

BEFORE THE  
PUBLIC UTILITIES COMMISSION OF OHIO

THE DAYTON POWER AND LIGHT COMPANY  
CASE NO. 11-5730-EL-FAC

FUEL RIDER

DIRECT TESTIMONY  
OF G. AARON COOPER

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**BEFORE THE**

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**DIRECT TESTIMONY OF**

**G. AARON COOPER**

**ON BEHALF OF  
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1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. My name is G. Aaron Cooper. My business address is 1065 Woodman Drive, Dayton,  
4 Ohio.

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

6 A. I am employed by The Dayton Power and Light Company ("DP&L" or "Company") as  
7 Director, Fuel Procurement.

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

9 A. I assumed my present position in November 2008. Prior to that, I was the Senior  
10 Manager, Fuel Procurement, Commercial Operations beginning in June 2007.

11 **Q. What are your responsibilities in your current position and to whom do you report?**

12 A. In my current position, I am responsible for fuel procurement, logistics and contract  
13 administration. I report to David Crusey, Vice President, Commercial Operations

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

15 A. I received a Bachelor of Science degree, summa cum laude, from Miami University in  
16 1991. I have been employed by DP&L since 1988. I have previously worked in  
17 Regulatory Operations as Manager of Retail Pricing, as a Manager and Account Manager  
18 in the DPL Inc.'s unregulated retail electric service subsidiary DPL Energy Resources,  
19 and in the DP&L distribution business in major customer account management and

1 supervision of various operational activities including electric construction, field service  
2 and meter reading.

3 **II. PURPOSE OF TESTIMONY**

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

5 A. The purpose of this testimony is to discuss certain aspects of the Report of the  
6 Management/Performance and Financial Audit of the Fuel and Purchased Power Rider of  
7 The Dayton Power and Light Company (the Fuel Audit Report submitted in Case No. 11-  
8 5730-EL-FAC) prepared by Energy Ventures Analysis, Inc. and Larkin & Associates  
9 PLLC. I will specifically address the Fuel Audit Report recommendation 1.a. (found on  
10 page 1-7) that addresses incremental handling and trucking costs for the coals unloaded at  
11 Killen Station and trucked to Stuart Station in November 2011.

12 **III. TRUCKING COSTS SHOULD NOT BE DISALLOWED**

13 **Q. Please describe the circumstances under which trucking costs were incurred to**  
14 **deliver coal to the Stuart Station.**

15 A. On November 22, 2011, there was an equipment failure on the Stuart Station unloader  
16 that temporarily made it impossible to unload coal from barges on the Ohio River thus we  
17 were unable to get the coal into the Station. At the time the unloader went down, and  
18 based on projected burn rates, the Stuart Station had approximately 26 days of coal  
19 inventory already delivered and on its pile available for use. DP&L also had another 17  
20 days of supply on barges bound for or already at Stuart Station. Within 24 hours, DP&L  
21 had made some preliminary assessments of the scope of the equipment failure and  
22 projected that it would take approximately 14 days to return the unloader back to service.

1 Based on these projections, there was sufficient coal on the pile to keep Stuart running  
2 until the unloader returned to service. But that assessment might not have proven to be  
3 true if during the repairs additional problems were discovered that extended the repair  
4 period or if unexpected weather conditions caused electric demand to rise substantially  
5 above projections.

6 As a precautionary measure, therefore, DP&L determined that a limited amount of coal  
7 bound for Stuart Station would be delivered to Killen Station to be unloaded and, from  
8 there, trucked to the Stuart Station. Trucking began on November 23, 2011 and  
9 continued for a period of 10 days. A total of 104,998.26 tons were trucked at a total cost  
10 of \$684,183.43. Of note, only \$70,492 of these costs actually was charged to the Fuel  
11 Rider. This is because DP&L's share of Stuart Station is 35% and during this period of  
12 time, much of Stuart Station's output (and associated costs) were being allocated to  
13 DP&L's non-jurisdictional sales. Only about 10% of Stuart Station's costs, including  
14 these trucking costs, were assigned to DP&L's SSO customers and charged through the  
15 Fuel Rider.

16 **Q. Was the decision to unload coal at Killen Station and truck it to Stuart Station a**  
17 **prudent decision?**

18 **A.** Yes it was. As noted above, while the coal on the Stuart Station pile would have been  
19 sufficient to keep Stuart Station operating based on the projections made of coal burn and  
20 repair time, projections are not guarantees. Stuart Station was a supply resource that was  
21 cheaper than the alternative of supplying power from the wholesale market and therefore  
22 continued operations was the lowest cost alternative. In addition, under the contract that  
23 DP&L has with the barge company, additional charges known as demurrage charges can

1 be imposed if a barge arrives at its destination and then waits in the harbor for days prior  
2 to being unloaded. DP&L saved more money in avoided demurrage charges than it  
3 incurred in trucking costs by making the decision to unload coal bound for Stuart Station  
4 at the Killen Station. The Fuel Audit Report recognizes those savings and calls that  
5 decision a prudent one (p. 3-12).

6 **Q. If the Fuel Audit Report agrees that the decision to unload at Killen Station was**  
7 **prudent, what is the purported justification for disallowing the trucking costs?**

8 A. The Fuel Audit Report appears to believe once the barge was unloaded at Killen, the coal  
9 should have just remained at the Killen Station and either settled between Stuart and  
10 Killen financially or through an offsetting delivery of some future barge with coal bound  
11 for Killen to be delivered instead to Stuart.

12 **Q. Is the approach suggested by the Fuel Audit Report acceptable?**

13 A. No. That approach would not have resulted in coal supplies being available for use at  
14 Stuart Station to guard against the risk of running short of coal in the event that the  
15 unloader repairs took longer than expected or weather conditions caused Stuart Station's  
16 burn rate to be higher than expected.

17 **Q. Did the Fuel Audit Report have an alternative justification for disallowing the**  
18 **trucking costs?**

19 A. Yes. The suggestion is made that the inventory levels may have been too low as of the  
20 time the unexpected unloader outage occurred.

1 **Q. Does the Fuel Audit Report actually state that DP&L made an imprudent decision**  
2 **to reduce fuel inventories to the level that they were at when the unloader outage**  
3 **occurred?**

4 A. No. The Fuel Audit Report proposes a disallowance based on a theory unrelated to  
5 prudence. The theory appears to be that a reduced coal inventory level means that the  
6 Company has lower working capital and thus financially benefited from that lower  
7 inventory. Working capital is not usually included in a fuel rider but is instead included  
8 in a cost-based generation rate calculation. The Audit Report then concludes that since  
9 the Company received that benefit of lower working capital, it should then pay for (not  
10 recover through the fuel rider) the trucking costs.

11 **Q. Do you agree with that conclusion?**

12 A. No. The costs of transportation, whether by barge, rail, or truck is a fuel cost properly  
13 recovered through the Fuel Rider in the absence of a finding of imprudence. Non-fuel  
14 costs such as working capital, whether they go up or down, are not relevant to the fuel  
15 rider. The Audit recommendations should not consider costs that are not part of the fuel  
16 rider as offsets or add-ons to costs that are validly included in the fuel rider such as  
17 transportation or trucking costs. DP&L's non-fuel rates are not at issue in this case and  
18 any costs or benefits that would normally be included in non-fuel rates should not be  
19 considered in this fuel case.

20 **Q. Was the level of inventory at Stuart Station at the time of the outage a result of**  
21 **imprudent management decisions?**

1 A. No. There are several reasons the Stuart Station coal pile was at a 26 day inventory when  
2 the unloader went down. The most significant reason is the capability of the unloader  
3 itself and Stuart Station's burn rates. The unloader was designed to match closely with  
4 Stuart Station's maximum burn rate. Thus, during the summer months in particular,  
5 when Stuart Station's burn rate is approaching its maximum, the unloader is unloading  
6 enough coal each day to meet the daily burn with little or no "extra" to place on the pile.

7 A second major factor affecting the inventory size was that there was abnormally high  
8 water levels during much of the spring that significantly reduced the number of barges  
9 that could deliver coal to Stuart Station prior to the summer period. While high water  
10 occurs every year and barging schedules assume that there will be some difficulties in  
11 obtaining deliveries, the 2011 spring was worse than normal and, as a result, inventory  
12 levels were somewhat lower going into the summer than expected.

13 A third significant contributor was the fact that the unloader had a planned maintenance  
14 outage that was scheduled for 7 days beginning October 9, 2011. That outage was taken  
15 and, in fact, lasted 2 days longer than expected. The combination of these factors  
16 resulted in somewhat lower inventory levels on the Stuart Station pile than normal.

17 **Q. Was the equipment failure related to any activity done during the maintenance**  
18 **outage?**

19 A. No. The failure involved the hanging structure that suspends and connects the #1 and #2  
20 conveyors to the main support structure. This caused the tail end of the #1 conveyor to  
21 fall and rest on the #2 conveyor which had fallen to the ground. These are the first two  
22 conveyors that carry coal away from the coal unloader. This equipment was not a part of



1 the unloader system that was being inspected or maintained during the immediately  
2 preceding maintenance outage.

3 **Q. Do you have any other comments with respect to the Fuel Audit Report's suggestion**  
4 **that the inventory levels may have been too low?**

5 A. Yes. In the 2010 Fuel Audit Report, the Company's 2010 inventory levels were  
6 criticized for being too high. There was no suggestion in the 2010 Audit Report that  
7 because carrying costs incurred by the Company for that high level of inventory would  
8 have been elevated, customers should be charged additional fuel costs.

9 The Fuel Audit Report in 2010 stated that:

10 Stuart's actual inventory days are compared to both the minimum inventory levels  
11 and to average inventory levels for coal plants in PJM. Stuart's inventory levels  
12 were significantly above its stated minimum and for most of the year were  
13 significantly above the inventory levels for the other coal-fired plants in PJM.

14 The Fuel Audit Report's concern about this high inventory level was such that  
15 recommendations were made in the Report that DP&L should establish target levels of  
16 inventory in addition to the minimum levels that were reflected in its Coal Inventory  
17 Standard Operating Procedure, which is attached here as Exhibit 1.

18 I identified earlier the reasons why the inventory levels at Stuart Station were below  
19 normal at the time of the unloader outage and did not specifically identify the 2010 Fuel  
20 Audit Report's earlier criticism of high levels of inventory as a reason. But the 2010 Fuel  
21 Audit Report certainly created a context in which the Company was somewhat more  
22 cautious about building up its inventories, prior to the scheduled maintenance outage,  
23 than it otherwise might have been.

1 **Q. Do you have any comments regarding the Fuel Audit Report's view that coal in**  
2 **transit or in the harbor as part of the minimum inventory level "does not make**  
3 **much sense" and thus, minimums should include only usable coal on the pile?**

4 A. Yes. First, the Company's Coal Inventory Standard Operating Procedure (SOP) was  
5 reviewed during the 2010 Fuel Audit which spelled out in detail exactly how those  
6 minimum inventory levels were calculated. There were no issues raised at that time.  
7 Second, the reason that the minimum inventory levels include coal in transit is because  
8 the primary reason for having a minimum level as set forth in the SOP is to establish a  
9 trigger for renewed and strongly focused efforts to buy more coal. If the coal pile has 25  
10 days of burn and there is an additional 15 days worth of coal in barges that are already on  
11 their way, the SOP should not trigger additional buying activity because then the station  
12 would be well above the minimum levels. The Fuel Audit Report's proposal that only  
13 coal on the pile should be counted does not work well and would potentially trigger  
14 unnecessary and excessive purchases of coal during times when the unloader is operating  
15 normally and barge traffic is normal. Inventory on the river is important because of the  
16 quantity of ILB coal that DP&L buys, the corresponding length of the supply chain and  
17 the quantity of coal at various points along the delivery route.

18 **Q: Was the Company's minimum inventory level ever below the amount specified in its**  
19 **SOP?**

20 A: No. As noted, however, that minimum included coal in transit. DP&L made a prudent  
21 decision to take some of that coal in transit to Stuart Station by unloading it at Killen  
22 Station and trucking it to Stuart Station.

1 **Q: Do you have any additional comments that relate to the inventory levels at the**  
2 **Killen Station?**

3 A: Yes. As the Fuel Audit Report notes (3-13), Killen inventories were also drawn down  
4 during the course of 2011. They were drawn down by about the same percentage as the  
5 draw down at Stuart. As the summer season ended, the Company was able to rebuild  
6 those inventories due to the unloading capacity of Killen Station. The same rebuilding of  
7 inventories would have occurred at the Stuart Station in the absence of the unexpected  
8 equipment failure.



9 **IV. CONCLUSION**

10 **Q. Can you summarize your testimony?**

11 A. The Fuel Audit report's recommendation to disallow the trucking costs associated with  
12 the November 2011 unloader outage problems should be rejected. The audit report found  
13 the decision to truck the coal was prudent and like other transportation costs, these costs  
14 should be recoverable through the fuel rider.

15 **Q: Does this conclude your testimony?**

16 A: Yes.

  	<b>DPL STANDARD OPERATING PROCEDURE</b>  <b>Coal Inventory</b>	Revision Number: <b>04</b>
		Last Revision: <b>10/13/09</b>

**REFERENCES**

<b>SOP LEVEL</b>		
<input checked="" type="checkbox"/> Corporate	<input type="checkbox"/> Business Unit	<input type="checkbox"/> Department
<b>SOP TYPE</b>		
<input checked="" type="checkbox"/> Operational Procedure	<input type="checkbox"/> Business Practice	<input type="checkbox"/> Policy Statement
<b>SOP SENSITIVITY</b>		
<input type="checkbox"/> Confidential	<input type="checkbox"/> Business Sensitive/Limited Distribution	<input checked="" type="checkbox"/> Public Availability
<b>GOVERNANCE APPLICABILITY</b>		
[Check all that apply]		
<input type="checkbox"/> FERC Code of Conduct	<input type="checkbox"/> PUCO Code of Conduct	
<input type="checkbox"/> NERC Reliability Standards	<input type="checkbox"/> PUCO CAM	
Applicable Standard: <u>XXX-XXX</u>		
<input type="checkbox"/> NERC Compliance	<input type="checkbox"/> PUCO Reliability Compliance	
<input type="checkbox"/> NERC Data Confidentiality	<input type="checkbox"/> Other [please specify]: _____	
<input type="checkbox"/> SOX	<input checked="" type="checkbox"/> None	



**INTRODUCTION**

**1. PURPOSE**

- 1.1. To establish an inventory level for each generation station and a mechanism to identify and perform actions related to maintaining the fuel inventory levels.
- 1.2. To identify the triggers and process to activate the inventory recovery process.

**2. GENERAL**

- 2.1. The establishment of the inventory levels and activities will be coordinated through the Managing Director, Commercial Operations; Plant Managers; and CD/CCD co-owners (if applicable) and approved by the Vice President, Commercial Operations, and the Senior Vice President, Generation & Marketing.
- 2.2. Physical inventories that have been delivered and are "on the ground" help to mitigate the risk of vendor failure (to execute their contractual obligations) or any other disruptions to the supply chain.

 	<b>DPL STANDARD OPERATING PROCEDURE</b>  <b>Coal Inventory</b>	Revision Number: <b>04</b>
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The generation station will manage fuel unloading and placement, station inventory logistics, on-site fuel blending activities, utilization of fuel inventories and the monitoring of inventory levels. Inventory levels will be updated in the Fuels Management System (FMS).

2.3. Generation plants require different inventory levels based on size (daily fuel consumption), operational cycles, and logistical considerations.

2.3.1. O. H. Hutchings Station is a cyclical plant with considerably lower inventory level requirements and can generally build its inventory in a short period of time. O. H. Hutchings is normally supplied by a rail system and can be supplied by truck, if required.

2.3.2. Killen Station is a base-load plant with a single unit normally supplied coal by barge that is unloaded using a continuous bucket unloader. Coal can be unloaded using an extended reach excavator (clamshell) and/or partially supplied by truck, as necessary.

2.3.3. Stuart Station is a four-unit, base-load plant requiring large inventory levels and generally requiring significant periods of time to materially build inventory levels. Stuart Station is normally supplied coal by barge that is unloaded using a continuous bucket unloader. Coal can be unloaded using an extended reach excavator (clamshell) and/or partially supplied by truck, as necessary.

2.3.4. Utilizing an extended reach excavator to unload coal or delivering coal by truck at either station will be implemented when analysis indicates it to be the most effective method to meet the Company's supply chain and inventory objectives, or when required to meet critical minimum inventory levels as described in 3.4.



2.4. Periodic inventory counts will be managed by station personnel, with the reconciliation of book values to actual on-hand quantities to be made according to established DP&L accounting policies.

2.5. The following items commonly impact fuel inventory levels:

2.5.1. The critical path of fuel inventory logistics and management through multiple suppliers, transportation, and station unloading

2.5.2. Planned and unplanned (major and minor) unloader maintenance events at generation plant



2.5.2.1. Availability of repair material for equipment in critical path

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- 2.5.3. Water levels, traffic flow, and lock conditions of the delivery way upstream and downstream from point of origin to delivery point
- 2.5.4. Unforeseen variations in the normal throughput time of fuel delivery system (barge/rail), reduction of fleet counts and damage to barge, tow, or rail equipment
- 2.5.5. Performance and constraints of fuel suppliers, transportation contractors, mineral analysis laboratories, associated peripheral business partners, and the associated labor contracts for DP&L business partners
- 2.5.6. Regular seasonal occurrences including miners' holidays, hunting season, and berthing/river dredging restrictions
- 2.5.7. Fluctuations in wholesale energy prices and fuel supply/market price variations
- 2.5.8. Weather conditions that create fog and ice conditions which prohibit normal operations of the fuel delivery system
- 2.5.9. Financial and regulatory aspects of coal business can impact station inventory targets as permitting issues, reserves levels, and bankruptcies can impact production costs and levels.
- 2.5.10. Changes in supply may create longer delivery lead times and more constraints may be introduced.

2.6. The following items have been identified as those that more rarely impact fuel inventory levels:

- 2.6.1. Contract performance of the United Mine Workers Association and affiliates
- 2.6.2. Force majeure events including natural disasters and/or acts of terrorism taking place outside the direct supply chain
- 2.6.3. Adverse economic conditions and environmental and legislative constraints

  	<b>DPL STANDARD OPERATING PROCEDURE</b>  <b>Coal Inventory</b>	Revision Number: <u>04</u>
		Last Revision: 10/13/09

**DESCRIPTION OF PROCEDURE OR PRACTICE**

**3. PROCEDURE**

3.1. Inventory levels

Station	Inventory Level
<u>DPL Operated</u>	
Stuart	Normal Minimum of 30 days
Killen	Normal Minimum of 30 days
Hutchings	Normal Minimum of 30 days
<u>Partner Operated</u>	
Conesville	Range 20 - 30 days
Beckjord	Range 20 - 30 days
East Bend	Range 20 - 30 days
Miami Fort	Range 20 - 30 days
Zimmer	Range 20 - 30 days

3.2. The fuel inventory level will be available in FMS and will be used to approximate the number of days of inventory.



3.2.1. The days of inventory for Stuart, Killen and Hutchings will represent the fuel under DP&L control, to include any fuel in transit (barge/rail) or "on the ground" at the station. The number of days of inventory is equal to *operating inventory* divided by the *full burn rate*. Operating inventory is defined as actual inventory under control, less the *base inventory*. Base inventory levels are noted for each station as follows:

3.2.1.1. Stuart Base Inventory – 50,000 tons

3.2.1.2. Killen Base Inventory – 27,963 tons

3.2.1.3. Hutchings Base Inventory – 10,000 tons

3.3. Seasonal inventory increases may be employed to protect the increased probability of supply chain delays during periods of extreme weather (winter/summer).

 	<b>DPL STANDARD OPERATING PROCEDURE</b>  <b>Coal Inventory</b>	Revision Number: <u>06</u>
		Last Revision: 10/13/09

3.4. The generation plants, with Commercial Operations Logistics Director's input, will have the daily/weekly responsibility to manage the plant unloading rate based upon the daily operations, planned and unplanned maintenance events and supply chain availability. In the event the current days of inventory fall below 20 days, the Commercial Operations team will notify CD/CCD co-owners and executives and will follow the Alternate Coal Unloading Procedure developed by the stations.

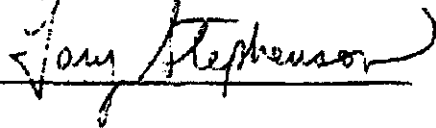
3.5. The stated process will be reviewed and approved annually.

**EXHIBITS AND APPENDICES** - None

**SIGNATURES**

Senior Vice President, Generation & Marketing

Date:



07-01-09

Vice President, Commercial Operations

Date:



10/22/09

Managing Director, Commercial Operations

Date:



10/19/09

Director, Operations & Logistics

Date:



10/11/09

5 of 6



File Name and Location: G:\Logistics\Department Management\SOP\Coal Inventory 10/13/09.doc

Next Required Review: 11/1/10

Revised by: Steve Allaire, Garrett Cochran, Brenda Hest

Business Owner: Commercial Operations



 	<b>DPL STANDARD OPERATING PROCEDURE</b>  <b>Coal Inventory</b>	Revision Number: 01
		Last Revision: 10/13/09

Director, Fuel Procurement

Date:

*J. Currow Cooper*

10/11/2009 *10/11/09*

Plant Manager Killen Station

Date:

*Michael Harrell* **Harrell, Michael**  
**Oct 23 2009 9:03 AM**

Plant Manager Stuart Station

Date:

*Mark S. Guerriero* **Guerriero, Mark S**  
**Oct 23 2009 9:27 AM**

Plant Manager - Hutchings Station

Date:

*Stewart Dawson* **Dawson, Stewart L**  
**Oct 23 2009 9:45 am**