

purposes only, as DP&L is assuming the switch rate of 70% only for purpose of demonstrating the mechanics of calculating the switching tracker.

4. As described in DP&L's Application, it intends to file a request to recover costs associated with its Yankee Solar Project within six months of a Commission order in this case. Attached at Exhibit 4 is the capital cost for the Yankee Solar facility.

5. DP&L requests waivers of the requirements to include the information set forth in the following schedules contained in the Appendix to Ohio Admin. Code §4901:1-36-03: Schedules B-4, B-5, D-1, D-2, D-3 and D-3a...z. These schedules require historical data (costs, revenues, typical bills, reconciliation amounts) that do not exist for the newly established rider TCRR-N.

6. DP&L requests a waiver of paragraph (B) of Ohio Admin. Code § 4901:1-36-04 which requires that a transmission cost recovery rider be avoidable by all customers who chose alternative generation suppliers. As more fully explained in Company Witness Hale's testimony, DP&L will be charged by PJM for the components proposed for inclusion in TCRR-N for all shopping and non-shopping customers, making recovery on a non-bypassable basis appropriate.

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BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO

THE DAYTON POWER AND LIGHT COMPANY

CASE NO. 12-426-EL-SSO

CASE NO. 12-427-EL-ATA

CASE NO. 12-428-EL-AAM

CASE NO. 12-429-EL-WVR

CASE NO. 12-672-EL-RDR

**ELECTRIC SECURITY PLAN (ESP)
DIRECT TESTIMONY
OF TERESA F. MARRINAN**

- **MANAGEMENT POLICIES, PRACTICES, AND ORGANIZATION**
- ☐ **OPERATING INCOME**
- ☐ **RATE BASE**
- ☐ **ALLOCATIONS**
- ☐ **RATE OF RETURN**
- ☐ **RATES AND TARIFFS**
- ☐ **OTHER**

BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO
DIRECT TESTIMONY OF
TERESA F. MARRINAN
ON BEHALF OF
THE DAYTON POWER AND LIGHT COMPANY

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I. INTRODUCTION

Q: Please state your name and business address.

A. My name is Teresa F. Marrinan. My business address is 1065 Woodman Drive, Dayton, OH 45432.

Q. By whom and in what capacity are you employed?

A. I am employed by The Dayton Power and Light Company ("DP&L" or "Company") as Senior Vice President, Competitive Market Services.

Q. How long have you been in your present position?

A. I assumed my present position in January 2012. Prior to that, I held the position of Senior Vice President, Business Planning and Development. I have also served as the Company's risk manager and held prior positions of Senior Vice President, Commercial Operations; Managing Director, Portfolio Management; and several other managerial and technical positions within the Company's wholesale and retail business units.

Q. What are your responsibilities in your current position?

A. In my current position, I am responsible for executing the Company's commercial operations and portfolio management strategies, including the unregulated retail electricity and street lighting businesses; short- and long-term coal, power, emission allowances, and natural gas purchasing and trading activities; the 24-hour real time dispatch of the Company's 3,700 megawatt power generation fleet; the scheduling and physical delivery of the Company's coal and other commodities and the Company's participation within the PJM Regional Transmission Organization market. I direct the

1 Company's strategic market assessment efforts and business and portfolio analytics
2 capabilities. I am responsible for recommending investment alternatives and capital
3 allocation decisions that improve the Company's ability to meet its growth and
4 profitability objectives consistent with an acceptable overall corporate financial risk
5 profile.

6 Q. Will you describe briefly your educational and business background?

7 A. I received a Bachelor of Science in Business Administration degree in December 1983
8 from the University of Dayton and a Master of Business Administration in June 1993
9 from Xavier University. I have been employed by DP&L since April 1984.

10 Q. Have you previously provided testimony before the Public Utilities Commission of
11 Ohio ("PUCO" or the "Commission")?

12 A. Yes. I have sponsored testimony before the PUCO in several occasions during my years
13 with the Company. Most recently I provided two pieces of testimony supporting DP&L's
14 current Electric Security Plan (ESP) in Case Nos. 08-1094-EL-SSO, *et al.*

15 Q. What is the purpose of your testimony?

16 A. The purpose of this testimony is to describe the items that will be included in the Fuel
17 Rider component of DP&L's proposed Standard Service Offer (SSO) rates and the
18 mechanism that will be used to calculate the Fuel Rider during the term of the proposed
19 ESP. In addition, my testimony supports the proxy market-based auction prices for the
20 Competitive Bid Process (CBP) used in the projections of financial and rate impacts of
21 the proposed ESP supported by other DP&L witnesses.

1 **II. FUEL RIDER**

2 **Q: Please describe DP&L's proposed Fuel Rider.**

3 A. DP&L proposes a bypassable Fuel Rider to be effective January 1, 2013 for the recovery
4 of fuel costs, purchased power costs, and emission allowance costs. The Fuel Rider will
5 be based on a system average cost methodology with the objective of providing the least
6 overall cost energy supply for DP&L customers.

7 **Q. What are the key components that will be included in DP&L's Fuel Rider?**

8 A. A summary of the key components is as follows:

9 **Fuel Costs:** The costs of fuel commodity, fuel transportation and fuel handling, used for
10 the generation of electricity by DP&L-owned resources will be included in the
11 calculation of the system average cost. The applicable fuel costs will be components
12 FERC Accounts 501, 456, and 547. The majority of such fuel costs are recorded in
13 FERC account 501. Gains and losses on fuel sales are recorded in Account 456, netted
14 with Account 501 and are included in the Fuel Rider. Account 547 includes the costs of
15 fuel used in gas and diesel peaking units. The portion of any recorded costs for biomass
16 and similar fuels that is higher than the equivalent cost of coal will be excluded from the
17 system average cost calculations and recovered through DP&L's Alternative Energy
18 Rider. The portion of these costs up to the equivalent cost of fuel will be included in the
19 system average cost calculations for recovery through the Fuel Rider. This is consistent
20 with the proceedings and the Opinion and Order in the Matter of the Application of The
21 Dayton Power and Light Company to establish a Fuel Rider, PUCO Case No. 09-1012-
22 EL-FAC.

1 **Purchased Power Costs:** Purchased power costs will be included in the calculation of
2 the system average cost when DP&L-owned resources are not sufficient to meet the SSO
3 load requirement that is not served by the CBP. The applicable purchased power costs
4 will be components of FERC Accounts 555 and any related gains or losses recorded in
5 Accounts 421 and 426.

6 **Emission Allowances:** The costs of emissions allowances used for the generation of
7 electricity by DP&L-owned resources will be included in the calculation of the system
8 average cost. FERC Account 509 records the costs of emission allowances. Currently
9 this account includes sulfur dioxide ("SO₂") and nitrogen oxides ("NO_x"), both seasonal
10 and annual, emissions allowance costs. Future legislation may add other types of
11 allowance costs that would also be recorded in this account for recovery. This approach
12 is consistent with the proceedings in the Matter of the Application of The Dayton Power
13 and Light Company to establish a Fuel Rider, PUCO Case No. 09-1012-EL-FAC. Gains
14 and losses on the sale of emission allowances are recorded in FERC Accounts 411.8 and
15 411.9. This approach is consistent with the proceedings and Opinion and Order in the
16 Matter of the Application of The Dayton Power and Light Company to establish a Fuel
17 Rider, PUCO Case No. 09-1012-EL-FAC.

18 **Q: Please describe the method the Company will use to calculate the Fuel Rider.**

19 A: The Fuel Rider will be calculated using a DP&L system average cost method.

20 **Q: What is the definition of the system for determining the system average cost?**

21 A: The DP&L energy supply system, for purposes of the proposed Fuel Rider, includes
22 DP&L-owned resources and purchased power.

1 **Q: How is the system average cost calculated?**

2 A: The Company will calculate its system average cost by including and adding up all of the
3 components described above for the DP&L energy supply system during the applicable
4 period (e.g., monthly). The system average cost is based on the cost of all supply and it is
5 not dependent on the load of any affiliate or of the utility. These costs will then be
6 divided by the total MWh of power from the DP&L energy supply system for the same
7 period. The result is a system average cost of energy supply in \$/MWh or cents per kWh
8 that will then be the basis for the Fuel Rider component for DP&L's SSO customers.

9 **Q: How will the system average cost be converted into the Fuel Rider Rate?**

10 A: The rate will be forecasted and filed on a seasonal quarterly (averaged over the three
11 months in the quarter) basis, consistent with the approach used for the Fuel Rider
12 component of DP&L's current SSO rates. The quarterly forecast of the system average
13 cost will be determined using projected DP&L energy supply system costs (in \$) and
14 output (in MWh) for the upcoming seasonal quarter, which will then become the basis for
15 the Fuel Rider rate for the upcoming seasonal quarter. The specific approach for filing
16 the Fuel Rider rate, as well as reconciliation and true-up of any differences between the
17 Fuel Rider rate and recorded system average costs, is discussed in Witness Parke's
18 testimony.

19 **Q: Why is the system average cost method appropriate?**

20 A: The system average fuel method is appropriate for several reasons. First, it improves
21 operational efficiency because it is logical, simple and straightforward for DP&L to
22 administer and for the Commission's staff and outside experts to understand and audit.

The system average cost method also aligns incentives between DP&L and its customers by assigning the same system average cost for all DP&L customers. By providing DP&L with clear incentives to manage its energy supply portfolio in order to achieve the least overall cost of energy supply, the system average cost method serves to lower the overall cost and market risk for SSO customers under the proposed ESP. This change in methodology is expected to lower the fuel rate for SSO customers. Finally, the system average cost method is consistent with the proposed blending of CBP prices into SSO rates under the proposed ESP, and can be applied consistently and simply throughout the entire term of the proposed ESP.

III. AUCTION PRICE

Q: Did you develop proxy auction prices to permit DP&L to demonstrate how its current prices would be blended with DP&L's current rates?

A. Yes. To assist in preparing the projected retail rate impacts of the Company's ESP plan, I developed proxy auction prices throughout the duration of the ESP. These proxy auction prices were then used by Company Witness Emily Rabb to demonstrate how the auction prices for the CBP will be assigned to tariff classes and then blended with DP&L's current rates. These proxy auction prices are derived from the actual auction results from recent First Energy (FE) and Duke Energy—Ohio (Duke) auctions, which were then adjusted to reflect an equivalent proxy market-based auction price for a CBP in the Dayton zone.

Q. Please explain the methodology that you used in developing these proxy market-based auction prices for the CBP.

A. By way of background, the SSO auction supply contract commonly used in Ohio creates a complex fixed-price full requirements product which transfers certain risks to the winning auction supplier. These risks include variables such as forward market price volatility, day ahead and real time Locational Marginal Pricing (LMP) price volatility, unknown correlations between fuel and power prices, customer energy usage variations, customer switching risks, capacity cost recovery risk, and ancillary services price risk. When a supplier decides to participate in an SSO supply auction, it assigns a value to these various risks and prices those risks into its estimate of the overall cost to serve the SSO load. Each supplier prices risks differently, based upon institutional beliefs, risk appetite and modeling techniques. These opinions will impact the price the suppliers will be willing to bid in the SSO supply auction. Since pricing methodologies employed by suppliers vary, DP&L looked to the results of actual supply auctions taking place in the most recent Duke and FE auctions to derive a reasonable publically-available indication of the market's assessment as to the value of these risk factors within Ohio.

Q. Did DP&L make adjustments to the Duke and FE auction results?

A. Yes. Starting with the winning prices in each SSO auction, DP&L removed known fixed-cost components and the locational energy price differences between the products being solicited in each auction, which left a cost to serve SSO auctions in Ohio at a common point which could be used in projecting auction clearing prices in a DP&L CBP. Specifically, for Ohio, this common pricing point is the PJM AEP-Dayton Hub. PJM RPM capacity prices are currently known through May 2016 delivery. This RPM capacity value was removed from the auction clearing price. The remaining price was translated to the common PJM AEP-Dayton Hub by removing the locational energy price difference to the Duke and FE load zones. Using publicly available average PJM day-

1 ahead LMP price differences between the delivery load zone and AEP-Dayton Hub as a
2 proxy, the locational difference was removed, leaving a common cost to supply SSO
3 auctions in Ohio at AEP-Dayton Hub. This cost to supply SSO auctions is then divided
4 by the forward AEP-Dayton prices for a wholesale block over an equivalent time frame
5 and on the same day as the auctions. This calculation yielded a ratio between market
6 projections and actual auction results. This ratio was then applied to future AEP-Dayton
7 forward curves on August 30th 2012 to project proxy auction clearing prices.

8 **Q. What were the results?**

9 A. This methodology produced fairly consistent results, with an average SSO Auction to
10 AEP-Dayton Hub Scaling Factor (Scaling Factor), of 1.24 times the AD Hub wholesale
11 block supply (WP-13.2).

12 **Q. What does the average Scaling Factor represent?**

13 A. This average Scaling Factor represents a projection of the cost market participants would
14 impute for the cost above a flat block product to deliver supply under an SSO auction
15 contract, factoring in the risks I described earlier.

16 **Q. How did you apply the average Scaling Factor?**

17 A. Using this average Scaling Factor, DP&L used the AEP-Dayton forward price curve from
18 August 30th, 2012 for each of the auction periods and projected a cost to supply that the
19 market would currently place on DP&L's auctions at AEP-Dayton hub. By including
20 historical day-ahead LMP locational price differences to deliver to the Dayton load zone,
21 actual and proxy PJM RPM capacity prices, a final proxy DP&L CBP auction clearing
22 price was estimated.

23 **Q. Does this calculation appear in any Exhibits that you are sponsoring?**

1 A. Yes. A more detailed explanation is included in Exhibit TFM-2, and supported by
2 Workpapers WP 13.1-13.5.

3 **Q. Is that methodology reasonable?**

4 A. Yes, the methodology is reasonable because it represents an unbiased measure of the
5 market's view of the costs and risks of supplying SSO auction load in a CBP, based upon
6 publically available information. A competitive supplier bidding in the CBP individually
7 would make its own assessments of these costs and risks, choose one or more pricing
8 methodologies to account for them, and adjust the bids it submits in the CBP based on its
9 discretion. Any attempt to imply a particular set of assumptions and pricing methodology
10 would be too subjective and speculative. The methodology DP&L has employed for
11 purposes of projected proxy future auction clearing prices in the CBP for purposes of this
12 filing looks to the results of the recent Duke and FE auctions, which is the confluence of
13 all of the auction participants' assessments regarding pricing. Given that each auction has
14 had multiple winning bidders, the projections DP&L used represent unbiased supplier
15 views regarding the value of the various costs and risks of supplying SSO load, as
16 reflected by the market's collective view in assessing these costs and risk premiums based
17 on recent auction results.

18 **IV. CONCLUSION**

19 Q. Does this conclude your direct testimony?

20 A. Yes, it does.

The Dayton Power and Light Company
Case No. 12-426-EL-SSO
Proxy DP&L Auction Results

Data: Proxy TFM-2
Type of Filing: Revised Page 1 of 2
Work Paper Reference No(s): WP-13.1 Witness Responsible: Teresa Marrinan

Line	Delivery Start		Proxy Auction Price for		Number of Tranches to be Auctioned
	Date	Delivery End Date	the Term (\$/MWh)	(E)	
(A)	(B)	(C)	(D)	(E)	WP-13.1, Page 4, Col (J)
1	1/1/2013	5/31/2014	\$42.71	10	
2	6/1/2014	5/31/2015	\$52.90	10	
3	6/1/2014	5/31/2016	\$54.37	10	
4	6/1/2014	5/31/2017	\$56.83	20	
5	6/1/2015	5/31/2018	\$60.80	40	
6	6/1/2016	5/31/2018	\$63.28	40	
7	6/1/2017	5/31/2018	\$64.83	20	

The Dayton Power and Light Company
Case No. 12-426-EL-SSO
Proxy DP&L Auction Results

Data: Proxy
Type of Filing: Revised
Work Paper Reference No(s): None

TFM-2
Page 2 of 2
Witness Responsible: Teresa Marrinan

Line	Delivery Start Date	Delivery End Date	Proxy Auction Price for the Term	
			(\$/MWh)	(D) *
(A)	(B)	(C)		
1	1/1/2013	5/31/2014	\$42.71	
2	6/1/2014	5/31/2015	\$55.23	
3	6/1/2015	5/31/2016	\$58.75	
4	6/1/2016	5/31/2017	\$61.00	
5	6/1/2017	5/31/2018	\$62.60	

* The Proxy Auction Price for each delivery date is calculated by weighting the auction price for each term shown on page 1 by the respective number of tranches for that term.

**Proposed Notice for Newspaper Publication
Pursuant to Ohio Admin. Code § 4901:1-35-04(B)**

LEGAL NOTICE

The Dayton Power and Light Company ("DP&L") has filed with the Public Utilities Commission of Ohio ("PUCO") Case No. 12-426-EL-SSO, In the Matter of the Application of The Dayton Power and Light Company for Approval of Its Electric Security Plan, et al. In this proceeding, the PUCO will consider DP&L's request for approval of its new Electric Security Plan ("ESP"), which includes its standard service offer ("SSO"), effective from January 1, 2013 through December 31, 2018. The ESP includes provisions regarding the supply of generation to all customers, the acquisition and pricing of energy to serve SSO customers through a series of auctions, and other matters.

It is anticipated that total bills for non-residential customers that take SSO service under the proposed ESP will decline by approximately 2 to 6%, depending upon tariff class and usage patterns. Residential customers that take SSO service and use 750 kWh will experience a slight total bill increase of less than 1%. DP&L proposes to recover certain costs through new riders during the ESP period.

Any person may request to become a party to the proceeding.

Further information may be obtained by visiting the PUCO at 180 East Broad Street, Columbus, Ohio 43215-3793, viewing the PUCO's web page at <http://www.puc.state.oh.us>, clicking on the link to the Docketing Information System, and entering Case No. 12-426-EL-SSO, or contacting the PUCO's call center at 1-800-686-7826.

Switching assumption as of 8/30/2012: 62% Source: Testimony of Craig L. Jackson, page 9 of 14

Line	Switching Increase to 70%	2013	2014	2015	2016 (Jan. - Mar.)	Source
1	Year in Which Switching Occurs					
2	Distribution Sales Forecast Monthly Volume	13,822,395	13,822,395	13,822,395	5,616,782	Source: Workpaper 8A Line 8
3	Projected Average Overall Switching Rate:	70%	70%	70%	70%	Source: Input Assumption
4	Incremental Average Switching Percentage	8%	8%	8%	8%	Source: Line 3 minus 62%
5	Incremental Switching Volume (MWh)	1,105,792	1,105,792	1,105,792	449,343	Source: Line 4 multiplied by Line 2
6	Projected Annual Average Blended SSO tariff rate	\$82.34	\$75.09	\$69.14	\$64.07	Source: Schedule 8 Line 54 Columns H & I divided by Workpaper 8B Line 8
7	Competitive Bid Process Rate Illustrative Example	\$45.09	\$52.76	\$60.20	\$61.70	Source: Schedule 8 Line Column I Line 54 divided by Workpaper 8B Line 8 divided by competitive bid period blend percentage
8						
9	Switching Tracker Revenues (\$)	\$41,189,095	\$24,693,903	\$9,890,153	\$1,061,833	Source: Line 6 minus Line 7 multiplied by Line 5
10						

The Dayton Power and Light Company
Yankee Solar Property

Line No.	Major Program (B)	Function (C)	Asset Value (D)	Offset ¹ (E)	Balance at 12/31/2011 (F)
1	<u>Structures and Improvements (Account 341)</u>				
2					
3		900 - Building	\$ 90,823.70	\$ -	\$ 90,823.70
4		910 - Fences	\$ 75,572.57	\$ -	\$ 75,572.57
5		915 - Foundations (Equipment)	\$ 67,308.10	\$ -	\$ 67,308.10
6		940 - Structures & Improvements	\$ 10,298.94	\$ -	\$ 10,298.94
7					\$ 244,003.31
8					
9	<u>Generators (Account 344)</u>				
10					
11		229 - Prime Mover (Solar Panels)	\$ 3,867,641.78	\$ 1,473,266.00	\$ 2,394,375.78
12					\$ 2,394,375.78
13					
14	<u>Accessory Electric Equipment (Account 345)</u>				
15					
16		290 - Conductors & Accessories	\$ 9,630.43	\$ 3,668.44	\$ 5,961.99
17		1285 - Inverter	\$ 760,032.10	\$ 289,512.56	\$ 470,519.54
18					\$ 476,481.53
19					
20	<u>Computer Systems (Account 346)</u>				
21					
22		975 - Tools & Work Equip	\$ 225,799.60	\$ 86,012.00	\$ 139,787.60
23					\$ 139,787.60
24					
25					
26		Total			<u>\$ 3,254,648.22</u>

¹ Source: Federal tax offset of \$1,459,512 and State grant of \$392,946