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BEFORE THE  
PUBLIC UTILITIES COMMISSION OF OHIO PUCO

THE DAYTON POWER AND LIGHT COMPANY  
CASE NO. 05-276-EL-AIR

TESTIMONY OF  
GARY G. STEPHENSON  
IN SUPPORT OF THE STIPULATION  
AND RECOMMENDATION

NOVEMBER 4, 2005

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

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**I. INTRODUCTION**

**Q. Please state your name.**

A. Gary G. Stephenson.

**Q. Did you file Direct, Supplemental, and Post-Staff Report testimony in this matter?**

A. Yes, I did.

**Q. What is the purpose of this testimony?**

A. The purpose of this testimony is to explain DP&L's estimates of generation prices in 2006 through 2010. Dona Seger-Lawson uses those estimates to support the reasonableness of the Stipulation and Recommendation in this matter.

**II. DP&L'S PROJECTIONS OF MARKET PRICES**

**Q. Have you examined the retail market prices for the five-year period covered by the Stipulation?**

A. Yes, I did. A summary of the Company's analysis is attached to this testimony as Schedule A and shows, for each of the retail load profiles, the retail market-based generation prices for each of the years 2006 – 2010.

**Q. Can you describe the methodology that the Company employed to arrive at market prices for residential customers?**

A. Yes. The Company first determined the wholesale power prices for this period at a traded hub and then made adjustments to the wholesale price to craft prices that reflect the generation market prices for retail customers in DP&L's load zone.

**Q. Can you describe these adjustments?**

A. Yes. These adjustments correct for the load factor of retail customers, meaning that we need to look at how much energy a given customer will use during low priced off peak hours vs. higher priced on peak hours. They include the cost of capacity credits required by PJM. There is an adjustment to recognize the administrative cost of providing LSE services as well as delinquency risk. They include a margin for the third party provider of the energy. They adjust for the difference in DP&L's tariff rate for transmission and ancillary services and the rate that a third party provider would have to pay to PJM for those same services.

**Q. Why are there more profiles than there are retail rates?**

A. The profiles represent groups of customers that are similar in their usage patterns and represent subgroups of DP&L tariff classes. These profiles give us more accurate information about how groups of customers use energy and help us to better determine the cost to serve each of these groups.

**Q. Please describe how the wholesale prices were derived.**

A. The 2006 and 2007 prices are based on broker quotes and represent prices being transacted in the wholesale power market. Due to illiquidity in the wholesale market

beyond 18 months to 2 years, a fundamental forecast was used for the 2008 – 2010 period.

**Q. Can you provide more detail on the fundamental forecast used for 2008 – 2010?**

A. Yes. Power prices maintain a relatively consistent relationship to natural gas prices due to the number of hours where the market clearing price of electricity is set by natural gas fired generation. Due to this relationship, natural gas is one of the main drivers of the fundamental forecast. DP&L used a conservative approach to forecasting natural gas prices for this period. NYMEX prices for natural gas for 2008-2010 have averaged \$8.39/dth for 2008, \$7.60 for 2009 and \$7.07 for 2010 for the last 30 days. DP&L's forecast was a combination of outside consultants' forecasts and DP&L's own proprietary view. These forecasts yielded gas prices of \$7.49, \$6.49 and \$5.93 for the same period and reflect the belief that increasing LNG imports will moderate the mid term price of natural gas to levels considerably lower than those currently trading on NYMEX.

**Q. Can you explain what NYMEX prices are?**

A. The New York Mercantile Exchange (NYMEX) is an organized exchange where commodity futures contracts are transacted. Natural gas futures, which are an exchange traded futures commodity, are standardized contracts that enable a buyer and seller to transact a contract specified quantity of the commodity for a fixed time in the future at a price agreed to when the contract is made. The futures price is the price agreed to on the

contract date for the future contract period. It is the price that buyers and sellers are willing to transact for the future period.

**III. CONCLUSION**

**Q. Does this conclude your testimony on the Stipulation?**

**A. Yes, it does.**

**CERTIFICATE OF SERVICE**

I certify that a copy of the Testimony of Gary G. Stephenson in Support of the  
Stipulation and Recommendation has been served via hand delivery, upon the following counsel,  
this 4th day of November, 2005:

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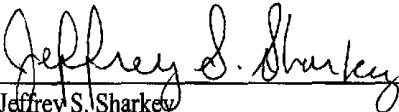
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Schedule A

Profile	2006 Buildup Price	2007 Buildup Price	2008 Buildup Price	2009 Buildup Price	2010 Buildup Price
RH01	\$ 76.74	\$ 71.10	\$ 69.58	\$ 71.08	\$ 69.96
RS00	\$ 71.53	\$ 71.95	\$ 70.37	\$ 71.32	\$ 70.57
RS01	\$ 79.23	\$ 74.23	\$ 73.28	\$ 76.24	\$ 76.29
RS02	\$ 77.34	\$ 71.70	\$ 70.04	\$ 70.76	\$ 69.91
SS00	\$ 74.32	\$ 68.58	\$ 66.60	\$ 66.15	\$ 64.91
SS01	\$ 75.85	\$ 70.22	\$ 68.49	\$ 68.96	\$ 68.00
SS02	\$ 69.56	\$ 64.09	\$ 62.03	\$ 61.21	\$ 59.72
SS03	\$ 78.20	\$ 72.57	\$ 70.93	\$ 71.77	\$ 70.94
SS04	\$ 75.45	\$ 69.63	\$ 67.58	\$ 66.90	\$ 65.62
SS05	\$ 73.50	\$ 67.94	\$ 66.02	\$ 65.72	\$ 64.60
SS06	\$ 71.11	\$ 65.47	\$ 63.32	\$ 62.15	\$ 60.67
PR01	\$ 68.08	\$ 62.80	\$ 60.84	\$ 59.98	\$ 58.65
SC01	\$ 79.30	\$ 74.56	\$ 73.38	\$ 75.68	\$ 75.36
TS01	\$ 69.57	\$ 63.80	\$ 61.47	\$ 59.77	\$ 58.03
ISS1	\$ 73.19	\$ 67.64	\$ 65.85	\$ 65.80	\$ 64.77
ISS2	\$ 69.87	\$ 64.53	\$ 62.59	\$ 62.01	\$ 60.78
IPS1	\$ 68.18	\$ 62.81	\$ 60.75	\$ 59.60	\$ 58.20
IPR1	\$ 69.26	\$ 63.95	\$ 62.06	\$ 61.34	\$ 60.12
IPR2	\$ 67.04	\$ 61.78	\$ 59.77	\$ 58.70	\$ 57.34
IHV1	\$ 64.19	\$ 58.91	\$ 56.89	\$ 55.76	\$ 54.33
SL01	\$ 62.37	\$ 58.49	\$ 57.46	\$ 59.82	\$ 59.10