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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Akron Thermal, Limited Partnership for an Emergency Increase in its Rates and Charges for Steam and Hot Water Service.	)	Case No. 09-453-HT-AEM
In the Matter of the Application of Akron Thermal, Limited Partnership for Approval of a Modification to an Existing Arrangement.	)	Case No. 09-442-HT-AEC
In the Matter of the Application of Akron Thermal, Limited Partnership for Approval of an Arrangement with an Existing Customer.	)	Case No. 09-441-HT-AEC
In the Matter of the Application of Akron Thermal, Limited Partnership to Issue Three Promissory Long-Term Notes.	)	Case No. 09-414-HT-AIS
In the Matter of the Application of Akron Thermal, Limited Partnership for Approval of Revised Tariffs.	)	Case No. 09-315-HT-ATA

Surrebuttal Testimony
of
David R. Hodgden

Capital Recovery and Financial Analysis Division
Utilities Department

The Public Utilities Commission of Ohio

Staff Exhibit ___

July 17, 2009

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SURREBUTTAL TESTIMONY OF DAVID R. HODGDEN

1. Q. Please state your name and business address.

A. My name is David R. Hodgden. My business address is 180 East Broad Street, Columbus, Ohio 43215.

2. Q. Are you the same David R. Hodgden whose direct testimony was filed in these proceedings on July 8, 2009?

A. Yes.

3. Q. What is the purpose of your surrebuttal testimony you are presenting at this time?

A. The purpose of this testimony is to respond to certain portions of the rebuttal testimony of Jeffrey P. Bees, filed in these proceedings on July 14, 2009.

4. Q. Please describe Mr. Bees' rebuttal testimony concerning Applicant's Agreement to amend the terms of its notes.

A. Mr. Bees states that Applicant has entered into an agreement with the Creditors' Trust, the Treasurer of the State of Ohio, and Thermal Ventures II to restructure the payment obligations for the notes that were filed with the Commission under Case No. 09-414-HT-AIS. Exhibit JPB (Rebuttal) -1 is the Agreement signed by the parties on July 13, 2009.

5. Q. What is the purpose of this Agreement?

A. In my direct testimony on pages 6 and 7 I state that, based upon financial analysis that I performed, Applicant's operations would not be sufficient to

service its debt payments on an on-going basis, even if the Applicant was authorized the maximum total company revenue increase that is supportable under public utility regulatory rate setting methods. Mr. Bees states that based on the Staff's positions as set forth in my direct testimony and that of Staff witness Shahid Mahmud the Applicant immediately entered into discussions with its debt holders to modify the payment provisions of its notes.

6. Q. What changes were made to the repayment provisions of these notes?

A. The Agreement provides that the obligations due TVII under the $250,000 note will be extended such that no principal or interest will be due until the Creditors' Trust note and the Treasurer of the State of Ohio note have been paid in full. The Agreement also provides that the combined installment payments due under the Creditors' Trust note and the Treasurer of the State of Ohio note will be reduced by $100,000 per year, with 60% of the reduction coming from the Creditors' Trust note and 40% from the Treasurer of the State of Ohio note. DRH Surrebuttal Exhibit 1 shows the amended payment provisions.

7. Q. What other portions of your direct testimony does Mr. Bees respond to?

A. In my direct testimony at pages 9 and 10, I concluded that based on my analyses Applicant's business model is incompatible with public utility regulatory rate setting principles. The Applicant's asset base, financial structure, and operating costs do not support a revenue requirement under Ohio

structure, and operating costs do not support a revenue requirement under Ohio public utility rate setting procedures that would be sufficient to cover its financing costs. At page 9 of his rebuttal testimony, Mr. Bees disagrees with my conclusions. Mr. Bees states, inter alia, "It is my understanding that under the Ohio statutory ratemaking formula, a utility is entitled to recover its reasonable annual operating expenses, and that this is true regardless of its capitalization. Further, as previously explained, under the Agreement modifying the payment obligations associated with the three notes, the net operating revenue, as estimated by Mr. Hodgden, will be sufficient to cover the annual payment obligations associated with these notes over the next several years. Thus, it is only the equity investor, i.e., TVII, that is at risk to the extent that the rates set under the Ohio rate setting procedures will not produce the indicated proforma dollar return on equity resulting from applying a rate of return based on the weighted cost of capital to the rate base. By agreeing to the Plan, TVII clearly assumed this risk. Thus, as long as the rates authorized under the Ohio ratemaking formula are designed to produce revenues that cover its Akron thermal's annual operating expenses and the dollar return on rate base is sufficient to meet Akron Thermal's debt service obligations in practice, the fact that capitalization requirement approved by the bankruptcy court exceeds rate base should play no role in the Commission's decision."

8. Q. Do you agree with Mr. Bees?

1 A. In my opinion as long as the rates set by the Commission are sufficient to
2 cover annual operating expenses and its debt service obligations, a company
3 could meet its public utility service obligations for an interim period of time.
4 In the context of an emergency rate proceeding, it would be appropriate for
5 interim or emergency rates to only cover annual operating expenses and to
6 meet debt service obligations until the permanent rate case has been decided.
7 Over the long term, the equity investor has expectations that it will earn a
8 compensatory return for its investment in the company. This would be
9 determined at the time the Commission issues its decision in the permanent
10 rate case proceeding.
11 9. Q. Have you performed any additional financial analysis to reflect the amended
12 debt repayment provisions?
13 A. Yes. I have prepared a "breakeven" analysis to calculate the total company
14 revenue requirement that would enable the Applicant to cover its annual
15 operating expenses and its updated debt service requirements. No return on
16 equity was factored in.
17 10. Q. What assumptions did you use and what were the results of your calculations?
18 A. I used the same revenue requirement model that I used for my analyses in my
19 direct testimony. I calculated the average annual debt service payment based
20 on the amended interest and principal payment provisions. I then adjusted the
21 return on rate base until the proforma OIBDA equaled the average annual debt

service payment. The model then calculated the revenue increase and the annualized revenue requirement. The estimated total company revenue increase required for Applicant to cover annual operating expenses and debt service payments would be $3,797,831. This translates into a $15,312,140 total company revenue requirement. DRH Surrebuttal Exhibit 2 presents my revenue requirement results.

11. Q. What are your conclusions?

A. Applicant filed for a $4,195,561 emergency revenue increase. The comparable number, based on my calculation above and my revenue requirement calculation presented in my direct testimony, would be in a range between $3,797,831 and $3,995,120.

Q. Does this conclude your testimony?

A. A. Yes.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and accurate copy of the **Surrebuttal Testimony of David R. Hodgden** was served this 17th day of July, 2009 by electronic mail or, where no e-mail address is available, by regular U.S. mail, postage prepaid, or by hand delivery, upon the persons listed below.

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DRH Surrebuttal
Exhibit 1

Akron Thermal, Limited Partnership
Case No. 09-453-HT-AEM
Promissory Note Payment Provisions (Revised July 13, 2009)

Annual Payment Schedule

Aug & Feb Payments	Creditor's Trust	State of Ohio	TVII Note (a)	Total
2010	$ 263,056	$ 177,813	$ -	$ 440,869
2011	$ 526,112	$ 355,626	$ -	$ 881,737
2012	$ 526,112	$ 355,626	$ -	$ 881,737
2013	$ 526,112	$ 355,626	$ -	$ 881,737
2014	$ 526,112	$ 354,694	$ -	$ 880,806
2015	$ 58,147	$ -	$ 319,070	$ 377,217
	$ 2,425,649	$ 1,599,384	$ 319,070	$ 4,344,103
			Average PMT	$ 724,017

(a) Estimated 5 years accrued interest

Akron Thermal, Limited Partnership
Case No. 09-453-HT-AEM
Proforma Operating Income Statement
For The Twelve Months Ending December 31, 2008

			Adjusted Revenues & Expenses	Proforma Adjustments	Proforma Revenues & Expenses
			(a)	(b)	(c)
1	Operating Revenues				
2	Base Revenues		$ 11,501,389	$ 3,797,831	$ 15,299,220
3	Fuel Revenues		0		0
4	Other Operating Revenues		12,920		12,920
5					
6	Total Operating Revenues		11,514,309	3,797,831	15,312,140
7					
8					
9	Operating Expenses				
10	Operation and Maintenance		13,911,127	3,114	13,914,241
11	Depreciation		356,687		356,687
12	Taxes, Other Than Income		493,212	180,249	673,461
13	Federal Income Taxes		(1,103,884)	1,228,919	125,035
14					
15	Total Operating Expenses		13,657,142	1,412,282	15,069,424
16					
17	Net Operating Income		$ (2,142,833)	$ 2,385,549	$ 242,716
18					
19	Rate Base	(d)	$ 3,666,387		$ 3,666,387
20					
21	Rate of Return (17/19)		-58.45%		6.62%
22					
23					
24	OIBDA (11+13+17)	(e)	$ (2,890,030)		$ 724,438
25					
26	Debt PMT - Principal & Interest	(f)	$ 724,017		$ 724,017
27					
28	Net (24 - 26)		$ (3,614,047)		$ 421
29					
30					

(a) Staff Schedule C-2
(b) Staff Schedule C-1.1
(c) Columns (a) + (b)
(d) Staff Schedule B-1
(e) OIBDA = Operating Income + Depreciation + Amortization + Tax
(f) DRH Surrebuttal Exhibit 1