevering of DPL Inc.'s capital structure.

19 EXAMINER PRICE: I am not sure what you
20 mean actually now that I listen to it again. When
21 you say creditors take 50 cents on the dollar, you
22 discussed two scenarios before. One is creditors
23 reduce the outstanding debt obligation, take a
24 haircut, and you've also discussed creditors taking
25 an equity stake in the company instead of debt. And

1 I am not sure which of those two scenarios you are
2 discussing now.

3 MR. OLIKER: We'll get to the second one
4 later, but right now, we are talking about taking 50
5 cents on the principal of debt.

6 EXAMINER PRICE: Thank you.

7 MR. OLIKER: And I can maybe restate it
8 because the record is probably not that clear now.

9 Q. Mr. Garavaglia, in the event of a DPL
10 Inc. bankruptcy, if creditors were to take 50 cents
11 on the dollar on the outstanding debt principal, you
12 agree that would result in beneficial delevering of
13 the capital structure at DPL Inc.

14 MR. SHARKEY: I am going to object, your
15 Honor. It's still not clear whether he is talking
16 about the bankruptcy in its entirety or just the
17 delevering after there has been a bankruptcy. The
18 question is vague.

19 EXAMINER PRICE: Overruled.

20 A. I am not going to talk about the
21 creditors taking 50 cents on the dollar. I am just
22 going to answer your question. So the purpose of the
23 DMR is exactly to reduce leverage at DPL Inc. which
24 benefits the two companies, so the lower the debt at
25 the DPL Inc. level the better. So if there is less

1 debt at DPL Inc., both DPL Inc. and DP&L would be in
2 a better position.

3 Q. Correct. And switching the hypothetical
4 to something the Attorney Examiner alluded to, if DPL
5 Inc. were to file bankruptcy, you agree that if
6 creditors exchanged their debt for equity in DPL
7 Inc., that would also result in beneficial delevering
8 of the capital structuring of DP&L Inc.

9 MR. SHARKEY: Same objection as before,
10 your Honor.

11 EXAMINER PRICE: Overruled.

12 A. We should meet the terms for the -- this
13 conversion of debt to equity.

14 Q. Let's assume that creditors exchange
15 100 percent of the debt that exists at DPL Inc. for
16 100 percent equity.

17 A. Okay. So one for one. Okay. Got it.
18 This is a little bit more complex, I guess, for
19 several reasons. So I think the first one in this
20 scenario, of course, AES would not be owner of DPL
21 Inc., right? Just want to confirm.

22 Q. Yes.

23 A. Okay. So I -- I don't know how the
24 lenders in the position of owning of the DPL Inc.
25 would operate DP&L. They certainly would be looking

1 at getting their money back at some point, so I don't
2 know how they would even treat investments in the
3 grid at DP&L. They could even further reduce
4 investments at DP&L so they could send more cash to
5 DPL Inc. and as a result get their pay back even
6 sooner. So that's one. And, two, a change of
7 control at DPL Inc. could trigger events at DP&L that
8 could not be beneficial for DP&L in the future.

9 Q. And by triggering events are you
10 referring to credit rating action or something else?

11 A. Yeah, not -- I mean when -- if DPL Inc.
12 at some point declares bankruptcy, this will be
13 affect DP&L credit ratings.

14 Q. My question is more -- I believe you
15 mentioned that credit -- creditors accepting
16 100 percent equity in DPL Inc. could trigger other
17 actions at DP&L. What were you referring to there?

18 A. Some of the agreements at DP&L may have
19 change of control clauses that may give the right to
20 the lenders or credit holders of those agreements to
21 call on the debt that they have at DP&L which in the
22 scenario DP&L would likely be at the very bad
23 rating -- rating by the rating agencies. It would be
24 hard for the DP&L to refinance at better terms in the
25 market.

1 Q. Do you know if any of the agreements at
2 DP&L contain change of control clauses?

3 A. I haven't reviewed them, but I believe
4 they do have.

5 Q. And isn't it also possible if creditors
6 exchanged their debt for equity, that could result in
7 a credit upgrade for DP&L simply as a result of the
8 delevering of the capital structure of DPL Inc.?

9 A. Again, I don't know how the lenders would
10 operate the DP&L.

11 Q. Assuming they operate it the same way as
12 it is currently being operated today, if not better.

13 A. So we know -- we know the DMR, of course,
14 the lenders would be looking to get their money back,
15 right? I think that's the fundamental of this thing.
16 So I really don't know how -- they would be looking
17 into upstreaming cash from DP&L to DPL Inc.

18 Q. And the lenders could also either sell
19 all of their equity interest in DP&L or the
20 bankruptcy court could auction off DP&L to the
21 highest bidder.

22 A. This could be an outcome of the
23 bankruptcy process, yes.

24 Q. Are you familiar with an entity known as
25 Vistra Energy?

1 A. Can you repeat that?

2 Q. Vistra.

3 A. No, I don't think I am.

4 Q. What about Dynegy?

5 A. Not familiar, I have heard about them.

6 Q. Do you know if Dynegy was acquired by
7 anyone in the past 18 months?

8 A. I don't know.

9 Q. What about FirstEnergy Solutions?

10 A. I have heard about it.

11 Q. Do you know if FirstEnergy Solutions has
12 been in bankruptcy or --

13 EXAMINER PRICE: Relevance?

14 MR. OLIKER: What?

15 EXAMINER PRICE: What's the relevance to
16 that question?

17 MR. OLIKER: The bankruptcy court
18 agreement, I believe Mr. Alexander can correct me,
19 entails creditors emerging from the bankruptcy owning
20 FirstEnergy Solutions.

21 EXAMINER PRICE: FirstEnergy Solutions is
22 not a public utility in this state.

23 MR. OLIKER: No, but it's an example of
24 creditors potentially owning a bankrupt entity and
25 operating it.

1 EXAMINER PRICE: Well, you can go to
2 Braniff Airlines or any other company in the entire
3 world if you want that example but let's try to
4 narrow this to public utilities, if you can.

5 MR. OLIKER: To be clear, your Honor, DPL
6 Inc. is not a public utility.

7 EXAMINER PRICE: I understand.

8 MR. OLIKER: That's what we are talking
9 about.

10 EXAMINER PRICE: We are talking about the
11 impact on a public utility. FirstEnergy Solutions
12 does not own a public utility in this state.

13 Q. (By Mr. Olikier) One of the metrics you
14 identify is funds from operations to debt, correct?

15 A. That's the most common that the rating
16 agency look to rate any company.

17 Q. And if lenders exchanged their debt
18 interest for 100 percent equity, that would tilt the
19 FFO-to-debt calculation in favor of where it is today
20 for DPL Inc., correct, all else being equal?

21 A. In the short term, that's a simple math
22 so FFO first year, for instance, would remain the
23 same. Debt would be lower so the -- if the
24 denominator is lower, the result would be higher.

25 Q. The calculation would be infinite because

1 there would no debt at DPL Inc., correct?

2 A. Not actually because DPL Inc.
3 consolidates DP&L's debts.

4 Q. So then it would be the same as DP&L's,
5 correct?

6 A. Very much, yes.

7 Q. Okay. Can you turn to page 23 of your
8 testimony.

9 A. 23?

10 Q. Yes.

11 A. Sure.

12 Q. Actually I apologize. I think I have the
13 wrong page. I am -- it's on page 25.

14 A. Okay.

15 Q. You reference a 5.29 percent cost of
16 debt.

17 A. That's correct, yes.

18 Q. Do you know if that's the cost of debt
19 that's utilized in your financial projections?

20 A. This is the weighted average cost of debt
21 included in the projections.

22 Q. And I ask because underneath where it
23 says the 5.29 percent and above it, there's a
24 reference to "I believe the coupon associated with
25 this issue will be approximately 6.6 percent and

1 after including financing costs," and I am trying to
2 determine whether the financial projections assumed
3 5.29 percent cost of debt or 6.6 percent?

4 A. I think I can help you with this one. So
5 the time we filed this testimony we assumed that this
6 debt we talked about before, the one issued in August
7 2016, was going to be refinanced when the Company
8 were to go to investment grade, so it could go
9 30-year zero so we exchanged this by a new one 30
10 year with a 6.6 percent coupon. And the weighted
11 average cost of debt of the whole entity would be at
12 5.29 because they have other debts that are also less
13 expensive than the 6.6. Is that clear?

14 Q. And by the whole entity you mean DP&L,
15 correct?

16 A. DP&L, correct, yes.

17 Q. And so then if I can follow that through,
18 does that mean that the financial projections in the
19 testimony are based off 5.29 percent in all the
20 interest that was calculated from that?

21 A. So the interest calculation in the
22 financial projections, they were based off of each
23 debt's interest rate. The 5.29 percent is what we
24 had assumed we would get in the rate case so as a
25 weighted average cost of debt for the company.

1 Q. Okay.

2 A. Is that clear?

3 Q. So I think what you said is a portion of
4 the debt assumed 6.6 percent, a portion assumed the
5 lower cost debt.

6 A. Yes.

7 Q. But on a weighted basis --

8 A. Yeah.

9 Q. -- you largely get to the same results --

10 A. Yeah.

11 Q. -- of 5.29 percent times the outstanding
12 debt balance.

13 A. Yes.

14 Q. And this testimony does not explicitly
15 address the Ohio Valley Electric Corporation or the
16 Reconciliation Rider because it was filed before the
17 Stipulation, correct?

18 A. That's correct, yes.

19 MR. OLIKER: And can we go off the record
20 for a second?

21 EXAMINER PRICE: Yes.

22 (Discussion off the record.)

23 EXAMINER PRICE: Let's go back on the
24 record.

25 Q. (By Mr. Olikier) You're familiar with

1 DP&L's interest in the Ohio Valley Electric
2 Corporation?

3 A. Yes, I am.

4 Q. And you are generally familiar with the
5 Reconciliation Rider, correct?

6 A. Yes, I am.

7 Q. And that entails -- well, first, DP&L has
8 a purchase power agreement with OVEC, correct?

9 A. Yes.

10 Q. And under the proposed Reconciliation
11 Rider, DP&L would sell the power from OVEC into the
12 wholesale market, and if the market-based revenues
13 are less than the costs paid to OVEC, the difference
14 would be flowed through the Reconciliation Rider,
15 correct?

16 A. And the other way around is also true.
17 So if the -- if the DP&L makes a profit as a result
18 of this transaction, this also flows through the
19 Reconciliation Rider.

20 Q. And DP&L has been purchasing power from
21 OVEC and reselling it in the market for several years
22 now, correct?

23 A. Yes.

24 Q. And every year since 2010 would you agree
25 that the market-based revenues have been less than

1 the cost paid to OVEC?

2 A. I don't know back to 2010 but last couple
3 of years, yes.

4 Q. Okay. And you would agree that if we
5 were to put DPL Inc. aside for a second and acted
6 like DPL Inc. didn't exist, even without the DMR and
7 without any Reconciliation Rider, DP&L would have an
8 investment grade credit rating?

9 A. DP&L?

10 Q. Yes.

11 A. So if DPL Inc. doesn't exist. In this
12 hypothetical scenario, I think you are right. I
13 think DP&L -- DP&L's capital operation divided by
14 debt would reach investment grade ratings as of
15 today. I don't know about the future but, yeah, as
16 of today.

17 MR. OLIKER: Could I have one minute,
18 your Honor? I might be ready for the confidential
19 section.

20 EXAMINER PRICE: You may. Let's go off
21 the record.

22 (Discussion off the record.)

23 EXAMINER PRICE: Let's go back on the
24 record.

25 Mr. Olikier.

1 Q. (By Mr. Olikier) Turning to page 23 of
2 your testimony, you reference a significantly
3 excessive earnings test?

4 A. That's correct.

5 Q. Have you read the statutory provision you
6 cite in this portion of your testimony which is
7 4928.143(E) and (F)?

8 A. Are you asking if I have read the Code?

9 Q. Yes.

10 A. No, I haven't read the Code.

11 Q. All right. Are you relying upon your
12 counsel then for a portion of this response?

13 A. I am relying on conversations with
14 lawyers and other folks on that.

15 Q. Have you reviewed any of the Public
16 Utilities Commission's orders on significantly
17 excessive earnings?

18 A. Not on the topic.

19 Q. Okay. Do you know if the Public
20 Utilities Commission has ever found that a public
21 utility had earned significantly excessive earnings?

22 A. Not that I am aware of.

23 Q. Okay.

24 EXAMINER PRICE: Can I have the last two
25 questions back?

1 (Record read.)

2 EXAMINER PRICE: When you say not that
3 you are aware of, you have not looked at every SEET
4 decision the Commission has issued; is that correct?

5 THE WITNESS: That's correct, yes.

6 EXAMINER PRICE: So there may be ones
7 that you are not because you have not looked at them?

8 THE WITNESS: Yes.

9 Q. (By Mr. Olikar) And I would like to ask a
10 hypothetical. A lot of our discussion, I think, has
11 been what you called the complex which is the
12 combined financials of DP&L and DPL Inc. Let's
13 assume for a second that DPL Inc. has access to the
14 debt market. And someone at DPL Inc. thinks that
15 travel by hot air balloon is going to be the thing of
16 the future, and they invest \$2 billion to get a \$2
17 billion loan into assets for hot hair balloon travel.

18 It turns out people want to stick with
19 airplanes and that -- those assets are written down
20 to zero. But the debt remains of \$2 billion on DPL
21 Inc.'s debt.

22 In that scenario, would you agree that
23 it's likely that DP&L would likely ask the Commission
24 to increase the size of the DMR?

25 MR. SHARKEY: Objection. It's widely

1 speculative with hot air ballons and air travel and
2 what would happen in the future at DPL Inc. I think
3 it's wildy speculative.

4 EXAMINER PRICE: If he made it about time
5 travel, I might have considered my options
6 differently. Nonetheless objection is sustained.

7 MR. OLIKER: And the basis, your Honor?

8 EXAMINER PRICE: Although we allow
9 hypotheticals here, they are generally built on some
10 actual factual basis. That's lacking in your
11 hypothetical here today.

12 MR. OLIKER: Okay.

13 Q. (By Mr. Oliker) Well, let's put aside the
14 hot air balloons. If there was any additional
15 investment that DPL Inc. made that turned out to be
16 uneconomic and if it happened to result in the
17 addition of \$1 billion of debt on DPL Inc.'s balance
18 sheet, would that put DP&L in a position in your view
19 where it would ask for more money under the DMR or
20 some other type of rider?

21 A. So if DPL Inc. invests in something
22 related to the DP&L --

23 Q. No. If DPL Inc. invests in something
24 unrelated to DP&L and that results in the addition of
25 more debt, in this example a billion dollars of debt

1 on DPL Inc.'s balance sheet without the revenue to
2 support that debt, would DP&L then need to ask for a
3 bigger DMR?

4 A. I'm sorry. I think this is highly
5 speculative. I don't even know if legally the bylaws
6 of the DPL Inc. permits or allows DPL Inc. to invest
7 that broadly.

8 Q. Let's assume that it could.

9 MR. SHARKEY: Objection, your Honor. The
10 question is getting increasingly and I think so
11 speculative that I think it's an improper
12 hypothetical.

13 EXAMINER PRICE: Sustained.

14 Q. (By Mr. Olikier) Does AES Corporation have
15 any limitations on what it can invest in?

16 MR. SHARKEY: I am going to object to
17 establish personal knowledge there.

18 MR. OLIER: I asked him if he knows. He
19 can simply says he doesn't know.

20 EXAMINER PRICE: Why don't you phrase it
21 that way.

22 Q. (By Mr. Olikier) Well, do you have
23 knowledge of the limitations on what AES can invest
24 in?

25 A. I don't know what's included in AES's

1 bylaws.

2 Q. Do you agree the bylaws can be changed?

3 MR. SHARKEY: Objection. It's
4 speculative.

5 EXAMINER PRICE: That's outside the scope
6 too. Sustained.

7 Q. (By Mr. Olikar) Are you familiar with
8 what's known as corporate separation requirements in
9 Ohio?

10 A. I've learned so many terms in the last
11 couple of months. If you can just explain to me what
12 it is. I am sure I know what it is. If you can help
13 me on this one, it would be good.

14 Q. Do you know if DP&L is required to have a
15 formal plan to separate its competitive and
16 noncompetitive services either legally or
17 functionally?

18 A. And by competitive and noncompetitive
19 services, are you talking about generation assets?

20 Q. Yes.

21 A. So I know the Stipulation required DP&L
22 to separate out generation assets from DP&L, which
23 assets were transferred to different legal entity
24 called AES Ohio Generation.

25 Q. And do you know if there is a document

1 called a corporate separation plan that sets forth
2 the protective measures that DP&L has put in place to
3 prevent cross-subsidies between noncompetitive and
4 competitive services?

5 A. I don't have this amount of detail.

6 Q. Okay. And you -- you are familiar with
7 the entity known as sPower that was acquired by AES
8 Corporation, correct?

9 MR. SHARKEY: I am going to object, your
10 Honor.

11 A. Yes, I am.

12 MR. SHARKEY: Questions related to AES
13 and AES acquisitions are so far afield and I believe
14 irrelevant to this proceeding.

15 MR. OLIKER: Your Honor, Mr. Hess submits
16 testimony on sPower and some of the impact that this
17 proceeding may have had on that acquisition. I am
18 simply asking for background on whether the witness
19 knows anything about it.

20 MR. SHARKEY: The fact Mr. Hess discusses
21 it doesn't make it relevant.

22 EXAMINER PRICE: That's a fair point.
23 Does he discuss sPower in his testimony, this
24 witness?

25 MR. OLIKER: He discusses AES in his

1 testimony, and he discusses DPL Inc.

2 EXAMINER PRICE: Objection is sustained.

3 MR. OLIKER: And the acquisition of
4 sPower, your Honor, occurred after this testimony was
5 filed.

6 EXAMINER PRICE: All the more reason why
7 he is not an appropriate witness to ask a question if
8 it occurred after he filed his testimony. It's
9 obviously outside the scope of his testimony.
10 Objection is sustained.

11 MR. OLIKER: And, your Honor, are we
12 applying the federal rules of cross-examination or
13 state rules?

14 EXAMINER PRICE: We are applying the
15 Public Utilities Commission's rules, Mr. Olikier.

16 MR. OLIKER: Okay. Are we going to limit
17 cross-examination for purposes of the case to the
18 scope of the direct testimony?

19 EXAMINER PRICE: Mr. Olikier, I have made
20 my ruling. Let's move on. You began to hit the
21 random portion of your cross-examination where
22 nothing appears to be relevant to the case at hand.
23 Let's move on. And let's ask our questions in a more
24 timely manner, Mr. Olikier.

25 Q. (By Mr. Olikier) And am I correct that you

1 responded to discovery in this case?

2 A. That's correct, yes.

3 Q. And were you here yesterday during the
4 cross-examination of Jeffrey Malinak?

5 A. Yes, I was here.

6 Q. And did you respond to discovery that was
7 directed at Jeffrey Malinak's testimony?

8 MR. SHARKEY: Objection. The particular
9 discovery, in fact, asks for DP&L's view.

10 EXAMINER PRICE: I believe -- why don't
11 we discuss the particular -- I believe we are talking
12 about one that was partially admitted. Why don't we
13 stick -- what is it, IGS 1002? I think he was a
14 designated witness for at least one of those
15 responses. Do you have a copy of IGS 1002?

16 MR. OLIKER: I can give him one, your
17 Honor. May I approach, your Honor?

18 EXAMINER PRICE: You may.

19 THE WITNESS: Thank you.

20 Q. (By Mr. Oliker) And do you have a copy of
21 IGS's Tenth Set of Discovery which was previously
22 marked as IGS Exhibit 1002?

23 A. Correct.

24 Q. And under Question 10-4, am I correct
25 that you are the designated witness that was

1 responsible for responding to a question regarding
2 Jeffrey Malinak's testimony?

3 A. Correct.

4 Q. And that is because in the event of
5 financial stress on DP&L, you would be in a better
6 position to know how DP&L would respond than Jeffrey
7 Malinak because he doesn't work for the company,
8 correct?

9 MR. SHARKEY: I am going to object. It
10 is calling for work product why Mr. Garavaglia was
11 the witness as opposed to Mr. Malinak.

12 EXAMINER PRICE: I am not even sure why
13 you are asking the question, Mr. Olikier.

14 MR. OLICKER: I'm trying to understand why
15 he is the witness that's responsible for a question
16 directed at Jeffrey Malinak.

17 MR. SHARKEY: Interrogatories aren't
18 necessarily -- they are directed to the Company, and
19 if you read, the interrogatory itself quotes a piece
20 of Mr. Malinak's testimony, but then it asks three
21 questions about DP&L's position. The fact that he
22 quoted Mr. Malinak's testimony doesn't necessarily
23 mean that Mr. Malinak's the best person to identify
24 the Company's position.

25 EXAMINER PRICE: Fair enough.

1 MR. OLIKER: If that's the answer, that's
2 fine.

3 EXAMINER PRICE: That's your answer.

4 MR. OLIKER: So it wasn't quite clear up
5 to that point.

6 Q. (By Mr. Oliker) And earlier when we
7 talked about an asset transfer from DP&L to AES Ohio
8 Generation, do you know the purchase -- let me
9 restate the question.

10 The generation assets were transferred
11 from DP&L to AES Ohio Generation, correct?

12 A. Correct.

13 Q. And then some of those assets were sold
14 off to an unaffiliated third party?

15 A. That's correct, yes.

16 Q. Do you remember the purchase price?

17 MR. SHARKEY: I will instruct the witness
18 you can answer "yes" or "no" whether he knows. The
19 purchase price itself, I believe, is confidential. I
20 may be wrong about that, your Honor, but I believe.

21 EXAMINER PRICE: Let's start with do you
22 know and we will go on from there.

23 A. Yes, I know.

24 Q. Which assets were sold off to a third
25 party?

1 A. Miami Fort and Zimmer and also all the
2 merchant beacon generation assets which are -- I
3 don't know the name of all of them.

4 Q. Okay. And do you know if the total sales
5 price for those assets was \$240 million?

6 MR. SHARKEY: I object, your Honor. I
7 believe the purchase price is confidential, and we
8 are checking that by pulling up his DRM-E testimony.
9 Mr. Hollon is working on it now. I ask we not read
10 the numbers into the public record.

11 MR. OLIKER: I am reading the Dayton
12 Daily News article on my computer and that's why.

13 EXAMINER PRICE: Let's defer -- well,
14 Dayton Daily News is not an acceptable source of
15 information because it's hearsay but let's run down
16 the question whether or not this is or is not
17 confidential, and then we can go from there.

18 MR. HOLLON: It's treated as confidential
19 in the DRM-E testimony.

20 MR. OLIKER: I understand that's the
21 case, but it doesn't necessarily mean it should be
22 confidential.

23 EXAMINER PRICE: I understand that, and
24 we can take up those arguments. Why don't we do ask
25 that question in the confidential portion and then we

1 can raise the issue and you can raise the very point
2 that can't be too confidential if it's in the Dayton
3 Daily News and we can move on from there. We can
4 move into the public transcript, if necessary.

5 MR. OLIKER: Thank you, your Honor.

6 Q. (By Mr. Oliker) Okay. And just
7 structurally before we get there, was there one sale
8 regarding the generating assets or was there sales to
9 different buyers, if you know?

10 A. My understanding is that it was for
11 different buyers.

12 Q. Okay. And are the identities of the
13 buyers confidential?

14 A. I don't know if they are. I certainly
15 don't know the name of all the buyers.

16 Q. You do or do not?

17 A. I do not.

18 Q. Okay. But you do know -- do you know the
19 sales prices for each of those individual sales?

20 A. No.

21 Q. Do you know the total amount?

22 A. Yes.

23 Q. Okay. Do you look at any of the Moody's
24 investors rating action other than the ones for DPL
25 Inc. and DP&L?

1 A. When?

2 Q. Past five years.

3 A. I look at some.

4 Q. What do you look at?

5 A. I don't remember all of them but
6 certainly for our other utility in the United States.

7 Q. Do you look at the Moody's rating actions
8 for any other utilities or independent power
9 producers other than within the AES family?

10 A. I think I quickly look at PG&E. Not that
11 comes to mind.

12 Q. And would your answer be the same for
13 Standard & Poor's and Fitch?

14 A. Yeah.

15 Q. And am I to understand then you did not
16 review any of the Oncor rating actions that were
17 referenced yesterday?

18 A. I heard you discussing, yes, but I
19 haven't seen them before or reviewed them before.

20 MR. OLKER: Okay. And this may be, your
21 Honor, a good time to go to the confidential section.

22 EXAMINER PRICE: Okay. Mr. Sharkey, I
23 will accept your representation everybody in the room
24 is subject to a confidentiality agreement or part of
25 the Staff.

1 MR. SHARKEY: Yes, your Honor. The room
2 is good.

3 MR. PRITCHARD: Your Honor, before we go
4 to the confidential section, should we revisit
5 whether Mr. Olier could ask his question in the
6 public domain? I can confirm that they have reported
7 to the SEC that it is public and happy to confer with
8 the Company before we close the public record and
9 have to move it.

10 EXAMINER PRICE: Mr. Sharkey?

11 MR. SHARKEY: You confirmed what is a
12 public number filed with the SEC, Matt?

13 MR. PRITCHARD: The peaker asset sale,
14 that was the specific number.

15 THE WITNESS: The Miami Fort and Zimmer
16 or just peaking assets?

17 MR. PRITCHARD: The peaker.

18 EXAMINER PRICE: You don't get to ask
19 questions.

20 MR. SHARKEY: I suggest we go off the
21 record, your Honor?

22 EXAMINER PRICE: Let's -- no. I
23 appreciate your attempt to help, Mr. Pritchard. But
24 let's let Dayton have a chance to -- DP&L have a
25 chance to research this and present argument. It

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1 doesn't sound good for Dayton, but if it turns out
 2 that the number is not confidential, then you will be
 3 allowed to cite it in your briefs which is all you
 4 really need it for. So let's go to the confidential
 5 portion of our transcript.

6 (CONFIDENTIAL PORTION EXCERPTED.)

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(OPEN RECORD.)

1 EXAMINER PRICE: Mr. Sharkey, redirect?

2 MR. SHARKEY: Very brief, your Honor.

3 - - -

4 REDIRECT EXAMINATION

5 By Mr. Sharkey:

6 Q. You discussed a number of times for
7 purposes of the DMR the \$105 million. Is that money
8 being deposited into a separate account?

9 A. That's correct.

10 Q. Has all of that money been used to either
11 pay interest or pay down debt at either DP&L or DPL
12 INC.?

13 A. That's correct, yes.

14 Q. And has any of that money been used for
15 any SmartGrid investments?

16 A. No.

17 MR. SHARKEY: No further questions, your
18 Honor.

19 EXAMINER PRICE: Thank you.

20 Mr. Boehm, recross?

21 MR. BOEHM: No, your Honor.

22 EXAMINER PRICE: Mr. Alexander?

23 MR. ALEXANDER: No, thank you, your
24 Honor.

25 EXAMINER PRICE: Ms. Bojko?

1 MS. BOJKO: No, thank you, your Honor.

2 EXAMINER PRICE: Consumers' Counsel?

3 MR. MICHAEL: No, thank you.

4 EXAMINER PRICE: RESA? You are with IGS.

5 I was thinking you were with RESA.

6 Mr. Oliker?

7 MR. OLIKER: Just briefly, your Honor.

8 Thank you.

9 - - -

10 RECROSS-EXAMINATION

11 By Mr. Oliker:

12 Q. Mr. Garavaglia, to follow up on the
13 conversation with your counsel, earlier I think we
14 established many times that in your view revenues are
15 fungible, so although the DMR revenues are designated
16 to be applied toward debt and interest, from an
17 income statement perspective, all of the revenues
18 that DP&L collects for all of its businesses are used
19 to finance all of its operations and its capital
20 expenditures, so all else being equal, with the DMR
21 those revenues are higher; is that correct?

22 MR. SHARKEY: Object. That's a compound
23 question, I believe.

24 EXAMINER PRICE: Sustained.

25 MR. SHARKEY: It's a series of

1 statements, and he is not clear what he is asking is
2 this correct.

3 MR. OLIKER: I was trying to summarize,
4 but I can take it by the numbers.

5 EXAMINER PRICE: Let's do it by the
6 numbers.

7 Q. (By Mr. Olikier) So to follow up on your
8 counsel's question, you stated several times earlier
9 today that all of the revenues that DP&L collects are
10 fungible from an operational perspective; is that
11 correct?

12 A. That's correct.

13 MR. OLIKER: Thank you. Those are all
14 the questions I have, your Honor. Thank you, Mr.
15 Garavaglia.

16 EXAMINER PRICE: Thank you. Please step
17 down. You're excused.

18 Mr. Olikier.

19 MR. OLIKER: I would move for the
20 admission of IGS Exhibit 1007C, 1008C, and 1009C,
21 withhold 1010, which I believe is from Ed Hess's
22 testimony, and move IGS Exhibit 1011C, 1011.

23 EXAMINER PRICE: We already admitted 7,
24 8, and 9 -- 7 and 8.

25 MR. OLIKER: So I guess -- thank you for

1 that clarification. So 9 and 11.

2 EXAMINER PRICE: Any objection to the
3 admission of IGS 1009C and 1011C?

4 MR. SHARKEY: No, your Honor.

5 EXAMINER PRICE: Seeing none, they will
6 be admitted.

7 Let's break for lunch. Return at
8 2 o'clock and take Ms. Schrader -- Schroder.

9 Off the record.

10 (Thereupon, at 1:00 p.m., a lunch recess
11 was taken.)

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1 Tuesday Afternoon Session,
2 April 2, 2019.

3 - - -

4 EXAMINER PRICE: Let's go back on the
5 record.

6 At this time we will call Ms. Schroder
7 for cross-examination.

8 (Witness sworn.)

9 EXAMINER PRICE: Please be seated and
10 state your name and business address for the record.

11 THE WITNESS: My name is Sharon Schroder.
12 My business address is 1065 Woodman Drive, Dayton,
13 Ohio 45432.

14 EXAMINER PRICE: Please proceed,
15 Mr. Olikar.

16 MR. OLICKER: Thank you, your Honor.

17 - - -

18 SHARON R. SCHRODER
19 being first duly sworn, as prescribed by law, was
20 examined and testified as follows:

21 CROSS-EXAMINATION

22 By Mr. Olikar:

23 Q. Good afternoon, Ms. Schroder.

24 A. Good afternoon.

25 Q. A few questions to start about your

1 background. How many times have you testified
2 generally speaking?

3 A. Written or oral?

4 EXAMINER SCHABO: Mr. Olikar, could you
5 turn your mic on.

6 Q. Both.

7 A. Both. At the PUCO or at FERC?

8 Q. Could be anywhere.

9 A. I would say approximately nine times
10 total between both the Federal Energy Regulatory
11 Commission and the Public Utilities Commission of
12 Ohio. That would include both written and oral
13 combined with three of those being oral testimony.

14 Q. And one of those cases you identify is
15 the SECA or the S-E-C-A case?

16 A. Yes. That's one listed here in my
17 background.

18 Q. What was that case about? I know it was
19 a long time ago.

20 A. It was.

21 Q. Based on your memory as you sit here
22 today.

23 A. So there were several pieces of written
24 testimony that I provided in that case into which I
25 believe were from 2005. And at a high level those

1 cases pertained to the timing and the nature of
 2 joining an RTO. Dayton as well as several other
 3 transmission owners were eliminating their through
 4 and out transmission rates when they joined PJM or
 5 MISO, the Midwest ISO, and transitioning the terms
 6 and conditions of their open access transmission
 7 tariff to the one of the RTO, moving from their
 8 individual tariffs to the RTO tariffs, removing their
 9 through and out transmission rates and putting in
 10 place instead transitional transmission rates.

11 Q. And from a high level, that was a case
 12 about cost causation and the rates that DP&L was
 13 paying for transmission?

14 A. It was in part about cost causation.
 15 Excuse me. And it was in part about who pays, not
 16 necessarily Dayton, but the cost allocation of
 17 certain transitional costs to customers throughout
 18 the PJM and MISO region.

19 Q. And when you say "who pays," that's
 20 because rate design is a zero sum gain; if somebody
 21 pays less, somebody else pays more?

22 A. I wouldn't use those terms, zero sum
 23 gain, no.

24 Q. How would you -- how would you rephrase
 25 that?

1 A. I don't -- I don't think it's always true
2 that if one pays more, one pays less.

3 Q. Only in the instances where there is a
4 fixed revenue requirement and there is a rate design
5 change somebody pays more and somebody pays less?

6 A. I think at a high level that's accurate.

7 Q. Okay. In the EL05-121-000 case, that was
8 another transmission rate case, correct?

9 A. I wouldn't characterize it as a
10 transmission rate case, no.

11 Q. What would you -- not a transmission rate
12 case but it involved transmission issues, correct?

13 A. It did involve transmission issues.

14 Q. And that case you testified in favor of
15 modifying the manner in which costs are allocated to
16 different transmission zones to better reflect
17 principles of cost causation, correct?

18 A. I don't remember exactly my testimony in
19 detail. I don't recall that I was proposing a rate
20 design but instead was outlining concerns with two
21 proposals that others were proposing as it related to
22 cost-of-service issues and cost assignment or
23 concerning cost shifts between the two proposals.

24 Q. And from a high level, was your position
25 that DP&L's zone was not the true beneficiary of

1 transmission costs incurred in other parts of PJM?

2 A. No, I don't think that was exactly it. I
3 think much of the testimony was designed to outline
4 the two competing proposals at hand at that time and
5 the differences between the two and sort of the
6 arbitrary nature of the bright line that was being
7 used in terms of voltage to assign costs to various
8 parties and that that was arbitrary.

9 Q. And by arbitrary you mean it didn't
10 follow principles of cost causation, correct, or
11 benefit?

12 A. In part that it wasn't tied to anything
13 specific aside from a voltage level of service.

14 Q. Okay. And your testimony discusses the
15 three-part test, correct?

16 A. Yes. That's right.

17 Q. You agree that the first prong of the
18 test goes to whether there was substantial
19 bargaining?

20 A. The first prong there is too that the
21 outcome is the product of serious negotiations among
22 knowledgeable parties, yes.

23 Q. And you agree that your testimony also
24 discusses the Reconciliation Rider.

25 A. Yes, it does discuss the Reconciliation

1 Rider.

2 Q. And when you were referring to the
3 Stipulation being the product of reasonable
4 bargaining, you are referring to the collective terms
5 of the Stipulation; is that correct?

6 A. I'm sorry. Can you repeat that?

7 Q. When you are referring in your testimony
8 to the Stipulation being the product of bargaining of
9 knowledgeable parties, you are referring to the
10 collective terms of the Stipulation is what the
11 parties were bargaining for, correct?

12 A. That's part of what I am referring to
13 there, yes. Partly that it's the collective terms
14 but more so focused on that first prong, that the
15 settlement negotiations involved a diverse group of
16 parties and that those parties were all represented
17 by experienced representatives.

18 Q. And nobody was excluded, correct?

19 A. Correct.

20 Q. And am I correct that the Stipulation has
21 two sets of individuals that sign the document?
22 There are the supporting signatory parties and then
23 there's a second classification for nonopposing
24 parties?

25 A. I think I would characterize this was

1 actually three different groups. Numerous parties
2 signed as signatory parties as you mentioned. Others
3 signed as nonopposing parties as you mentioned. But
4 there was a third category that still others had
5 informed DP&L that they didn't intend to oppose, but
6 they also didn't intend to sign.

7 Q. And would you put those parties, if you
8 had to put them in a bucket, closer to the signing
9 nonopposing parties?

10 A. Can you repeat that?

11 Q. Those parties that you just referenced,
12 they are similar to the parties that signed but said
13 they would not oppose, but they just simply took no
14 action.

15 A. I'm not sure I would characterize it that
16 way since they didn't sign, no.

17 Q. Okay. Fair enough. And the Stipulation
18 also contains some footnotes, correct, which we've
19 had a lot of talk about in this case?

20 A. Yes. I see a couple.

21 Q. Do you have the Stipulation in front of
22 you, Ms. Schroder?

23 A. Yes.

24 Q. Before we proceed what other documents
25 did you bring with you?

1 A. I have my testimony with typical bills,
2 Jackson now Garavaglia's testimony, Malinak's
3 testimony, Stipulation, the testimony of PUCO Witness
4 Nicodemus, several interrogatories from this round
5 from IGS, as well as my resume due to some of the
6 questions that came up in the deposition.

7 Q. Great. Thank you so much. That will
8 hopefully make things much easier. Okay. Now, going
9 to the Stipulation, we said there are some footnotes
10 in which parties provided nuances on their positions
11 regarding specific provisions of the Stipulation,
12 correct?

13 A. Can you repeat that, please?

14 Q. Would you agree that, for example, could
15 you turn to the section of the Stipulation on the
16 DMR.

17 A. Yes, I'm there.

18 Q. And under the DMR there's a footnote
19 where certain parties provided nuances on their
20 position regarding that element, correct?

21 A. I see one as footnote 1.

22 Q. And what does that footnote say?

23 A. "IGS, RESA, and Ohio Manufacturers'
24 Association Energy Group ('OMAEG') do not support but
25 agree not to oppose Section II.2 of the Stipulation

1 taking into consideration the Stipulation as a
2 package. IGS', RESA's, and OMAEG's non-opposition
3 shall be relied upon in any other forum or
4 proceeding."

5 Q. Okay.

6 EXAMINER PRICE: "Shall not be."

7 THE WITNESS: Did I say "shall be"?

8 EXAMINER PRICE: Yes. Trying to slide
9 that into the record.

10 THE WITNESS: Thank you for the
11 correction.

12 Q. (By Mr. Olikier) And, now, can you turn to
13 Section X of the Stipulation. I believe these are
14 party specific provisions.

15 A. I found Section X "Individual Signatory
16 Parties."

17 Q. Is that the title of that section?

18 A. It is.

19 Q. And under that section are there
20 provisions that are related to specific Intervenor
21 in this case?

22 A. Yes. In this section there are
23 provisions that will expire when the DMR expires.
24 And they are listed there by individual parties with
25 various section numbers.

1 Q. Okay. That was my first question. Are
2 all of the provisions under Section X explicitly tied
3 to the existence of the DMR?

4 A. I'll clarify that the full sentence there
5 that I was reading from earlier, "The provisions in
6 this Section shall expire when the DMR expires, or
7 when an equivalent economic stability charge intended
8 to provide financial stability to DP&L or DPL Inc.,
9 whether proposed in this case or another future
10 proceeding, expires" and then there's a footnote.

11 Q. And just to clarify and follow up on
12 that, your answer indicated that the provisions that
13 follow underneath will exist so long as the DMR or
14 some other equivalent type of charge exists similar
15 to what you just stated.

16 A. I'm not an attorney, so I don't want to
17 give a legal interpretation of the Stipulation. It
18 stands as it reads but that's my interpretation.

19 Q. And the parties that are listed under
20 individual signatory parties are the City of Dayton;
21 is that one of them?

22 A. Yes, that's one of them.

23 Q. And Edgemont, Ohio Partners for
24 Affordable Energy; is that another one?

25 A. It is.

1 Q. So is Honda.

2 A. Yes.

3 Q. So is the Ohio Hospital Association?

4 A. Yes.

5 Q. So is People Working Cooperatively?

6 A. Correct.

7 Q. Okay. And from a high level, do each of
8 the provisions we have just mentioned regarding
9 individual signatory parties contain some type of
10 financial benefit, whether it's \$2,000 for
11 residential energy education, some other financial
12 benefit in --

13 MR. IRELAND: Objection, your Honor.

14 EXAMINER PRICE: Grounds?

15 MR. IRELAND: The Stipulation speaks for
16 itself, and I think we are getting close to a
17 discussion about individual benefits that were
18 negotiated for as part of the overall negotiation
19 which I think is off limits.

20 EXAMINER PRICE: We'll give Mr. Olier
21 some leeway and allow this question.

22 MR. OLIKER: Thank you, your Honor.

23 A. Can you repeat that for me, please?

24 Q. I can ask maybe this way to streamline,
25 do each of the individual signatory party provisions

1 identified under Section X contain some type of
2 financial transfer in some form understanding that
3 there are different quantities?

4 A. I would agree that some of them provide
5 financial benefits coming from shareholders as a
6 commitment but others -- other commitments and other
7 benefits in this section are not tied to financial
8 amounts specifically. I don't see any financial
9 specific amounts, for example, on page 33, Section 4
10 regarding Honda.

11 Q. Okay. And the Automaker Incentive that's
12 referenced for Honda under Section IV.1.a.ii, is that
13 a monetary incentive?

14 A. Can you point me to again where you are?

15 Q. Under 4a where it says "DP&L agrees that
16 Honda may avail itself of either the Automaker
17 Incentive under Section IV.1.a.ii. or the Ohio
18 Business Incentive." What is the Automaker
19 Incentive?

20 A. I found where you were. Can you repeat
21 that question, please?

22 Q. What is the Automaker Incentive?

23 A. The Automaker Incentive as stated there
24 on page 10 is available to single site customers with
25 megawatt demand of 4 megawatts or greater. And it

1 lists those that qualify and leading into that the
2 economic development incentive will be equal to
3 0.0040 per kWh for all kWh.

4 Q. And so if we wanted to calculate the
5 Automaker Incentive, and I think this is on page 9
6 under ii, assuming there was a megawatt amount 10
7 megawatts, it would simply be 10 megawatts. If you
8 assumed a perfect load factor, you would do 10
9 megawatts times 24 times 365 times the 4 mills?

10 A. I will admit I am not going to try to do
11 the math.

12 Q. I don't have numbers.

13 A. It is a simple equation similar to as you
14 described. It's actually usage, not demand per
15 month, and the actual usage for that customer as it's
16 measured would be multiplied times this incentive
17 rate that's listed on page 90.

18 Q. And that would be a monetary reduction to
19 that customer's bill, correct?

20 MR. ALEXANDER: Objection.

21 EXAMINER PRICE: Grounds?

22 MR. ALEXANDER: The question is vague in
23 that it assumes the remainder of the Stipulation goes
24 into effect as written because the Stipulation has
25 many parts, all of which affects the Honda's bill,

1 and individual provisions can't be taken away from
2 the Stipulation as a whole. The question is vague.

3 EXAMINER PRICE: Care to narrow it down
4 to all of the things being equal?

5 MR. OLIKER: Sure. Thank you, your
6 Honor.

7 Q. (By Mr. Olikar) And I'm simply trying to
8 understand all else being equal, does -- the
9 Automaker Incentive, is that a credit to a customer's
10 monthly bill, or can you explain how that works?

11 A. I don't know exactly how it would show on
12 a bill, and I don't know factually the amount of that
13 bill. But, for example, it is a credit versus a
14 charge on that customer's bill, but as I said, I
15 don't know if it's itemized or listed that way or if
16 it's an offset to something else. I don't know.

17 Q. What is the funding for the Automaker
18 Incentive? Where does the credit come from?

19 A. Can you clarify what you mean? I am not
20 sure what you mean by where does it come from.

21 Q. Ultimately if we were to do the exercise
22 we just talked about, which is taking the usage and
23 multiplying it by the incentive level, that will
24 create a monthly revenue requirement that has to be
25 credited to the recipient of the incentive, correct?

1 MR. ALEXANDER: Objection.

2 EXAMINER PRICE: Grounds?

3 MR. ALEXANDER: Vague. There is no
4 revenue requirement in the ESP.

5 EXAMINER PRICE: Sustained.

6 Q. (By Mr. Olikar) Maybe I can state it this
7 way, the incentive that DP&L identifies on page 9 for
8 the Automaker Incentive, does the funding come from
9 shareholders or is there a mechanism in this case
10 that provides the funding for the incentive?

11 MR. ALEXANDER: Objection.

12 EXAMINER PRICE: Grounds?

13 MR. ALEXANDER: Assumes facts. It
14 assumes there has to be funding for this incentive
15 from shareholders or some other metric. As we
16 discussed in the previous objection, there is no
17 revenue requirement in the ESP.

18 MR. OLIKER: I am asking for the basis
19 for the incentive, where does the money come from.

20 EXAMINER PRICE: Do you recover credits
21 given to customers under the Automaker Incentive from
22 your Economic Development Rider?

23 THE WITNESS: Yes, we do. That's
24 correct. On page 10, No. 2, it clarifies that "The
25 costs of these programs will be recovered through

1 DP&L's nonbypassable Economic Development Rider,
2 consistent with how those costs are allocated and
3 recovered through that rider currently."

4 Q. Okay. And the economic improvement
5 incentive is also eligible for the same type of 4
6 mill credit under the Stipulation?

7 A. Yes. I would agree on page 9 the first
8 section of the different types of economic
9 development incentives there are various types. In
10 the first one described there on page 9 is economic
11 improvement incentive.

12 Q. And turning to -- can you go to the
13 signatory party section. It's at the end of the
14 document.

15 A. I'm on page 39.

16 Q. Yes.

17 A. Okay.

18 Q. Do you agree that other than the Staff of
19 the Public Utilities Commission of Ohio and the
20 Dayton Power and Light, all of the parties listed as
21 signatory parties either received a financial
22 incentive in the form of the economic development
23 incentives we just discussed or the specific
24 signatory party incentives we discussed or had a
25 footnote taking a nonopposing position of the DMR?

1 MR. IRELAND: Objection.

2 EXAMINER PRICE: Grounds?

3 MR. IRELAND: I think we are now invading
4 the area of negotiation and what certain parties
5 received or didn't receive.

6 EXAMINER PRICE: Well, what they received
7 is certainly fair game. It's what their motivations
8 were or conduct in settlements would be --

9 MR. OLIKER: And I am not seeking that.

10 EXAMINER PRICE: -- would be off limits.
11 Overruled.

12 MS. BOJKO: Your Honor, I am going to
13 object to compound. He asked three different
14 questions in there.

15 EXAMINER PRICE: I'll sustain that one.

16 Q. (By Mr. Olikier) Well, I can ask it from a
17 different angle maybe that's not a compound. Can you
18 identify anybody other than the Staff that's listed
19 as a signatory party that did not receive a financial
20 incentive or have a footnote on the DMR?

21 MR. ALEXANDER: Objection.

22 EXAMINER PRICE: Grounds?

23 MR. ALEXANDER: Vague as to what is a
24 financial incentive.

25 MR. OLIKER: I think we've been using

1 that term for the past 10 questions.

2 EXAMINER PRICE: Well, and some of the
3 provisions actually use the word incentive so I think
4 that's fairly clear. Overruled.

5 A. Your definition of incentive was
6 regardless of the source --

7 Q. Yes.

8 A. -- is that correct? And you were in
9 Section X?

10 Q. I was referring to Section 10 or I
11 believe also Section 11.

12 A. As far as in Section X, not all those
13 signatory parties are listed there in Section X.

14 Q. And that's because a portion of the
15 parties were listed under the economic?

16 A. No. I wouldn't say they are not in
17 Section X because they are in a different section.
18 Those are just different benefits throughout the
19 Stipulation that -- it wouldn't necessarily be that
20 you are in one or the other.

21 Q. Okay. Let's -- I think my question got
22 thrown off by your clarification on which section I
23 was referring to. So my original question asked
24 whether all of the individuals that signed the
25 signatory parties -- or, no, actually let me state

1 this this way, my question was can you identify any
2 specific party that signed the Stipulation as a
3 signatory that did not receive a financial incentive
4 either in Section IV, the Economic Development Rider,
5 or the individual party section, X, other than the
6 Commission staff and exempting the footnote in the
7 DMR for those parties?

8 MR. ALEXANDER: Objection.

9 EXAMINER PRICE: Grounds?

10 MR. ALEXANDER: Vague, compound.

11 EXAMINER PRICE: She can answer if she
12 knows.

13 A. I see financial incentives in both those
14 sections that refer to all the parties in the
15 Stipulation, so all the parties received financial
16 benefit in some fashion as a package which is I
17 believe why we have the settlement as it stands.

18 Q. But they also received direct financial
19 benefits as individuals, correct?

20 MR. ALEXANDER: Objection.

21 EXAMINER PRICE: Grounds?

22 MR. ALEXANDER: At this point we've
23 changed from financial incentives to financial
24 benefits. I still don't know what that term means.
25 And to use the Automaker Incentive Mr. Olikier

1 referred to earlier, there are currently three
 2 parties that are -- three customers who qualify for
 3 that incentive. To the extent their usage changes
 4 and they no longer qualify, they would no longer be
 5 eligible for that incentive, and so to use these
 6 financial incentive or financial benefit phrases,
 7 it's vague, and I don't know how the witness could
 8 possibly answer that question.

9 EXAMINER PRICE: Actually I believe the
 10 witness introduced the term benefit, and as to the
 11 other issues you are raising about whether or not
 12 they will continue to have to qualify for those,
 13 that's an appropriate matter for redirect.

14 MR. OLIKER: Thank you, your Honor.

15 EXAMINER PRICE: You can answer if you
 16 know.

17 MR. OLIKER: Could you reread the
 18 question.

19 EXAMINER PRICE: But honestly, Mr.
 20 Oliker, you can lead the witness. Why don't you ask
 21 the question you are trying to get to by leading the
 22 witness. It might expedite matters.

23 MR. OLIKER: I was trying to but I got
 24 objections over that when I tried to summarize but I
 25 will do my best.

1 EXAMINER PRICE: Just go one by one.

2 MR. OLIKER: We will.

3 Q. (By Mr. Oliker) Now, coming down to the
4 signatory parties, first, City of Dayton is a
5 signatory, correct?

6 A. Yes, I do.

7 Q. Is DPL Inc. an intervenor in this case?

8 A. I don't know.

9 Q. If you don't know, that's fine.

10 A. I don't know.

11 Q. The City of Dayton, it received financial
12 compensation in some form under Section X, correct?

13 MR. ALEXANDER: Objection.

14 EXAMINER PRICE: Grounds?

15 MR. ALEXANDER: It is now the third
16 different definition, financial incentive, financial
17 benefit, to financial compensation.

18 EXAMINER PRICE: Well, he is trying to
19 find a definition that will be acceptable to you.
20 Overruled.

21 MR. OLIKER: Eventually a blind squirrel
22 will find an acorn.

23 A. Section X under the City of Dayton there
24 are various benefits there, many of which would be
25 for residents of the city of Dayton, directly or

1 indirectly.

2 Q. And there were specific dollar set-asides
3 for the City of Dayton under Section X; is that
4 correct?

5 MR. ALEXANDER: Objection.

6 MR. MICHAEL: I mean, it is part of the
7 settlement. It is what it is.

8 MR. ALEXANDER: Your Honor, this is now
9 the fourth different definition, and the settlement
10 Section X speaks for itself. I don't know what is
11 gained by asking the witness to --

12 MR. MICHAEL: He can brief that point.

13 EXAMINER PRICE: I acknowledge what --
14 your point, and perhaps when we are done with this
15 exercise, it will all tie back together for
16 Mr. Olikier. I am willing to give him some leeway.

17 MR. OLIKER: It's hard. I haven't been
18 able to get very far into it to make the point.

19 Q. (By Mr. Olikier) So you agree DP&L will
20 provide \$50,000 annually for residential energy
21 education for the City of Dayton?

22 A. On page 27 the \$50,000 you are referring
23 to is provided for residential energy education and
24 reduction programs in the City of Dayton but that's
25 not a financial payment to the City of Dayton, as I

1 understand it, so that was my clarification earlier,
2 that many of the benefits in this section in the City
3 of Dayton are not paid to the City of Dayton. They
4 are incentives for the residents within the City of
5 Dayton, for example, education programs, also, you
6 know, payments for -- that would be supporting energy
7 upgrades for small and micro businesses within the
8 city.

9 So those are payments to small micro
10 businesses within the city or residents or to the
11 benefit of the residents in the city getting that
12 education, not to the City itself.

13 Q. And DP&L shall contribute \$565,000 to
14 Edgemont and Ohio Partners for Affordable Energy each
15 year, correct?

16 A. Similar to the City of Dayton response, I
17 just stated was that it's not clear to me who this
18 money is paid to. So to be clear, the \$565,000
19 commitment of shareholder dollars is to the benefit
20 of customers that are at or below 200 percent of the
21 federal poverty line or customers that are at risk of
22 losing their service and that's split between DP&L's
23 Gift of Power program and the Community Action
24 Partnership. So those benefits go to those
25 organizations for those customers, not to Edgemont.

1 Q. Does the Stipulation provide for an audit
2 of how those funds are used?

3 A. Are you referring to the funds in that
4 section?

5 Q. Yes.

6 A. I'm not sure.

7 Q. Okay. And I think we earlier established
8 Honda can take advantage of the Automaker Incentive,
9 do you agree with that, among other potential
10 opportunities?

11 A. At the time of the Stipulation, yes.

12 Q. Okay. And the Ohio Hospital Association
13 will --

14 EXAMINER PRICE: Honda is not a signatory
15 party, correct? They are a nonopposing party. I
16 thought we were just dealing with signatory parties.

17 MR. OLIKER: True. That's what happens
18 when I go one by one.

19 EXAMINER PRICE: You have got to do it in
20 the order of the signatory parties. For example, the
21 next one up after City is Retail Energy Supply
22 Association. I'm asking the question here. They get
23 the benefit of competitive retail market enhancements
24 of non-commodity billing which is paid for half by
25 ratepayers; is that correct? Under Section IX.

1 THE WITNESS: Yes, that's accurate.

2 EXAMINER PRICE: And they get the benefit
3 of a pilot supplier consolidated billing program
4 which is paid half by ratepayers; is that correct?

5 THE WITNESS: The supplier consolidated
6 billing?

7 EXAMINER PRICE: Yes.

8 THE WITNESS: Yes. In addition, there is
9 also an amount that DP&L has committed it will
10 provide toward the CRES provider portion of their
11 costs.

12 EXAMINER PRICE: Thank you.

13 Thank you, Mr. Olikar.

14 Q. (By Mr. Olikar) And you would agree that
15 RESA has a footnote under the DMR?

16 A. Footnote No. 1.

17 Q. Yes.

18 A. Yes, RESA is part of that footnote.

19 Q. Okay. And going back to something you
20 just said about customers paying for RESA provisions,
21 did this Stipulation contemplate an evaluation of
22 costs embedded in distribution rates that may relate
23 to the Standard Service Offer?

24 A. I'm sorry. I got stuck at the beginning
25 of your question. You referred to something I said

1 about customers paying for RESA, and I didn't follow
2 that.

3 Q. Did this stipulation contemplate
4 customers -- let me restate the question.

5 Does this Stipulation contemplate the
6 evaluation of Standard Service Offer costs embedded
7 in distribution rates or proposed full recovery in
8 distribution rates?

9 A. Can you repeat that, please?

10 Q. Does this Stipulation contemplate the
11 evaluation of Standard Service Offer costs embedded
12 in distribution rates?

13 A. No, not exactly. On page 9, it did
14 mention that there will be an evaluation of costs
15 contained in distribution rates. That might be
16 necessary to provide Standard Service Offer service
17 and that that evaluation would happen in DP&L's
18 distribution rate case that was pending at the time.

19 Q. Okay.

20 EXAMINER PRICE: And there is also a
21 footnote on page 38, footnote 10.

22 THE WITNESS: I see page 38 that you are
23 mentioning, footnote 10.

24 EXAMINER PRICE: Uh-huh. That relates to
25 what people can argue -- parties can argue in the

1 distribution case.

2 THE WITNESS: I see that where it says
3 "IGS and RESA are not prohibited from advocating for
4 unbundling or changes to SSO rate or supplier tariffs
5 in that proceeding" referring back to the
6 distribution rate case 15-1830-EL-AIR or any other
7 distribution rate case.

8 EXAMINER PRICE: Yes, exactly.

9 Q. (By Mr. Olikar) And to the extent that no
10 costs related to default service are unbundled for
11 distribution rates in that case, does that mean all
12 of the billing costs for SSO customers would be
13 recovered through distribution rates?

14 A. Can you repeat the end of that, all the
15 billing costs for?

16 Q. For Standard Service Offers would be
17 through standard distribution rates.

18 A. I don't think it follows that they
19 necessarily would be in distribution rates if they're
20 not charged to the SSO.

21 Q. So DP&L simply might not recover that?

22 A. That's always possible.

23 Q. Do you think that's the case though?

24 A. I don't think that we tracked the cost
25 that specifically to know. We can't see the

1 difference of our billing costs to know that we don't
2 track it. So specifically to know which billing
3 costs are for providing a bill to an SSO customer or
4 provide a bill to a customer who has a retail
5 electric supply -- supplier, and so we can't tell.

6 Q. But the Stipulation does propose to track
7 and allocate half of the costs associated with
8 supplier consolidated billing to CRES providers,
9 correct? Not all but only half.

10 A. I'm flipping back to that section. Can
11 you repeat that again, please?

12 Q. Maybe I can state it this way,
13 distribution rates will only pick up half of the
14 costs associated with supplier consolidated billing;
15 is that correct?

16 A. No. I don't think that would be exactly
17 right. I think I see it slightly differently, that
18 what this is referring to in terms of the half is
19 certain costs that will be tracked that are related
20 to the implementation of a pilot program, not
21 necessarily an ongoing billing cost.

22 Q. Okay.

23 EXAMINER PRICE: In addition, the
24 ratepayer share is recovered through the Regulatory
25 Compliance Rider rather than through distribution

1 rates; is that correct?

2 THE WITNESS: Yes. I see that, page 24
3 about middle of the top paragraph, "DP&L's 50 percent
4 share will be recovered in the Regulatory Compliance
5 Rider (RCR)."

6 Q. (By Mr. Olikar) And if the cost of
7 recovering supplier consolidated billing was treated
8 the same as the cost of recovering utility
9 consolidated billing, would you agree that all the
10 costs would be recovered through a nonbypassable
11 charge and none would be recovered from CRES
12 providers?

13 A. No. I haven't done that type of
14 evaluation. We don't track costs separately like
15 that, so in terms of the ongoing costs or set-up
16 costs of any billing system, all of those would be
17 considered distribution costs. So what this section
18 is referring to is a pilot program of which part of
19 it would be recovered in a rider.

20 Q. And the distinction you are making there
21 one is a rider, and one is in the base rates,
22 correct?

23 A. The distinction is broader than that.
24 Not only that it would be potentially in distribution
25 rates and distinguishable from other distribution

1 services but that this is a pilot versus setting up a
2 billing system that would be used for ongoing
3 purposes.

4 Q. Okay. And going down below Edgemont
5 Neighborhood, People Working Cooperatively, they --

6 EXAMINER PRICE: It's AEP's fault.

7 Q. They received \$200,000 annually to fund
8 PWC's programs; is that correct?

9 A. Can you repeat that again, please?

10 Q. They receive \$200,000 annually for their
11 programs, correct?

12 A. As a subsection of this part, there's
13 some restrictions back to what we talked about
14 earlier on page 27, that the provisions in this
15 section expire when the DMR expires and so forth.
16 During that time period, PWC would receive \$200,000
17 annually to fund programs which assist DP&L's low
18 income, elderly, and disabled customers.

19 Q. So the answer is "yes."

20 A. The answer is, yes, that they would
21 receive that money to benefit those programs for
22 those customers.

23 Q. Okay. And going down again, Kroger
24 Company is the next company that's listed, correct?
25 I think they qualify for the Ohio Business Incentive?

1 A. At the time of the Stipulation, Kroger
2 did qualify under Section -- on page 9 beginning on
3 page 9, Economic Development Rider and the Economic
4 Development Incentive.

5 Q. And they also received --

6 MR. ALEXANDER: Your Honor, can I have
7 that last question and answer reread, please, your
8 Honor?

9 EXAMINER PRICE: Sure. Can we have the
10 question back, please.

11 (Record read.)

12 MR. OLIKER: Are you okay, Trevor?

13 MR. ALEXANDER: Yes. Thank you.

14 Q. (By Mr. Oliker) And then on page 11 also
15 Kroger, it says "To partially offset the costs of
16 this Stipulation and rate design modifications,
17 within ten days of an Order by the Commission
18 authorizing DP&L to file tariff sheets to collect the
19 Distribution Modernization Rider." Then it says DP&L
20 will pay \$160,000 to Kroger; is that correct?

21 MR. PRITCHARD: Objection, your Honor. I
22 think at this point it's duplicative. I mean, we're
23 literally jumping around different parts of the
24 Stipulation and having either Mr. Oliker or the
25 witness just read the Stipulation back and forth to

1 each other. You know, I didn't join Mr. Alexander's
2 objection earlier, but at this point I don't see what
3 we're getting other than reading the Stipulation.

4 MR. OLIKER: I tried to do this in the
5 short form, and then I had to do it by the numbers.

6 EXAMINER PRICE: I guess what
7 Mr. Pritchard is asking is the relevance of this line
8 of questioning, and whether it's probative value is
9 outweighed by the cumulative nature of this question.

10 MR. OLIKER: I would say that we're
11 getting close given that the length of the discussion
12 we're almost to the end of it now that we've come
13 this far and that we have not been able to short
14 circuit this a little quicker simply by one question,
15 that I think I should be entitled to the question.

16 MR. PRITCHARD: My point is we've come
17 this far, and we haven't done anything other than
18 read the Stipulation back and forth. I don't --
19 maybe I missed something, but I don't recall anything
20 in this line of cross other than what's in the
21 Stipulation. It is what it is.

22 MR. ALEXANDER: Your Honor, I would join
23 IEU's objection and note the danger of this. In the
24 last question and answer, the witness used phrases
25 which were very similar to but not quite the actual

1 programs referenced in the Stipulation. I think we
2 knew where she was going, but it wasn't exactly right
3 and this is the danger of asking someone to
4 paraphrase what's in a lengthy written document live
5 on the stand in response to the question.

6 EXAMINER PRICE: Mr. Olikar, what are you
7 trying to establish here?

8 MR. OLICKER: I would simply like the
9 witness to admit that all of the signatory parties
10 received monetary compensation in return for signing
11 as a signatory party?

12 EXAMINER PRICE: Including RESA and IGS.

13 MR. OLICKER: I would say that, yes.

14 EXAMINER PRICE: But it seems like you
15 are looking for a pattern that doesn't exist.
16 Ms. Bojko's clients received certain benefits and
17 have a footnote, are not a signatory party. They are
18 a nonopposing party. One of Mr. Alexander's clients
19 signed and received a benefit but no footnote. The
20 other client signed as nonopposing and received a
21 benefit. So what -- we are trying to get -- I think
22 what everybody is trying to ask you what are you
23 trying to establish that's probative value today?

24 MR. OLICKER: I think maybe it will be
25 somebody else that decides whether there is a

1 connection between the monetary benefits in the DMR.
 2 The footnotes may come to another level of insulation
 3 that parties were seeking. I can't speak for them
 4 today. I can only speak for my own company.

5 MR. PRITCHARD: He just reiterated my
 6 objection. None of what he said can't be made on
 7 brief by just citing the Stipulation. This isn't
 8 adding anything to the record, your Honor.

9 EXAMINER PRICE: I will sustain
 10 Mr. Pritchard's cogent objection. But I do have a
 11 question for the witness unrelated to this topic, but
 12 it does relate to consolidated billing. IGS was a
 13 signatory party, and they were able to participate in
 14 the supplier consolidated billing pilot program. Is
 15 the Commission to infer that since they are no longer
 16 a signatory party that they are no longer a
 17 participant or potential participant in the supplier
 18 consolidated billing program?

19 THE WITNESS: I think it's unclear to me.
 20 The first sentence on page 21 of that section talks
 21 about that "DP&L agrees to work with Staff, RESA, and
 22 IGS to determine the parameters of a two-year pilot
 23 supplier consolidated billing program for any CRES
 24 provider that is qualified and interested." So at
 25 least by that language I'm not sure if based on that

1 they would be still involved to determine the
2 parameters along with Staff and RESA because it lists
3 them there or if that removes them now that they are
4 removed from the Stipulation or if they would
5 participate because they are a member of RESA or if
6 they wouldn't participate in determining the
7 parameters but that they still potentially could be a
8 qualified and interested CRES provider, so I'm not
9 sure.

10 EXAMINER PRICE: But as a member of RESA,
11 they are supporting the Stipulation. One can infer
12 that whatever their role as a member of RESA is it
13 has nothing to do with the Stipulation.

14 THE WITNESS: I agree. As a member of
15 RESA, they are supporting the Stipulation.

16 Q. (By Mr. Olikar) And to follow up on that,
17 you previously worked for a CRES provider, correct?

18 A. Yes, I did.

19 Q. And you have some familiarity with RESA's
20 decision-making process to take positions, correct?

21 A. Some familiarity, uh-huh.

22 Q. And do you agree IGS cannot individually
23 decide what RESA does?

24 MR. IRELAND: Objection.

25 EXAMINER PRICE: Grounds?

1 MR. IRELAND: Speculation.

2 MR. OLIKER: Asking if she knows.

3 EXAMINER PRICE: If you know.

4 A. I don't remember all the rules in the
5 bylaws. I know that certain suppliers can be very
6 influential, especially those that are participants
7 in a particular state. So, for example, when I was a
8 member of DPL Energy and we did not do retail
9 electric service or provide a retail electric service
10 in Pennsylvania, I would have little to no influence
11 on what might happen in Pennsylvania. However, I
12 might have more influence in what might occur within
13 Dayton.

14 Q. But generally there was a voting process,
15 correct?

16 A. I don't remember exactly the voting. I
17 just recall that certain members had different types
18 of varying levels of influence and different leaders
19 within that organization could as well.

20 Q. Okay.

21 EXAMINER PRICE: And DPLER was sold to
22 IGS.

23 THE WITNESS: Correct.

24 EXAMINER PRICE: Including my account.

25 MR. OLIKER: I'm sorry?

1 EXAMINER PRICE: Including my account.

2 MR. OLIKER: We may come to that later
3 but.

4 Q. (By Mr. Oliker) The Stipulation, since we
5 are on the subject of supplier consolidated billing,
6 there's a few ways an entity can participate, could
7 be through RESA, or the supplier consolidated billing
8 program could be opened up to people that are not in
9 RESA, correct?

10 A. What exactly are you referring to when
11 you say participate?

12 Q. The pilot envisions a limited amount of
13 participants, correct?

14 A. As it's outlined here, yes.

15 Q. Do all of the participants have to be
16 RESA members?

17 A. I think based on the beginning of that
18 sentence that I was reading earlier, that was my
19 request for the clarification about participation. I
20 think it is limited in who can participate in
21 determining some of the parameters. But as I stated
22 earlier, it's not clear to me exactly what's intended
23 by who decides who is a qualified and interested CRES
24 provider.

25 Q. And there is the possibility that a

1 supplier consolidated billing pilot doesn't move
2 forward at all, correct? And maybe I can help you,
3 Ms. Schroder. There have to be interested CRES
4 providers that are willing to pay for half of the
5 costs of the supplier consolidated billing program
6 for it to move forward, correct?

7 A. I'm not sure. I think that it may be
8 that if the Commission wanted that to move forward it
9 would have ordered it so that may not be the case.

10 Q. And if CRES providers perceive the costs
11 to be too high, isn't it possible that supplier
12 consolidated billing may not move forward as a pilot
13 if there wasn't sufficient interest and willingness
14 to pay?

15 A. I think that's possible.

16 Q. And, likewise, if it was ultimately
17 determined that suppliers had to purchase DP&L's
18 distribution receivables at zero discount rate, that
19 that may result in too much risk to want to
20 participate.

21 MS. BOJKO: Objection. That calls for
22 speculation. She can't speak of the risk tolerance
23 of CRES providers.

24 MR. OLIKER: I asked if it was possible.

25 EXAMINER PRICE: Sustained.

1 Q. (By Mr. Olikier) Okay. We'll come back to
2 that one. Can you turn to page 9 of your testimony.
3 Let me know when you are there.

4 A. I'm here, uh-huh. Sorry. I'm there. I
5 didn't know if you could hear me.

6 Q. Okay. And under the question where it
7 asked "How does the Amended Stipulation allow DP&L to
8 continue to provide safe and reliable service," you
9 say the Stipulation does so in two principal ways.
10 Am I correct that you have identified here from a
11 high level what those ways are and then other parts
12 of your testimony further delve in more detail of
13 what you've identified in this first and second
14 points on page 9?

15 A. I think generally that's accurate, yes.

16 Q. And in your testimony you identified that
17 DP&L Inc. shareholders have made substantial
18 financial commitment. In this section you are
19 referring to AES Corporation forgiving tax sharing
20 payments, correct?

21 A. I'm not seeing that. Can you point me
22 where you are in my testimony?

23 Q. On page 10, line 5, where you say "DP&L
24 Inc.'s shareholders have made substantial financial
25 commitments."

1 A. Okay. I'm there.

2 Q. And in this section you are referring to
3 AES Corporation foregoing tax sharing payments and
4 dividends, correct?

5 A. That's part of what I am referring to
6 here in this section. In this answer I start out by
7 saying "First" and go on to talk about the
8 commitments as you mentioned in the form of agreeing
9 not to receive dividends during the ESP term,
10 foregoing the collection of contractually-required
11 tax-sharing payments throughout the DMR term, so
12 instead, those funds can be directed toward paying
13 down the debt, and there's also an agreement to
14 commence a process to sell certain coal-fired
15 generation assets and to use those proceeds or any
16 proceeds from that to further reduce the debt.

17 Q. Is the use of proceeds from the AES Ohio
18 Generation sales to pay down debt, is that a
19 commitment from AES?

20 MR. IRELAND: Objection.

21 EXAMINER PRICE: Grounds?

22 MR. IRELAND: Legal conclusion.

23 EXAMINER PRICE: She's a regulatory
24 expert. She can give her nonlegal regulatory expert
25 answer.

1 A. Can you repeat your question, please?

2 Q. I think in your preceding response to me
3 you indicated that AES Ohio Generation would be sold,
4 and the proceeds would be used to pay down debt. And
5 my question is is that a commitment from AES?

6 A. At the beginning of your question, I am
7 not sure you characterized what I said exactly so
8 that's why I am flipping back in my testimony as well
9 as looking at the Stipulation to confirm. But I
10 mentioned agreeing to commence a process to sell
11 certain coal-fired generation assets and to use any
12 proceeds to further reduce debt.

13 And when I say that, I am referring to
14 page 4 of the Stipulation, Roman numeral II, part 1,
15 AES/DPL Contributions, Section E, which begins "AES
16 Corporation will use all proceeds from any sale of
17 the coal generation assets to make discretionary debt
18 repayments at DP&L and DPL Inc."

19 Q. Okay. And can you explain why that
20 provision of the Stipulation references AES
21 Corporation?

22 A. I don't know. I know that during the
23 time of this Stipulation, it wasn't clear the timing
24 of the generation. Separation had not occurred, and
25 it may not have been clear who might own those assets

1 at the time, so I think part of the intention may
2 have been to be very clear that AES Corporation as
3 the ultimate parent would ensure that any proceeds
4 from the sale would be used toward discretionary debt
5 repayments at DP&L and DPL Inc.

6 Q. And to follow up on that, do you know if
7 the sale proceeds flowed back to DP&L at all?

8 A. I don't know.

9 Q. We established earlier they didn't but.

10 EXAMINER PRICE: I wasn't sure what she
11 meant. That's fine. In fact, the sale proceeds were
12 used to pay down debt.

13 THE WITNESS: They were.

14 Q. And, Ms. Schroder, you have not done any
15 analysis to determine whether DP&L can pay its
16 ongoing interest and debt service obligations in the
17 absence of the authorization of the DMR? You've
18 relied on other individuals for that conclusion?

19 A. Can you repeat that, please?

20 Q. You have not personally done any analysis
21 to determine whether DP&L can pay its ongoing
22 interest and debt service obligations in the absence
23 of the authorization of the DMR.

24 A. I haven't done a personal evaluation of
25 that. I've relied on other witnesses so that's my

1 understanding, that without the financial support
2 from the DMR and the extension of such that the
3 Company won't have adequate levels of cash to perform
4 maintenance and capital investment activities.

5 Q. Okay. And can you identify any amount of
6 annual interest that DP&L has paid on its debt
7 obligations in any years since 2015?

8 A. Can you repeat that?

9 Q. I can restate it. Can you identify any
10 amount of interest that DP&L has paid on its debt
11 obligations in any years since 2015?

12 A. No. I don't know.

13 Q. And have you reviewed any projections of
14 DP&L's total annual interest payments?

15 A. No. I have not reviewed.

16 Q. And on page 10, you say "The DMR is
17 targeted toward putting DPL Inc. and DP&L on a path
18 towards achieving and maintaining an investment grade
19 credit rating." Am I correct you are not familiar
20 with the lowest grade that any credit rating agency
21 considers investment grade?

22 A. When you say page 10, were you on my
23 testimony or the Stipulation?

24 Q. Your testimony.

25 A. Can you repeat your question, please?

1 Q. I can read it to you from page 10, line
2 12. "The DMR is targeted toward putting DPL Inc. and
3 DP&L on a path towards achieving and maintaining
4 investment grade, i.e., not in the junk bond category
5 credit rating." Am I correct that you are not
6 familiar with the lowest grade that any credit rating
7 agency considers to be investment grade?

8 A. I'm not familiar with that as I sit here
9 today. I typically would be looking at a chart to
10 clarify that for myself.

11 Q. And you have not worked for a credit
12 rating agency?

13 A. I have not.

14 Q. And on line 10 -- page 10, line 17, when
15 you state "witness Malinak explains why those funds
16 are needed to allow DP&L to maintain its financial
17 integrity and thus provide safe and reliable
18 service," you were relying upon Witness Malinak for
19 purposes of conclusions regarding credit rating
20 agencies; is that correct?

21 A. Yes, that's right.

22 Q. And on page 10, line 14 and 15, when you
23 say that "DPL Inc. and DP&L need the DMR to maintain
24 access to reasonably priced debt," you have not done
25 any analysis of what it would cost DP&L from an

1 interest perspective to borrow money without the DMR.

2 A. I haven't done any such analysis.

3 Q. Okay. And am I correct the Stipulation
4 does not specify what percentage of the DMR funds are
5 to be applied between DP&L and DPL Inc.?

6 A. The Stipulation doesn't specify the
7 amounts. It only specifies on page 5 what the cash
8 flow from the DMR will be used to do but not in any
9 particular amounts. I'm aware that the -- that this
10 is an audit that the PUCO has oversight, and within
11 that audit those types of percentages may be
12 reviewed.

13 Q. And on page 10, line 6, where you refer
14 to AES agreeing to not receive a dividend, do you
15 know if DPL Inc. will have sufficient cash flows to
16 provide a dividend to AES in the absence of a DMR?

17 A. You were on page 10?

18 Q. Yes.

19 A. Can you repeat that?

20 Q. In the absence of the DMR, do you know if
21 DPL Inc. would have sufficient cash flows to provide
22 a dividend to AES Corporation?

23 A. I don't know.

24 Q. Do you know if AES -- restate that.

25 Do you know if DPL Inc. would have

1 sufficient cash flows to provide a dividend to AES
2 with a DMR?

3 A. I don't know.

4 Q. Okay. Your Stipulation discusses
5 reducing DP&L's total long-term debt. Are you
6 familiar with the amount of total long-term debt that
7 DP&L held at the time you drafted this testimony?

8 A. You are referring to my testimony?

9 Q. Yes.

10 A. I'm not familiar with the level of debt.

11 Q. Okay. And are you familiar with the term
12 Pollution Control Revenue Bond?

13 A. No, only in as much as you've asked the
14 question a couple of times.

15 Q. And when the Stipulation talked about
16 transferring generation assets, do you know what the
17 non-debt liabilities are?

18 A. No, I don't know.

19 Q. Okay. This is on page 22, line 7, when
20 you say the amount of the Stipulation ensures the
21 availability to consumers of adequate, reliable,
22 safe, efficient, nondiscriminatory, and reasonably
23 priced retail electric service, for purposes of this
24 statement am I correct that you are relying upon the
25 Stipulation, the testimony of the financial

1 witnesses, and the bill impacts of the overall
2 package?

3 A. That sounds like something I might have
4 answered in a deposition but, yes, I think that's
5 accurate.

6 Q. Okay. Thank you. And I think you have
7 indicated that the Stipulation does not permit DPL
8 Inc. to use the DMR fund to invest in generation
9 assets, correct?

10 A. I'm not sure that the Stipulation has any
11 type of restriction or requirement about that.

12 Q. Let me ask it from this way, could --
13 could DPL Inc. use the DMR funds to invest in
14 generation assets?

15 A. No. The cash flow from the DMR is used
16 for the three purposes listed on page 5 that we
17 articulated and none of these three are investing in
18 generation.

19 Q. And there's nothing in the Stipulation
20 that binds AES Corporation in any way on what it does
21 with generation assets; is that correct? The
22 Stipulation is simply silent?

23 A. I think it's a broad way to say what it
24 binds AES. There are a number of commitments from
25 AES. But there's nothing in the Stipulation that

1 requires AES to -- or that prohibits them from
2 investing in generation.

3 Q. Okay. And your testimony references the
4 Stipulation, references the distribution rate case,
5 correct?

6 A. It does in several places, yes.

7 Q. And there are certain connections between
8 what's happening in this case and what was
9 anticipated to happen in the distribution rate case;
10 is that correct?

11 A. For example, on page 14 there's a
12 connection there, describes the Decoupling Rider and
13 it says "All other matters relating to the Decoupling
14 Rider, including but not limited to cost allocation,
15 term and rate design, shall be addressed in the
16 pending distribution case, Case No. 15-1830-EL-RDR or
17 in the next Energy Efficiency Portfolio case" so
18 that's an example where it mentions the rate case.

19 Q. What's the Decoupling Rider, if you know?
20 From a high level.

21 A. From a high level it was established in
22 this ESP for certain purposes that it was proposed to
23 have a different methodology in the distribution rate
24 case.

25 Q. And is one of the purposes of the

1 Decoupling Rider to mitigate the impact of
2 fluctuations in total throughput on the amount of
3 revenue DP&L collects?

4 A. I am not sure I would characterize the
5 purpose of that. It was part of the settlement
6 negotiations in the distribution rate case, so the
7 ultimate outcome of the Mayor, which it was proposed,
8 was a result of the settlement discussions.

9 Q. Putting the purposes aside, do you agree
10 that the result is what I just stated?

11 A. Can you repeat what your result was?

12 Q. Does the Decoupling Rider reduce
13 fluctuations in the total amount of distribution
14 revenue that DP&L collects?

15 A. It may to some extent. It's -- it's only
16 applicable to certain rate classes, certain tariff
17 classes, so not all.

18 Q. And I think you mentioned the energy
19 efficiency at some point; is that true?

20 A. That was within that same paragraph about
21 the Decoupling Rider. It mentions recovery that was
22 currently at the time recovered through the Energy
23 Efficiency Rider.

24 Q. And the Energy Efficiency Portfolio Plan
25 is mentioned from time to time in the Stipulation,

1 correct?

2 A. It is in that paragraph.

3 Q. Do you know if DP&L received shared
4 shavings in its energy efficiency case?

5 A. I don't know if it always does. I know
6 that we have the opportunity to.

7 Q. Is the opportunity \$7 million after-tax a
8 year?

9 A. I don't know the exact number of the cap.

10 EXAMINER PRICE: The Commission order in
11 that case speaks for itself.

12 MR. OLIKER: It does.

13 Q. (By Mr. Oliker) Okay. And am I correct
14 also that you -- although I don't think it's listed
15 on your testimony, you did submit testimony in the
16 distribution rate case?

17 A. I did in the distribution rate case
18 supporting the settlement, and I think that's
19 probably because the timing of that -- I am not sure.
20 The timing may not have been lined up. That may be
21 why.

22 EXAMINER PRICE: You are saying you may
23 have submitted it after you filed this testimony?

24 THE WITNESS: Correct.

25 EXAMINER PRICE: Since this case first

1 went to hearing months before the D case, that's very
2 likely.

3 THE WITNESS: Yes, that's right. I
4 didn't submit testimony in the application for the
5 distribution rate case, only testimony regarding the
6 settlement in the distribution rate case.

7 Q. Right. I wasn't meaning to suggest you
8 would have left it off deliberately. So you have
9 some familiarity with the distribution case?

10 A. Yes.

11 Q. And there was a settlement in that case,
12 correct?

13 A. Yes, there was.

14 Q. And you sponsored that settlement? You
15 submitted testimony sponsoring the reasonableness of
16 that settlement?

17 A. I submitted testimony in that similar to
18 this one which would be supporting the Stipulation
19 regarding the three-prong test.

20 Q. Okay. And you would have then reviewed
21 components or filings with the distribution rate case
22 in order to prepare that testimony?

23 A. Perhaps.

24 Q. The application, for example?

25 A. I may not have reviewed the entire

1 application.

2 Q. But portions of it?

3 A. Portions of it, more focused on the
4 settlement and the Stipulation itself.

5 Q. Okay. We may come back to that. Now,
6 you also talk about in your testimony the
7 Reconciliation Rider, correct? In this case, I am
8 not referring to the distribution case at this point.

9 A. Yes, I found that.

10 Q. And at the time you prepared this
11 testimony, it was your belief that the Reconciliation
12 Rider would be bypassable, correct?

13 A. At the time I submitted this testimony,
14 that was the agreement among the parties who signed
15 the Stipulation.

16 Q. And there was a bill impact for the
17 Reconciliation Rider in your testimony, correct? In
18 one of the exhibits.

19 A. An estimate of that, yes.

20 Q. And that would be contained on, is it,
21 Exhibit A of your testimony?

22 A. Yes, Exhibit A.

23 Q. And that is under Reconciliation Rider
24 Increase/(Decrease), Column F, right?

25 A. I'm looking at page 1 of 36, Exhibit A,

1 and I see that, yes.

2 Q. And this shows bill impairments for a
3 residential customer based upon various levels of
4 usage, correct?

5 A. Yes.

6 Q. And would you agree that a typical
7 residential customer uses somewhere between 500 and
8 1,000 kilowatt-hours per month?

9 A. I would say I am more comfortable saying
10 a typical residential customer usage would be about
11 750 kWh per month or 1,000 kWh per month.

12 Q. Okay. Okay. So an apartment might be in
13 the lower end, and a house could be on the higher
14 end.

15 A. Sure.

16 Q. Okay. And for a 750 kWh customer a
17 Reconciliation Rider was projected to be \$1.39 per
18 month on a bypassable basis, correct?

19 A. Yes. That's right.

20 Q. And the way that you would calculate the
21 Reconciliation Rider would be -- hold on. Let's go
22 generally speaking as we go through these sheets for
23 Exhibit A. Is the Reconciliation Rider calculated to
24 be the same for customers with similar usage that are
25 residential?

1 A. What do you mean by calculated the same?

2 Q. If we go to sheet 2 for residential
3 heating, if we looked at somebody with 758 -- 750 kWh
4 usage, they would have the same bill as a regular
5 residential customer, right?

6 A. I think at that time you would be correct
7 regarding a customer, but 750 kWh between residential
8 and residential heat, that may not be the same at
9 different usages though.

10 Q. Right. Okay. And can you walk me
11 through the way these rates were calculated? Did you
12 simply take total projected Standard Service Offer
13 throughput and then spread the projected revenue
14 requirement over that amount to determine a per kWh
15 rate?

16 A. For the Reconciliation Rider?

17 Q. Yes.

18 A. I wouldn't describe it as a revenue
19 requirement as you were just stating, but I would
20 agree that it's my understanding -- I didn't do this
21 calculation, but it's my understanding at the time
22 there was an estimate of the revenues from OVEC, the
23 estimate of the costs from OVEC for this particular
24 year, and then that total amount on a net basis would
25 be divided by the total estimated amount of usage on

1 a bypassable basis to come up with that rate.

2 MR. OLIKER: Your Honor, may I approach?

3 EXAMINER PRICE: You may.

4 MR. OLIKER: What I have given to
5 Ms. Schroder is an exhibit from the application
6 itself that was originally sponsored by Eric Brown.
7 I believe that's his name.

8 A. This was in the application?

9 Q. Yes.

10 EXAMINER PRICE: Do you want this
11 separately marked?

12 MR. OLIKER: Yes. I would like to --

13 EXAMINER PRICE: Marked IGS 1012.

14 MR. OLIKER: Yes.

15 (EXHIBIT MARKED FOR IDENTIFICATION.)

16 Q. And, Ms. Schroder, you --

17 MR. IRELAND: What did we mark this as?

18 MR. OLIKER: 12, 1012.

19 MR. IRELAND: C?

20 MR. OLIKER: No. This is public.

21 Q. (By Mr. Oliker) Do you see the document
22 that's been marked as IGS Exhibit 1002 -- no, 1012?

23 A. 1012?

24 Q. Yes, yes.

25 A. Yes. I'm looking at that.

1 Q. And you reviewed the other DP&L testimony
2 that was originally filed in this docket, correct?

3 A. Yes. I would have looked at all the
4 testimony. I may not have looked at all the exhibits
5 to all the testimony.

6 Q. And do you know who Eric Brown is?

7 A. I do.

8 Q. Did he file testimony in support of the
9 application at one point in time?

10 A. I don't recall for sure, but I think so.

11 Q. And was it a part of his testimony -- his
12 testimony contained exhibits, correct?

13 A. I don't really remember that, but as I am
14 looking at Exhibit ERB-2.1, that makes sense, yes.

15 Q. Does that look familiar? I know it's
16 been a long time.

17 A. The exhibit, no, does not look familiar.
18 The fact that the exhibit has his name makes me think
19 that he had testimony and that he had exhibits.

20 Q. But did you indicate you reviewed Eric's
21 testimony at some point?

22 A. At some point, yes.

23 Q. And do you remember if Eric provided
24 estimates of what the Standard Service Offer load was
25 going to be in a specific year? And if so, is that

1 contained in this document?

2 A. I don't remember that, but I see at least
3 on line 3 it's labeled as forecasted. And it says
4 2015 sales, so it appears at the time that this
5 exhibit was done that 2015 SSO sales must have been a
6 forecast.

7 Q. Okay. And I guess my question is looking
8 at your Exhibit A, do you think you used different
9 total projected SSO load to calculate your numbers,
10 or did you use numbers such as these? For -- I will
11 direct your attention to column L, line 3.

12 A. What do you mean by numbers such as
13 these?

14 Q. Well, do you think you used the same
15 numbers as Mr. Brown identified here to calculate
16 your bill impacts for purposes of what the SSO load
17 was going to be?

18 A. No. But to be clear, I didn't calculate
19 either of these, although I am sponsoring the Exhibit
20 A. I didn't calculate that myself. It was done
21 under my direction, but just looking at the label on
22 Eric's exhibit, it lists -- it lists 2015 SSO sales,
23 and then in my testimony at the top, page 1 anyway,
24 the year is 2017, so I don't think the numbers would
25 be the same.

1 Q. Do you think there's been large
2 fluctuations in the Standard Service Offer since 2015
3 in the load?

4 A. I don't know. The usage individually
5 would be changing and the usage -- excuse me, and
6 also the number of customers on or off the SSO would
7 be changing, so they would -- I would expect them to
8 be different, but I don't know by how much.

9 Q. Okay. And coming to your projections on
10 Exhibit A, do you know what year -- let me ask it
11 differently.

12 Do you think you used historical SSO load
13 to calculate Exhibit A, or did you project what the
14 SSO would be?

15 A. In Exhibit A?

16 Q. Yes.

17 A. I expect that this was an estimate for
18 2017. I don't know what that was or if it was equal
19 to the current or if it were a forecast, but it would
20 have been a number used for 2017.

21 EXAMINER PRICE: Why did you need both
22 forecast and load to calculate the rate impact?

23 THE WITNESS: In 2017?

24 EXAMINER PRICE: Yeah. Wouldn't that
25 have just been a rate-to-rate comparison?

1 THE WITNESS: It would have been used to
2 take the estimated net cost of the Reconciliation
3 Rider at that time and because it was bypassable
4 there would have been an estimate of the bypassing
5 kWh.

6 EXAMINER PRICE: Oh, I thought we were
7 using this to calculate column G.

8 THE WITNESS: To come up with that rate.

9 A. Sorry. G. We were talking about the
10 Reconciliation Rider, I think; is that right?

11 Q. We were but --

12 A. So that's what -- it would have been used
13 for that purpose at least for column H.

14 Q. Okay.

15 A. Sorry. Excuse me. That would have been
16 used for Column F, Reconciliation Rider.

17 EXAMINER PRICE: But you would not have
18 used the forecasted SSO load as column G.

19 THE WITNESS: No.

20 EXAMINER PRICE: Thank you.

21 Q. (By Mr. Olikar) Okay. And I think we can
22 address this from this other direction. If we were
23 to go to pages 1 through 12 related to 2017, correct?

24 A. Pages 1 through 12 of Exhibit A, yes,
25 2017.

1 Q. Okay. And under Reconciliation Rider
2 column F, am I correct that the assumption was that
3 there would have been no change in the total rate so
4 assumed it would be a charge in 2018?

5 A. In 2018, Column F reflects zero
6 indicating there was no forecasted change from 2017.

7 Q. Okay. And recognizing the numbers are
8 confidential, were you in the room earlier today when
9 we were looking through the original projections
10 provided by Mr. Jackson?

11 A. Yes, I was in the room.

12 Q. And there was a projection of whether
13 OVEC would be a cost or charge in each year, correct?

14 A. I'm not sure if that was done for each
15 year and how much preciseness was done for each year,
16 but I am aware of the discussion from earlier.

17 Q. Would you agree that if -- well, let me
18 ask this, do you anticipate any large fluctuations in
19 the size of the Standard Service Offer load over the
20 duration of the ESP?

21 A. That's a difficult one. I am not
22 familiar with any forecast that we've done yet with
23 any detail to know. As I mentioned, it would be at
24 least two components, the number of customers that
25 are switching as well as their, you know, individual

1 usage. You know, other factors like weather and
2 things like that, I don't have any forecasts like
3 that.

4 Q. Has the Standard Service Offer load
5 remained within 10 percent over the past -- plus or
6 minus over the past three to five years that you
7 know?

8 A. I don't know.

9 Q. And going back to Exhibit A, page 1, am I
10 correct that a customer that has a thousand
11 kilowatt-hours of usage would pay \$1.85 under the
12 Reconciliation Rider?

13 EXAMINER PRICE: I don't think your
14 question is specific enough.

15 MR. OLIKER: I can try to restate it,
16 your Honor.

17 EXAMINER PRICE: Yes. My point is are
18 you saying the proposed Reconciliation Rider or
19 Reconciliation Rider actually ordered by the
20 Commission?

21 MR. OLIKER: Yes. I can restate that to
22 make that clear.

23 Q. (By Mr. Oliker) Now, Ms. Schroder, I
24 think we've identified earlier the bill impacts on
25 Exhibit A assumed the Reconciliation Rider is

1 bypassable, correct?

2 A. That's accurate.

3 Q. And if a customer had a thousand
4 kilowatt-hours of monthly usage, they would pay \$1.85
5 under the Reconciliation Rider as proposed, correct?

6 A. The residential customer using a thousand
7 kWh, we were estimating at that time on a bypassable
8 basis would pay the Reconciliation Rider and have an
9 impact of about \$1.85 a month.

10 Q. At the time under column H, DP&L was
11 projecting that the Distribution Modernization Rider
12 would have a monthly impact of \$3.86 for a customer
13 with 1,000 kWh usage, correct?

14 A. Again, just a clarification, the
15 residential customers using a thousand kWh, that's
16 the estimate we had at that time, yes.

17 Q. And would you agree that whatever total
18 cost was assumed for the Reconciliation Rider in
19 2017, that amount would have to double for the
20 bypassable rate associated with the Reconciliation
21 Rider to get within 20 cents of the DMR.

22 A. Can you repeat that again?

23 Q. Sure. If I were to -- for the cost of
24 the Reconciliation Rider to go from \$1.85 to \$3.86
25 for a residential customer, would you agree that the

1 total assumed cost related to the Reconciliation
2 Rider would have to double from what you were
3 projecting in Exhibit A, page 1?

4 A. No. That -- that could be one potential
5 that might cause that. The changes in the load, the
6 estimated load, may cause a change in that price as
7 well.

8 Q. But all else being equal, would you agree
9 the price would have to double?

10 A. All else being equal, yes.

11 Q. Okay. Thank you. And on page 14 you
12 state that DP&L cannot divest its OVEC interest.
13 This is on line 6, I believe.

14 A. You are on my testimony?

15 Q. Yes.

16 A. 14?

17 Q. Yep.

18 A. Can you repeat your question, please?

19 Q. Now that you are on that page, I can just
20 state it this way, have you read the Inter-Company
21 Power Agreement?

22 A. No, I have not read the whole thing.

23 Q. Do you remember which portions you've
24 read?

25 A. No. I am just aware of various pieces

1 that people reference from time to time.

2 Q. And does the Inter-Company Power
3 Agreement control how decisions regarding OVEC are
4 made by the sponsoring companies?

5 A. I'm not sure what all is in it. I don't
6 know.

7 Q. And do you know if DP&L has attempted to
8 transfer its OVEC interest to an affiliate that holds
9 an SAP credit rating of BBB-?

10 A. No. I don't know.

11 Q. Do you know if DP&L has made any
12 proposals to the other OVEC-sponsoring companies to
13 transfer its OVEC interest to an affiliate under any
14 terms?

15 A. Can you repeat that?

16 Q. Do you know if DP&L has made any
17 proposals to transfer the OVEC-sponsoring
18 companies -- do you know if DP&L has made any
19 proposals to the OVEC-sponsoring companies to
20 transfer its interest to an affiliate under any
21 terms?

22 A. I don't know.

23 Q. And do you know whether the Inter-Company
24 Power Agreement contains any provisions that permit
25 the transfer of the OVEC interest without consent to

1 all parties to the contract?

2 A. Can you repeat that one again?

3 Q. Do you know whether the Inter-Company
4 Power Agreement contains any provisions that permit
5 the transfer of an OVEC interest without the
6 unanimous consent of all parties to the contract?

7 A. I don't know. In my testimony what I
8 state on page 14 is that it can't divest its interest
9 in the facilities or make operational decisions
10 regarding them without the unanimous consent of the
11 other parties. So I'm aware of that. Any more
12 specifics I don't know.

13 Q. Are you relying on other people for that
14 conclusion?

15 A. I am relying on our attorneys who
16 interpret that agreement that you mentioned earlier,
17 yes.

18 Q. And you say on line 15 -- sorry. It's
19 page 14, line 15, I believe. "The Reconciliation
20 Rider," and this is on page 14, line 15, "is
21 reasonable and benefits customers for two reasons.
22 First, the Reconciliation Rider will act as a hedge,
23 and will protect customers from spikes in market
24 prices." And as you sit here today, can you tell me
25 at what price DP&L will purchase power from OVEC in

1 2019?

2 A. No. I am not familiar with what price.
3 I'm also not sure that's exactly how it may be done,
4 that DP&L would be purchasing; but, no, I don't know
5 the price.

6 Q. And would your answer be the same for
7 2020 or any other year of the ESP?

8 A. Yes.

9 Q. And would you agree that OVEC's
10 generation assets are coal fired? If you know.

11 A. I know that the two assets in which DP&L
12 has the 4.9 percent contractual agreement and
13 ownership in and the contractual ownership in our --
14 those two are coal fired.

15 Q. And when you indicate that OVEC may
16 insulate from spikes in market prices, do you know of
17 any particular customers that are on a locational
18 marginal price product?

19 A. I don't know of any specific customers
20 that are, no.

21 Q. And the SSO is set by staggered and
22 laddered auctions, correct?

23 A. At least in part it's based on auctions.

24 Q. Which part of the SSO is not based on
25 auctions?

1 A. At least in DP&L our standard offer rate,
2 there is a portion of it that's for alternative
3 energy, for example, and there is also a component
4 that's bypassable that was agreed to in this
5 settlement that recovers on fuel and there is also an
6 uncollectible component. Those are not based on
7 auctions.

8 Q. And those additional components are not
9 related to locational marginal price, correct?

10 A. At least not today.

11 Q. And the Stipulation provides for is it an
12 annual update of the Reconciliation Rider?

13 A. On page 13 of the Stipulation under the
14 Reconciliation Rider section, Section a, Sub ii, it
15 will be trued up and the rate allocation will be
16 updated annually, although I note that's different
17 than -- this was what was in the Stipulation, not
18 necessarily the same as the outcome of the order.

19 Q. Did the Stipulation provide for an annual
20 update? I'm sorry. I missed that.

21 A. It did.

22 Q. Okay.

23 MR. OLIKER: Your Honor, I am getting to
24 a close. I don't have significant amounts left, but
25 I do want to double-check some things, so we can

1 either take -- we've been going for about two hours,
2 take a break, if you would like, or I can take some
3 time and look.

4 EXAMINER PRICE: Not much of a choice.
5 How about the choice you continue without breaking?

6 We will take a break until 4 o'clock, at
7 which time Mr. Olikier will resume his
8 cross-examination.

9 We are off the record.

10 (Recess taken.)

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

13 Mr. Olikier.

14 MR. OLIKIER: Thank you, your Honor.

15 Q. (By Mr. Olikier) And this is on page 14,
16 line 17, you say "the OVEC units have been used for
17 years in order to provide service to customers, and
18 it is reasonable that they pay any associated net
19 costs." Regarding this statement, are you saying
20 that DP&L has recovered OVEC costs through rates in
21 the past?

22 A. No, that's not what I was saying there.
23 I think what I was saying is that several things
24 about the benefits of the Reconciliation Rider and
25 the recovery of OVEC is -- I list three reasons

1 there, that it's reasonable and that it benefits
2 customers, but it's a recommendation so that it
3 promotes rate stability, that it's been used to
4 provide service to customers, and that our financial
5 integrity should be further exacerbated, not that
6 it's been in rates necessarily.

7 MR. OLIKER: Your Honor, I move to strike
8 her answer which didn't answer my question until the
9 very end. The beginning we talked about all of the
10 other elements we've already addressed.

11 EXAMINER PRICE: I'll grant the motion to
12 strike. You can answer his question more directly,
13 please.

14 Q. I can restate it. When you stated page
15 14, line 17, "Second, the OVEC units have been used
16 for years in order to provide service to customers,
17 and it is reasonable that they pay costs, any
18 associated net costs," are you saying that DP&L has
19 historically recovered OVEC costs through its rates?

20 A. No, that's not what I was trying to say
21 there. What I was trying to say is that the units
22 have been used for years to provide service to
23 customers and to provide benefits to customers for
24 years. I don't know how or if those OVEC costs were
25 in rates specifically.

1 Q. And do you know if OVEC was used to
2 provide electricity to the Standard Service Offer
3 following the termination of the Department of Energy
4 contract?

5 A. It's my understanding that the 4.9
6 percent ownership that DP&L had access to did provide
7 service, generation service, to customers throughout
8 the years. It would have been, for example, one of
9 the options, so if it were the least-cost option, I'm
10 aware at a high level that in the past it was sort of
11 a stacking across, and had it been the cheapest, it
12 would have been used.

13 MR. OLIKER: May I approach, your Honor?

14 EXAMINER PRICE: You may.

15 Q. Ms. Schroder, did I take your deposition
16 in this case?

17 A. Yes, you did.

18 Q. And that deposition was under oath?

19 A. Excuse me?

20 Q. Was that deposition under oath?

21 A. Yes, it was.

22 Q. And did you review your deposition?

23 A. Yes, I did.

24 Q. And have I placed a copy of it in front
25 of you, of that transcript?

1 A. Yes.

2 Q. Does it appear to be a true and accurate
3 copy to the best of your knowledge?

4 A. Without reading the whole thing, I am
5 going to assume that it is.

6 Q. Could you turn to page 71. Let me know
7 when you are there.

8 A. I'm there.

9 Q. And on line 12 the question "Did OVEC
10 serve the standard service offer following the
11 termination of the Department of Energy contract, if
12 you know?"

13 Answer line is a "I don't know." Did I
14 read that correctly?

15 A. You did.

16 Q. Okay. And --

17 A. Can I have clarification of that? I just
18 want to clarify the reason I said I don't know then
19 and I had furtherance now.

20 EXAMINER PRICE: No.

21 MR. IRELAND: We'll do that later.

22 EXAMINER PRICE: Mr. Ireland will address
23 that on redirect. Good try though.

24 Q. (By Mr. Olikier) And do you know when the
25 Department of Energy provided notice it would

1 terminate its contract with OVEC?

2 A. No, I don't know when the notice was
3 provided, but I understand that in 2003 the U.S.
4 Department of Energy officially terminated the Power
5 Purchase Agreement with OVEC.

6 Q. And do you know if the OVEC assets were
7 nearly depreciated at the time the Department of
8 Energy provided notice of its termination?

9 A. No, I don't know.

10 Q. And on page 14, line 19 and 20, when you
11 say "without OVEC recovery through the Reconciliation
12 Rider, DP&L's financial integrity issues would be
13 further exacerbated," have you personally done any
14 analysis of how the rejection of the Reconciliation
15 Rider would impact DP&L's financial integrity, or are
16 you relying upon other witnesses for that conclusion?

17 A. I have not done any personal study
18 regarding our financial integrity without the
19 Reconciliation Rider, and I relied on the analysis of
20 the other two witnesses in this case, Malinak and
21 Garavaglia.

22 Q. Okay. And switching gears to the
23 Supplier Consolidated Billing pilot, would you agree
24 that if a CRES provider sends a bill to one of its
25 customers under that pilot, and the bill is sent

1 through the mail, that CRES supplier will incur
2 postage and paper costs for that bill?

3 EXAMINER PRICE: What's the relevance of
4 this question, Mr. Olikar?

5 MR. OLICKER: It goes to the cost
6 allocation, your Honor.

7 EXAMINER PRICE: Which cost allocation?

8 MR. OLICKER: There is already half of the
9 cost of the Supplier Consolidated Billing program to
10 be paid by the CRES providers.

11 EXAMINER PRICE: I believe it's the
12 costs -- I am not sure what you're saying. Are you
13 supporting the cost allocation, or are you
14 challenging the cost allocation?

15 MR. OLICKER: No. I am challenging it.

16 EXAMINER PRICE: Okay. You may proceed.

17 Q. (By Mr. Olikar) So I can try to restate
18 the question. If the Supplier Consolidated Billing
19 program does move forward, there are participants in
20 the event that a CRES provider sends a bill to a
21 customer in the mail, they are going to incur costs
22 that -- their own costs, correct?

23 A. I don't know the nature of their costs;
24 but, yes, I would assume there would be costs, and
25 they would be theirs.

1 Q. Okay. The paper would cost something,
2 right?

3 A. Yes.

4 Q. The stamp would cost something?

5 A. I would expect so, yes.

6 Q. And whatever IT they had to use to put
7 that all together, correct?

8 A. I'm not familiar with the costs of the
9 suppliers, but I do know that DP&L has similar costs,
10 and so I would expect so, yes.

11 Q. And if the CRES provider is paying the
12 cost to send the bill to the customer, and DP&L is
13 not sending a bill, couldn't it result in DP&L's
14 costs going down?

15 A. I don't know. I don't know if we track
16 our costs so specifically as per bill, for example,
17 versus the cost of the system and the ability to
18 generate a bill.

19 Q. Okay. And do you have the Stipulation
20 provision talking about the Supplier Consolidated
21 Billing proposal?

22 A. Yes.

23 Q. And the Stipulation envisions CRES
24 providers buying the receivables of DP&L; and by that
25 I mean their distribution receivable, correct?

1 A. Can you repeat that?

2 Q. Under the pilot will a CRES provider buy
3 the distribution-related receivable at DP&L?

4 A. What I see on page 22 it's not clarified
5 in as much detail as what you just described but it
6 lists there that DP&L and participating CRES
7 providers will meet to determine a methodology
8 regarding implementation, and within that paragraph
9 it mentions the purchase of receivables at
10 100 percent without recourse.

11 Q. And to your knowledge, many of the
12 details regarding the manner in which the receivables
13 would be purchased are to be worked out in the
14 future?

15 A. I'm not sure about many, but it appears
16 by reading this that, for example, their credit and
17 collection procedures as well as other type of
18 implementation method of the transfer and the
19 payment, all of those would be determined later.

20 Q. Okay.

21 EXAMINER PRICE: But the discount rate is
22 set in the Stipulation?

23 THE WITNESS: The discount rate is listed
24 here in the Stipulation.

25 EXAMINER PRICE: It is set at zero.

1 There will be no discount rate.

2 THE WITNESS: It's listed as the purchase
3 of receivables at 100 percent.

4 EXAMINER PRICE: Yes.

5 Q. (By Mr. Olikar) And that was my question.
6 I think we got a little different answer in the
7 deposition. Do you believe that -- first, have you
8 reviewed Matt White's testimony?

9 A. I have.

10 Q. And did you -- are you aware Matt White
11 proposed a discount rate?

12 A. I'm aware of that, and similar to what I
13 mentioned earlier, sometimes I might have a different
14 answer from my deposition because I've done research
15 or had discussions since then.

16 Q. So in order to impose a discount rate in
17 the future, does the Commission have to modify the
18 Stipulation?

19 A. Can you repeat that, please?

20 Q. Okay. If the Commission -- in order for
21 DP&L to provide for CRES providers to purchase
22 receivables at a discount in accordance with the
23 fashion Matt White proposed, would the Commission
24 have to modify and approve the Stipulation?

25 A. I don't know.

1 Q. Okay. If CRES providers purchased DP&L's
2 receive -- distribution receivables at a zero
3 discount, is there a possibility that may result in
4 DP&L's total uncollected receivables to go down?

5 A. You say there is a possibility?

6 Q. Yes.

7 A. I think there are other factors but that
8 may be a possibility.

9 Q. Okay. And to your knowledge, has DP&L to
10 date taken any action to engage with retail suppliers
11 to implement the Supplier Consolidated Billing pilot?

12 A. I don't know if I would characterize it
13 as implement the Supplier Consolidated Billing pilot,
14 but I am aware that several DP&L employees have been
15 working on an effort to determine the parameters of
16 what would be in the two-year pilot -- Supplier
17 Consolidated Billing pilot program.

18 Q. And CRES providers have not been a part
19 of those discussions, correct?

20 A. I'm not sure. I haven't been a part of
21 those discussions.

22 Q. And do you know if DP&L has derived an
23 estimate of the cost of implementing Supplier
24 Consolidated Billing since this Stipulation was
25 signed?

1 A. I don't know. I know as part of those
2 internal discussions, at least during those, there
3 have been discussions regarding the nature of what
4 would be required to implement, and so it's possible,
5 but I don't know.

6 Q. Okay. And switching gears, your
7 testimony talks about modifications to the generation
8 tariffs, also known as Tariff G8?

9 A. You are in my testimony?

10 Q. Yes.

11 EXAMINER PRICE: Do you have a page
12 reference?

13 MR. OLIKER: I am looking for it, your
14 Honor. One moment.

15 A. I don't know if it helps, but I don't
16 think it's in the testimony. I haven't found it. I
17 don't think it's there. I think it's in the
18 Stipulation.

19 Q. Maybe we can ask it this way, is there a
20 DP&L witness that supports the changes to the
21 generation tariffs?

22 A. DP&L Witness Park proposed changes to the
23 G8 that you mentioned in the application. There were
24 no changes to that proposal in the settlement. And
25 so the changes would stand in the Stipulation and

1 that's why I think it's not mentioned in my
2 testimony, since it didn't change.

3 Q. And Mr. Park's testimony hasn't been put
4 into the record, has it?

5 A. I don't know exactly the nature of that.
6 It was in the application, and it's part of the
7 Stipulation.

8 Q. And by it's part of the Stipulation, you
9 mean the changes he was proposing.

10 A. Yes. For example, on page 25 of the
11 Stipulation, it talks about "DP&L agrees to the
12 following Tariff changes," and it lists some tariff
13 changes for G8 and those are ones that would have
14 been modified from what was in Witness Park's
15 testimony in the application. The others would be
16 the same, and I believe that the way that the
17 Stipulation reads in some legal terms would be that
18 if it's not in the stipulation, it would be as it was
19 proposed.

20 Q. But your testimony is not offered as
21 support specifically for those provisions, correct?

22 A. Only inasmuch as my testimony supports
23 the overall benefits of the Stipulation, that's part
24 of the Stipulation because it was incorporated as
25 part of Witness Park's testimony in the application.

1 Q. Okay. And but you do know that one of
2 the changes contemplated by the Stipulation was to
3 collateral requirements for CRES providers, correct?

4 A. I am looking for that piece of the -- in
5 the redline tariff. Yes, that's correct.

6 Q. And directionally you do not know if the
7 proposed new collateral calculation would increase
8 the amount of collateral that a CRES provider has to
9 post with DP&L?

10 A. No. There are a number of factors
11 involved in that calculation so I don't know which
12 direction it might go.

13 Q. Well, you also haven't done any
14 calculations personally, correct?

15 A. That's correct. I haven't done any
16 calculations personally.

17 Q. Okay. And although -- you're familiar
18 with the switching fee, correct?

19 A. Yes, I am.

20 Q. And that is referenced in Tariff G8 but
21 the actual switching fee and its parameters are
22 discussed in Tariff D34, correct?

23 A. Can you repeat that?

24 MR. OLIVER: Karen, can you reread my
25 question.

1 (Record read.)

2 A. There are parameters discussed in both G8
3 and D34.

4 Q. Okay. But you would agree under DP&L's
5 existing and proposed practice, the switching fee
6 would apply in the following two scenarios: A
7 customer switches from default service to a CRES
8 provider or from a CRES provider to another CRES
9 provider, correct?

10 A. In those situations the switching fee
11 would apply, and DP&L would charge it to the AGS.

12 Q. And based on existing and proposed
13 practice, DP&L does not assess a switching fee when a
14 customer switches from a CRES provider to default
15 service, correct?

16 A. That's correct for several reasons, one
17 of which is that there's not really an AGS to charge
18 consistent with the process that we charge when
19 there's a switch to another supplier. There is no
20 AGS.

21 In addition, in D34 it's outlined that in
22 the event that a customer returns to standard offer
23 due to certain reasons, there will not be a switching
24 fee charged and DP&L can't always tell the reasons
25 why a customer is switched to standard offer service.

1 Q. And has DP&L calculated the cost that it
2 incurs to switch a customer from default service to a
3 CRES provider?

4 A. Can you repeat that?

5 Q. Has DP&L calculated the cost that it
6 incurs to switch a customer from default service to a
7 CRES provider?

8 A. No. It hasn't -- we don't track our
9 costs to that level of detail.

10 EXAMINER PRICE: Let's go off the record
11 for one minute.

12 (Discussion off the record.)

13 EXAMINER PRICE: Let's go back on the
14 record.

15 MR. OLIKER: Can I have Sharon's answer
16 read back?

17 EXAMINER PRICE: Yes.

18 (Record read.)

19 Q. (By Mr. Oliker) And do you have any
20 reason to believe that the cost of switching a
21 customer to a CRES provider and from a CRES provider
22 to default service is different?

23 A. As I mentioned, we don't track our costs
24 in that level of detail, so I don't have anything to
25 base that on.

1 Q. Okay. And one of the other provisions
2 contained in Tariff G8 which was not modified is the
3 cost for historical customer usage of \$150; is that
4 correct?

5 A. That's correct. That's part of G8 and it
6 was not proposed to change in this case.

7 Q. And do you know whether DP&L incurs costs
8 to implement -- restate the question.

9 Has DP&L quantified the amount of costs
10 that it incurs to provide historical usage?

11 A. Not to my knowledge. I don't -- similar
12 to before I don't know that it's tracked to that
13 level of detail to quantify and maintain those types
14 of tracking.

15 Q. And a few years ago, Ms. Schroder, you
16 worked for DPLER, right?

17 A. I'm thinking how many. Yes, several
18 years ago.

19 Q. What's your definition of several?

20 A. I left there in 2015.

21 Q. Okay. And at that point in time, you
22 advocated for reducing barriers to competition,
23 correct?

24 A. I'm not sure I was ever in a position to
25 be advocating in such a way.

1 Q. When you were in the capacity of working
2 for DPLER?

3 EXAMINER PRICE: Mr. Olikar.

4 MR. OLIKER: Yes.

5 EXAMINER PRICE: The issue of switching
6 fees and the issue of the \$150 customer usage data
7 was brought up and fully litigated by Dayton -- by
8 IGS and Dayton Power and Light in the distribution --
9 in the distribution rate case. Why is this not an
10 improper collateral attack on issues that have
11 already been litigated and decided by the Commission?

12 MR. OLIKER: If I remember that order,
13 your Honor, a portion of the reasoning was that IGS
14 should have pursued those issues in the ESP.

15 EXAMINER PRICE: I don't know. Is that
16 true? Sounds like something I would write.

17 MR. OLIKER: I think that is something
18 so --

19 EXAMINER PRICE: Okay. That's a fair
20 point. You can proceed.

21 Q. (By Mr. Olikar) Ms. Schroder, you have
22 some familiarity with access to historical usage from
23 your prior role of working for DPLER, correct,
24 because that's a typical type of convention that
25 would exist with other utilities?

1 A. Yes, I have some familiarity with that
2 from that perspective.

3 Q. And do you know of any other utilities in
4 Ohio that charge \$150 for historical usage?

5 A. No, I don't remember their charges. I do
6 remember there were different proposals for each, or
7 at least for most that was different depending on who
8 you were getting it from, depending on their
9 capabilities, their systems, for example.

10 Q. And oftentimes a supplier would request
11 historical usage and -- to price a customer and
12 ultimately not get the deal, right?

13 A. Can you say that again?

14 Q. And oftentimes a supplier could request
15 historical usage to try to provide a rate to a
16 perspective customer and then ultimately not get the
17 deal, right?

18 A. Yes, that's possible.

19 Q. And more often than not that actually
20 happens with electric customers, correct?

21 A. I'm not sure how often that happens.

22 Q. And would you agree that it's possible
23 that suppliers may see the \$150 historical usage
24 request as a large burden that makes it difficult to
25 price a customer, particularly in the small to

1 midsize commercial?

2 A. I don't know if suppliers would see it as
3 such. I would hope that suppliers would see it as
4 helping and supporting improved systems so it could
5 be done cheaper.

6 Q. And if suppliers were to forego the
7 access to historical usage and to provide customers
8 what we commonly call rack rates, would you agree
9 that that could lead to imprecise pricing?

10 A. I'm not sure the pricing methodologies of
11 the different CRESSs and how they might do individual
12 versus what you are calling rack rate pricing.

13 Q. But if a CRES provider prices a customer
14 without their historical usage, all else being equal,
15 would you agree that that price is likely to be less
16 accurate than if they had the usage?

17 A. I am not sure if the price would be as
18 accurate. I can agree that the information that they
19 are raising the price on may not be as accurate.

20 Q. Okay. And since we are almost reaching
21 the end, you indicated you had some familiarity with
22 DP&L's distribution rate case?

23 A. Yes.

24 Q. Is IGS Exhibit 1006, which is the
25 distribution rate case application, is that in front

1 of you?

2 A. The rate case application?

3 Q. Yes.

4 A. No, it's not.

5 MR. OLIKER: May I approach, your Honor?

6 EXAMINER PRICE: You may.

7 Q. (By Mr. Olikier) And does IGS Exhibit 1006
8 appear to be the distribution rate case application
9 that you submitted testimony in? Understanding that
10 it's -- I presented you with Volume 1 which is the
11 first filing.

12 A. Yeah. To clarify my testimony was not in
13 the application but supporting the Stipulation, and
14 as you mentioned this is Volume 1 of 14.

15 Q. And would this be one of the documents
16 you may have looked at?

17 A. It likely was, yes.

18 Q. Okay. And you don't see any reason why
19 this isn't a true and accurate copy, do you?

20 A. No. I don't have any reason to think
21 that it's not.

22 Q. Recognizing I have only given you an
23 excerpt, can you turn to page 7 of 111. And it's the
24 second to last page given that it's an excerpt.

25 A. I was going to say I don't have that many

1 pages in here.

2 Q. And are you there?

3 A. I'm at page 7, but I apologize. I just
4 wanted to go back to see what page 1 is because it is
5 clearly different than the application says 111.

6 Q. It's an excerpt. I will represent that
7 to you, Ms. Schroder. But does this page on page 7
8 under the title "Ring Fencing" state "There are a
9 number of plans and regulations to which DP&L is
10 subject and with which DP&L complies to accomplish
11 ring fencing. Those include," and I will just list
12 the five sections, Corporate Separation Plan, Cost
13 Allocation Manual, Cost Alignment Allocation Manual,
14 Merger Stipulation, and Ohio Regulations?

15 A. I see that.

16 Q. Okay. And are you familiar with DP&L's
17 corporate separation plan?

18 A. At a high level, generally, yes. I've
19 read it.

20 Q. You've read it?

21 A. I have.

22 MR. OLIKER: May I approach, your Honor?

23 EXAMINER PRICE: You may.

24 MR. OLIKER: And the document I presented
25 to the witness is in the Matter of the Application of

1 Dayton Power and Light Company for Authority to Amend
2 Its Corporate Separation Plan, Case No.
3 13-2442-EL-UNC. And I would mark that IGS 1000 --
4 1013.

5 (EXHIBIT MARKED FOR IDENTIFICATION.)

6 Q. And, Ms. Schroder, does this appear to be
7 the document you just referenced containing the
8 corporate separation plan which I believe is also
9 referenced on the distribution rate case filing we
10 just discussed?

11 A. I'll clarify that the page -- I guess a
12 couple of things. Starting with the Exhibit 1006,
13 Book I-Application Volume 1 of 14. I don't recall
14 seeing that page that you are referencing from. I
15 don't recall that.

16 And then with regards to the Case No.
17 13-2442-EL-UNC, I am not sure that I have ever read
18 the application portion of this. And I have also --
19 I am not familiar with the redlined version of the
20 Fourth Amended Corporate Separation Plan, but I will
21 say I have read -- what I have seen is a clean
22 version of the Fourth Amended Corporate Separation
23 Plan.

24 Q. Okay. So if we -- just to be clear, if
25 you go to it's about halfway through where it says

1 Exhibit A and it's struck out and there is Exhibit B
2 listed in what appears to be redlined?

3 A. I'm sorry. Where are you?

4 Q. Go halfway through the document.

5 A. I'm sorry. Are you in the application or
6 are you --

7 Q. I am at the actual corporate separation
8 plan.

9 A. Within the plan.

10 Q. Yes.

11 A. Thank you. And I'm there on page 14 of
12 the redlined version.

13 Q. Well, now, I'm confused. Can we take a
14 step back.

15 Can you tell me, did you say you reviewed
16 the redlined version or the clean version?

17 A. I've read a clean version of the fourth.

18 Q. And does the clean version appear to
19 start on about page 4 which is marked Exhibit A that
20 says "Fourth Amended Corporate Separation Plan"?

21 A. I'm not sure we are in the same place,
22 no. What I am looking at is the document you just
23 handed to me that's in Case No. 13-2442, and I am
24 looking at Exhibit B.

25 Q. Okay.

1 A. And it says the -- excuse me, "The Dayton
2 Power and Light Company Fourth Amended Corporate
3 Separation Plan, December 30, 2013," and some of
4 those items are redlined.

5 Q. And is that the document you read?

6 A. In the clean version, yes.

7 Q. Okay. Now, can you just turn back to
8 about page -- go to the very top and go to actually
9 page 3. Does that appear to be the version you read
10 that's titled "Exhibit A" that says "Amended
11 Corporate Separation Plan"?

12 A. I'm sorry. You said go back earlier in
13 this application?

14 Q. Yes.

15 A. Okay.

16 Q. Would you agree the application itself is
17 really only the first and second page?

18 A. I see it. So you are looking at Exhibit
19 A now?

20 Q. Yes.

21 A. Yes. I'm there.

22 Q. And is Exhibit A the document you think
23 you read before?

24 A. Yes.

25 Q. Okay. And sorry this is a long way of

1 doing this but do you believe that Exhibit A is
2 DP&L's currently effective Corporate Separation Plan?

3 A. Yes. I think this is the most recent
4 one.

5 Q. Okay. And from a high level would you
6 agree that the purpose of the Corporate Separation
7 Plan is to prevent the subsidization of competitive
8 services by noncompetitive services?

9 A. I'm not familiar with it in that terms --
10 those terms. I wouldn't characterize it this way. I
11 know this Fourth Amended Corporate Separation Plan
12 was -- was revised to try to clarify the new creation
13 of AES US Services Company so that was the purpose of
14 this one.

15 Q. And there is a section under No. 7 that
16 deals with financial arrangements; is that correct?

17 MR. IRELAND: Which page are you on?

18 MR. OLIKER: 7 of Exhibit A.

19 A. I'm there, page 7.

20 Q. And that contains commitments such as
21 "Any indebtedness incurred by an affiliate shall be
22 without recourse to DP&L"?

23 A. I see that section. I'm not familiar
24 with it.

25 Q. Okay. And under 6 "DP&L will not pledge,

1 mortgage or use as collateral any of its asset for
2 the benefit of any of its affiliates"?

3 A. Again, I see where you are reading from.
4 I am not familiar with this section.

5 Q. Okay. Do you know if DP&L's corporate
6 separation plan would prevent DP&L from making
7 decisions for the benefit of its unregulated
8 affiliates?

9 A. I don't know.

10 Q. Do you think that's the intent of the
11 document?

12 MR. IRELAND: Objection.

13 EXAMINER PRICE: Grounds?

14 MR. IRELAND: There is no foundation for
15 this line of questioning. She's testified as to what
16 her limited knowledge is with respect to the
17 document, and so now asking questions about the
18 intent of the Corporate Separation is clearly beyond
19 what she knows about this document.

20 EXAMINER PRICE: She can testify as far
21 as she knows or she does not.

22 A. Repeat it.

23 Q. Do you know if the intent of corporate
24 separation plans is to prevent the regulated
25 distribution utility from taking actions for the

1 benefit of its unregulated affiliates?

2 A. No, I'm not sure.

3 Q. Okay. Earlier, Ms. Schroder, I think you
4 indicated you -- do you review any credit ratings of
5 specific entities other than DP&L?

6 A. I wouldn't say I review -- I wouldn't say
7 I review any. I am aware of some. I follow some. I
8 might see something in the news and read it. I
9 wouldn't say that I review them.

10 Q. Who do you -- whose ratings do you
11 follow?

12 A. AES, I usually track things that might be
13 happening with other utility companies, DP&L, IPL
14 someone that might influence -- not influence but
15 someone who might be in the industry, if I were to
16 see it on the news or something, I would read it.

17 Q. Did you follow the bankruptcy of Energy
18 Future Holdings?

19 A. I recall reading articles from time to
20 time but not with any detail.

21 Q. Did you read any of the Moody's credit
22 rating analysis of Energy Future Holdings?

23 A. No.

24 Q. What about Oncor?

25 A. No. I wouldn't have read any of the

1 credit rating information about that, just news
2 articles.

3 Q. Did you follow any of the articles on the
4 parent ratings of Energy Future Holdings or Oncor
5 during the bankruptcy?

6 A. No.

7 Q. Are you familiar with the credit rating
8 of any bankrupt entities that have subsidiaries that
9 are regulated utilities?

10 A. No.

11 Q. And when you mentioned you had followed
12 what was going on with Energy Future Holdings, what
13 was your understanding of that you are referring to?

14 A. I recall seeing articles of some form of
15 a utility company in Texas having financial distress,
16 and it was interesting. That's about the extent of
17 the details I recall.

18 Q. And do you know if Vistra -- do you know
19 who Vistra is?

20 A. I don't.

21 Q. Do you know who Vistra Energy is?

22 A. No.

23 MR. OLIVER: I believe those are all the
24 questions I have, your Honor.

25 Thank you, Ms. Schroder.

1 EXAMINER PRICE: Thank you.

2 MR. IRELAND: Nothing, your Honor, thank
3 you.

4 EXAMINER PRICE: No questions on
5 redirect?

6 MR. IRELAND: No.

7 EXAMINER PRICE: Thank you, Ms. Schroder.
8 You may step down.

9 THE WITNESS: Thank you.

10 EXAMINER PRICE: Go off the record for a
11 minute.

12 (Discussion off the record.)

13 EXAMINER PRICE: Let's go back on the
14 record.

15 At this time we would recall Staff
16 Witness Patrick Donlon.

17 (Witness sworn.)

18 EXAMINER PRICE: Please be seated and
19 state your name and business address for the record.

20 THE WITNESS: Business address now or?

21 EXAMINER PRICE: Business address now.

22 THE WITNESS: Sorry. Patrick Donlon,
23 1306 Harran, H-A-R-R-A-N, Avenue, Columbus, 43235.

24 EXAMINER PRICE: Off the record for a
25 second.

1 (Discussion off the record.)

2 EXAMINER PRICE: Back on the record.

3 Please proceed, Mr. Olikar.

4 - - -

5 CROSS-EXAMINATION

6 By Mr. Olikar:

7 Q. Good afternoon, Mr. Donlon.

8 A. Hello.

9 Q. Just a few questions for you today. Have
10 you been in the hearing room the whole time?

11 A. Not the whole time but most of it.

12 Q. And am I correct that you were on the
13 Staff at the time of the Stipulation?

14 A. Correct.

15 EXAMINER PRICE: Mr. Olikar, your
16 microphone has turned off. There you go.

17 Q. And your testimony discusses the
18 three-part test and the MRO versus ESP test under
19 one -- 4928.142, correct?

20 A. Yes.

21 Q. And regarding your background you are not
22 an attorney, correct?

23 A. Attorney, no.

24 Q. And, therefore, you are -- your testimony
25 relies upon your expertise in regulatory proceedings?

1 A. Correct.

2 Q. Okay. And you have read the MRO statute,
3 correct?

4 A. Throughout my career, yes.

5 Q. And do you have a copy of the MRO statute
6 with you?

7 A. I do not.

8 Q. Okay. We will come back to that once I
9 find it. Okay. I've got it.

10 MR. OLIKER: May I approach, your Honor?

11 EXAMINER PRICE: You may.

12 Q. Mr. Donlon, I am not going to mark this
13 as an exhibit but this is the statute you reference
14 in your testimony, correct?

15 A. It appears to be.

16 Q. And we'll go into the analysis in a
17 second, but am I correct that for purposes of your
18 ESP-MRO test you have modeled the DMR on both the ESP
19 side and the MRO side?

20 A. I don't know if modeled is the right word
21 but value equivalent.

22 Q. It would be a wash, right?

23 A. Yes.

24 Q. And have you modeled the -- does your
25 testimony address the Reconciliation Rider at all?

1 A. Well, no, because as part of the
2 Stipulation, it was bypassable so it wouldn't be in
3 there.

4 Q. Okay. And --

5 A. From a standpoint of the MRO-ESP
6 quantitative.

7 Q. Okay. Am I correct that for purposes of
8 your testimony, you have assumed that the DMR would
9 be permissible under Section 4928.142(D)(4) as a
10 financial emergency to DP&L, correct?

11 A. Correct.

12 Q. And would you agree that the DMR as
13 proposed by DP&L is not, in fact, a component of the
14 Standard Service Offer default rate?

15 A. I think the first thing is I'm not
16 sure -- since this came out of the Stipulation I am
17 not sure it's as proposed by DP&L. I would say it's
18 part of the Stipulation, so there's a question in the
19 wording there.

20 Q. And how do you believe -- well, let's
21 take it one at a time. DMR is proposed in the
22 Stipulation. It would not, in fact, be a component
23 of the Standard Service Offer bypassable rate,
24 correct? It's charged to everyone.

25 A. Yes.

1 Q. Okay. And specifically when you are
2 relying on Section (D) (4), is it the section that
3 says "Additionally, the commission may adjust the
4 electric distribution utility's most recent standard
5 service offer price by such just and reasonable
6 amount"? Is that the section of the statute you are
7 relying upon?

8 A. That is what I referenced in my original
9 testimony for cross, yes.

10 Q. Okay. And in your testimony when you
11 reference "the Company would be subject to higher
12 interest rates," did you calculate the higher
13 interest rates that the Company could be subjected
14 to?

15 A. Can you point where you are on the
16 testimony?

17 Q. On page -- page 4 and I'm referencing
18 line 84 to 85.

19 A. So we did not -- Staff did not calculate
20 specific interest rates --

21 Q. Okay.

22 A. -- so.

23 Q. And did you review the August 24 credit
24 agreement before admitting this testimony?

25 A. The August 24?

1 Q. 2016.

2 A. Is that the one with the covenants and
3 that piece?

4 Q. Yeah.

5 A. I don't remember if I did personally.
6 Definitely I believe my staff did.

7 Q. Okay. And in your role at the Staff, did
8 you from time to time review credit ratings for
9 utilities including DP&L?

10 A. Yes.

11 Q. Did you review credit ratings for other
12 entities?

13 A. Yes.

14 Q. Which other ones did you review?

15 A. All of them really for all four -- well,
16 I guess how you want to break up the utilities,
17 FirstEnergy's companies, AEP Ohio, Duke Energy Ohio,
18 and DP&L as well as, I assume, the gas companies were
19 the same thing, we met with financial institutions on
20 a regular basis.

21 Q. And were you following matters within --
22 restate that.

23 So you were relatively dialed in on
24 things going on with the credit rating indices,
25 correct?

1 A. It wasn't my main focus, but it was
2 definitely someone on Staff's main focus and
3 something we did review and I participated in.

4 Q. And has -- have you followed the manner
5 in which Moody's or any other credit rating agency
6 has handled other financially-distressed utilities
7 outside of Ohio?

8 A. No.

9 Q. And are you familiar with the utility or
10 bankruptcy of Energy Future Holdings?

11 A. No.

12 Q. Do you know who Vistra Energy is?

13 A. No.

14 Q. Okay. And so am I correct that before
15 reaching the conclusions here in this case, DP&L did
16 not -- or the Staff did not look to how credit rating
17 agencies may have considered holding company
18 bankruptcies in other states?

19 A. Not in other states but we did have -- I
20 am trying to think of the timing of this -- of the
21 bankruptcies in Ohio, but I have dealt with two
22 utilities in Ohio bankruptcies.

23 Q. Are you talking about the thermal
24 companies?

25 A. One thermal company and one pipeline

1 company.

2 Q. Yeah. And your testimony doesn't contain
3 any independent analysis of or financial projections
4 of DP&L's ability to provide safe and reliable
5 service in the absence of the DMR, correct?

6 A. No, mine does not.

7 Q. And you are familiar with the ratemaking
8 process; is that correct, Mr. Donlon?

9 A. Correct.

10 Q. And you would agree that
11 customer-provided funds are typically applied as an
12 offset to rate base through conventions such as ADIT?

13 A. When they are specifically to a -- when
14 they are applied to a specific project, yes.

15 Q. Okay. And are you familiar with the term
16 funds made of construction?

17 A. Yes.

18 Q. What does that mean to you?

19 A. Sorry. All I can think of is the four
20 words. It's money that has been attributed to a
21 specific customer funded by usually a -- no. I said
22 that wrong. I'm sorry. It's funds that are provided
23 by a customer usually for a specific project. It's
24 often handled -- in gas companies it happens a lot
25 where it's not feasible to run the pipeline all the

1 way out to the customers, so they pay the extra
2 hundred feet or so or extra mile of the pipeline out
3 to themselves.

4 Q. And that's a way for the customer to
5 front the funds to the Company to complete the
6 project, correct?

7 A. It's not really front. It's to allow
8 them to actually get billed for that section that
9 wouldn't be economical for the utility to build.

10 Q. Okay. So thank you for that
11 clarification. And are those funds usually treated
12 differently than the normal rate base?

13 A. Yes.

14 Q. And there's not typically a return on
15 those funds?

16 A. Right.

17 Q. Because the customer provided the
18 capital?

19 A. Correct.

20 Q. Okay. And you are familiar with the Ohio
21 Valley Electric Corporation and the Reconciliation
22 Rider, correct?

23 A. Correct.

24 Q. Do you think the Reconciliation Rider
25 would be approved in a distribution rate case?

1 MR. McNAMEE: Objection.

2 EXAMINER PRICE: Grounds?

3 MR. McNAMEE: Clearly a legal question.

4 EXAMINER PRICE: And we know he is not a
5 lawyer.

6 MR. OLIKER: Your Honor, this witness has
7 signed Staff Reports, you know, proposing
8 disallowances from rate base. I think he is capable
9 of answering this question.

10 EXAMINER PRICE: He is a regulatory
11 expert. He could give his best nonlegal opinion on
12 this question.

13 A. My nonlegal answer would be that I
14 believe the Supreme Court has issued in the AEP case
15 that it can be.

16 Q. In a distribution rate case?

17 A. Oh, sorry. I thought --

18 Q. I'll restate it, Mr. Donlon.

19 A. I'm sorry. Answered a different
20 question.

21 Q. Do you believe that the Reconciliation
22 Rider would be authorized in a distribution rate
23 case?

24 A. Yes; yes, I do. I am trying to remember
25 now. I have testified to this in other cases, and I

1 would have to go back and look at the Code too to
2 remember because I'm blanking on it right now as we
3 sit here.

4 Q. As you sit here today, you don't know?

5 A. I know I have looked into this. I know
6 I've answered this question in other cases and
7 need -- I just am blanking on it right now what that
8 is.

9 Q. Okay.

10 A. I believe it's yes.

11 EXAMINER PRICE: Mr. Donlon, even if the
12 answer were no, the AEP Supreme Court case that you
13 cite actually held there was no strict price test in
14 the ESP-MRO case, did it not?

15 THE WITNESS: Yes, it would be in the
16 aggregate, is one test in the aggregate.

17 EXAMINER PRICE: Thank you.

18 Q. (By Mr. Olikier) And but regarding my
19 question the answer is you don't know if a
20 Reconciliation Rider would be permitted in a
21 distribution case.

22 EXAMINER PRICE: I think his answer was
23 he thinks it can be, but he can't remember his
24 theory.

25 MR. OLIER: And I am fine with that

1 answer, but I don't want to cut him off.

2 A. No, it is, and obviously the Commission
3 has ruled on it in the past. And that's where Staff
4 is relying on following Commission precedent, and
5 unfortunately after sitting here all day, I am
6 blanking on what that precedent is.

7 Q. And would you agree that within the first
8 three years of the ESP, it is anticipated that there
9 will be no grid modernization undertaken that would
10 happen at a later date?

11 A. I think we can be assured of that at this
12 point.

13 Q. Maybe a much later date?

14 A. Well, it will be when it's ruled on since
15 they filed the plan.

16 MR. OLICKER: Okay. If I could have one
17 minute, your Honor, that may be it.

18 EXAMINER PRICE: You may.

19 MR. OLICKER: I believe those are all the
20 questions I have, your Honor.

21 Thank you, Mr. Donlon.

22 EXAMINER PRICE: Redirect?

23 MR. McNAMEE: No redirect, your Honor.

24 Thank you.

25 EXAMINER PRICE: Thank you, Mr. Donlon.

1 You are excused.

2 THE WITNESS: Thank you.

3 EXAMINER PRICE: Mr. Olikar, are there
4 any exhibits we have not admitted that you would like
5 to move the admission?

6 MR. OLICKER: There are actually, your
7 Honor.

8 EXAMINER PRICE: Okay.

9 MR. OLICKER: I realize we may not have
10 done that after Ms. Schroder.

11 EXAMINER PRICE: Thank you.

12 MR. OLICKER: Thank you for the reminder.

13 Your Honor, at this time, if we are still
14 on the record, I would move for the admission of IGS
15 Exhibit 1006, which was the distribution rate case
16 application that we discussed. I would also move for
17 the admission of the Corporate Separation Plan, IGS
18 Exhibit 1013. I don't think I am missing anything
19 else other than Moody's reports which I would be
20 happy to revisit if you would indulge me.

21 MS. WHITFIELD: So, Joe, what are you
22 doing with 1012?

23 MR. OLICKER: I think 1012, I will also
24 move that one as well, if I didn't mention that.

25 EXAMINER PRICE: Okay. Any objection to

1 admission of Exhibits -- IGS Exhibit 1012?

2 MR. IRELAND: No, your Honor.

3 EXAMINER PRICE: Seeing none, it will be
4 admitted.

5 (EXHIBIT ADMITTED INTO EVIDENCE.)

6 EXAMINER PRICE: We will take
7 administrative notice of IGS Exhibit 1006, the rate
8 case application.

9 As to IGS 1013, we will take
10 administrative notice of the most recent DP&L
11 Corporate Separation Plan. I'm not convinced that
12 the one in front of us, 1013, is the most recent, but
13 we'll just go ahead and take administrative notice of
14 the most recent one which I think would have been
15 filed in this docket anyways as part of your
16 application.

17 MR. SHARKEY: Your Honor, I would have to
18 go back and check.

19 EXAMINER PRICE: I think the rules
20 require it, but I'm not positive off the top of my
21 head.

22 MR. OLIKER: I think it was. We will
23 take that, your Honor, under advisement. If it was
24 filed, I don't think it was changed, but we should
25 have the most recent version.

1 EXAMINER PRICE: It should be the most
2 recent one.

3 MR. OLIKER: I think that's a good point.

4 EXAMINER PRICE: Any other issues?

5 Okay. We will adjourn until 9 o'clock
6 tomorrow, in which case we will take Witnesses White,
7 Nicodemus, and then the two IGS witnesses in whatever
8 order they prefer.

9 (Thereupon, at 5:19 p.m., the hearing was
10 adjourned.)

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CERTIFICATE

I do hereby certify that the foregoing is
a true and correct transcript of the proceedings
taken by me in this matter on Tuesday, April 2, 2019,
and carefully compared with my original stenographic
notes.

Karen Sue Gibson, Registered
Merit Reporter.

(KSG-6722)

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Summary: Transcript in the matter of the Dayton Power and Light Company hearing held on 04/02/19 - Volume VII electronically filed by Mr. Ken Spencer on behalf of Armstrong & Okey, Inc. and Gibson, Karen Sue Mrs.