

BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

- - -

In the Matter of the :  
Application of The Dayton :  
Power and Light Company : Case No. 12-426-EL-SS0  
for Approval of its :  
Electric Security Plan. :

In the Matter of the :  
Application of the Dayton :  
Power and Light Company : Case No. 12-427-EL-ATA  
for Approval of Revised :  
Tariffs. :

In the Matter of the :  
Application of the Dayton :  
Power and Light Company : Case No. 12-428-EL-AAM  
for Approval of Certain :  
Accounting Authority. :

In the Matter of the :  
Application of the Dayton :  
Power and Light Company : Case No. 12-429-EL-WVR  
for the Waiver of Certain :  
Commission Rules. :

In the Matter of the :  
Application of the Dayton : Case No. 12-672-EL-RDR  
Power and Light Company :  
to Establish Tariff Riders:

- - -

PROCEEDINGS

before Mr. Gregory A. Price and Mr. Bryce A.  
McKenney, Hearing 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, March  
19, 2013.

VOLUME II

- - -

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1 Tuesday Morning Session,  
2 March, 19, 2013.

3 - - -

4 EXAMINER MCKENNEY: Let's go on the  
5 record at this time.

6 The Public Utilities Commission of Ohio  
7 calls at this time and place Case No. 12-246-EL-SSO  
8 being In the Matter of the Application of The Dayton  
9 Power & Light Company to Establish a Standard Service  
10 Offer in the Form of an Electric Security Plan.

11 My name is Bryce McKenney, with me is  
12 Gregory Price, and we are the Attorney Examiners  
13 assigned by the Commission to hear this case.

14 Dayton Power & Light Company, I believe  
15 at this time you may call your next witness.

16 MR. FARUKI: Thank you, your Honor. We  
17 call Aldyn Hoekstra to the stand.

18 EXAMINER MCKENNEY: Mr. Hoekstra, please  
19 raise your right hand.

20 (Witness sworn.)

21 EXAMINER MCKENNEY: Thank you. Please  
22 state your name and address for the record.

23 THE WITNESS: My name is Aldyn Hoekstra.  
24 My business address is 1065 Woodman Drive, Dayton,  
25 Ohio.

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ALDYN HOEKSTRA

being first duly sworn, as prescribed by law, was examined and testified as follows.

DIRECT EXAMINATION

By Mr. Faruki:

Q. Mr. Hoekstra, do you have before you a copy of your prefiled testimony?

A. I do.

MR. FARUKI: Your Honors, we'll designate, consistently with what we did with the previous witness, we'll designate his redacted testimony as DP&L Exhibit 2 and his confidential testimony as DP&L Exhibit 2A, with your permission.

EXAMINER MCKENNEY: They will be so marked.

MR. FARUKI: Thank you.

(EXHIBITS MARKED FOR IDENTIFICATION.)

Q. Do you have any changes or corrections to your testimony?

A. No.

Q. If I were to ask you each of the questions in the testimony, would your answers be as they appear there?

A. Yes.

MR. FARUKI: Your Honor, I move the

1 admission of Exhibits 2 and 2A and tender the witness  
2 for cross-examination.

3 EXAMINER MCKENNEY: We will reserve the  
4 admission until the end of cross-examination.

5 At this time we'll go ahead with  
6 cross-examination.

7 Mr. Darr.

8 MR. DARR: One moment, your Honor.

9 Thank you, your Honor.

10 - - -

11 CROSS-EXAMINATION

12 By Mr. Darr:

13 Q. Good morning. Mr. Hoekstra, let's start  
14 with your testimony, page 1, line 14, 13 and 14, you  
15 indicate that you're with the Commercial Structuring  
16 function; is that correct?

17 A. Yes.

18 Q. And how long have you been in that  
19 position?

20 A. With the responsibilities listed, I've  
21 been in my current position since July 2012.

22 Q. And -- excuse me.

23 A. In the previous position I held similar  
24 but more narrow responsibilities.

25 Q. And what was that previous position?

1           A.    I was the Director of Origination and  
2           Structuring for DP&L.

3           Q.    And did that include management or other  
4           activities with commercial structuring?

5           A.    Yes.

6           Q.    And as part of your work for commercial  
7           structuring, as I understand it, you're responsible  
8           for the portfolio analytics and business planning,  
9           correct?

10          A.    Correct.

11          Q.    Portfolio analytics involves collecting  
12          data, modeling power plant generation and operations,  
13          and load obligation operations, correct?

14          A.    Among other things, correct.

15          Q.    And what other things would those be?

16          A.    Nothing specific comes to mind.

17          Q.    So my list pretty much covered the  
18          waterfront?

19          A.    It's a reasonably -- reasonable list.

20          Q.    And it's my understanding that the  
21          modeling that you do as part of commercial  
22          structuring is used to manage the portfolio  
23          generation assets and the load obligations; is that  
24          correct?

25          A.    That's correct.

1 Q. And, in fact, as part of this case you  
2 provided a projection of the total loads for purposes  
3 of the SSO calculations; is that also correct?

4 A. I think, to be specific, I provided  
5 baseline volumes for DP&L distribution load as well  
6 as DP&L SSO load.

7 Q. Fair enough.

8 MR. FARUKI: Your Honor -- Frank.

9 MR. DARR: Excuse me.

10 MR. FARUKI: I'm not objecting but my  
11 mistake. Mr. Hoekstra also sponsors testimony that  
12 was filed from Teresa Marrinan. I neglected to ask  
13 him about that. I apologize to Mr. Darr, but I  
14 should do that bit of direct so that that testimony  
15 is here for cross-examination as well. May I do  
16 that?

17 MR. DARR: No objection, your Honor.

18 EXAMINER MCKENNEY: You may do so.

19 - - -

20 FURTHER DIRECT EXAMINATION

21 By Mr. Faruki:

22 Q. Mr. Hoekstra, do you also have the  
23 prefiled testimony of Teresa Marrinan?

24 A. Yes, I do.

25 MR. FARUKI: And, your Honors, I'd like

1 that to be designated, the redacted copy, as  
2 Exhibit 3 for DP&L, and there was not confidential  
3 testimony for that so that would be the only exhibit  
4 as to the Marrinan testimony.

5 EXAMINER MCKENNEY: It will be marked  
6 DPL-3.

7 MR. FARUKI: Thank you, your Honor.

8 (EXHIBIT MARKED FOR IDENTIFICATION.)

9 Q. Mr. Hoekstra, you have adopted the  
10 prefiled testimony of Teresa Marrinan and are  
11 sponsoring it; is that correct?

12 A. That's correct.

13 Q. And if I were to ask you each of the  
14 questions contained in it, would your answers be as  
15 shown there?

16 A. Yes.

17 MR. FARUKI: Your Honors, I move the  
18 admission of Exhibit 3 and tender him for cross on  
19 that subject as well.

20 EXAMINER MCKENNEY: Thank you. We'll  
21 reserve the admission until after cross.

22 Mr. Darr, thank you for your patience.  
23 You may continue.

24 MR. DARR: Thank you, your Honor.

25 - - -



1 CROSS-EXAMINATION (Continued)

2 By Mr. Darr:

3 Q. Going back to the last question I was  
4 asking you, when you modeled total distribution load,  
5 would that include both the SSO load and the  
6 on-system DPLER load?

7 A. Well, my response, to be specific, was  
8 related to the testimony I'm sponsoring in the case,  
9 so the distribution load would include SSO load,  
10 DPLER load, as well as load served by a third party  
11 or non-DP&L CRES providers.

12 Q. With regard to DPLER's projected sales,  
13 my understanding is that DPLER has a business plan  
14 and provided the projections of how that business  
15 plan may evolve and the levels of sales that may  
16 happen in the future; is that correct?

17 A. I believe I testified in my deposition  
18 that projections of DPLER's future sales was taken  
19 into account in our projections.

20 Q. Well, that doesn't quite answer my  
21 question. Did you use the DPLER projections for  
22 purposes of making your projections of the total  
23 load?

24 A. With respect to what DPLER's business  
25 plan is, I can't be certain I know exactly what that

1 plan is. We did take account of projections provided  
2 to us by DPLER.

3 Q. Well, in fact, you relied on DPLER's  
4 projections to do your projections, correct?

5 A. At least in part. I can't be certain  
6 exactly what the full extent of DPLER's business plan  
7 is.

8 Q. You're also involved in pricing  
9 transactions for municipalities and other wholesale  
10 counterparties, correct?

11 A. Correct.

12 Q. Besides municipal counterparties who are  
13 the other wholesale counterparties that you're  
14 referring to?

15 A. There will be wholesale counterparties  
16 with which we engage in forward transactions for  
17 standard wholesale blocks of power. There will be  
18 utility purchasers in standard service offer auctions  
19 that would be buyers of power. Those are two that  
20 come to mind immediately.

21 Q. Now, within the DP&L service territory  
22 we -- were you here yesterday for Mr. Jackson's  
23 testimony?

24 A. Only for a portion.

25 Q. And were you here for the portion where

1 he did the calculation of the portion of on-system  
2 CRES-related sales that are managed by or supplied by  
3 DPLER?

4 A. I don't recall that.

5 Q. Fine. During your deposition, though,  
6 you identified that roughly two-thirds of -- that  
7 DPLER currently is serving about two-thirds of the  
8 switched load in the DP&L service territory, correct?

9 A. That sounds familiar.

10 Q. And you've provided an estimate of the  
11 total switched load as part of your testimony here  
12 today, correct?

13 A. We've -- I've provided a baseline volume  
14 for SSO sales and, when subtracting that from  
15 distribution load, the effect of switched load,  
16 that's correct.

17 MR. DARR: We're getting really close to  
18 a section where we're going to have to go to a closed  
19 record, your Honor.

20 EXAMINER MCKENNEY: At this time we're  
21 going to move to the confidential transcript. I'll  
22 remind anyone that does not have a signed stipulated  
23 protective agreement with the company to please step  
24 out of the room at this time.

25 (Confidential portion excerpted.)

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(Open record.)

EXAMINER MCKENNEY: I think, Ms. Yost,  
you may continue.

MS. YOST: Do I need to reask the  
question?

EXAMINER MCKENNEY: Yeah, we can just  
continue.

Q. (By Ms. Yost) If I could have you turn to  
page 4 of Ms. Marrinan's testimony.

A. I have it.

Q. Starting with line 1, testimony states  
that "Purchased power costs will be included in the  
calculation of the system average cost when  
DP&L-owned resources are not sufficient to meet the  
SSO load requirements that is not served by the CBP."

And I think that you had answered this  
previously, so purchased power costs are included in  
the proposed fuel rider; is that correct?

A. Purchased power costs would be included  
in the event that conditions stated in the testimony  
were to happen, which is that DP&L-owned resources,

1 as we've defined them, would not be enough for a  
2 combined period of time to meet the SSO load that has  
3 not been auctioned.

4 Q. And in the current fuel rider are  
5 purchased power costs also included in that  
6 calculation?

7 A. Yes.

8 Q. And in the last three years has DP&L had  
9 to purchase power to meet the SSO load requirements?

10 A. I don't know.

11 Q. Who would know that, sir?

12 A. As to a witness in this case, I'm not  
13 sure I can identify one. Certainly someone in the  
14 company would know.

15 I guess I should clarify. The gist of my  
16 testimony so far has been projecting the cost to  
17 serve load and there's been quite a lengthy  
18 discussion around the PJM charges that accrue to a  
19 load-serving entity responsible for serving load and  
20 the fact that serving load in PJM involves purchasing  
21 power from PJM to meet that load obligation.

22 So that's purchasing power, it's not  
23 exactly the analog of purchased power for purposes of  
24 calculating the fuel rider, which is an abstraction,  
25 if you will, from the way the PJM load-serving entity

1 relationship works.

2 So when I say I don't know, I don't know  
3 what the fuel rider calculation specifically involved  
4 purchase power. As to hour-by-hour, day-by-day has  
5 DP&L purchased power to serve its SSO load, the  
6 answer is most certainly yes, because that's the way  
7 the load-serving entity relationship works in PJM.

8 Q. And are purchased power costs associated  
9 with wholesale power sales included in the proposed  
10 fuel rider?

11 A. I'm sorry. Can you repeat the question.

12 MS. YOST: Could you please read back the  
13 question.

14 (Record read.)

15 A. No.

16 Q. Are purchased power costs included --  
17 excuse me.

18 Are purchased power costs associated with  
19 providing power to DPLER included in the proposed  
20 fuel rider?

21 A. No.

22 Q. If I could have you turn to page 5 of  
23 Ms. Marrinan's testimony, please.

24 A. I have it.

25 Q. Starting at lines, the first sentence on

1 line 4 states "The system average cost is based on  
2 the cost of all supply and it is not dependent on the  
3 load of any affiliate or of the utility." Do you see  
4 that, sir?

5 A. I do.

6 Q. So the system average cost is based on  
7 the cost of all supply and that would include the  
8 cost of supply to serve both DP&L's retail and  
9 wholesale sales including sales to DPLER, correct?

10 A. No. This reflects to DP&L's generation  
11 supply resources, meaning the power plants. It does  
12 not relate to the load expense incurred to serve any  
13 particular load, including that of DPLER.

14 Q. Would you agree that the company's  
15 primary obligation with respect to serving load is to  
16 the SSO customers?

17 A. No, I would say the company needs to  
18 have -- has an obligation to all its customers  
19 whether they are SSO customers or not.

20 Q. Mr. Hoekstra, you're aware that  
21 Ms. Marrinan previously filed testimony in this  
22 proceeding in regards to the ESP in this case. It  
23 was termed "direct testimony" and you're sponsoring  
24 the second revised testimony, correct?

25 A. Right. As I recall, the December filing

1 was the second revised testimony and Ms. Marrinan  
2 sponsored testimony in the October filing.

3 MS. YOST: Your Honor, may I have marked  
4 as OCC Exhibit 1, it is the electric security plan  
5 direct testimony of Teresa F. Marrinan.

6 Your Honor, may I approach the Bench?

7 EXAMINER MCKENNEY: It will be marked,  
8 and you may approach.

9 (EXHIBIT MARKED FOR IDENTIFICATION.)

10 Q. Mr. Hoekstra, please take a moment to  
11 review what has been marked as OCC Exhibit 1.  
12 Specifically I want to ask you questions in regards  
13 to page 6.

14 MR. FARUKI: While he's looking at it  
15 I'll object, your Honor. He's neither written nor  
16 sponsored this testimony and it's not being offered.  
17 It's improper to question this witness with it.

18 MS. YOST: Your Honor, this is the first  
19 original draft that was filed with the Commission.  
20 Mr. Hoekstra is sponsoring the second revised --  
21 revision to this testimony and I want to discuss the  
22 changes that were made pursuant to Mr. Hoekstra's  
23 sponsoring and adopting of this testimony.

24 MR. FARUKI: It's not his testimony, and  
25 he's not sponsoring it. Didn't have a part in



1 preparing it.

2 EXAMINER MCKENNEY: I think we'll  
3 overrule the objection at this time. This has not  
4 yet been sponsored for admission; is that correct?

5 MS. YOST: That's correct.

6 EXAMINER MCKENNEY: All right. We'll  
7 allow you to continue.

8 Q. (By Ms. Yost) Mr. Hoekstra, have you seen  
9 what has been marked OCC Exhibit 1?

10 EXAMINER PRICE: You mean seen before  
11 today or?

12 MS. YOST: Yes.

13 EXAMINER PRICE: Do you mean seen now?

14 MS. YOST: Yes.

15 A. I imagine I've seen this in the past.

16 Q. Thank you.

17 And this is the testimony that you  
18 reviewed and made edits to, is that correct, in  
19 regards to what you're adopting today?

20 A. The testimony that I have adopted I'm  
21 quite sure involves edits and changes from Exhibit 1.

22 MS. YOST: Your Honor, I have another  
23 exhibit that I think would be more helpful. At this  
24 time if I could have OCC Exhibit 2 being the second  
25 revised direct testimony of Teresa F. Marrinan, it's

1 just a redline version that was provided by the  
2 company.

3 EXAMINER MCKENNEY: It will be so marked.

4 (EXHIBIT MARKED FOR IDENTIFICATION.)

5 Q. Mr. Hoekstra, please let me know when  
6 you're ready to proceed.

7 A. I have it.

8 Q. And have you seen -- previously seen  
9 what's been marked as OCC Exhibit 2?

10 A. I certainly have -- recall in the past  
11 seeing a redline of the testimony, I'm not sure it  
12 appeared in exactly this format.

13 Q. Would you agree that OCC Exhibit 2 is  
14 the -- is OCC Exhibit 1 with tracked changes that  
15 reflect the second revised testimony of Ms. Marrinan  
16 that you are adopting today?

17 A. I can't be certain that all the changes  
18 are tracked, but it appears to be a redline of the  
19 original testimony.

20 Q. And if I could have you turn to OCC  
21 Exhibit 2, which is the redline version, page 6,  
22 starting with line 9.

23 A. I have it.

24 Q. Are you there, sir?

25 The portion that has been stricken

1 starting on line 9 states "the system average cost  
2 method serves to lower the overall cost and market  
3 risk." That statement is not included in the second  
4 revised testimony of Ms. Marrinan that you are  
5 sponsoring today, correct?

6 A. That section has been stricken out  
7 from -- in the redline, that's correct.

8 Q. And did you direct that that language be  
9 removed from the testimony that you are sponsoring  
10 today?

11 A. I may or may not personally have directed  
12 that. Certainly as we identified updates required  
13 for the testimony for the second revised version that  
14 is one that I identified as needing to be addressed.

15 Q. And then, again, in regards to OCC  
16 Exhibit 2, same page, page 6, line 10, the portion of  
17 that testimony that is indicated through strike  
18 through states "This change in methodology is  
19 expected to lower the fuel rate for SSO customers."  
20 Do you see that strike-through language there, sir?

21 A. Yes, I do.

22 Q. And that language is not contained in the  
23 second revised testimony that you are sponsoring  
24 today, correct?

25 A. That's correct.

1 MS. YOST: Your Honor, at this point  
2 could we go to the public record -- or to, the  
3 confidential portion.

4 EXAMINER MCKENNEY: At this time we'll  
5 move to the confidential portion of the transcript.  
6 If you don't have a signed stipulated agreement with  
7 the company, please leave the room.

8 (Confidential portion excerpted.)

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(Open record.)

EXAMINER PRICE: Please proceed.

Q. (By Mr. Oliker) Dr. Chambers, are you familiar with the proceeding through which the Public Utilities Commission of Ohio approved the merger of AES, DPL, and DP&L?

A. Only certain limited aspects of that.

Q. Would you agree that AES and DPL made certain commitments in that proceeding?

A. That's my understanding.

Q. Could you try to give a general understanding of what those commitments were, please?

A. No. I am not familiar enough with the details of that to be able to answer that question appropriately.

Q. Dr. Chambers, most of your testimony is regarding potential credit effects to DP&L, correct?

A. In terms of its general financial integrity, yes.

1           Q.    I'm going to ask you a hypothetical  
2 question.  Assume DPL or AES decided to give an  
3 equity contribution to DP&L, would that have a  
4 positive affect on DP&L's credit rating?

5           A.    In general, yes, it would obviously  
6 matter as to the magnitude of that, the source of  
7 that -- those funds, a range of different elements  
8 that were there.  It would have more impact if it  
9 came from the AES side than from the DPL, Inc. side  
10 just given the nature and the organization of the  
11 company.

12          Q.    Could you explain that further?  What do  
13 you mean by "the nature and organization of the  
14 company"?

15          A.    Well, AES is essentially a pure holding  
16 company, as I understand it, and so the DPL,  
17 Inc.-DP&L are looked at as one element of that and  
18 one group within that overall corporate family, if  
19 you will.  So to the extent that the equity  
20 investment was from DPL, Inc. to DP&L it still would  
21 be within that group.  It's not net new money coming  
22 into that overall organization.  It wouldn't do  
23 anything to reduce the overall consolidated leverage  
24 of DPL, Inc. including DP&L.

25                    So money just moving from DPL, Inc. in

1 the form of equity to DP&L really is just -- has no  
2 effect on the consolidated results, whereas if it  
3 came from AES, it would certainly affect the results  
4 of DPL, Inc., as well as DP&L.

5 Q. Okay. So -- thank you, that's helpful.

6 Now, if AES were to give a third-party  
7 guarantee to DP&L, would that also improve the credit  
8 rating of DP&L?

9 A. No.

10 Q. If DP&L -- strike that.

11 A. Would you like me to expand on that as to  
12 why?

13 Q. That's okay.

14 A. Or are you happy with the "no"?

15 Q. If AES committed to maintain the credit  
16 rating of DP&L, would that assist DP&L's credit  
17 rating?

18 A. It would depend very much not on what the  
19 company says but what they do. It's a matter of,  
20 very much, of what real impact that would have. A  
21 simple promise by itself means very little. If there  
22 is more tangible form for that intention, then  
23 potentially that could have significant benefits.

24 MR. OLIKER: Could I please have his  
25 answer read back?

1 EXAMINER PRICE: Let's have the question  
2 and answer, please.

3 MR. OLIKER: Thank you, your Honor.

4 (Record read.)

5 Q. One last question on that. When you  
6 submitted your testimony, you were not aware of any  
7 commitment by AES to maintain the credit rating of  
8 DP&L, correct?

9 A. I've not seen any specific evidence of  
10 that, no.

11 Q. Moving to a new topic. Would you agree  
12 that the Commission should not compensate DP&L for  
13 financial harm that was caused by DP&L actions that  
14 were outside of the laws of Ohio?

15 MR. FARUKI: I'll object. What does  
16 "outside the laws of Ohio" mean? I think the  
17 question is -- it's either vague and ambiguous or  
18 it's quite overbroad.

19 EXAMINER PRICE: Sustained. See if you  
20 can narrow the scope.

21 MR. OLIKER: I can try, your Honor.

22 Q. Are you familiar with the term  
23 "prudence," Dr. Chambers?

24 A. As it's used in the financial sense, yes.

25 Q. Are you aware that that term is used



1 often in a utility context?

2 A. I'm aware that it's used. I don't know  
3 to what extent within the utility realm there is a  
4 different application of that and definition of that  
5 as opposed to more general finance activities and  
6 investments in particular.

7 Q. Let me try this from a different angle.  
8 If DP&L -- let me -- if DP&L's actions were not in  
9 accordance with, say, the Commission's rules and  
10 those actions caused financial harm to DP&L, would  
11 you agree that the Commission should not compensate  
12 DP&L?

13 MR. FARUKI: I'll still object, your  
14 Honor. When he said "not in accordance with the  
15 Commission's rules," it's an impossible hypothetical.  
16 The hypothetical's incomplete.

17 EXAMINER PRICE: I think he's narrowed it  
18 enough that I'm willing to listen to the answer.  
19 Overruled.

20 A. In general, yes.

21 Q. Yes, the Commission should not compensate  
22 DP&L?

23 MR. FARUKI: Same objection.

24 EXAMINER PRICE: Overruled. Thank you.

25 A. I'm trying to agree with you, sir.

1 Q. Thank you.

2 I'd like to ask you another hypothetical.  
3 If the Commission were to determine that DP&L had set  
4 the transfer price for sales between DP&L and its  
5 affiliate at a price that violated Commission rules,  
6 and those sales were causing financial harm to DP&L,  
7 would you agree that the Commission should not  
8 compensate DP&L for that harm?

9 MR. FARUKI: Objection.

10 EXAMINER PRICE: Grounds?

11 MR. FARUKI: In addition to the previous  
12 grounds, there's no basis in the record for that  
13 hypothetical.

14 EXAMINER PRICE: Mr. Oliker.

15 MR. OLIKER: That's why it's a  
16 hypothetical, your Honor.

17 MR. FARUKI: Well, hypotheticals have to  
18 have a basis in the record. They have to be tied to  
19 the case.

20 EXAMINER PRICE: Mr. Oliker.

21 MR. OLIKER: If you want, I can ask one  
22 or two questions about the transfer price before I go  
23 forward, but there's been plenty of testimony on this  
24 already.

25 EXAMINER PRICE: I gather that Mr. Oliker

1 may or may not be planning on alleging a violation of  
2 the Commission's rules in his brief, so we'll allow  
3 the hypothetical and marry it up later.

4 MR. OLIKER: Thank you, your Honor.

5 A. Within the context of your hypothetical I  
6 would say yes, but I would also note that I am not  
7 aware of any basis for underlying that hypothetical.

8 Q. Again, you do not believe the Commission  
9 should compensate DP&L in that hypothetical.

10 MR. FARUKI: I'll object on the same  
11 bases and the whole notion of the Commission  
12 compensating DP&L is not in accordance with the law  
13 in Ohio.

14 MR. OLIKER: I'm fine with the  
15 clarification that DP&L should not be compensated for  
16 that self-inflicted harm.

17 MR. FARUKI: My objection?

18 EXAMINER PRICE: Mr. Olikier, why don't  
19 you try to rephrase the question without using the  
20 term "compensate" and we'll go from there.

21 Q. Okay. Let me try to restate this  
22 hypothetical. Dr. Chambers, if the Commission were  
23 to determine that DP&L was making sales to its  
24 affiliate at prices that were in violation of  
25 Commission rules and those sales were causing harm to

1 DP&L, would you agree that it would not be  
2 appropriate for the Commission to authorize a rate or  
3 charge to make up for that harm?

4 MR. FARUKI: I'll reassert my previous  
5 objections as well as lack of foundation.

6 EXAMINER PRICE: I'm going to overrule  
7 your objections but I think we're just about at the  
8 end of this line of questioning after this answer.

9 MR. OLIKER: Yes, your Honor.

10 A. I believe I answered your question and  
11 within the context of your hypothetical, yes, I would  
12 agree that that would be inappropriate. But I am not  
13 aware of any evidence that I have seen nor in the  
14 testimony of Mr. Hoekstra or Mr. Jackson that  
15 provides any support for the basis of your  
16 hypothetical.

17 MR. OLIKER: Your Honor, I'd move to  
18 strike everything after his actual answer to the  
19 question.

20 MR. FARUKI: Your Honor, when a witness  
21 gets a ludicrous hypothetical, the witness almost  
22 always says I'm not aware of facts that would  
23 indicate that that is what's happened. It's a  
24 perfectly appropriate clarification.

25 EXAMINER PRICE: I'm going to sustain

1 your objection except for the term "ludicrous" and  
2 will strike -- let me restate that, I'm going to deny  
3 the motion to strike and let's try not to use terms  
4 like "ludicrous."

5 Q. Dr. Chambers, you have a degree in  
6 economics, correct?

7 A. I have several degrees in economics, yes.  
8 Spent too long in school.

9 Q. And you have a general understanding of  
10 how markets operate, correct?

11 A. I believe so, yes.

12 Q. Could you please describe your general  
13 understanding of a subsidy?

14 A. A subsidy can occur in so many different  
15 forms and in so many different instances, in so many  
16 different situations, I don't know that I can  
17 concisely come up with a specific definition. If you  
18 said that A is selling to B at a below-market rate,  
19 then you could say that is a subsidy.

20 But, I say it can take so many different  
21 forms and in so many different contexts, whether it's  
22 from one entity to another, whether it's from a  
23 governmental entity to a private sector entity, it  
24 can take so many forms that there is no single  
25 definition that would apply I don't believe.

1           Q.    Would you agree it can take the form of  
2 payment outside a normal payment scheme?

3           MR. FARUKI:  I'll object to that question  
4 as well, your Honor.

5           A.    That --

6           MR. FARUKI:  Wait a minute, he has to  
7 have a chance to rule and I have to have a chance to  
8 speak.

9           THE WITNESS:  Please, sir.

10          MR. FARUKI:  This question has at least  
11 two flaws; one, it's a hypothetical without enough  
12 facts to be intelligible, and, two, the witness has  
13 just testified that a subsidy can take many forms,  
14 and I think the question is trying to specify one of  
15 those forms without any flesh on the skeleton,  
16 without any detail.  I don't think it's capable of  
17 being answered.

18          EXAMINER PRICE:  I'm going to overrule  
19 the objection.  The witness is directed to answer it  
20 if the definition of "subsidy" that counsel has posed  
21 is your understanding of one of the many definitions  
22 of subsidy.

23          MR. FARUKI:  Could we have it read back  
24 to him, then?

25          EXAMINER PRICE:  You may.

1 (Record read.)

2 A. No, that is not one of the situations  
3 that I normally would, you know, identify as specific  
4 to a subsidy.

5 Q. Dr. Chambers, do you have your deposition  
6 in front of you?

7 A. Yes, I do.

8 Q. And, now, do please tell me if I read it  
9 correctly, page 182.

10 MR. OLIKER: Sorry, Charlie.

11 MR. FARUKI: That's all right.

12 MR. LANG: Line?

13 MR. OLIKER: Line 7 particularly.

14 Q. I'll wait until you get there. Are you  
15 on page 182, Dr. Chambers?

16 A. Yes.

17 Q. Tell me if I read this correctly.

18 Question: "Could you try to give me a general  
19 understanding of what your definition of a subsidy  
20 is?

21 Answer: "Of a subsidy? It can take the  
22 form of any form of payment outside the normal  
23 payment scheme."

24 Did I read that correctly?

25 A. Yes.

1 MR. FARUKI: Your Honor, that's not  
2 proper. He has to read the whole answer, he can't  
3 just pick and choose a piece of an answer and ask  
4 about that.

5 EXAMINER PRICE: Mr. Oliker, if you can  
6 rephrase encompassing the entire answer, I would  
7 appreciate it.

8 MR. OLIKER: Would you like me to just  
9 read the rest of it, your Honor, or read it all?

10 EXAMINER PRICE: Start from scratch, read  
11 the question and answer in their entirety.

12 Q. (By Mr. Oliker) Question: "Could you try  
13 to give me a general understanding of what your  
14 definition of a subsidy is?"

15 Answer: "Of a subsidy? It can take the  
16 form of any form of payment outside of the normal  
17 payment scheme. Again, it can vary from just across  
18 the board in terms of the nature of that or the  
19 particular circumstances. I don't know, it's very  
20 difficult to come up with a general definition of  
21 what a subsidy is outside of the context of the  
22 particular discussion."

23 Did I read that correctly, Dr. Chambers?

24 A. Yes, you did.

25 EXAMINER PRICE: Let's go off the record



1 at this time.

2 (Off the record.)

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

5 Thank you, Mr. Oliker.

6 MR. OLIKER: One moment, I need to find  
7 out my spot.

8 Q. (By Mr. Oliker) Dr. Chambers, would you  
9 agree that when subsidies are not evenly distributed,  
10 they affect markets?

11 A. Yes, they certainly can have some affect  
12 on markets.

13 Q. Would you agree they provide an  
14 advantage -- strike that.

15 Would you agree that when subsidies are  
16 not evenly distributed, they provide a competitive  
17 advantage to the recipient of the subsidy?

18 MR. FARUKI: I'll object to the  
19 incomplete hypothetical. There's no description of  
20 the market participants for him to make that kind of  
21 assessment.

22 EXAMINER PRICE: Let's have the question  
23 read back again, please?

24 (Record read.)

25 EXAMINER PRICE: I think he's just asking

1 in general. Overruled.

2 A. Again, potentially they have that effect.  
3 It would be much easier to answer your question with  
4 a specific instance or a specific example as opposed  
5 to the totally general framework.

6 Q. Dr. Chambers, directionally would you  
7 agree that subsidies have a tendency to destabilize  
8 competition in markets?

9 A. Directionally they have an effect of  
10 that. I would balk at your word "destabilization"  
11 because I think that is a very loaded term and tends  
12 to affect the interpretation of that. Can they  
13 affect markets? Yes. Do they tend to tilt the  
14 playing field? Yes. Does that necessarily mean  
15 destabilization? It's very unclear.

16 MR. OLIKER: Sorry, your Honors, silence  
17 is progress here.

18 EXAMINER PRICE: You just gave it away,  
19 the transcript was never going to show the lull in  
20 the questioning.

21 Q. Dr. Chambers, would you agree that you  
22 created a hypothetical capital structure for DP&L?

23 A. Yes. A pro forma analysis created a  
24 hypothetical capital structure, basically a 50/50 mix  
25 of debt and equity resembling more closely that of

1 other integrated utilities.

2 Q. Would you agree that you created a 50/50  
3 capital structure because DP&L has more equity than  
4 debt on its books?

5 A. Currently DP&L has about 60 percent  
6 equity and about 40 percent debt as its capital  
7 structure.

8 Q. Could you please turn to WJC-1.  
9 Actually, I'm sorry, I'm referring to WJC-2.

10 A. Yes, I have that in front of me.

11 Q. Would you agree that because you alter  
12 the capital structure of DP&L and added debt, you  
13 assumed that DP&L would incur an additional  
14 \$12 million of interest for each year of the ESP in  
15 WJC-2B?

16 A. As compared with the as-filed case and  
17 the existing actual capital structure, yes, the  
18 incremental interest cost was about 12 million per  
19 year.

20 Q. And, I'm sorry, would you agree that that  
21 number is actually 13 million, and it's located on  
22 line 28 of WJC-2B?

23 A. Yes, it's about 13 million. I stand  
24 corrected.

25 Q. Would you agree that that number flows

1 through each of your other exhibits that unitize a  
2 hypothetical capital structure?

3 A. Yes, it does. The capital structure in  
4 scenarios 3, 4, and 5 are -- all carry with it that  
5 same incremental debt and incremental interest cost.

6 Q. And to determine the effect of the extra  
7 interest on net income, you agree you would multiply  
8 13 million times .65 percent because of the tax  
9 effect?

10 A. I forget the exact tax rate we applied.  
11 It was in that order of magnitude. Whether it was 36  
12 or 37 percent I don't recall this second, but it was  
13 that order of magnitude. So the after-tax effect  
14 would be about \$9 million or \$8 million a year.

15 Q. Thank you.

16 I apologize if this was discussed  
17 earlier. Would you agree that you have not performed  
18 any analysis of the operational impact on DP&L's  
19 generation, distribution, or transmission functions  
20 of not receiving a service stability rider?

21 A. We've looked at the impact on the overall  
22 company. I haven't analyzed the impact on individual  
23 operating units in keeping with that.

24 Q. Thank you.

25 Are you familiar with the term "economic

1 dispatch"?

2 A. No.

3 Q. Are you aware of whether DP&L controls --  
4 strike that.

5 Are you aware of whether DP&L  
6 independently makes the determination of whether its  
7 generating assets are dispatched to meet load in  
8 PJM's energy markets?

9 A. No, I'm not.

10 Q. Moving on to a new topic. Are you  
11 familiar with Senate Bill 3 or deregulation in Ohio?

12 A. I'm aware of its existence. I have not  
13 studied that bill.

14 Q. Are you familiar with Dayton Power &  
15 Light's electric transition plan?

16 A. I understand that there was one that was  
17 filed during the last decade but, again, I've been  
18 focusing on the future of the financial position of  
19 the company as opposed to looking at those historical  
20 filings.

21 Q. Are you aware of whether DP&L entered  
22 into a stipulation in that proceeding?

23 A. I could not give you an answer on that in  
24 terms of my knowledge of the matter or lack of  
25 knowledge of the matter.

1           Q.    Are you aware of whether DP&L received  
2 transition charges to recover stranded costs in its  
3 electric transition plan?

4           A.    I have not studied that and can't offer  
5 an opinion.

6           Q.    Are you familiar with Amended Substitute  
7 Senate Bill 221?

8           A.    Again, I'm aware of its existence but I  
9 cannot give you any kind of a prese as to its  
10 content.

11          Q.    Have you reviewed Chapter 4928 of the  
12 Ohio Revised Code?

13          A.    I have looked at some sections of that  
14 part of the statute but, again, I'm not an attorney  
15 and can't offer a specific legal opinion with respect  
16 to that, or interpretation of that.

17          Q.    Do you know whether transition cost has a  
18 defined meaning under Ohio law?

19          A.    I could not give you a specific  
20 definition of that.

21          Q.    Dr. Chambers, earlier you testified  
22 that -- strike that.

23                    When you were working for a credit rating  
24 agency, would you agree that you reviewed utilities  
25 that were undergoing deregulation?

1           A.    Yes.

2           Q.    Would you agree that some of the  
3 utilities you reviewed received transition charges?

4           A.    Yes.  They received transition charges  
5 for basically covering stranded infrastructure costs.

6           Q.    Would you agree that from an economic  
7 standpoint the purpose of a transition charge is to  
8 recognize the market value of an asset is less than  
9 its book value and to provide some means for a  
10 utility to recover the differential in costs?

11          A.    I believe that's a reasonable economic  
12 definition for that term.

13          Q.    Would you agree that there are several  
14 different ways to calculate transition charges?

15          A.    Yes, I would.

16          Q.    Would you agree that a transition charge  
17 is meant to compensate a utility when its assets  
18 would not be competitive when subject to market  
19 prices?

20                   MR. FARUKI:  Can I hear that again,  
21 please.

22                   EXAMINER PRICE:  Read it back, please.

23                   (Record read.)

24                   MR. FARUKI:  Thank you.

25          A.    That certainly is one possible

1 application. I don't know if I would determine --  
2 call it the implication in every case, but certainly  
3 that would be one possible way that it would be  
4 applied.

5 Q. Would you agree that one of the purposes  
6 of a transition charge is to protect the financial  
7 integrity of the utility?

8 A. Yes, I would.

9 Q. Would you agree that providing a  
10 nonbypassable charge to ensure that a utility can pay  
11 the legacy debts on its books would be a transition  
12 charge?

13 A. It could potentially be. But, again, I  
14 don't know that that would be the sole reason for or  
15 sole justification for or sole application of such a  
16 nonbypassable charge, so I can't give you a  
17 categorical answer on that.

18 MR. OLIKER: Can I please have the  
19 question and answer read back?

20 EXAMINER PRICE: Let's have the question  
21 and answer again, please.

22 (Record read.)

23 Q. Could I please ask you to turn to your  
24 deposition at page 214, Dr. Chambers.

25 Are you there?



1           A.    Almost.

2                    Yes.

3           Q.    Please tell me if I read this correct  
4 starting on line 13.  Question:  "Would the legacy  
5 debts on the books of the utility be one of the  
6 aspects to be considered in a strand and cost  
7 recovery analysis?"

8                    Answer:  "Generally, yes, because it's  
9 the cost of servicing that debt that often is the  
10 element that needs some degree of subsidization."

11                   Did I read that correctly, Dr. Chambers?

12           MR. FARUKI:  Object, not impeaching.

13           EXAMINER PRICE:  Objection sustained.  
14 The question did not match up with what you asked the  
15 witness on the stand.

16           MR. OLIKER:  That's fine.

17           Q.    Dr. Chambers, would you agree that you do  
18 not believe the SSR is a transition charge because it  
19 is not related specifically to DP&L's generation  
20 asset costs?

21           A.    I think we had a double negative there,  
22 but -- or double positive, I'm not sure, but I do not  
23 believe that the SSR is specifically set up in that  
24 way.  It was not calculated in that way.  And its  
25 effect is not necessarily that.

1           Q.    Okay.  I'm going to ask you a  
2           hypothetical question.  Would you agree that if DP&L  
3           was earning a reasonable return on its distribution  
4           business and a reasonable return on its transmission  
5           business but it was not earning a reasonable return  
6           on its generation business and that was the source of  
7           DP&L's financial integrity problem, and the SSR was  
8           designed to make up the difference, would you agree  
9           that the SSR is equivalent to a transition charge?

10           MR. FARUKI:  I'll object both to the  
11           incomplete hypothetical and because it's a lack of  
12           foundation.

13           EXAMINER PRICE:  I wonder if you can  
14           rephrase that, instead of -- with the term  
15           "adequately compensated" I think would be more in  
16           line with the evidence we heard yesterday.

17           MR. OLIKER:  I'm sorry, could you say  
18           that again, your Honor?

19           EXAMINER PRICE:  If you can rephrase that  
20           with the term "adequately compensated."

21           MR. OLIKER:  Use that term --

22           EXAMINER PRICE:  Yes, instead of what you  
23           used, I think that would be more in line with the  
24           evidence we heard yesterday.

25           MR. OLIKER:  Okay, I can try to restate

1 that. Thank you.

2 Q. (By Mr. Oliker) Dr. Chambers, let me ask  
3 you this hypothetical again. Would you agree that if  
4 DP&L was earning a reasonable return on its  
5 distribution business and a reasonable return on its  
6 transmission business --

7 EXAMINER PRICE: No, no, Mr. Oliker, let  
8 me try it.

9 MR. OLIKER: Thank you, your Honor.

10 EXAMINER PRICE: So much easier up here.

11 Dr. Chambers, would you agree that if  
12 Dayton Power & Light was adequately compensated on  
13 its distribution business and adequately compensated  
14 on its transmission business -- what was the rest of  
15 your question? I got the first part right.

16 MR. OLIKER: And DP&L was not adequately  
17 compensated on its generation business.

18 EXAMINER PRICE: And DP&L was not  
19 adequately compensated on its generation business.

20 MR. OLIKER: And the SSR was designed to  
21 provide compensation for DP&L's generation business.

22 EXAMINER PRICE: And the SSR was designed  
23 to provide compensation for its generation business.

24 MR. OLIKER: Would you agree that that  
25 would be equivalent to a transition charge?

1 EXAMINER PRICE: Would you agree that  
2 would be equivalent to a transition charge?

3 MR. FARUKI: I'll object.

4 THE WITNESS: Now, because you ask it  
5 I've got to answer it, right?

6 EXAMINER PRICE: That's right.

7 THE WITNESS: Under the terms of the  
8 hypothetical, yes, I would agree. I haven't seen any  
9 evidence that that, indeed, is the basis for the SSR  
10 that has been proposed by DP&L.

11 EXAMINER PRICE: Thank you.

12 Q. (By Mr. Olikar) Okay. Switching to a  
13 different topic. Would you agree, Dr. Chambers, that  
14 creditors see DP&L's high equity-to-debt ratio as  
15 favorable? And I'm just talking about that specific  
16 issue. I understand that --

17 A. Yeah. I think the investors would  
18 typically look at the consolidated results of DPL,  
19 Inc. incorporating those of DP&L in terms of looking  
20 at the capital structure. And from that standpoint  
21 even before the acquisition debt was taken on as part  
22 of the AES acquisition, the DPL, Inc. on a  
23 consolidated basis had much higher level of debt than  
24 DPL per se.

25 So I don't know that that is a specific

1 factor at the DP&L level for that because it is --  
2 it's looked at on a consolidated basis and I believe  
3 that some of the agency reports that were earlier  
4 introduced note that specifically.

5 Q. Dr. Chambers, I'm not talking about the  
6 relationship between consolidated credit rating and a  
7 subsidiary. I'm just talking about the capital  
8 structure of DP&L. That itself is viewed as  
9 favorable, correct?

10 A. Well, I said in that respect investors  
11 don't look separately at the capital structure of  
12 DP&L. They view it more on the consolidated basis  
13 and on that basis it is quite different than DP&L.

14 Q. If you lend money, specifically, to DP&L,  
15 and you're a creditor, would you agree that you would  
16 rather DP&L have 60 percent equity than 60 percent  
17 debt?

18 MR. FARUKI: Object to the incomplete  
19 hypothetical.

20 EXAMINER PRICE: Sustained. Sustained.  
21 Don't answer the question.

22 Q. I'll move on to a different subject.

23 Dr. Chambers, do you know how DP&L plans  
24 to account for the switching tracker, and I mean from  
25 an accounting basis?

1           A.    I've looked at a general description of  
2 the mechanism but, no, I have not looked specifically  
3 at the accounting treatment that has been proposed  
4 for that.

5           Q.    So would you agree that you're not aware  
6 that DP&L plans to defer an expense associated with  
7 the switching tracker?

8           A.    As I say, I haven't looked specifically  
9 at the accounting treatment of that. I've looked  
10 more at the effect of that in terms of the overall  
11 cash flow of the company.

12          Q.    We touched on this earlier, Dr. Chambers,  
13 but you're familiar that DP&L makes sales to its  
14 affiliate DPLER, correct?

15          A.    Yes, sir.

16          Q.    Would you agree that those sales are not  
17 based upon fully-allocated costs?

18          A.    It's my understanding that they're based  
19 on market prices that are, as Mr. Hoekstra testified  
20 this morning, can be quite independent of the costs.

21               MR. OLIKER: Your Honor, if I can have  
22 just one moment to look through my questions, I might  
23 be done, but I'm not sure.

24               EXAMINER PRICE: You may.

25               MR. OLIKER: Thank you.

1 MR. McNAMEE: Your Honors, while he's  
2 looking I have --

3 EXAMINER PRICE: Do you want to be on the  
4 record or off the record?

5 MR. McNAMEE: Doesn't really matter.  
6 I've got some more information about my staff  
7 witnesses.

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

10 EXAMINER PRICE: Let's go back on the  
11 record. Just to remind you we're still on the public  
12 transcript. Please proceed.

13 Q. (By Mr. Oliker) Dr. Chambers, would you  
14 agree that you have not reviewed DP&L's cost  
15 allocation manual?

16 A. No, I have not.

17 Q. Could you please turn to page 39 of your  
18 testimony. Please tell me when you're there,  
19 Mr. Chambers.

20 A. I have it.

21 Q. Looking at footnote 29, it describes an  
22 Excel spreadsheet. Did you bring that document with  
23 you today?

24 A. No, I do not have it. The information  
25 that we obtained from that basically is the basis for

1 scenario 3 that we have developed and so a lot of the  
2 information is the same as we received with respect  
3 to that, but no, I do not have that document with me.

4 MR. OLIKER: No more questions, your  
5 Honor.

6 Thank you, Dr. Chambers.

7 EXAMINER PRICE: Any other intervenors  
8 have questions?

9 Mr. Whitt?

10 MR. WHITT: I have just a few.

11 - - -

12 CROSS-EXAMINATION

13 By Mr. Whitt:

14 Q. Dr. Chambers, my name is Mark Whitt. I  
15 represent Interstate Gas Supply which is a  
16 competitive retail electric supplier in Dayton  
17 Power & Light's territory, among others.

18 Doctor, does a vertically integrated  
19 utility generally have more business and finance risk  
20 than a utility that has divested itself of  
21 generation, all other things being equal?

22 A. I'd say I would say yes, with your  
23 stipulation of ceteris paribus.

24 Q. Can we agree, then, that the cost of  
25 capital for a vertically integrated utility would



1       tend to be greater than that of a wires only electric  
2       utility, i.e., transmission, distribution, but not  
3       generation?

4             A.     And I'm assuming you're talking about a  
5       totally regulated wires business?

6             Q.     Yes.

7             A.     Is that correct?

8             Q.     Yes.

9             A.     Then, yes, I would say so.

10            Q.     Okay. Doctor, are you familiar with the  
11       economic concept of moral hazard?

12            A.     Yes. It can take many forms, but the  
13       general idea I'm quite familiar with.

14            Q.     What is the general idea of moral hazard?

15            A.     Well, it's that by making some  
16       commitments implicit or explicit one is henceforth  
17       obliged to provide support or to take on other  
18       obligations that one might not otherwise take on.

19            Q.     Could we also describe moral hazard as a  
20       situation where a party will have a tendency to take  
21       risks because the costs that might be incurred as a  
22       result of taking that risk are felt by someone else?

23            A.     That could be a general description of  
24       the flip side of what I've just described.

25            Q.     Okay. Now, to the extent the Commission

1 wished to engage in policies to promote economic  
2 efficiency, should it encourage or discourage moral  
3 hazard, in your opinion?

4 A. I don't think that has a simple answer.  
5 Given the inherent nature of the utility business and  
6 the natural monopoly that certain aspects of that  
7 utility business provides, particularly the lines and  
8 wires parts of the business.

9 So I don't know that I can give you a  
10 categorical answer to that.

11 Q. Well, as a matter of economic efficiency  
12 should, in your opinion, and again I'm asking the  
13 question from the perspective of economic theory and  
14 not as a legal question, but for purposes of economic  
15 efficiency do you believe the Commission should  
16 encourage utilities under its jurisdiction to take  
17 risks in which the consequences of those risks will  
18 be borne by others?

19 A. As a general economic principle, I would  
20 say no.

21 Q. Okay. Now, I want to present a  
22 hypothetical to you, this place could use some levity  
23 about this time anyway, but suppose DP&L, the  
24 utility, invested in a chain of pizza restaurants,  
25 okay. Now, if pizza, DP&L's pizza shops, if pizza

1 suddenly fell out of favor in the fast food market  
2 and people switched to hamburgers, should DP&L be  
3 compensated for the loss of people switching from  
4 pizza to hamburgers?

5 MR. FARUKI: I object. Do I need to  
6 state a lot of grounds for that?

7 MR. WHITT: It's a hypothetical.

8 EXAMINER PRICE: Overruled. I want to  
9 hear the answer.

10 A. Well, let me start by saying I can't  
11 possibly agree with the foundation for your  
12 hypothetical. I think it is quite impossible that  
13 people would -- that pizza would fall out of favor.

14 (Laughter.)

15 Q. Let's switch it up. Let's say DP&L, they  
16 invested in a chain of pizza shops, it's the only  
17 pizza shop in town, until some other pizza shops show  
18 up and everybody switches to the competitor's pizza.  
19 Should we compensate DP&L for the lost revenue?

20 MR. FARUKI: I'll object to this  
21 hypothetical, not only does it not have a basis in  
22 the real world, much less the evidence in this case,  
23 you would need to specify the conditions of the  
24 hypothetical for him to be able to answer that.

25 MR. WHITT: The pepperoni pizzas.

1 MR. FARUKI: That's an insufficient  
2 foundation.

3 EXAMINER PRICE: We will allow Mr. Whitt  
4 a little leeway on this very brief line of  
5 questioning.

6 A. Certainly something totally outside the  
7 normal range of business and one that is quite  
8 antithetical to its inherent, if you will, public  
9 policy function, I think the answer clearly would be  
10 no.

11 Q. And that's because ratepayers should not  
12 be expected to protect the financial integrity of  
13 nonregulated lines of business, correct?

14 A. As a general rule, yes.

15 MR. WHITT: Thank you.

16 EXAMINER PRICE: Thank you.

17 Any other intervenors have questions?

18 (No response.)

19 EXAMINER PRICE: Mr. McNamee?

20 MR. McNAMEE: Nothing from me.

21 EXAMINER PRICE: Redirect?

22 MR. FARUKI: Yes, your Honor, thank you.

23 EXAMINER PRICE: Actually, I want to ask  
24 a question before.

25 MR. FARUKI: Sure.

1 EXAMINER PRICE: So you can, in case I  
2 screw this up totally you can fix it on redirect.

3 I want to go back to your sentence at the  
4 bottom of page 54 carrying over to page 55. The last  
5 sentence on 54 says -- are you there?

6 THE WITNESS: Not quite yet.

7 Yes, I am now.

8 EXAMINER PRICE: It says "To set rates at  
9 such levels and in such a way as to make it  
10 impossible for the utility to have an opportunity to  
11 earn a reasonable rate of return would be  
12 economically confiscatory." And you're talking there  
13 about rate regulation, setting rates; is that  
14 correct?

15 THE WITNESS: Yes.

16 EXAMINER PRICE: Does this sentence  
17 apply, in your mind, from an economic perspective, if  
18 the utility has an option to opt for market rates  
19 instead of rate regulation?

20 THE WITNESS: No, I don't believe it  
21 does, your Honor. I think the, again, the context  
22 for this is where there is no, as I say, the  
23 impossible framework that they're in, they're in such  
24 a box that they can't do anything to earn a  
25 reasonable rate of return.



1 I know, the SSR is not a cost-based from that  
2 standpoint, is not directed at specific assets, it is  
3 a general amount of money that contributes  
4 significantly to the ongoing financial integrity of  
5 the company.

6 Q. In the reading you did of this case,  
7 including Mr. Jackson's testimony and the material  
8 about the SSR, did you find an analysis that the  
9 company was basing its request for an SSR on an  
10 analysis of costs that were prudently incurred?

11 A. I don't -- I don't believe there was a  
12 specific tie to any particular cost elements there,  
13 and I did not find any suggestion of improper or  
14 improperly incurred costs from that standpoint or  
15 unwisely incurred costs.

16 The basis, as I understand it, in all the  
17 analysis that I've seen bases the SSR amount on what  
18 is -- what dollar amount is necessary to maintain  
19 that financial integrity of the company.

20 Q. Maybe to shorten this point up, is it  
21 accurate that the SSR was not based upon or  
22 calculated based upon costs unrecoverable in a  
23 competitive market?

24 A. Yes, that is my understanding.

25 Q. Turning, then, to your work, would you

1 take a look at page 2 of your testimony and I'm  
2 interested in the part that is on lines 12 through 16  
3 and, in particular, on the range of ROEs that you are  
4 saying is reasonable as an ROE for DP&L to be able to  
5 function effectively and to maintain its financial  
6 integrity.

7 Do you see that?

8 A. Yes, I do, sir.

9 Q. Okay. Earlier you had a number of  
10 questions about whether you were recommending a  
11 single ROE. Do you remember that?

12 A. Yes.

13 Q. Would you explain the rationale for your  
14 recommendation and your opinion that a range, as you  
15 state here on page 2, is reasonable for DP&L?

16 A. Well, I believe that a utility like DP&L,  
17 if it can realize a return, an expected rate of  
18 return within this range over time will be able to  
19 maintain its financial integrity. As I answered  
20 previously, higher rates would be nice, but I think  
21 given the climate that we live in it's probably  
22 unrealistic, but rates significantly below that would  
23 be evidence of and contribute to a loss of financial  
24 integrity and increasing financial stress for the  
25 company.



1           Q.    On the same subject, on one of the  
2           questions that Ms. Grady asked you you made the  
3           statement that ROE serves as a summary of other  
4           factors that go to financial integrity. Do you  
5           remember that topic?

6           A.    Yes.

7           Q.    Would you explain what you meant.

8           A.    Well, in examining financial integrity,  
9           as I have in my report, we looked at a range of  
10          different financial factors and, indeed, the rating  
11          agencies are also very explicit they're looking at a  
12          range of financial metrics in analyzing that aspect  
13          of the business. The ROE is a -- often used as a  
14          symbol summary of all of those other elements. Now,  
15          it's not a be all and end all, it doesn't tell you  
16          everything one needs to know about the company, and  
17          indeed, you could see different metrics moving in  
18          different directions, some moving up, some moving  
19          down.

20                    In this case, as shown in my report as we  
21                    go through the various scenarios, the trend for all  
22                    of those metrics is -- tends to go south, or  
23                    virtually all of the metrics is heading south. It's  
24                    getting worse, progressively worse.

25                    From that standpoint the ROE is a nice

1 summary of that, just as a credit rating is a nice  
2 summary of all of those different factors that are  
3 considered in evaluating the creditworthiness of a  
4 company. But it is a summary element.

5 Q. A number of times you made the statement  
6 in response to questions from intervenors that you  
7 analyzed the company as an integrated entity. Would  
8 you explain why you did that.

9 A. That is the way that it is structured at  
10 this point. If the structure were to change, we'd  
11 analyze it on that altered basis, or if there's a  
12 proposal for changing that structure, you'd analyze  
13 that proposal on that basis. But currently that is  
14 the way the company is organized and so that's the  
15 way it should be analyzed from a financial integrity  
16 standpoint.

17 Q. You said in response to one of Mr. Lang's  
18 questions that you were doing your analysis looking  
19 forward during the period of the ESP. Why is that?

20 A. Well, any analysis really needs to look  
21 forward. As I said, we know what happened in the  
22 past, but largely that's water over the dam. It does  
23 set a context for where the company will be, but much  
24 more interesting, much more challenging, and much  
25 more important is where the company will be going

1 forward. So the analysis typically is that. In the  
2 same way my understanding is that the rate-setting  
3 process is for the rates going forward, and the  
4 history has some bearing on that but only some.

5 Q. You were also asked along the same lines  
6 whether you analyzed alternative structures of the  
7 company. Do you remember that?

8 A. Yes.

9 Q. And your answer was that you analyzed the  
10 company as currently structured and configured. Why  
11 did you do that?

12 A. Well, as I said, because that is the way  
13 it is currently set up. If there were active  
14 proposals for changing that organization structure,  
15 those could be analyzed, but it isn't very productive  
16 to just make up various scenarios might as you play  
17 with a Lego and construct different buildings and  
18 whatever from those.

19 In terms of they're purely hypothetical  
20 to a great extent. If there are specific proposals  
21 on the table, if there are specific ideas, then those  
22 certainly can be analyzed, but short of that the  
23 company as it currently exists is what we're trying  
24 to determine both in terms of what the rate should be  
25 but also in terms of its financial integrity as my

1 analysis tried to establish.

2 Q. In another of your responses to Mr. Lang  
3 you were asked about whether the company was  
4 positioned to operate in a competitive market. And  
5 you answered "As much as coal generation can these  
6 days." Would you explain what you meant by when you  
7 said as much as coal generation or coal-based  
8 generation can these days?

9 A. Well, I'm certainly not the expert in  
10 this particular area, but given the very low cost of  
11 the initial infrastructure and given the very low  
12 cost of natural gas at this point, the economics of  
13 gas generating plants is, in my understanding, much  
14 more effective than is the older coal plants with  
15 much higher infrastructure requirements.

16 MR. OLIKER: I'm sorry, could I have that  
17 answer -- question and answer read back, please?

18 EXAMINER PRICE: You may.

19 (Record read.)

20 MR. OLIKER: Your Honor, if I understand  
21 that answer where he just said he's not an expert in  
22 that area, I would move to strike that answer.

23 MR. FARUKI: Your Honor, what he said was  
24 that he may not be an expert with regard to the  
25 details of that, but he certainly, with his economics

1 training, can explain the basis of this statement  
2 about the effect of a company's coal generation in a  
3 market in which the prices or the value of that  
4 generation is depressed.

5 EXAMINER PRICE: We're going to deny the  
6 motion to strike and we'll allow the answer.

7 Dr. Chambers, better be careful saying  
8 not an expert.

9 THE WITNESS: Yes, your Honor, I'll try  
10 to strike that thing. I'll pretend I'm an expert at  
11 all kinds of things. Like pizza.

12 Q. (By Mr. Faruki) Do you have the OCC  
13 Exhibit 3 handy to you? It was the Standard & Poor's  
14 ratings release.

15 A. Yes, I do.

16 Q. When rating agencies look at liquidity,  
17 and that's discussed on the fourth page of the  
18 document Bates page ending 776, what does liquidity  
19 refer to as rating agencies look at it?

20 A. Liquidity means basically short-term  
21 funds, cash, receivables, and potentially backup  
22 facilities to be able to ensure that short-term  
23 obligations in terms of paying the bills is done in a  
24 timely manner.

25 Q. Paying current bills as they become due,

1 in other words?

2 A. Yes, which would include interest and  
3 other things that are due in the near term.

4 Q. Distinct from that is long-term debt?

5 A. Well, it could be the interest on those  
6 short-term debts is, say, meeting any current  
7 obligations as they come due, but it would -- the  
8 simplest way of explaining it is saying they can pay  
9 the bills as needed and they have the funds or they  
10 have the backup facilities to be able to meet those  
11 obligations in a timely manner.

12 Q. And if you look on page 4 at the last  
13 full paragraph that begins "DP&L's next maturity."  
14 Tell me when you've --

15 A. Yes.

16 Q. -- had a chance to read that to yourself,  
17 sir.

18 A. Yes, I've read that now.

19 Q. What factors do rating agencies take into  
20 account when they examine a company's ability to deal  
21 with debt that it has that is going to be maturing?

22 A. Well, they certainly prefer that  
23 arrangements be made for, particularly for large  
24 maturities of long-term debt such as the 470 million  
25 in this case that comes due in October. They prefer

1 that that -- arrangements be made well in advance so  
2 that there is no question that the funds will be  
3 available come October to be able to repay that  
4 obligation, the principal on those obligations as  
5 they come due.

6 Q. You were asked a number of questions  
7 about deleveraging or reduction of the company's  
8 debt. Do you recall that subject?

9 A. Yes.

10 Q. And in connection with these questions  
11 about whether deleveraging or debt reduction would  
12 improve its financial condition, does it take cash to  
13 reduce the total amount of a company's debt?

14 A. It could be done in several different  
15 ways. It could be done with, say, assets, it could  
16 be done with injections of funds, but ultimately it  
17 does require cash in some form or in some way. It  
18 could transfer responsibility for its debt to another  
19 party, would be another alternative way to reduce the  
20 debt burden.

21 Q. One of the answers you gave to Ms. Grady  
22 was that DP&L should be looked at on its own as  
23 opposed to its linkage to others. What did you mean  
24 by that?

25 A. Well, I think in terms of the financial

1 integrity of the company, as I undertook in my report  
2 the company should be looked at on a stand-alone  
3 basis. It is unreasonable to expect that there  
4 should be necessary support from outside other than  
5 that that is justified.

6 If the company has financial integrity,  
7 then an investor, whether it be DP&L, Inc. or another  
8 investor, would be willing to place money in that  
9 entity. So it should say shouldn't be dependent on  
10 handouts from the parent, it has to be  
11 self-sustaining has to meet its own obligations.

12 Q. When a company is placed on a review for  
13 possible downgrade, what does that mean?

14 A. That usually means that the rating will  
15 be reduced, probably is a two-thirds chance that it  
16 is overall. And generally in the near term. It  
17 means that there are specific events that are  
18 occurring or have occurred which throw into question  
19 the creditworthiness and the existing rating and,  
20 hence, the rating agencies are trying to alert  
21 investors and other market participants that some  
22 action in the near term is quite likely.

23 Q. Do the rating agencies monitor the  
24 progress and outcome of ongoing regulatory  
25 proceedings as part of their evaluation of that?



1           A.    Yes, they do.  And I think both the Fitch  
2           and the Moody's announcements that were introduced as  
3           exhibits here by the OCC specifically note that this  
4           hearing is being monitored in terms of its results  
5           and that could well contribute to any decision with  
6           respect to the rating by those two agencies.

7                     It's not to say Standard & Poor's is not  
8           monitoring it, but they took rather definitive action  
9           in November to lower the rating so, as I said in my  
10          report, I would not anticipate that the rating would  
11          change immediately by Standard & Poor's, but I think  
12          that it is very possible that both Fitch and Moody's  
13          will change the rating or could change the rating  
14          depending on the outcome of this hearing.

15          Q.    On this point please look with me at OCC  
16          Exhibit 5, and that is the Moody's Investor Service  
17          release from November 9, 2012.

18          A.    Yes.

19          Q.    On the first page the penultimate  
20          paragraph says "The review for possible downgrade  
21          will consider management's ability to manage a credit  
22          supportive outcome from the ongoing regulatory  
23          process and its plans to improve the company's  
24          consolidated financial profile through deleveraging.  
25          Moreover, we intend to evaluate the company's plans

1 to refinance the significant amount of debt  
2 maturities scheduled over the next 12 to 24 months."

3 Have I read that correctly?

4 A. Yes, sir, you have.

5 Q. Is this the sort of explanation of a  
6 ratings service monitoring activity that we were just  
7 discussing?

8 A. Yes. And I think it's important to get  
9 on the record that the rating agencies aren't trying  
10 to dictate a decision by the Commission. They are  
11 noting that this is an important event in terms of  
12 the creditworthiness of the company as they see it,  
13 and so the outcome could well affect that rating  
14 decision.

15 Q. The language that we see in the first  
16 sentence that talks about a credit supportive outcome  
17 in ratings speak, what does that mean?

18 A. Because the rating agencies aren't trying  
19 to lobby for a particular position, I think  
20 they're -- they tend to be very cautious in some of  
21 their wording and sometimes a bit confusing in that  
22 respect.

23 I think they're trying to say that a  
24 decision that will maintain the creditworthiness of  
25 DP&L is certainly one that is critical to their -- to

1 their decision.

2 Again, I don't think they're trying to  
3 dictate or specify or suggest a particular outcome,  
4 but they do want to see one that has, in terms of  
5 maintaining the rating, they want to see one that  
6 supports that level of rating and supports the  
7 ongoing financial integrity of the company.

8 Q. On a completely different subject you'll  
9 recall that you were asked some hypotheticals by  
10 Mr. Oliker.

11 A. Yes, sir.

12 Q. Let me ask you about one or maybe it was  
13 two of them, and it was the one in which you were  
14 asked to assume that Mr. Jackson employed RTO  
15 accounting, a particular type of accounting, and  
16 excluded revenues. Do you recall that?

17 A. Yes.

18 Q. If you added to his hypothetical that  
19 instead of revenues being excluded that expenses and  
20 revenues netted to zero so that it did not affect  
21 Jackson's calculation, then would you be concerned  
22 that your calculations would have an inadequate basis  
23 or an unreliable basis?

24 A. No, I would not --

25 MR. OLIKER: I would object, your Honor.

1 EXAMINER PRICE: Grounds?

2 MR. OLIKER: He has not completed his  
3 hypothetical to explain how they would not have  
4 affected Mr. Jackson's calculation, he just says they  
5 wouldn't affect them. Revenue and expenses is only a  
6 small portion of it.

7 MR. FARUKI: If they net, if revenues and  
8 expenses net to zero, I think I did explain it, your  
9 Honor.

10 EXAMINER PRICE: I certainly gave you a  
11 lot of leeway in your hypotheticals, Mr. Oliker, and  
12 we'll extend the same courtesy to Mr. Faruki.

13 MR. FARUKI: Your Honor, he had started  
14 an answer, if I could have that piece of his answer  
15 read back and he could finish it.

16 EXAMINER PRICE: Please.

17 (Record read.)

18 A. That's a nice introduction.

19 Q. (By Mr. Faruki) That's a good start.  
20 Complete your answer, please.

21 A. All right. To the extent that things  
22 similarly affect the revenues and expenses, then the  
23 operating income and everything below the operating  
24 income line in the income statement are unaffected.  
25 There really isn't any effect in terms of the cash

1 flow in that respect. So apart from a couple of  
2 financial ratios, say the gross margin that is just  
3 looking at revenues, say, none of the usual financial  
4 metrics would be affected by that and certainly the  
5 substance of the company would not.

6 Indeed, if you flipped it the other way  
7 and say that they inflated revenues and inflated  
8 expenses by equal amounts, you know, would that have  
9 any effect and you'd say no, but why would you do  
10 that?

11 So to the extent that operations are a  
12 wash, there's really no need for inclusion of them,  
13 and that we see in many other areas.

14 MR. FARUKI: Your Honor, may we go off  
15 the record, I just need to consult. I think I'm  
16 done, maybe a few more questions but I need a minute.

17 EXAMINER PRICE: No problem. Let's go  
18 off the record.

19 (Recess taken.)

20 EXAMINER PRICE: Let's go back on the  
21 record.

22 Q. Dr. Chambers, is it accurate that you are  
23 unaware of whether or not DP&L has any opportunity to  
24 raise revenues through a distribution rate case?

25 A. I'm not aware of any specifics in that

1 regard. I think I testified earlier that I believe  
2 that they were entitled to that and decided not to do  
3 that, but I do not know the details of that so I  
4 really can't answer that definitively.

5 MR. FARUKI: Your Honor, I was tempted to  
6 slice the pizza hypothetical since pizza shops are  
7 not a monopoly, but I will rest at this point.  
8 That's all I have, thank you.

9 EXAMINER PRICE: Thank you.

10 Recross, Mr. Lang.

11 MR. LANG: Yes, your Honor.

12 - - -

13 RECROSS-EXAMINATION

14 By Mr. Lang:

15 Q. To Mr. Faruki's question to you about  
16 coal generation, is it your opinion that DP&L  
17 customers should subsidize DP&L's choice to use coal  
18 generation whenever the margin on coal generation  
19 declines?

20 A. I don't know that I can really answer  
21 that. The fact is that DP&L owns coal-fired plants,  
22 and at this point in the business/economic cycle they  
23 are the disadvantage relative to gas-fired plants.

24 Q. And your testimony doesn't take into  
25 consideration the last 13 years of transition period

1 they had under Ohio law with regard to those  
2 coal-fired plants, correct?

3 A. I offer no opinion with respect to the  
4 history there. I was talking about the present  
5 situation as I understand it to be.

6 Q. But it is your opinion that market  
7 pricing is not economically confiscatory, correct?

8 A. Inherently not.

9 MR. LANG: That's all. Thank you, your  
10 Honor.

11 EXAMINER PRICE: Ms. Grady?

12 MS. GRADY: Thank you, your Honor.

13 - - -

14 RE-CROSS-EXAMINATION

15 By Ms. Grady:

16 Q. Mr. Chambers, are there circumstances  
17 under which the support of the subsidiary by the  
18 parent would be justified?

19 A. Yes, many instances occur where support  
20 of a subsidiary by a parent can be justified. I  
21 think any parent, in order to provide that support,  
22 must look at it as any other investor would.

23 There are other implications and we're  
24 not talking about owning five shares of stock or  
25 something like that, but as a major investor there's

1 no inherent reason why a parent would inject funds,  
2 say, into a subsidiary unless that is a wise decision  
3 and a wise investment decision. And unless they can  
4 obtain a reasonable rate of return from that  
5 investment.

6 Otherwise, if you say, well, the  
7 subsidiary is in distress and the parent should bail  
8 it out, well, that's just throwing good money after  
9 bad from the parent's standpoint if there's no  
10 prospect of a reasonable return on that investment.

11 Q. And do you believe that the subsidiary  
12 DP&L is in distress?

13 A. This moment, no.

14 Q. And do you --

15 A. But they -- but the prospect of them  
16 being in significant financial distress over the next  
17 several years, even with the approval of the plan as  
18 submitted -- as filed by the company, I think is very  
19 evident and that is the, really the substance of my  
20 analysis, that, you know, it's -- you might say,  
21 well, it's, you know, a person has just fallen out of  
22 an airplane without a parachute. Well, as they're  
23 falling down through the air they're very healthy,  
24 it's only when they hit the ground that there's a  
25 problem. But you can say even as they're falling



1 that there is evidence of distress and you can look  
2 ahead and say there isn't a good outcome from this.

3 So you can't look at finance or financial  
4 analysis and just take a snapshot and say at this  
5 moment in time everything's okay. There are really  
6 several different methods for financial analysis, one  
7 is that snapshot, one is to look at the trends over  
8 time, one is to look at comparisons, a  
9 cross-sectional analysis of a company vis-a-vis  
10 others.

11 And in the midterm exam that I gave  
12 yesterday most of the students answered it properly  
13 that the snapshot was the worst form of ratio  
14 analysis and the worst form of analysis. It gives  
15 the most misleading thing, understanding of the  
16 company.

17 If you follow it over time as we have in  
18 my analysis, we see that significant financial  
19 distress is not that far away and I see very little  
20 prospect for reversing that course.

21 EXAMINER PRICE: Dr. Chambers, to follow  
22 up on your analogy, your analysis only looks forward  
23 and doesn't review the decision perhaps of your  
24 person without a parachute to hand their parachute to  
25 the parent, does it? Before they fell out of the

1 plane.

2 THE WITNESS: No, you're absolutely  
3 right, your Honor.

4 EXAMINER PRICE: It has no retrospective  
5 look at what might have happened in the past.

6 THE WITNESS: That's correct.

7 EXAMINER PRICE: Thank you.

8 MS. GRADY: Thank you, Mr. Chambers, I  
9 have no further questions.

10 MR. BOEHM: Excuse me, your Honor, I do  
11 have --

12 EXAMINER PRICE: We're going to let  
13 Mr. Oliker go first.

14 MR. BOEHM: I'm sorry.

15 EXAMINER PRICE: We'll come back around.

16 MR. OLIKER: Thank you, your Honor. Just  
17 one or two questions.

18 - - -

19 RECROSS-EXAMINATION

20 By Mr. Oliker:

21 Q. Dr. Chambers, you did not review or  
22 analyze any individual pro forma projections for  
23 DP&L's generation business, correct?

24 A. That's correct, I did not look at any of  
25 the pieces, segments of DP&L, I just looked at the

1 overall company as an integrated whole.

2 Q. Okay. So the same answer would apply to  
3 the distribution and transmission business?

4 A. Yes, and I believe you addressed that  
5 earlier.

6 Q. Dr. Chambers, there are several different  
7 ways of calculating transition charges, correct?

8 A. Yes. I believe I agreed with that  
9 statement earlier.

10 MR. OLIKER: Thank you. I have no more  
11 questions, your Honor.

12 Thank you, Dr. Chambers.

13 THE WITNESS: Thank you.

14 EXAMINER PRICE: Mr. Petricoff?

15 MR. PETRICOFF: No questions, your Honor.

16 EXAMINER PRICE: Mr. Boehm?

17 MR. BOEHM: Just a few.

18 - - -

19 RECROSS-EXAMINATION

20 By Mr. Boehm:

21 Q. Following up, Dr. Chambers, on some of  
22 the questions that were asked you by your counsel and  
23 by the Attorney Examiner, did you look backwards, and  
24 I know you've talked about only looking forwards, did  
25 you look backward over the history of the company to

1 see what, if anything, the company could have or  
2 should have done if it saw the decline in margins  
3 that are affecting it now?

4 A. No, I did not.

5 Q. Okay. If it were the fact, we'll call  
6 this a hypothetical, Dr. Chambers, that since about  
7 2001 the company had been earning rates of return  
8 very near 20 percent and had been giving dividends to  
9 its parent company, can you think of anything that  
10 the company could have or should have done instead of  
11 that to prepare for the situation in which it finds  
12 itself right now?

13 MR. FARUKI: I'll object to the  
14 incomplete hypothetical.

15 EXAMINER PRICE: Overruled.

16 A. I addressed one aspect of your question  
17 in my report establishing the basis for the pro forma  
18 analysis that I undertook. I explained in part that  
19 from an economic standpoint debt was incurred at the  
20 DPL, Inc. level and shifted down to DP&L in the form  
21 of equity. And the pro forma adjustment tended to  
22 correct that as well as cast DP&L in a framework much  
23 closer to that of other integrated utilities.

24 So I think the profit level and the  
25 dividends in the past from DP&L that were --

1 dividends paid to DPL, Inc. are, in part, and very  
2 rationally so, should not be looked at purely as  
3 profit and dividends but means as payment in support  
4 for the debt levels at that parent level and, indeed,  
5 the rating agencies in their reports note the same  
6 element of that, one of which I think we read into  
7 the transcript today.

8 So the, I think the reality of what we  
9 saw was somewhat misleading in terms of the economic  
10 effect of that. But I don't know that I can go  
11 further in terms of addressing your hypothetical if  
12 you're just saying there is a rich company that is  
13 sending huge amounts of booty up to its parents,  
14 then, you know, certainly on its surface that raises  
15 some real questions.

16 If you look at it more from the  
17 standpoint of how it effectively functioned, I think  
18 it casts a very different light on that.

19 Q. I think in another part of the  
20 hypothetical, Dr. Chambers, was that the company  
21 should have, did or should have seen that it was  
22 coming on to hard times and how would it use that  
23 profit to cushion the blow, if you will, the effect  
24 on the company during the hard times.

25 MR. FARUKI: Same objection.

1 EXAMINER PRICE: Overruled. He can  
2 answer if he knows.

3 A. I think any company that is enjoying a  
4 period of prosperity should make some preparations  
5 and utilize that flexibility for periods where  
6 prosperity may not be so great. But I haven't  
7 studied the past situation to be able to add any more  
8 detail with respect to DP&L or DPL, Inc.

9 Q. So you don't know whether or not that was  
10 done in this case.

11 A. That's correct, I cannot answer that with  
12 any degree of knowledge.

13 MR. BOEHM: That's all the questions I  
14 have, your Honor, thank you.

15 EXAMINER PRICE: No questions?

16 MR. SINENENG: No questions, your Honor.

17 EXAMINER PRICE: Mr. Williams?

18 MR. WILLIAMS: None.

19 EXAMINER PRICE: Mr. McNamee?

20 MR. McNAMEE: The record is fine, I have  
21 no questions.

22 EXAMINER PRICE: I have one brief  
23 question. Go back to OCC Exhibit 5, I think your  
24 counsel -- Exhibit 3 your counsel directed you to the  
25 section on liquidity.

1 THE WITNESS: Yes, your Honor.

2 EXAMINER PRICE: In this right underneath  
3 the bold Liquidity on Bates stamped 53776 it says  
4 "Liquidity is 'adequate' under Standard & Poor's  
5 corporate liquidity methodology, which categorizes  
6 liquidity in five standard descriptors."

7 Can you tell the Bench, do you know what  
8 the five standard descriptors are?

9 THE WITNESS: It's basically strong,  
10 good, adequate, substandard, weak. I forget off the  
11 top of my head, but I can check, the specific names,  
12 but basically it's that five kind of categories. So  
13 "adequate" basically is in the middle or maybe the  
14 notch below that.

15 EXAMINER PRICE: On a five-point scale  
16 it's probably a three.

17 THE WITNESS: Yeah, probably. It may be  
18 the two. I forget the exact definitions of those,  
19 but they are, you know, it certainly is okay but not  
20 terribly strong.

21 EXAMINER PRICE: Okay. Thank you.

22 Thank you, you're excused.

23 THE WITNESS: Very good. Thank you, your  
24 Honor.

25 MR. FARUKI: May we go off the record.

1 EXAMINER PRICE: We may.

2 (Discussion off the record.)

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

5 MR. FARUKI: Your Honor, I reoffer the  
6 direct prefiled testimony of Dr. Chambers, DP&L  
7 Exhibits 4 and 4A respectively for the public and  
8 confidential versions.

9 MR. OLIKER: Your Honor, I would object  
10 and renew my motion to strike.

11 EXAMINER PRICE: We're going to continue  
12 to take your motion to strike under advisement, so  
13 we're going to defer ruling on the motion for  
14 admission until first thing tomorrow morning.

15 MR. OLIKER: Thank you, your Honor.

16 EXAMINER PRICE: We haven't had a chance  
17 to sit down and look at the testimony.

18 MS. GRADY: Your Honor, I would renew my  
19 motion to strike.

20 EXAMINER PRICE: We're not going to renew  
21 our denial, sorry.

22 Anything else for us, Ms. Grady?

23 MS. GRADY: Yes, I'd move for the  
24 admission of OCC Exhibits 3, 4, and 5.

25 EXAMINER PRICE: Any objections to



1 admission of Exhibits 3, 4, and 5?

2 MR. FARUKI: No, your Honor.

3 EXAMINER PRICE: Those will be admitted.

4 (EXHIBITS ADMITTED INTO EVIDENCE.)

5 EXAMINER PRICE: Thank you all, we're off  
6 the record, we'll begin again at 9:00 o'clock  
7 tomorrow.

8 (Hearing adjourned at 6:36 p.m.)

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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, March 19, 2013, and carefully compared with my original stenographic notes.

Maria DiPaolo Jones, Registered  
Diplomate Reporter and CRR and  
Notary Public in and for the  
State of Ohio.

My commission expires June 19, 2016.

(71801-MDJ-PUBLIC)

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Summary: Transcript in the matter of Dayton Power and Light Company hearing held on 03/19/13 - Volume II - Public Version electronically filed by Mrs. Jennifer Duffer on behalf of Armstrong & Okey, Inc. and Jones, Maria DiPaolo Mrs.