

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2473

PUBLIC SERVICE COMMISSION OF THE
DISTRICT OF COLUMBIA

-----:
IN THE MATTER OF THE JOINT :
APPLICATION OF EXELON CORPORATION, :
PEPCO HOLDINGS, INC., POTOMAC :
ELECTRIC POWER COMPANY, EXELON : Formal Case
ENERGY DELIVERY COMPANY, LLC AND : 1119
NEW SPECIAL PURPOSE ENTITY, LLC :
FOR AUTHORIZATION AND APPROVAL OF :
PROPOSED MERGER TRANSACTION. : VOLUME IX
-----:

Washington, D.C.

Monday, April 20, 2015

The evidentiary hearing in the
above-captioned matter began at 10:03 a.m., at the
Public Service Commission of the District of
Columbia, 1333 H Street, Northwest, Washington,
D.C., 20005.

BEFORE: BETTY ANN KANE, Chairman

JOANNE DODDY FORT, Commissioner

WILLIE L. PHILLIPS, Commissioner

Reported by: Denise M. Brunet, RPR

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2474

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22 (Appearances continued on the next page.)

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2475

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22 (Appearances continued on the next page.)

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2476

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Capital Reporting Company
Formal Case No. 1119 04-20-2015

2477

1	C O N T E N T S				
2	WITNESS:	DIRECT	CROSS	REDIRECT	RECROSS
3	ELLEN LAPSON				
4	BY MR. LORENZO	2481			
5	BY MS. FRANCIS		2491		
6	BY MR. COYLE		25644		
7	BY MR. LORENZO			2652	
8	DAVID DISMUKES				
9	BY MR. GRAY	2658			
10	BY MR. GADSDEN		2659		
11	BY MR. GRAY			2719	
12	DONNA RAMAS				
13	BY MR. SEARS	2731			
14	BY MR. LORENZO		2733		
15	J. RANDALL WOOLRIDGE				
16	BY MS. LOPEZ	2761			
17	BY MR. LORENZO		2762		
18	BRUCE BURCAT				
19	BY MS. ELEFANT	2774			
20	BY MR. KULAK		2776		
21					
22					

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2478

1	EXHIBIT NO.	MARKED	RECEIVED
2	AOBA Cross 98	2494	2654
3	AOBA Cross 99	2536	2654
4	DCG Cross 108 through 116		2654
5	Joint Applicants (2K) ,		
6	(2K)-1 through (2K)-12,		
7	(3K) , (3K)-1 through		
8	(3K)-2, (4K) and (4K)-1		2654
9	OPC (A) , (A)-1 through		
10	(A)-45, (2A) , and (2A)-1		
11	through (2A)-5	2658	2730
12	Joint Applicants Cross 9	2661	2730
13	Joint Applicants Cross 10	2679	2730
14	Joint Applicants Cross 11	2680	2730
15	Joint Applicants Cross 12	2682	2730
16	Joint Applicants Cross 13	2685	2730
17	Joint Applicants Cross 14	2693	2730
18	Joint Applicants Cross 15	2695	2730
19	Joint Applicants Cross 16	2701	2730
20	OPC (C) and (C)-1		
21	through (C)-17	2733	2759
22	(Exhibits continued on the next page.)		

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2479

1	EXHIBIT NO.	MARKED	RECEIVED
2	OPC (2C), (2C)-1 and		
3	(2C)-2	2733	2759
4	Joint Applicants Cross 17	2764	2773
5	Joint Applicants Cross 18	2768	2773
6	OPC (D) and (D)-1		
7	through (D)-6	2772	2772
8	Joint Applicants Cross 19	2783	2825
9	Joint Applicants Cross 20	2785	2825
10	Joint Applicants Cross 21	2787	2825
11	Joint Applicants Cross 22		
12	and 23	2789	2825
13	Joint Applicants Cross 24	2796	2825
14	Joint Applicants Cross 25	2801	2825
15			
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Capital Reporting Company
Formal Case No. 1119 04-20-2015

2480

1 P R O C E E D I N G S

2 CHAIRMAN KANE: Good morning. After a
3 break, we are resuming evidentiary hearings in
4 formal case 1119, the proposed acquisition of
5 PEPCO -- of PHI Holdings by Exelon, et al.

6 Today, for the record, is Monday,
7 April 20th. We are starting at 10:03 a.m. And
8 let me ask, first of all, the parties if you have
9 any preliminary matters.

10 MR. LORENZO: None, Your Honor.

11 CHAIRMAN KANE: None. You've resolved
12 everything during the break.

13 Mr. Coyle?

14 MR. COYLE: I had one, Your Honor.

15 CHAIRMAN KANE: One. Yes, Mr. Coyle.

16 MR. COYLE: The joint applicants have
17 indicated privately that they're proposing to
18 waive cross-examination on D.C. government witness
19 Dr. Wilson. Dr. Wilson is local and can be made
20 available for questions for the Commission. I
21 don't expect an answer, you know, off the top of
22 your head, but if you could think about it and let

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2481

1 us know. It's no inconvenience for us to produce
2 him.

3 CHAIRMAN KANE: Thank you. We will
4 consider that.

5 All right. You may present your witness.

6 MR. LORENZO: Thank you, Your Honor. The
7 joint applicants call Ms. Ellen Lapson to the
8 stand.

9 WHEREUPON,

10 ELLEN LAPSON,
11 called as a witness, and after having been first
12 sworn by the secretary, was examined and testified
13 as follows:

14 MR. LORENZO: May I proceed, Your Honor?

15 CHAIRMAN KANE: Yes, please.

16 DIRECT EXAMINATION

17 BY MR. LORENZO:

18 Q Ms. Lapson, can you please state your
19 name for the record.

20 A Ellen Lapson.

21 Q And by whom are you employed?

22 A Lapson Advisory.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2482

1 MR. LORENZO: Your Honor, pursuant to the
2 order 17790, Ms. Lapson's supplemental direct,
3 rebuttal and February 17th, 2015 supplemental
4 direct testimony will be stipulated into the
5 record. Ms. Lapson's supplemental direct
6 testimony is labeled (2K) with Exhibits (2K)-1
7 through (2K)-12. Ms. Lapson's rebuttal testimony
8 is preliminarily labeled (3K) with Exhibits (3K)-1
9 and (3K)-2. And Ms. Lapson's February 17th, 2015
10 supplemental direct is preliminarily marked as
11 Exhibit (4K) and (4K)-1.

12 And, Your Honor, we do have some limited
13 rejoinder testimony that we'd like -- oral
14 rejoinder that Ms. Lapson will give. So I'll
15 proceed with that.

16 CHAIRMAN KANE: Yes, please.

17 BY MR. LORENZO:

18 Q Good morning.

19 A Good morning.

20 Q In the supplemental direct testimony,
21 AOBA witness Mr. Oliver claims that because joint
22 applicants' commitment number 35 does not

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2483

1 explicitly require Exelon to contribute additional
2 equity capital to PHI and PEPCO, Exelon will
3 inadequately fund PEPCO's equity needs. Do you
4 agree?

5 A No, I completely disagree. I do not
6 think that PEPCO is in any danger of losing access
7 to adequate equity funding as a result of the
8 merger.

9 The fact that there is not a formal legal
10 requirement in that particular commitment,
11 number 35, is really not relevant to whether
12 Exelon will fund capital into PEPCO -- into PHI.
13 The absence of a formal legal requirement there is
14 really because this is a ring-fencing commitment
15 that is similar to other types of structured
16 finance transactions. It's patterned after
17 structured finance forms.

18 But what is really relevant for the
19 funding of the capital needs of PEPCO by Exelon is
20 that Exelon will be committed or bound only to the
21 same extent that PHI is. At the present time, PHI
22 does not have any formal commitment to fund

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2484

1 capital into PEPCO, and yet it does for the same
2 motivation that Exelon will have, and that
3 motivation is the expectation that this Commission
4 will allow a just and reasonable return on
5 capital.

6 And that same motivation will be in
7 effect for Exelon. It would be illogical for
8 Exelon to make this purchase if it did not
9 continue to make the investments into the equity
10 that will enable the company to grow and to
11 fulfill the expectations that investors have.

12 So I would say that it is not rational to
13 think that Exelon would acquire PHI at this great
14 price and then not make additional funding
15 available.

16 Q Thank you. But what if Exelon were
17 unable or unwilling to supply equity funding to
18 PHI and/or PEPCO? Would PEPCO have other sources
19 of such funding?

20 A Yes, it would. I think that most of the
21 witnesses here have acknowledged that the first
22 and primary source of funding for the equity needs

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2485

1 of PEPCO is PEPCO's retained earnings, but in the
2 event that those retained earnings are not enough
3 due to the large capital budget that PEPCO has,
4 PEPCO of course has access to receive equity
5 commitments from Exelon, and if Exelon were not
6 able to do so, then PHI and PEPCO both have the
7 ability to issue preferred stock, and there is no
8 preferred stock at either PHI or PEPCO at the
9 present time.

10 So that would be another source of
11 funding that would be available to provide an
12 equity level for the capital expenditures and
13 construction needs of PEPCO.

14 Q Ms. Lapson, are you available (sic) as to
15 whether Exelon has supplied its other utility
16 subsidiaries with equity funding?

17 A Well, to my knowledge, Exelon has infused
18 equity into its utility subsidiaries over and
19 above the earnings retention of those
20 subsidiaries, and I base this on a review of the
21 published financial statements of the utility
22 subsidiaries of Exelon.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2486

1 Exelon, to my knowledge, has not withheld
2 any growth capital investment from the utility
3 subsidiaries, Baltimore Gas and Electric, PECO and
4 Commonwealth Edison, and all three of them have
5 received equity contributions from Exelon.

6 Q Thank you. AOBA witness Mr. Oliver also
7 claims that Exelon's ring-fencing commitment that
8 PHI will not issue additional long-term debt
9 securities will impose a financial burden on PEPCO
10 as it relates to PEPCO's potential servicing of
11 that debt. Do you agree?

12 A No, I do not agree. In fact, I think
13 that this one commitment is a particularly
14 valuable commitment to PEPCO and to PEPCO's
15 customers. And I think that it is far and away
16 above any obligation that PHI has. PHI has no
17 obligation to reduce its debt and it carries
18 currently a significant long-term debt burden that
19 is considered by credit rating agencies and by
20 debt investors to be problematic for PHI and has
21 an effect on the ratings of PEPCO and the other
22 PHI subsidiaries.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2487

1 So the commitment by the joint applicants
2 that PHI will eliminate that debt over time as the
3 debt matures is a very materially favorable
4 commitment.

5 As to where the funding will come from to
6 do so, I think it is quite likely or possible that
7 that will come from equity contributions by
8 Exelon, but I've also already mentioned the fact
9 that also preferred stock is a possibility; PHI
10 could issue preferred stock if that were not
11 forthcoming.

12 But I would recommend that it will not be
13 a financial burden and it will lead in time to a
14 great reduction of financial leverage at PHI that
15 is currently affecting PEPCO.

16 Q District of Columbia government witness
17 Dr. Wilson raises a concern with respect to the
18 fact that PEPCO will not be structurally separated
19 from PHI by the placement of a special purpose
20 entity between PEPCO and PHI. Please comment.

21 A Well, based on my very long experience in
22 the capital markets and as a financial analyst and

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2488

1 debt analyst, I do not see any reason for
2 ring-fencing separating PEPCO from the other PHI
3 utility affiliates. The companies Atlantic City
4 Electric and Delmarva are -- present very
5 minimal -- minimal risk of default that could
6 possibly affect PEPCO.

7 And because of the merger commitments and
8 the reduction as a result of the merger
9 commitments in PHI's debt going forward and PHI's
10 commitment not to engage in other non-utility
11 businesses in the future, I don't see any reason
12 for ring-fencing between PHI and PEPCO. So I see
13 no gain to be gotten, no justification, no
14 reduction in risk as a result of ring-fencing
15 specifically at the PEPCO level.

16 Q Thank you. Dr. Wilson also raises
17 concerns regarding duration and a potential
18 removal of joint applicants' ring-fencing measures
19 post-merger. Please respond.

20 A If I remember correctly, Dr. Wilson
21 advocates for a ban on removing the ring-fencing
22 measures for ten years, and then only in a formal

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2489

1 proceeding with a stringent positive benefits
2 test.

3 I saw in his testimony no evidence or
4 rationale whatsoever for a ten-year ban. I don't
5 see that that is justified and I can only imagine
6 that it represents a lack of confidence that he
7 has in the D.C. commissioners to look out for the
8 best interests of the public and for the utility.

9 The utility industry is rapidly changing.
10 There are a lot of commitments here. Some of
11 these commitments could turn out to be very
12 onerous or inconvenient or awkward. And it would
13 seem to me that it would be best for the
14 commitment to be as it stands right now, that the
15 company can approach the Commission, make an
16 application, ask the application (sic) to consider
17 some amendment and consider what is in the best
18 interest and what produces the least -- you know,
19 any commitment that needs to be addressed could be
20 addressed in that way on a standard of no harm.

21 Q One final question, Ms. Lapson.
22 Dr. Wilson reasserts his double leverage argument

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2490

1 in his supplemental direct testimony. Is there
2 anything you would like to tell the Commission on
3 that point?

4 A The theory behind Dr. Wilson's argument,
5 the underlying implication of the double leverage
6 theory or the theory that specific financings are
7 about -- done by Exelon are specifically tied to
8 this transaction and give rise to gains on doing
9 this transaction runs completely contrary to
10 corporate finance theory and the understanding of
11 corporate finance, and it runs contrary to the
12 principles that the D.C. Public Service Commission
13 has used in the past in rate cases involving
14 PEPCO.

15 From my point of view as a financial
16 analyst, Exelon entered into this commitment to
17 purchase PHI based upon committing its entire
18 capital structure to make the payments. It is
19 using its financial resources at the Exelon level.
20 There is no specific financing that is being
21 entered into for the -- tied in any way to the
22 purpose of this acquisition and solely for this

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2491

1 acquisition.

2 Furthermore, Exelon's capital structure
3 has more equity in it than PHI's capital
4 structure. So it seems to me that the imputation
5 of specific debt financings that Exelon is
6 entering into and trying to tie those to this
7 transaction are just baseless and illogical and
8 contrary to corporate finance theory.

9 Q Thank you, Ms. Lapson.

10 MR. LORENZO: Your Honor, Ms. Lapson is
11 available for cross-examination.

12 CHAIRMAN KANE: Thank you. People's
13 Counsel.

14 MR. DANIELS: We have no questions for
15 Ms. Lapson.

16 CHAIRMAN KANE: Ms. Francis?

17 MS. FRANCIS: Good morning,
18 commissioners.

19 CROSS-EXAMINATION

20 BY MS. FRANCIS:

21 Q Good morning, Ms. Lapson.

22 A Good morning.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2492

1 Q I'm going to start off this morning by
2 asking you to look at a couple of data responses
3 that you previously provided. And first I would
4 like you to take a look at what was preliminarily
5 identified as AOBA 90 --

6 MS. FRANCIS: -- which, Your Honor, has
7 already been admitted into the record as AOBA 73.
8 BY MS. FRANCIS:

9 Q And if you'd take a look at the sponsor
10 of that data request, Ms. Lapson, you'll see that
11 it --

12 A I'm sorry. I'm not understanding. I
13 need a little help.

14 I see. Thank you. All right. I'm
15 there.

16 Q Now, if you take a look at that data
17 response, you will see that the sponsors are both
18 you and Mr. Khouzami.

19 A Yes.

20 Q Can you verify that that response is true
21 and correct?

22 A Yes.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2493

1 Q Now, please also take a look at what was
2 preliminarily identified as AOBA Exhibit 91 --

3 MS. FRANCIS: -- which, Your Honor, has
4 been received into evidence as AOBA 62.

5 BY MS. FRANCIS:

6 Q And you can see that you are also, along
7 with Mr. Khouzami, one of the sponsors of AOBA
8 Exhibit 91.

9 A Yes.

10 Q And is that response true and correct?

11 A Yes, to the extent that I am the sponsor
12 of that one.

13 Q Yes, of course.

14 A There's a follow-up response in March
15 that I did not sponsor. No, I did. I'm sorry.
16 Both of them. I sponsored both of them. Thank
17 you.

18 I do acknowledge them.

19 Q Okay. Thank you. Now, let's --

20 MS. FRANCIS: Your Honor, what's been
21 marked for identification as AOBA Exhibit 89 is
22 the joint applicants' response to AOBA data

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2494

1 request 2-10, which I would like to have marked
2 for the record as AOBA 98.

3 CHAIRMAN KANE: It will be so marked.

4 (AOBA Cross Exhibit Number 98 was marked
5 for identification.)

6 BY MS. FRANCIS:

7 Q And you can see, Ms. Lapson, that you are
8 the sponsor of that exhibit?

9 A Yes.

10 Q And when you filed that exhibit, was that
11 true and correct?

12 A Yes, it was.

13 Q Is the information in that packet still
14 true and correct?

15 A Number 89?

16 Q Yes.

17 A Is that what you're asking about?

18 Q Yes. Correct.

19 A It is correct, but I now hold further
20 views on this topic that are not reflected here.

21 Q Okay. And when did you come to determine
22 those extra views?

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2495

1 A In the course of these proceedings and
2 proceedings in Maryland and New Jersey, I thought
3 about things that could give rise to a need to
4 change a ring-fencing commitment and realized it
5 could be very granular.

6 Q So the response is not incorrect; it's
7 that you now want to supplement --

8 A To amplify it, yes.

9 Q To amplify it. Now, did you provide a
10 written amplification or a written supplemental
11 response?

12 A No, I haven't.

13 Q All right. Thank you.

14 Now, Ms. Lapson, am I correct that you
15 testified during my cross-examination of you in
16 Maryland in case 9361 -- that seems ages ago --

17 A It certainly does seem ages ago.

18 Q -- that, since founding Lapson Advisory,
19 you try to keep abreast of utility ratings reports
20 from each of the major ratings agencies: Fitch,
21 Moody's and S&P?

22 A Yes.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2496

1 Q But you do not have subscriptions to
2 Moody's or S&P, so, therefore, you do not have
3 full access to their reports, only to their
4 criteria and to their ratings levels which are
5 available publicly; is that correct?

6 A Correct.

7 Q Okay. Now, Ms. Lapson, am I correct that
8 you did not file direct testimony in this case on
9 June 18th, 2014?

10 A I'm sorry. Could you --

11 Q Am I correct that you did not file direct
12 testimony on June 18th, 2014 when the application
13 was filed?

14 A Oh. That's correct.

15 Q Now -- however, you filed rebuttal
16 testimony on December 17th and you filed two
17 pieces of supplemental direct testimony, one on
18 September 19th, and the second on February 17th;
19 is that correct?

20 A Subject to check. I don't remember those
21 dates, but I will accept those, subject to
22 verification.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2497

1 Q Okay. Now, just so our communication is
2 clear during this cross-examination, when I
3 reference your September 19th supplemental direct
4 testimony, I will refer to that as your conformed
5 supplemental direct testimony. And when I discuss
6 your February 17th, 2015 supplemental testimony, I
7 will refer to that testimony as your February 2015
8 supplemental direct testimony.

9 Do you understand that?

10 A Yes.

11 Q Okay. Now, please turn to your
12 Exhibit (2K)-7 which accompanies your conformed
13 supplemental direct testimony, the September 19th.

14 A (2K)-7. Let me just move this book out
15 of the way. Yes.

16 Q Now, your listing of factors promoting
17 corporate separation in Exhibit (2K)-7 has three
18 major sections, A, B and C. And section A of that
19 listing has three numbered subsections with
20 multiple items listed under each subsection; is
21 that correct?

22 A Correct.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2498

1 Q Now, subsection A -- excuse me.
2 Section A, subsection 2 presents factors that
3 promote corporate separation through access to
4 independent financing. And part B under that
5 subsection states, Liquidity of the protected
6 subsidiary is not contingent on the financial
7 viability of the parent company.

8 In the context of that statement, could
9 you please explain what constitutes the liquidity
10 of the protected subsidiary?

11 A The meaning of that is that the protected
12 company has got access to sources of credit that
13 it can draw upon that will not be cut off or
14 become unavailable because of the default or
15 bankruptcy of its parent or affiliate.

16 So as a credit rating analyst, we would
17 examine the credit facilities and commitments of
18 the protected company and say, does it -- can it
19 draw under any circumstance, even if it has an
20 affiliate that's in default, or is that an event
21 of default or cross-acceleration or cross-default
22 in this credit facility.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2499

1 Q Simply put, would you agree that
2 liquidity is a measure of the ability of a debtor
3 to pay its debts when due?

4 A Well, I would say that liquidity is a
5 measure of the ability to get access to funds when
6 needed.

7 Q Okay.

8 A The ability to pay its debts when due
9 is -- is solvency, perhaps.

10 Q What financial metrics would you use to
11 monitor the liquidity of the protected subsidiary?

12 A As a credit analyst, we measured
13 liquidity by looking at undrawn credit facilities
14 and the ability to issue bonds in the -- in the
15 public market or private market. So it was not
16 exactly a metric. The metric might be the amount
17 of the undrawn credit facilities, the size of
18 financial offerings that the company has offered
19 to the market, the credit ratings and receptivity
20 of the market to that company's credit, its
21 ability to issue other forms of equity, such as
22 preferred stock. Those are all liquidity

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2500

1 measures.

2 Q Now, please turn to your Exhibit (2K)-8
3 which accompanies your conformed supplemental
4 direct testimony.

5 A Yes. Are you talking about the
6 post-merger organization chart?

7 Q Correct. Now, one of the changes in the
8 joint applicants' ring-fencing-related commitments
9 in this proceeding addresses where in the
10 organization's structure the PHI Service Company
11 will be located. Am I correct that your
12 Exhibit (2K)-8 does not explicitly reflect the
13 location of the PHI Service Company within the
14 Exelon post-merger organizational chart?

15 A That's correct. It does not appear on
16 this chart.

17 Q Now, please turn to page 3 of your
18 February 17th, 2015, supplemental direct testimony
19 in this proceeding.

20 A I'm there.

21 Q Now, at page 3, lines 4 through 6 of your
22 February 17th supplemental direct testimony, you

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2501

1 testify that Joint Applicants' Exhibit (4K)-1
2 lists all the commitments relating to ring-fencing
3 and affiliate transactions and identifies the
4 effects resulting from each of these commitments.
5 Is that correct?

6 A Yes, that is what it says here.

7 Q Now, at page 3, lines 6 through 8 --
8 again, your February 17th supplemental direct
9 testimony -- you suggest that the package of
10 ring-fencing provisions that the joint applicants
11 propose in this proceeding will become the
12 industry standard for providing the highest degree
13 of protection going forward.

14 Is there a current industry standard that
15 this package will replace?

16 A I think that the acquisition of
17 Constellation by Exelon was previously the high
18 watermark or the highest standard, and I think
19 that this is very closely related to that.

20 Q Okay. Is the designation of the
21 Exelon/Constellation merger as the current
22 industry standard a designation that you've

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2502

1 attributed to the package of ring-fencing
2 provisions or is there some independent and
3 authoritative person, organization, that has
4 announced that designation?

5 A Well, I don't believe that there is ever
6 a designation of a particular transaction. I
7 wouldn't expect to see that. The credit rating
8 agencies publish on topics such as ring-fencing.
9 They publish their criteria. Their criteria are
10 more similar to the listing that -- the list that
11 you led me to, I think it was (2K)-1, if I'm not
12 mistaken -- they're sort of generic and open
13 standards. They do not refer to a particular
14 transaction.

15 Q Actually, in fact, your September 19th
16 testimony at page 9, line 11 recognizes that there
17 is no single definitive list of ring-fencing
18 commitments. Isn't that correct?

19 A Correct. Just let me find (2K)-1 again.
20 I'm sorry, but it takes a little time to get
21 there.

22 MR. LORENZO: Your Honor, I believe the

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2503

1 list was -- that Ms. Lapson is referring to is
2 (2K)-7.

3 THE WITNESS: (2K)-7? I'm sorry, so I
4 should not have said (2K)-1. (2K)-7 was the one
5 that you originally showed to me. I created this
6 list in (2K)-7 by synthesizing the lists of the
7 various credit rating agencies. And so this is my
8 own synthesis out of the slightly varying lists of
9 the various rating agencies, three rating
10 agencies.

11 BY MS. FRANCIS:

12 Q Was the -- when you referred to the
13 Constellation/Exelon merger, you were referring to
14 the Maryland Public Service Commission order
15 number 84698 when it offered its conditional
16 approval of the merger of those entities in
17 case 9271; is that correct?

18 A Well, all of those digits that you just
19 listed do not mean a lot to me, but subject to
20 checking, I will accept that you have done that
21 research.

22 Q Is it your assessment that the package of

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2504

1 ring-fencing provisions that you address in
2 (4K)-1 -- that's your supplemental direct
3 February 17th exhibit -- is superior to the
4 package of ring-fencing provisions required by the
5 Maryland commission in order number 84698 in all
6 aspects of ring-fencing provisions offered by the
7 joint applicants in this proceeding?

8 A They're very close. They really are
9 extremely close. And to the extent that there are
10 differences, it's hard for me to say. Some of the
11 little -- very small differences are driven by the
12 differences of the individual circumstances of the
13 companies at the time of the merger, what their
14 corporate structures were. So there are some very
15 small nuances, but I would say that they are quite
16 similar.

17 I do think that the commitment that I
18 mentioned before on the part of the joint
19 applicants to reduce the debt of PHI by paying
20 down -- paying off and not replacing the long-term
21 debt of PHI is a very specific commitment,
22 addressing a specific situation at PHI. You

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2505

1 wouldn't expect that to occur in other cases if
2 there wasn't leverage that needed to be addressed.

3 So there are specific differences among
4 the -- but otherwise, I think that they're quite
5 close.

6 Q Now, at page 3, line 9 of your
7 February 17th supplemental direct testimony, you
8 testify that the commitments listed in (4K)-1 are
9 extremely detailed and specific. I take it from
10 your perspective that they're comprehensive and
11 don't miss a trick?

12 A In addition to being -- pardon me. In
13 addition to being detailed and specific -- well,
14 when they're detailed and specific, there's a lot
15 of transparency. People can understand them. And
16 so there isn't much room for being less
17 comprehensive or being -- what was the other thing
18 that you mentioned, Frann? Tricky?

19 Q Extremely detailed and specific --

20 A Specific.

21 Q -- and then I said, from your
22 perspective, is it that they don't miss a trick?

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2506

1 A They don't miss a trick. I see.

2 Well, I think they are very

3 comprehensive, but I think that the fact that

4 they're so detailed and specific makes it

5 transparent that the Commission and all of the

6 other parties to this case can understand what

7 they say.

8 Q So you didn't miss anything?

9 A I don't believe so.

10 Q Now, am I correct that a number of the

11 ring-fencing provisions that you list in

12 Exhibit (4K)-1 have their origins in the New

13 Jersey stipulation?

14 A The current version of them was

15 influenced by the New Jersey stipulation. That is

16 to the best of my knowledge.

17 Q The current version being (4K)-1?

18 A If that is (4K)-1, yes.

19 Q Now, do I understand correctly that when

20 the joint applicants negotiated with the parties

21 in New Jersey, substantial detail was added to the

22 joint applicants' initially proposed ring-fencing

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2507

1 provisions as presented in Exhibit 5 to the
2 application in this proceeding?

3 A I recall that they became substantially
4 more detailed with the passage -- in fact, they
5 have become more detailed over time.

6 Q So the answer to my question is yes?

7 A Yes.

8 Q All right. Doesn't that suggest,
9 Ms. Lapson, that when a greater number of parties
10 are given the opportunity to review the proposed
11 ring-fencing provisions, there could be further
12 revisions and refinements to the joint applicants'
13 ring-fencing proposals? Or is it your position
14 that the parties who negotiated the New Jersey
15 stipulation had all the answers?

16 A I think that by now there have been a lot
17 of eyes on this, I think a lot of people have
18 weighed in on it, a lot of thought has been given
19 to it, and they've become very detailed. Is it
20 possible that somebody could add some other
21 wrinkle? It's possible. But I think that we're
22 at the point right now of diminishing returns.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2508

1 The longer this goes on, the less new and original
2 material that comes to the table.

3 Q Now, please turn to your Exhibit (4K)-1.
4 That's in your February 17th testimony. And in
5 the right-hand column of the two-column
6 presentation offered in (4K)-1, you offer your
7 assessment of the effect of each ring-fencing
8 provision listed?

9 A That is correct. And I did so by
10 coordinating it with (2K)-7, the list in (2K)-7.

11 Q Now, a number of the entries in the
12 right-hand column on the first several pages of
13 (4K)-1 include the phrase "avoids substantive
14 consolidation." Just so the record is clear,
15 could you please explain what constitutes
16 substantive consolidation?

17 A Substantive consolidation is a doctrine
18 in bankruptcy in which the bankruptcy court would
19 treat two different parties as being a single
20 party in the bankruptcy if the -- so one entity
21 was the original bankrupt party and another
22 affiliate of that company could be substantively

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2509

1 consolidated or drawn into the bankruptcy along
2 with its parent company or its affiliate if it had
3 not maintained clear separation, if it had given
4 creditors reason to believe that its resources
5 were available to pay the debts and liabilities of
6 the other party, if it had been entered into as a
7 fraudulent transaction, its only purpose being to
8 avoid bankruptcy law.

9 So there are a number of reasons when --
10 if there has not been a reasonable separation and
11 if the two entities are not quite distinct, the
12 bankruptcy court might say there is no way to
13 unscramble the egg; there's no way that they we
14 can separate their liabilities, and so we treat
15 them as one.

16 So a number of the provisions here are
17 designed to avoid substantive consolidation of
18 PEPCO into a bankruptcy of any other entity within
19 the group.

20 Q Could you please tell me, why is it
21 important that substantive consolidation be
22 avoided?

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2510

1 A In order to maintain the financial
2 viability of PEPCO to serve its customers' needs,
3 you would want it to maintain that financial
4 viability despite any distress that incurred
5 (sic) -- or the bankruptcy of a parent or an
6 affiliate. So it would protect the financial
7 viability of the company going forward.

8 Q Now, I'm going to ask you to please turn
9 to what was preliminarily identified as AOBA
10 Exhibit 90, but what has been received into
11 evidence as AOBA Exhibit 73, which provides a copy
12 of the joint applicants' response to AOBA data
13 request 4-8, including the attachment A to that
14 response.

15 Tell me when you have that, Ms. Lapson.

16 A Yes, I have that.

17 Q Now, is attachment A to the joint
18 applicants' response to AOBA data request 4-8 a
19 red-line document which shows the New Jersey
20 ring-fencing commitment language as compared to
21 the ring-fencing language in Exhibit (4A)-2 in
22 this proceeding?

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2511

1 A Yes. That's correct.

2 Q Now, as noted in your response to part A
3 of AOBA data request 4-8, your February 17th
4 supplemental direct testimony at page 3, lines 18
5 through 20, states, In my opinion, these
6 commitments, modeled after those adopted in the
7 New Jersey settlement, are not materially
8 different from those included in my supplemental
9 direct testimony.

10 Is that correct?

11 A Correct.

12 Q Now, in that statement, does the
13 reference to commitments included in your
14 supplemental direct testimony refer to the
15 ring-fencing commitments listed in Exhibit (4K)-1?

16 A I have to look at these to see if these
17 are -- yes.

18 Q Now, please turn to the first page of
19 attachment A to AOBA data request 4-8. And that
20 would be page 3 of 10 of the exhibit.

21 A I'm there.

22 Q In commitment 29 on the first page of

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2512

1 attachment A, we find language that has been
2 stricken from the New Jersey settlement which
3 indicated, ACE is authorized to maintain its books
4 and records at the corporate headquarters of PHI
5 in Washington, D.C.

6 Is that correct?

7 A The stricken language?

8 Q Yes.

9 A Correct.

10 Q Now, could you please tell me, why was it
11 necessary or appropriate to strike that language?

12 A I was not a party to the New Jersey
13 discussions, nor was I -- nor do I have any
14 particular opinion upon where the books and
15 records would be kept. It just doesn't seem to me
16 to be material with regard to the ring-fencing.
17 As long as they are in a place that is accessible,
18 I don't -- I didn't consider that to be a material
19 change. I don't know why the change was made.

20 Q Couldn't that language have been modified
21 to commit that PEPCO will maintain its books and
22 records in the District of Columbia?

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2513

1 A It could also have been modified in any
2 number of ways. It could have been modified to
3 say that they will maintain them in Kazakhstan,
4 but it wasn't. I don't think -- as long as this
5 is in a place that is accessible in the
6 continental United States, and reasonably close to
7 the point of wanting to look at them, I don't -- I
8 don't know what the -- this does not seem to me to
9 be a material change one way or the other.

10 Q Would you agree that as commitment 29 is
11 presented in your Exhibit (4K)-1 and also in
12 Mr. Crane's Exhibit (4A)-2, it does not require
13 that PEPCO's books and records be maintained in
14 the District of Columbia?

15 A That's correct.

16 Q Why, in this proceeding, is just access
17 to the books and records for the District of
18 Columbia Commission only provided for with 20
19 days' notice when that phrase does not -- in New
20 Jersey, the commitment is written differently?

21 A I have no idea.

22 Q Could you please explain to me, why do we

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2514

1 need a 20-day lag in order for the joint
2 applicants to produce the books and records to the
3 District of Columbia Public Service Commission?

4 A I'm not familiar with the procedures to
5 make books and records available or what the
6 standard is in the District of Columbia currently.

7 Q Well, I guess what I'm asking you is, why
8 do we need 20 days? Do you know?

9 A No, I do not know.

10 Q Do you think it should be up to the
11 District of Columbia Public Service Commission to
12 decide where the books and records are kept?

13 A I presume they already have that
14 authority with regard to PEPCO.

15 Q Now, would you please turn to page 7 of
16 10 in AOBA Exhibit 90 or 73 -- AOBA 73, and please
17 focus your attention on commitment 57. Tell me
18 when you're there.

19 Are you at commitment 57?

20 A I'm there. I'm just trying to read over
21 it. Yes.

22 Q Now, at the end of commitment 57, we find

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2515

1 more than nine full lines of stricken text. Do
2 you see that?

3 A Yes.

4 Q Now, does the first sentence of the
5 stricken text for commitment 57 state,
6 Post-merger, PHI will not initiate or invest in
7 new non-utility operations without first obtaining
8 board approval in a written order?

9 A Yes, I see that line.

10 Q Now, am I correct that the reference to
11 board approval in that sentence refers to approval
12 by the New Jersey Board of Public Utilities?

13 A That is my understanding.

14 Q Can you explain why the language was
15 stricken rather than modified to replace the
16 requirement for board approval with a requirement
17 for approval by the District of Columbia Public
18 Service Commission?

19 A I do not know why it was done in that
20 manner.

21 Q You did not do that?

22 A I'm not a party to the negotiations. I'm

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2516

1 a witness; I'm not a party.

2 Q But you are a witness in this proceeding,
3 correct?

4 A Correct.

5 Q All right. And these commitments are
6 under your testimony -- you're the sponsoring
7 witness, correct, in this proceeding?

8 A Yes. And I felt that, substantively,
9 these commitments were materially the same and
10 equally strong.

11 Q You felt by striking that language, this
12 commitment in this proceeding was materially the
13 same as that -- as in the New Jersey settlement?
14 Is that your testimony, Ms. Lapson?

15 A No. My testimony is that the aggregate
16 of all the commitments, not any one specific
17 commitment numerically -- there are about
18 70-some -- there are 72 commitments listed here.
19 And I was saying that in the aggregate, the sum of
20 all the commitments is quite strong. Very robust.

21 Q Could you please tell me, why should the
22 New Jersey Board of Public Utilities be provided

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2517

1 approval authority that exceeds that granted to
2 the District of Columbia Public Service
3 Commission?

4 A I cannot answer that question.

5 Q Is there a reason to believe that ACE
6 customers in New Jersey would necessarily be more
7 affected by a PHI decision to initiate or invest
8 in new non-utility activities than PEPCO customers
9 in the District of Columbia?

10 MR. LORENZO: Your Honor, I think this is
11 asked and answered. It's -- she's already said
12 she doesn't know why the language was changed.

13 CHAIRMAN KANE: Yeah.

14 MS. FRANCIS: Your Honor, it's a
15 different question.

16 CHAIRMAN KANE: The particular question
17 that Ms. Francis has asked has not been answered.

18 MR. LORENZO: Thank you, Your Honor.

19 MS. FRANCIS: Your Honor, I'm sorry. I
20 didn't hear what you said.

21 CHAIRMAN KANE: I said that while the
22 witness has answered other questions indicating

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2518

1 she doesn't know the reason why a particular
2 change was made, she has not yet answered the most
3 recent question that you asked.

4 MS. FRANCIS: Thank you, Your Honor.

5 BY MS. FRANCIS:

6 Q Shall I ask it again, Ms. Lapson?

7 A Yes, please do.

8 Q Okay. Is there a reason to believe that
9 ACE customers in New Jersey would necessarily be
10 more affected by a PHI decision to initiate or
11 invest in new non-utility activities than PEPCO
12 customers in the District of Columbia?

13 A I don't have any reason to believe so or
14 to believe the contrary. I really don't know.

15 Q Is it your position that the District of
16 Columbia Public Service Commission should not be
17 provided review and approval authority comparable
18 to that granted the New Jersey Board of Public
19 Utilities with respect to PHI's entry into new
20 non-utility operations?

21 A I do not know, but I also -- I would have
22 to review all of these commitments to make sure

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2519

1 that there is not some other commitment that has
2 other bearing on this, because there are 72
3 commitments here. So it is possible that there is
4 some other commitment that has bearing on this
5 that I've just not -- don't have access to at this
6 instant.

7 Q Hold it. Ms. Lapson, the ring-fencing
8 provisions submitted in this case, you sponsored
9 all of those; is that correct?

10 A Correct. What I'm saying is we've just
11 focused on a single commitment out of 72. So I
12 would have to take some time to review all the
13 commitments to see if that commitment has moved to
14 somewhere else or if other assurances have been
15 provided about what businesses PHI would or would
16 not engage in.

17 Q So you don't know if that commitment is
18 someplace else among the 72?

19 A Among the 72, I do not know.

20 Q Let's assume, for the purposes of my next
21 question -- let's call it a hypothetical -- that
22 it's not somewhere else in the 72. So assuming

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2520

1 that it's not somewhere else, I'm going to ask you
2 the question again.

3 Is it your position that the District
4 Public Service Commission should not be provided
5 review and approval authority comparable to that
6 granted to the New Jersey Board of Public
7 Utilities with respect to PHI's entry into new
8 non-utility operations?

9 A And my answer is that I don't know of any
10 such reason.

11 Q Do you believe that the District of
12 Columbia Public Service Commission's prior review
13 and approval of PHI plans to invest in new
14 non-utility operations is in the best interest of
15 the District of Columbia and in the best interest
16 of PEPCO ratepayers in the District of Columbia?

17 A I'm sorry. Could you please repeat that?

18 Q Certainly. Do you believe that the
19 District of Columbia Public Service Commission's
20 prior review and approval of PHI plans to invest
21 in new non-utility operations is in the best
22 interest of the District of Columbia and the best

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2521

1 interest of PEPCO ratepayers in the District of
2 Columbia?

3 A Well, I'm aware of the fact that,
4 currently, the Commission does not have such a
5 review over PHI and that, in the recent past and
6 even at the present time, PHI has some non-utility
7 businesses. And so, you know, it seems to me that
8 this commitment is a -- an increase in commitment
9 relative to anything that -- as a result of the
10 merger relative to anything that exists at the
11 present time.

12 Q Yes, I understand. You've summed up past
13 practice. But my question was --

14 A And current practice.

15 Q Yes, and I'm asking you about future
16 practice. That's what my question went to.

17 So I'm asking whether you believe now
18 going forward that the D.C. Commission's prior
19 review and approval of PHI's plans to invest in
20 non-utility operations is in the best interest of
21 the District of Columbia and the District's PEPCO
22 ratepayers?

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2522

1 A I think that there would be a benefit.
2 It would be a gain that the Commission would have
3 if that were to occur relative to the current
4 status.

5 Q Are you able to explain to me that when
6 the joint applicants have already agreed to review
7 and approval of such PHI actions by the New Jersey
8 Board of Public Utilities, why is it necessary for
9 the District Public Service Commission to have to
10 ask for such authority?

11 A I don't have an answer to that. It's one
12 of the many things that I'm not aware of the
13 answer.

14 Q Now, could you please turn to AOBA
15 Exhibit 89 --

16 A Yes.

17 MS. FRANCIS: -- which has been marked
18 for the record, Your Honor, as AOBA 98.

19 BY MS. FRANCIS:

20 Q Now, in the last sentence of the response
21 to part A of AOBA data request 2-10, you state, An
22 indicator for the need for ring-fencing or the

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2523

1 ability to remove or relax ring-fencing
2 restriction is, quote, the credit ratings of
3 Exelon Corp. are equivalent to or higher than the
4 current credit ratings, unquote, for PHI and
5 PEPCO.

6 Is that correct?

7 A That's what it says here.

8 Q Would you agree that the relative risks
9 of Exelon and PHI can change over time?

10 A Yes. The relative risks could change
11 over time.

12 Q So am I correct that the fact that Exelon
13 and PHI may have similar credit ratings at a point
14 in time is not necessarily a sound basis for a
15 conclusion that their credit ratings will remain
16 similar over time?

17 A That's correct.

18 Q Now, I'm going to ask you to please
19 reference your conformed rebuttal testimony,
20 page 22, lines 2 through 12.

21 A Does this refer to D.C. Water witness
22 Gorman?

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2524

1 Q Yes.

2 A Thank you.

3 Q Okay. Now, in this discussion, you
4 reference the possibility of removal of
5 ring-fencing after five years on lines 6 through
6 7; is that correct?

7 A Yes.

8 Q Now, in order for the Commission to find
9 that removal or relaxation of ring-fencing
10 provisions is justified, would you agree that
11 there will need to be substantial evidence that
12 the credit ratings of PHI, PEPCO and Exelon can be
13 expected to remain similar on a going-forward
14 basis?

15 A No. I completely disagree. This relates
16 to my greater understanding or changed
17 understanding of what the -- what it means to
18 change a ring-fencing commitment. There are 72
19 ring-fencing commitments here. They're very
20 detailed. And I have come to the conclusion over
21 time, as we've been thinking and talking about
22 this, that specific individual commitments may

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2525

1 become onerous or awkward or have unintended
2 consequences, and that those specific commitments
3 may need to be modified with the consent and --
4 after the consideration by the Commission and with
5 the consent of the commissions, that there may be
6 proposals to modify a commitment having nothing to
7 do with the relative financial strength of either
8 of the parties, and that it may simply have to do
9 with the administrative burden or the fact that
10 there might be unintended consequences of a
11 particular commitment.

12 So we're talking here about the
13 granularity and the detail that has come about in
14 these commitments which may cause specific
15 individual commitments to be something that the
16 company, PEPCO, might wish to change and that the
17 Commission might be in agreement with based upon
18 evidence.

19 Q Now I'm going to ask you to please focus
20 on what was preliminarily --

21 MS. FRANCIS: -- what was identified for
22 the record, Your Honor, as Joint Parties'

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2526

1 Exhibit 2.

2 BY MS. FRANCIS:

3 Q Do you have that book, Ms. Lapson?

4 A Yes.

5 Q Now, I'm going to ask you to please turn
6 to pages 99 and 100 of 113.

7 Now, Ms. Lapson, this exhibit is the
8 ring-fencing provisions that were detailed in
9 Exhibit (2K)-11 as initially filed in your
10 September 19th, 2014, supplemental testimony; is
11 that correct?

12 A Correct.

13 Q Now, please focus on item 17 in the
14 original version of (2K)-11. That's page 100 --
15 that's the exhibit you're looking at.

16 A Does this relate to the payment of
17 dividends?

18 Q I'm just going to ask the question. Look
19 at commitment 17, provision 17.

20 Now, is it -- in item 17, in the original
21 version, does that provide that a dividend will
22 not be paid if it would cause the common equity

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2527

1 ratio to fall below the common equity ratio
2 accepted in recent rate cases by the applicable
3 commission?

4 Am I correct that this was intended to
5 provide conformance with this Commission's prior
6 decisions?

7 A I'm sorry. I can't follow the end of
8 your question.

9 Q Okay. I'm looking at --

10 A I can follow the -- number 17 --

11 Q Okay.

12 A -- and it says that will demonstrate that
13 the equity ratio after the dividend payment will
14 not fall below the common equity ratio accepted in
15 recent rate cases by the applicable commission.

16 I see that.

17 Q All right. Now, am I correct that what
18 was intended by that provision was to provide
19 conformance with this Commission's prior
20 decisions?

21 A Yes, or any other commission that was
22 applicable, yes.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2528

1 Q Now, please turn to (2K)-9 of your
2 conformed direct testimony.

3 A Yes.

4 Q And again, I would like to direct your
5 attention to commitment 61, which is on page 7 of
6 10. Are you there?

7 A Yes.

8 Q Am I correct that in this conformed
9 version of your Exhibit (2K)-9, the language of
10 commitment 61, the commitment with respect to the
11 common equity requirement has been changed?

12 A Yes. It now says that the common --
13 if -- the dividend payment could not be made if
14 the common equity level would fall below
15 48 percent as equity levels are calculated upon
16 the rate-making precedence of the commission.

17 Q Okay. Now, other than the fact that the
18 joint applicants, or you, agreed to 48 percent in
19 New Jersey, am I correct that you have not
20 provided any justification for the 48 percent
21 threshold?

22 A First of all, I would like to make it

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2529

1 clear once again, Ms. Francis, that I didn't agree
2 to any conditions in New Jersey or in any other
3 state. I am not a party to the transaction.

4 Q Okay.

5 A The -- in my review, when I reviewed
6 these, I did have some questions about why below
7 48 percent.

8 There are pluses and minuses to having an
9 explicit number versus whatever ratio is
10 determined by the Commission. But it seems to me
11 that 48 percent equity is a very standard level of
12 equity capitalization among utilities, and that if
13 the -- if there were a safeguard against dividends
14 paying out below that percentage, it would satisfy
15 credit rating agencies, the debt capital markets;
16 fixed income investors would all feel very
17 comfortable with that.

18 And so I thought that that ratio was as
19 good a ratio as another ratio saying whatever the
20 Commission prefers.

21 Q Yes, I understand that. I'm going to try
22 to ask my -- I think my question was inartfully

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2530

1 stated, so I'm going to state it again, and I'd
2 like to focus on a different part of the question
3 because I don't believe you answered it.

4 Other than the fact that the joint
5 applicants agreed to 48 percent in New Jersey, am
6 I correct that you have not provided any
7 justification for the 48 percent threshold in your
8 testimony in this proceeding?

9 A I did not justify the 48 percent
10 threshold, but my reasoning upon that is that
11 48 percent is very similar to the average common
12 equity ratio of all U.S. utilities, and it is a
13 very -- it was -- it would also be quite
14 consistent with the ratios that are used by credit
15 rating agencies for standard credit metrics and,
16 therefore, it seemed like a reasonable number.

17 Q When you initially suggested the use of
18 an equity percentage that was tied to the
19 Commission's determination in PEPCO's most recent
20 rate case, you are now proposing -- scratch
21 that -- the joint applicants are now proposing a
22 commitment that sets the applicable equity

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2531

1 threshold at 48 percent; is that correct?

2 A I believe that the original commitment
3 that I commented on in my supplemental testimony
4 was the joint applicants' commitment which I made
5 a comment upon, and I thought that that was a
6 reasonable standard.

7 And the commitment that was made more
8 recently, which -- in (2K)-9, commented upon in
9 (2K)-9, which says below 48 percent, was also
10 negotiated by the joint applicants, and it's their
11 commitment, not my commitment.

12 And I believe both of them are reasonable
13 standards. I don't think that there is any
14 reason, you know, to prefer -- there may be
15 reasons that the Commission would prefer one over
16 the other, but it would be subject to a lengthy
17 discussion. I don't think it's an open and shut
18 case.

19 Q Let me just make sure I understand. The
20 first commitment that had the common equity ratio
21 tied to the Commission's last base rate case, was
22 that your commitment? Did you recommend that?

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2532

1 A No. I never made any commitments. The
2 commitments were made by the joint applicants, and
3 I submitted my comments upon them. And so I've
4 never -- I cannot make a commitment on behalf of
5 the joint applicants.

6 Q Did you recommend that commitment?

7 A They already had made those commitments.
8 I wasn't a party to the original application, and
9 I did not recommend the commitments. I reviewed
10 the commitments that they had proposed.

11 Q I see. Do you know who set that original
12 commitment?

13 A I don't know. A number of the
14 commitments that I saw originally were drawn from
15 the Constellation transaction. I don't know if
16 that related to that or not.

17 Q So basically you don't know where it came
18 from? Or you --

19 A I was presented with a list of
20 commitments, and I reviewed them. And I thought
21 that they were very robust ring-fencing
22 commitments, extremely robust.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2533

1 Q And do you know who specifically for the
2 joint applicants made the commitment to change the
3 commitment that we're discussing in regard to the
4 equity?

5 A Well, I would suggest that since Kevin
6 McGowan is coming up after me, you might ask
7 Mr. McGowan, since he represents one of the joint
8 applicants.

9 Q Well, I'm asking you. Do you know?

10 A I told you I don't know.

11 Q Okay. Ms. Lapson, do you know what the
12 common equity ratio from PEPCO's D.C. last rate
13 case is?

14 A Not at this moment. I could look it up,
15 but I do not have it right now in my hands.

16 Q Would you accept, subject to check, that
17 it's 49.19 percent from formal case 1103, order
18 number 17424, paragraph 309?

19 A Yes, I would accept that, subject to
20 check.

21 Q Now, do you believe that a common equity
22 ratio of 48 percent is more appropriate than the

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2534

1 Commission determination of 49.19 percent?

2 A Ms. Francis, when commitments are entered
3 into -- for example, in the covenants to a loan
4 agreement or in the covenants to a bond agreement,
5 when a commitment is made that it will be an event
6 of default if the equity capital falls below a
7 particular ratio, you do not necessarily pick the
8 ratio for that commitment that is exactly on the
9 button where the ratio was set in a particular
10 point in time.

11 In fact, as this Commission is well
12 aware, from time to time over the course of the
13 year, different quarters, different financial
14 statements, dates, financial ratios can change,
15 and the percentage of equity capital that is
16 actually present may vary slightly from those that
17 were found in a particular rate order.

18 So most typically, if a utility had
19 48 percent or 49 percent equity as a matter of
20 standard doing business practice, the covenant to
21 maintain the ratio at a certain level would be set
22 way below that. It might say that the ratio will

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2535

1 not fall below 42 percent or 44 percent or
2 38 percent. So it would be a significantly lower
3 level.

4 The fact that this is 1 percent below the
5 last allowed level is not a material or
6 substantive difference in my view as a financial
7 analyst.

8 Q So you don't believe that one is more
9 appropriate than the other because, to you,
10 they're substantively the same? Is that your
11 testimony?

12 A Yes, they are. To me, there is not a
13 very substantial difference and it is not
14 meaningful in the context of such an important
15 commitment.

16 Q Could you please tell me, how does this
17 change in the ring-fencing provisions proposed by
18 the joint applicants benefit the District of
19 Columbia's PEPCO ratepayers?

20 A I think that the substantive point here
21 is that the company is committing that it will not
22 pay dividends; it will provide notice to the

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2536

1 Commission saying that it is not going to pay a
2 dividend that will cause its equity ratio to fall
3 below a ratio that is quite -- quite strong by
4 utility standards, quite consistent with what --
5 with financial viability standards for a utility
6 in the United States, quite consistent with credit
7 rating agency standards and with the current
8 credit ratings of PEPCO.

9 Q Now, I'd like to show you a copy of a
10 document that PEPCO provided to AOBA through
11 discovery in a PEPCO Maryland proceeding, case
12 9311.

13 Ms. Lapson, the document is a copy of an
14 S&P industry report card for utilities industry
15 that was published in the fall of 2012.

16 MS. FRANCIS: Your Honor, it is AOBA
17 Exhibit 26, which I'd like to have marked for the
18 record as AOBA 99.

19 CHAIRMAN KANE: Yes. That will be marked
20 as 99. Thank you.

21 (AOBA Cross Exhibit Number 99 was marked
22 for identification.)

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2537

1 BY MS. FRANCIS:

2 Q Now, Ms. Lapson, I'd like to start off by
3 please having you look at page 13 of 42, and just
4 to note for the record that the pages numbered on
5 the top of the page are the same as the pages at
6 the bottom of the page.

7 A Yes. Page numbers are the same.

8 Q Okay. Now, please look at Commonwealth
9 Edison. And would you agree with me that this
10 paragraph states towards the bottom half of the
11 paragraph, quote, the company's stand-alone
12 financial measures continue to be more than
13 adequate for the rating. ComEd's credit rating is
14 limited to the lower of its stand-alone credit
15 quality or parent, Exelon. Exelon's credit
16 quality is affected by its non-rated (sic)
17 regulated generation and retail businesses that
18 are directly affected by low power prices.

19 Do you see that?

20 A Yes.

21 Q Now, please turn to page 27. And I'm
22 going to ask you to please take a look at PECO

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2538

1 Energy sort of around the middle of the page. And
2 would you agree with me that the S&P report
3 states, PECO's credit rating is limited to the
4 lower of its stand-alone credit quality or that of
5 its parent, Exelon Corp.; Exelon's credit quality
6 is affected by its large, non-rate regulated
7 generation and retail businesses that are directly
8 affected by the low price of electricity?

9 Do you see that, Ms. Lapson?

10 A Yes, I do.

11 Q Now I'm going to ask you to please turn
12 to page 11 of the S&P report, and I'd like to
13 focus for a moment on Baltimore Gas and Electric.
14 And would you agree with me that this paragraph
15 states in the middle, We base the company's rating
16 on its stand-alone credit quality and we rate the
17 company one notch higher than its parent, Exelon
18 Corp., due the insulation measures the company has
19 implemented and maintained?

20 Do you see that?

21 A Yes, I see that.

22 Q Now, please look at page 29 of the S&P

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2539

1 report, and I'd like to focus on Potomac Edison.
2 Would you agree before me that in the middle of
3 the paragraph the S&P report states, Despite
4 Potomac's excellent business risk profile
5 reflecting its low risk, rate-regulated
6 distribution electric utility credit quality is
7 pressured by FirstEnergy's merchant businesses
8 that continue to be pressured by low electricity
9 prices?

10 Do you see that, Ms. Lapson?

11 A Yes, I see that.

12 Q Okay. Now, please let's turn to page 22
13 of the S&P report, and I'd like to focus on
14 Massachusetts Electric Company. And would you
15 agree with me that the S&P report states, We base
16 the ratings of Massachusetts Electric on the
17 consolidated credit profile of its ultimate
18 parent, UK-based National Grid PLC; the company
19 has an excellent business risk profile, reflecting
20 relatively low operating risk of electric
21 distribution operations?

22 Do you see that, Ms. Lapson?

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2540

1 A Yes, I do.

2 Q Now, please look a little bit further
3 down on page 22, and I just want to look at
4 Michigan Consolidated Gas Company, the last
5 sentence, where it says, MichCon's credit rating
6 continues to be affected by its parent's mix of
7 non-utility businesses -- business, specifically
8 energy trading.

9 Do you see that?

10 A Yes, I do.

11 Q Now, please let's turn back to page 21
12 and look for a moment at Keyspan East Corp. And
13 would you agree with me that the S&P report states
14 in the first sentence, We base the ratings on
15 (sic) Keyspan Gas East on the credit profile of
16 ultimate parent, UK-based National Grid, PLC --
17 and continues on the last sentence, We rate Gas
18 East (sic) one notch higher than National Grid,
19 reflecting regulatory insulation and stronger
20 financial measures.

21 Do you see that, Ms. Lapson?

22 A Yes, I see that.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2541

1 Q Now, let's go to page 31. And I'd like
2 to look at Rochester Gas and Electric Corp.,
3 around the middle of the page. And would you
4 agree with me that the S&P report states, We base
5 Rochester Gas and Electric's ratings on
6 stand-alone credit characteristics due to the
7 remoteness of ultimate parent, Iberdrola SA;
8 RG&E's ratings are currently capped at Iberdrola's
9 ratings?

10 Do you see that, Ms. Lapson?

11 A I see it, but I don't understand it. I
12 think S&P perhaps has scrambled this up in some
13 way.

14 Q Are you familiar with Iberdrola,
15 Ms. Lapson?

16 A Iberdrola.

17 Q Iberdrola.

18 A Iberdrola, yes.

19 Q How did you pronounce it?

20 A Iberdrola.

21 Q Okay. Iberdrola. Are you familiar with
22 it?

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2542

1 A Yes.

2 Q Do you acknowledge that Iberdrola is the
3 parent company of Rochester Gas, and it is a
4 foreign entity located in Spain?

5 A That is correct.

6 Q Now, please let's turn to page 30. I'd
7 like to look for a moment at Public Service
8 Electric and Gas. Would you agree with me that
9 the S&P's report states, The utility's rating
10 continues to be affected by its parent's large,
11 non-rate regulated generation business that is
12 directly affected by the low prices of
13 electricity?

14 Do you see that?

15 A Yes, I see that.

16 Q And the last one, please focus on page 28
17 of the S&P report. I'd like to look at
18 Pennsylvania Power Company. Would you agree with
19 me that this paragraph states, The utility's
20 ratings continue to be affected by FirstEnergy's
21 non-rate-regulated generation and retail business
22 that are materially pressured by the low price of

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2543

1 power?

2 Do you see that?

3 A Which company did you state that related
4 to?

5 Q Pennsylvania Power.

6 A No, I think it's Pennsylvania Electric
7 Company.

8 Q I'm sorry. Please look at Pennsylvania
9 Power. I'll do that one again.

10 Would you agree with me that, in regard
11 to Pennsylvania Power Company on page 28, the
12 Standard & Poor's report says, The company's lower
13 risk rate-regulated distribution electric
14 utility's credit quality is pressured by
15 FirstEnergy's merchant businesses that continue to
16 be pressured by the low market price for
17 electricity?

18 Do you see that, Ms. Lapson?

19 A Yes, I do.

20 MS. FRANCIS: Your Honor, thank you.

21 That's all the questions that I have.

22 CHAIRMAN KANE: Thank you, Ms. Francis.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2544

1 D.C. government?

2 CROSS-EXAMINATION

3 BY MR. COYLE:

4 Q Good morning, Ms. Lapson.

5 A Mr. Coyle.

6 Q My name is John Coyle. I'll be asking
7 you a couple of questions this morning on behalf
8 of the District of Columbia government.

9 A Excuse me while I get some of these books
10 moved away.

11 Q Just let me know when you're ready.

12 A Nicole is very small, but she's whipping
13 around books that weigh more than she weighs.

14 Q Ready?

15 A Yes.

16 Q Okay. Great. Could I ask you to look
17 first at your supplemental direct testimony, Joint
18 Applicants' Exhibit (2K) at page 26, lines 10
19 through 17.

20 A What was the page number, sir?

21 Q Page 26.

22 A Yes.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2545

1 Q You state there that no rating agency
2 placed a negative watch on PHI or any PHI
3 operating company in connection with the proposed
4 merger, correct?

5 A Correct.

6 Q Why would they?

7 A If they had thought that there was a
8 danger associated with the ownership of the
9 utilities as a result of the merger with Exelon,
10 they would have placed them on a ratings watch
11 negative. If they thought that Exelon was more
12 risky than PHI as an owner or that the ownership
13 would cause a downgrade, they would have placed
14 them on a rating watch negative.

15 Q A 20 to 25 percent premium over the
16 market price of the shares of a company about to
17 be acquired is hardly cause for concern about that
18 company, is it?

19 A I'm sorry, it's sort of a non-sequitur.

20 Q Well, let me back up and ask a
21 preliminary question. You do you understand that
22 Exelon offered a substantial premium for the

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2546

1 purchase of PHI, correct?

2 A Correct.

3 Q And that premium, depending on how you
4 calculate it, is somewhere in the range of 20 to
5 25 percent, right?

6 A If you say so. I do not have those
7 numbers in front of me.

8 Q Okay. But a premium of that size would
9 not be --

10 A Are you speaking -- pardon me, sir. Are
11 you speaking of a premium to the market price of a
12 stock before the announcement of the merger or --

13 Q Yes, ma'am.

14 A Okay.

15 Q Yes, ma'am. A premium of that size would
16 not be cause to put a -- the acquired company or
17 the company to be acquired on any sort of a
18 negative watch, would it?

19 A It would not be relevant to the
20 determination. I don't see what the relevance
21 would be, Mr. Coyle.

22 Q Okay. Great. Now, one of the rating

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2547

1 agencies, your former employer as a matter of
2 fact, Fitch Ratings, did play place a negative
3 watch on Exelon as a result of the merger
4 announcement; isn't that right?

5 A Correct.

6 Q Let me ask you to go first to what is in
7 evidence as Exhibit DCG 4. Ask Ms. Travers to
8 give you a hand with that one.

9 A I've got DCG 40.

10 Q No, 4.

11 A Is it another volume?

12 I have it. Thank you.

13 Q Okay. Just take a look through that data
14 request response. That's the response to DCG data
15 request 9-1. And if you'd just read that to
16 yourself. Let me know when you're finished.

17 A That's relating -- is this one relating
18 to whether or not various rebuttal witnesses were
19 aware of certain documents?

20 Q That's correct.

21 A Okay. I have it in front of me.

22 Q And it says there, doesn't it, that you

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2548

1 were aware of and had read all of the attachments
2 to the response to data request DCG 1-9, correct?

3 A That's correct.

4 Q And would you recall whether those
5 attachments consisted of analysts' commentary on
6 the merger?

7 A I do not right now recall what they
8 consisted of. If you say that there was analyst
9 commentary, I would accept that, subject to check.

10 Q Okay. Let's -- let me ask you to go now
11 to what's been marked for identification as
12 Exhibit DCG 108. And that should be the Fitch
13 Ratings commentary on the merger.

14 A I'm sorry. I'm going to have to get
15 there in stages.

16 Q It's all right. Take your time.

17 A You can kill people over here with
18 falling books. Yes.

19 Q All right.

20 MR. COYLE: And before I examine on that,
21 I would note it's a confidential -- been marked
22 confidential. The attachment -- and I'd ask

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2549

1 Mr. Lorenzo whether the usual understandings about
2 confidential attachments prevail here.

3 MR. LORENZO: Yes, Your Honor, the
4 attachment will remain confidential, but Mr. Coyle
5 may question on it in the public session.

6 CHAIRMAN KANE: You may proceed.

7 BY MR. COYLE:

8 Q Now, Ms. Lapson, would you take a look at
9 DCG 108 and tell me whether that is the Fitch
10 Ratings commentary on Exelon's announcement of the
11 merger?

12 A That's correct.

13 Q Okay. Would you go to the paragraph that
14 begins "financing plan" and read that to yourself.
15 Let me know when you're finished.

16 A I'm sorry. I see rating drivers --
17 financing plan?

18 Q Yes.

19 A Financing plan. I see that.

20 Q Read that paragraph to yourself and let
21 me know when you're finished.

22 A Yes, I've read it.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2550

1 Q Now, Fitch says that the proposed
2 acquisition results in a meaningful increase in
3 consolidated leverage compared to Exelon's current
4 and projected stand-alone financial condition.
5 Correct?

6 A Yes.

7 Q And that the rise in leverage is driven
8 by the combination of the acquisition debt to be
9 issued by Exelon and the assumption of existing
10 PHI consolidated debt.

11 Do you see that?

12 A I see that.

13 Q Now, what is that commentary referring
14 to, if you know, Ms. Lapson?

15 A I believe the commentary is referring to
16 the consolidated debt ratio of Exelon after giving
17 effect to the acquisition.

18 Q Okay. Let me ask you -- a little further
19 down in the same paragraph, Fitch Ratings refers
20 to mandatory convertible debt. Do you see where I
21 am?

22 A Yes.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2551

1 Q And there's a sentence following that
2 says, The mandatory convertible securities
3 typically used in the utility sector (equity
4 units) do not receive any equity credit from
5 Fitch.

6 A That's correct.

7 Q Could you explain that sentence?

8 A Yes. So when Fitch provides a measure of
9 the equity as a percentage of capital, which they
10 print on the back of their reports, which they
11 quote in many places in the reports, if there's a
12 mandatorily convertible equity unit, they do not
13 reflect that as equity when they quote the equity
14 percentage.

15 So, for example, if equity units were
16 used in a -- were issued right now, they would not
17 reflect that as equity today in the equity as a
18 percentage of capital of the company. However,
19 the way that the ratings are performed is from a
20 projection model so that the -- the analysts at
21 Fitch do a projection of future cash flow ratios.
22 The driving factor in the credit ratings is

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2552

1 typically cash flow measures and cash flow
2 measures on a projected forward basis.

3 So if the equity units convert to equity
4 in three years, then that will be -- that
5 conversion will be reflected a hundred percent
6 three years from now in the projection. So the
7 credit ratings that -- of the company will show --
8 in this case, Exelon -- will show equity coming in
9 and debt going away three years from now when
10 those mandatory convertibles are exercised.

11 Q Okay. Thank you.

12 Is it true in your experience,
13 Ms. Lapson, that utilities use mandatory
14 convertible securities when a traditional equity
15 issuance would otherwise place too much market
16 pressure on the underlying stock?

17 A It is a way -- I would say it's a way of
18 making a forward placement of equity at a price
19 that is at a premium to the current price of
20 equity.

21 Q I'm not sure I understood your answer.
22 Premium to the current price of equity? What do

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2553

1 you mean by that?

2 A The conversion price, the exercised price
3 on the mandatory convertibles is a higher price,
4 typically, than the current market price. And the
5 date is, in this case, let's say, three years
6 further out.

7 Q Okay.

8 A So it is a way of issuing the shares
9 today at a price that is higher than the current
10 market price and assuring that they will be --
11 that that issue will occur. It is a very
12 economical way of doing a forward issuance of
13 equity three years in the future.

14 Q And that defers price pressure on the
15 stock currently, does it not?

16 A Yes. Placing a large amount of equity
17 all at one time -- the context here was that at
18 the same time that Exelon issued more than a
19 billion dollars of mandatory convertibles, it also
20 issued \$2 billion of common shares. That is a
21 very large equity issuance. And had they issued
22 \$3 billion of common shares at the same time, it

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2554

1 might have pressured the stock price more.

2 Q Okay. Pardon me for being a little slow
3 here, but the pressure that we're talking about on
4 the prices of the stock is a downward pressure,
5 given the operation of the laws of supply and
6 demand, correct?

7 A Correct.

8 Q Thank you. Now, why does Fitch not give
9 mandatory convertible securities equity credit
10 until they convert?

11 A Because they are represented -- the
12 equity unit is a unit in which they're represented
13 by a debenture, which is a senior debt instrument,
14 for the first N number of years; that is to say,
15 in this case, I believe it was -- subject to
16 check -- and I don't know if it was a three year
17 or four-year period but, you know, for the number
18 of years -- for a number of years there is a debt
19 instrument. At the conclusion of that time, the
20 debt instrument is surrendered in exchange for
21 common shares.

22 Q Okay. All right. So would it be

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2555

1 accurate to say that Fitch does not treat
2 mandatory convertible securities as equity until
3 they are actually converted to equity?

4 A That is correct.

5 Q Okay. Thank you.

6 A But it does do so -- I must qualify that,
7 that in the projection models that are used in the
8 rating case, that in the year of the conversion,
9 that conversion is reflected at a hundred percent.
10 So equity appears in the rating model a hundred
11 percent for the mandatory convertible in the year
12 that it is scheduled to be exercised.

13 Q Thank you. Would you now read the
14 paragraph headed "business risk" which is the next
15 paragraph under ratings drivers.

16 A Yes.

17 Q Just read that to yourself and let me
18 know when you're finished.

19 A Yes. I did.

20 Q All right. Fitch says there it did not
21 consider the acquisition of PHI to meaningfully
22 lessen Exelon's business risk, correct?

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2556

1 A Correct.

2 Q And that is the business risk that is
3 associated with Exelon's non-regulated generation
4 business, correct?

5 A Correct.

6 Q And Fitch still considers that risk with
7 the non-regulated generation business to be
8 significant, correct? I'm looking at the last
9 sentence in that section.

10 A Yes. Well, they say that non-regulated
11 generation business remains significant.

12 Q Okay. Thank you. Now, under the next
13 paragraph, financial measures, Fitch says it
14 expects consolidated cash flow leverage in fixed
15 charge coverage measures of the combined entities
16 to remain solidly within the triple-B category,
17 but meaningfully weaker than Exelon's stand-alone
18 credit profile without a significant reduction in
19 the risk profile.

20 Do you see that?

21 A Yes. I see it.

22 Q What does that mean, meaningfully weaker

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2557

1 than Exelon's stand-alone credit profile without a
2 significant reduction in the risk profile?

3 A Apparently, Fitch considers PHI, PEPCO,
4 ACE and Delmarva to be very risky. Apparently,
5 Fitch considers them to be so risky that acquiring
6 these businesses does not lower the risk profile
7 of the consolidated entity. That differs
8 considerably from what Standard & Poor's said
9 about this merger. Standard & Poor's, said that
10 it considered them to lower the risk -- it would
11 consider this acquisition to lower the risk
12 profile.

13 So perhaps Fitch is trying to distinguish
14 itself from another rating agency, or perhaps it
15 thinks that these utilities are very risky
16 utilities. Each rating agency has an independent
17 opinion, but this is quite at variance with the
18 opinions of Standard & Poor's.

19 Q Okay. And then in the next sentence,
20 focusing particularly in the end, Fitch
21 forecasts -- skipping the debt to EBITDAR, and
22 going to, Fitch forecasts FFO fixed charge

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2558

1 coverage in the range of 5.5 times to 6.0 times --
2 do you see that?

3 A Yes.

4 Q FFO is shorthand for funds from
5 operations, correct?

6 A Correct.

7 Q And is fixed charge coverage the same as
8 debt service or does that mean something different
9 in Fitch parlance?

10 A Well, for each rating agency, it means a
11 different thing. And you would have to consult
12 the criteria of each agency to find out what is
13 included and what is excluded. I don't have -- I
14 don't have something in front of me that would
15 tell me just exactly what they meant by how they
16 calculate that.

17 Q Fair enough. You were talking about
18 Standard & Poor's earlier. Standard & Poor's uses
19 an FFO-to-debt ratio. I guess the same answer,
20 right? You don't know whether FFO --

21 A Well -- no, no. Those are two different
22 things.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2559

1 Q Okay.

2 A FFO-to-debt --

3 Q Yeah.

4 A Fitch also uses FFO-to-debt ratios as a
5 measure of leverage. So FFO, meaning funds from
6 operations, relative to debt is a measure of
7 leverage.

8 Funds from operations relative to fixed
9 charges would be a coverage ratio, so fixed
10 charges might include debt interest, and it might
11 also include lease rental payments or a portion of
12 lease rental payments. It might even include some
13 payment -- capacity payments under purchase power
14 agreements. I really -- that is a matter of
15 detail that I don't know right now.

16 Q Okay. All right. Thank you.

17 Would you take a look next at what Fitch
18 had to say about ratings triggers, and
19 particularly read the paragraph that begins,
20 "Negative:" to yourself. Let me know when you're
21 ready.

22 A Yes. Yes.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2560

1 Q Okay. What is a negative rating trigger
2 in Fitch parlance, Ms. Lapson?

3 A The rating agencies typically are giving
4 now for -- as a matter of transparency, they are
5 giving an indication of what would make the rating
6 go up or what (sic) the rating would go down.

7 So a negative rating trigger would cause
8 a company either to be placed on a negative watch
9 or to be downgraded. But most likely, a
10 negative -- if the company is on negative watch,
11 then a negative rating trigger would trigger a
12 downgrade. If it is stable, it might trigger a
13 negative watch.

14 Q Okay. And this document we just been
15 looking at, the Fitch Ratings commentary, is
16 already putting Exelon on negative watch, correct?

17 A I would call attention to the fact that
18 Fitch's rating at this time that it wrote this was
19 a notch higher than the ratings of Moody's and
20 Standard & Poor's. So what it is warning about is
21 that it is warning about a downgrading --
22 downgrade in ratings from triple-B plus to merely

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2561

1 triple-B, and triple-B is equivalent to the
2 Standard & Poor's rating and the Moody's rating.

3 So I believe that Fitch wrote this report
4 because they were looking for a reason to make
5 their rating similar to the ratings of Moody's and
6 Standard & Poor's. It's a little bit of inside
7 baseball.

8 Q Well, thanks for that.

9 My question, if we could get back to
10 that, was that the document we're looking at,
11 DCG 108, puts Exelon on negative watch; is that
12 correct?

13 A That is correct.

14 Q So the rating trigger that's referenced,
15 again, by virtue of your explanation, would be a
16 rating trigger for a downgrade?

17 A Yes, a downgrade to the same rating as
18 the rating that is now maintained by Moody's and
19 Standard & Poor's for Exelon.

20 Q Okay. What does the expression
21 "regulatory concession" mean in Fitch parlance,
22 Ms. Lapson?

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2562

1 A I don't know. They didn't define it
2 here.

3 Q Okay. And similarly, do you know what
4 the phrase, quote, regulatory concessions were
5 assumed or -- sorry. Withdrawn. I garbled that
6 question.

7 Do you know what, if any, regulatory
8 concessions were assumed in the financial
9 forecasts, referring again to Fitch's comment,
10 regulatory concessions in excess of those assumed
11 in the financial forecast could have an adverse
12 affect on ratings?

13 A No, I don't know. I would have no way of
14 knowing. That is one of the areas of rating
15 agency transparency that has not become very
16 transparent.

17 Q Okay. Let me ask you next to take a look
18 at what's in evidence as Exhibit DCG 3.

19 COMMISSIONER FORT: While she's looking
20 for that, I would like to ask counsel for the
21 joint applicants a question about this exhibit we
22 were just looking at, particularly since the

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2563

1 counsel, Mr. Coyle, read a good bit of it into the
2 record while we were looking at it. It's the
3 Fitch Ratings report, and it's marked as
4 confidential. Can you tell me why it's
5 confidential?

6 MR. LORENZO: It's confidential because
7 it's the business product of -- we signed a
8 proprietary agreement with Fitch to keep it
9 confidential. It's how they make their money.
10 They sell it to companies such as PHI or Exelon,
11 and we decide not to give it out.

12 We usually have a -- contact their
13 general counsel office and ask for permission to
14 produce it in rate proceedings, which we get. But
15 the confidentiality comes by because of the
16 agreement we have with the rating agencies.

17 COMMISSIONER FORT: So my question was,
18 do we need to mark the testimony that -- the Q&A
19 that just occurred that read specific portions of
20 this into our record confidential as well under
21 whatever agreement you have that marks this
22 confidential?

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2564

1 MR. LORENZO: Let me consult with --
2 we're coming up on a break. Let me consult with
3 my client and after the break we'll come back with
4 a response.

5 COMMISSIONER FORT: Okay. Thank you.

6 MR. LORENZO: Sure.

7 BY MR. COYLE:

8 Q Do you have Exhibit DCG 3?

9 A I do, but -- yes.

10 Q Okay. Could you take a look through that
11 document and tell me whether you've seen it
12 before, Ms. Lapson?

13 A I've seen it before, but a year ago.

14 Q Okay.

15 A It's been a year since I've looked at
16 this document.

17 Q Let me ask you to go to page 16 of the
18 document, please. And by the way, if you want to
19 take some time and familiarize --

20 CHAIRMAN KANE: Mr. Coyle -- I'm sorry.
21 We were conferring.

22 COMMISSIONER FORT: What document are we

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2565

1 on?

2 CHAIRMAN KANE: What document are we on?

3 MR. COYLE: I'm sorry. This is Exhibit
4 DCG 3. It's in evidence. It's the April 30th,
5 2014 Exelon earnings conference call transcript.

6 CHAIRMAN KANE: Is this a confidential
7 document?

8 MR. COYLE: No.

9 BY MR. COYLE:

10 Q Are you ready?

11 A Yes.

12 Q Let me ask you to take a look at page 16
13 of Exhibit DCG 3.

14 A Yes.

15 Q And in the sort of fourth box up from the
16 bottom of the page you'll see comments by Mr. Jack
17 Thayer.

18 A Yes.

19 Q Okay. Could you identify who Mr. Thayer
20 is, please, for the record?

21 A Well, it is written here that he is an
22 Exelon Corp. executive vice president and CFO.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2566

1 Q Okay. And Mr. Thayer responds to an
2 analyst's question by saying, in part, As you do
3 the math, you will see synergies is a very small
4 element of the accretion in this transaction.

5 Do you see that?

6 A Yes.

7 Q Okay. And then Mr. Thayer goes on to
8 say, It's really the opportunity for incremental
9 leverage at the holding company that this
10 transaction affords. It's the monetization of
11 certain assets at a higher value than what would
12 be implied in our PE multiple, and the synergies
13 are an important but very modest contributor to
14 that 15 to 20 cents.

15 Do you know what Mr. Thayer is referring
16 to there with the expression "the opportunity for
17 incremental leverage at the holding company that
18 this transaction affords"?

19 A My understanding of that is that
20 Standard & Poor's utilizes different ratings
21 benchmarks for the amount of leverage and the
22 financial ratios of companies depending upon

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2567

1 whether they are of standard volatility or reduced
2 volatility. Those are not exactly the categories,
3 the names of the Standard & Poor's categories.
4 I've just forgotten what their name is.

5 But at any rate, they have -- they have a
6 different set of benchmarks for companies that are
7 of standard or lesser volatility of cash flows.
8 And they had reason to believe that they would be
9 moved by Standard & Poor's -- or Standard & Poor's
10 had announced, perhaps publicly. That it was
11 going to move them from the standard volatility to
12 the lesser volatility category.

13 And I believe that that is the basis for
14 this -- another little inside baseball thing, but
15 it's the reason for thinking that adding more
16 utilities to their business mix was going to allow
17 them to have a consolidated financial ratio --
18 consolidated debt ratio that would be slightly
19 higher and that they would then still be able to
20 maintain the same triple-B rating at Standard &
21 Poor's with different consolidated debt ratios in
22 the whole company.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2568

1 Q Does incremental leverage at the holding
2 company refer to the \$3.5 billion in debt
3 financing for this acquisition?

4 A No. I do not believe so. I believe it
5 has to do with the consolidated financial ratios
6 of the entire entity and the use of a different
7 table or a different set of financial ratios and
8 metrics for a company that had a slightly higher
9 percentage or a greater percentage of utility cash
10 flows that was going to come about in the future
11 on a consolidated basis.

12 So it has to do with the entire
13 capitalization of the entire entity. And it also
14 refers to Standard & Poor's consolidated rating
15 methodology. So it is definitely not referring
16 here to a particular financing.

17 Q Leverage generally refers to debt, does
18 it not?

19 A Financial leverage --

20 Q Yes.

21 A -- typically refers to debt or leases or
22 similar obligations.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2569

1 Q All right. Thank you.

2 Now, the reference to 15 or 20 cents in
3 Mr. Thayer's comment, do you recall that at the
4 time that this earnings call took place, which was
5 also Exelon announcement of the merger, part of
6 the discussion about the announcement of the
7 merger was that Exelon expected the acquisition of
8 PEPCO Holdings to be accretive in earnings per
9 share on the order of 15 to 20 cents per share?

10 A Is this a question or is this a
11 statement?

12 Q It was a question.

13 A What was the question?

14 MR. COYLE: Do you want to read it back.

15 THE WITNESS: I'm sorry. What was the
16 question?

17 MR. COYLE: I was asking the reporter if
18 she'd read it back.

19 CHAIRMAN KANE: If the court reporter
20 would read the question back, please. Thank you.

21 (The reporter read the record as
22 requested.)

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2570

1 THE WITNESS: I actually don't recall 15
2 or 20 cents, but I -- if that is what it says here
3 and if that is your belief, I will accept that. I
4 do recall that they said it would be accretive.

5 BY MR. COYLE:

6 Q Okay. Now, let me ask you --

7 MR. COYLE: Actually, let me ask the
8 bench before we move on to this, is this a good
9 time to take the break or -- my next line of
10 questioning is going to go on for probably another
11 10 or 15 minutes.

12 CHAIRMAN KANE: We can go on for another
13 10 or 15 minutes.

14 MR. COYLE: Okay.

15 CHAIRMAN KANE: We started a little after
16 10:00.

17 MR. COYLE: Yep. Okay.

18 BY MR. COYLE:

19 Q Let me ask you next, Ms. Lapson, to take
20 a look at what has been marked for identification
21 as DCG 109.

22 A DCG -- it's another book. Okay.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2571

1 Q And before I ask you any questions about
2 that --

3 MR. COYLE: -- I'll ask Mr. Lorenzo once
4 again, since the attachment to this data request
5 response is marked confidential, whether I may
6 examine in accordance with the usual
7 understandings.

8 MR. LORENZO: Yes, the attachment will
9 remain confidential, but you may question on the
10 public record.

11 MR. COYLE: Thank you.

12 BY MR. COYLE:

13 Q Let me ask you, Ms. Lapson, to read the
14 first -- let me identify this for the record.
15 Mr. Caldwell reminds me. This is Bank of America
16 Merrill Lynch analyst commentary entitled, Updated
17 thoughts on PEPCO.

18 Is that right, Ms. Lapson?

19 A Yes.

20 Q Okay. Would you read the first bullet
21 beginning -- and read it to yourself, the first
22 bullet, The high premium paid, et cetera.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2572

1 A Yes.

2 Q Just read that section to yourself and
3 then I have a couple of questions for you.

4 A Yes, I've read it.

5 Q Okay. You see that that paragraph talks
6 about Exelon's EPS accretion guidance, right?

7 A Yes.

8 Q And EPS is an abbreviation for earnings
9 per share; is that right?

10 A Correct.

11 Q What does the expression "optically
12 possible" mean?

13 A I don't know. I've never seen it before.

14 Q Okay. Do you recall the elements of
15 Exelon's proposed financing of its acquisition of
16 PHI? Let me go down a list and see if you agree
17 they're elements of the financing. All right?

18 First there was \$3.5 billion in debt; is
19 that right?

20 A I think I -- starting the other
21 direction, I recall that they had -- that there
22 was equity, there was mandatory convertibles,

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2573

1 there was the sale of generating assets.

2 Q Yep.

3 A There was cash on hand. And then a
4 residual would be funded with debt.

5 Q And do you recall that at the time the
6 merger was announced the thinking was that the
7 amount of debt involved would be approximately
8 3.5 billion?

9 A Not necessarily. That's a residual --
10 the amount of debt would be a residual amount
11 depending upon those other items. That was my
12 recollection. So I don't recall that it was
13 specifically -- that that amount was specifically
14 the debt amount.

15 Q Did you know what assets Exelon is
16 selling?

17 A There was a list of generating assets.

18 Q Right. Do you recall whether the Four
19 River plant in Boston was on that list?

20 A I do not recall.

21 Q How about the Conemaugh and Keystone coal
22 plants in western Pennsylvania?

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2574

1 A I really don't know. I don't recall.

2 Q How about the Hillabee Energy Center in
3 Alabama?

4 A I couldn't say.

5 Q Do you know whether Exelon has completed
6 the asset sales that it contemplated using to fund
7 part of the financing of this acquisition?

8 A I'm not sure if they have or not.

9 Q All right. And then how much mandatory
10 convertibles were we talking about, do you recall?

11 A Well, I know that the amount that was
12 issued was 1.1 billion.

13 Q Okay.

14 A I think that was a little higher than the
15 initial target amount.

16 Q Now, let me ask you to take a look at the
17 second page of that commentary. Before we do
18 that, actually, go back to the paragraph we were
19 just looking at where it talks about accretion
20 guidance being optically possible. And it refers,
21 among other things, to low cost HoldCo debt,
22 correct?

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2575

1 A The use of converts, merchant asset
2 sales --

3 Q Yeah.

4 A It refers to merchant asset sales, use of
5 converts and use of low-cost HoldCo debt.

6 Q Okay. And then the commentary refers to
7 page 2, right? That paragraph refers over to
8 page 2?

9 A Yes.

10 Q And table 1 on page 2 is a calculation of
11 the earnings per share accretion, correct?

12 A Yes.

13 Q And is that a type of calculation with
14 which you are familiar based on your experience
15 with Fitch Ratings or elsewhere?

16 A No. This is an equity -- sort of an
17 equity concept in which earnings per share are
18 more important. And when you said with my
19 experience with Fitch Ratings, that was as a debt
20 analyst where we're more likely to use cash
21 flow -- projected cash flow metrics in the future.

22 Q Okay.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2576

1 A So this was not -- this was not something
2 that I would have paid attention to as a fixed
3 income analyst.

4 Q Is it -- let me ask my question a little
5 bit more broadly, then, Ms. Lapson. Is that
6 accretion analysis that appears on table 1 of
7 Exhibit DCG 109 a type of calculation with which
8 you are familiar?

9 A Yes, I am familiar with this.

10 Q Okay. Can we step briefly through it? I
11 have a couple of questions for you about what some
12 of the underlying mathematics are. All right?

13 If we look at the segment entitled,
14 Benefits, and immediately under that you see a
15 line that says, PEPCO EPS contribution, right?

16 A Yes.

17 Q And the PEPCO EPS contribution for 2015
18 is given as 19 cents?

19 A Yes.

20 Q EPS we've established is an abbreviation
21 for earnings per share, correct?

22 A Correct.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2577

1 Q Okay. And do you know what Exelon's
2 number of shares outstanding is in 2015?

3 A No.

4 Q Would you accept 860 million, subject to
5 check?

6 A Subject to check.

7 Q Okay. So if we wanted to know what kind
8 of money Exelon was expecting that the acquisition
9 of PHI would generate in 2015, we would multiply
10 19 cents by 860 million shares, right?

11 A Yes.

12 Q Okay. And you do the same calculation
13 for 2016 based on 42 cents a share?

14 A I guess my immediate thought here is that
15 this was a very optimistic analyst if he thought
16 that the acquisition would get done so early in
17 the year that there would be an opportunity to
18 earn this amount of money on it. It must be an
19 analyst who thought that things were going to go
20 lightning fast in D.C. and Maryland.

21 Q As Robert Burns says, the best-laid plans
22 of mice and men aft gang agley.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2578

1 But, anyway, that the forecast, or that's
2 what the analyst is saying, correct?

3 A That was what he was saying here.

4 Q Okay. Where does that PEPCO EPS
5 contribution come from, Ms. Lapson, to your
6 understanding?

7 A Well, when companies -- when one company
8 acquires another, it then accounts for the
9 consolidated income of the entire operation. So
10 based upon my accounting background, I would say
11 that he's talking about the contribution in the
12 form of the consolidated net income that is
13 brought in in an accounting consolidation.

14 Q And that would be the PHI contribution to
15 the consolidated net income, correct?

16 A That's what I think he should be showing
17 on that line --

18 Q Okay.

19 A -- of the statement. But I -- of course,
20 I didn't have an opportunity to ask this analyst
21 any questions about his analysis.

22 Q I understand.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2579

1 That PEPCO earning per share contribution
2 to consolidated net income comes from the PEPCO
3 operating companies, correct?

4 A Yes.

5 Q And --

6 A It comes -- yeah, when it says PEPCO
7 here, it does not mean the single utility PEPCO;
8 it means PHI.

9 Q Thank you. I'll accept that. I
10 certainly agree.

11 But the money that we're talking about,
12 the 19 cents a share times 860 million shares, or
13 42 cents a share times 860 million shares, comes
14 from the PEPCO Holdings operating companies,
15 right? It's their net income.

16 A Less the costs of PHI. So the debt and
17 so forth and the salaries at the PHI level are
18 deducted.

19 Q Okay. Thank you.

20 And then underneath that line, you see
21 deal synergies, right? Underneath the PEPCO EPS
22 contribution, you see a line that says, deal

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2580

1 synergies?

2 A Yes.

3 Q And the synergies contribute zero
4 dollars, or are projected to contribute zero
5 dollars in 2015?

6 A Correct.

7 Q And then a penny per share in 2016 and
8 2017?

9 A Correct.

10 Q Okay. And then, as we look down a little
11 further under costs, you see a line that's
12 entitled, Debt cost, correct?

13 A Yes.

14 Q Okay. And again, this is -- the analyst
15 is looking at the issuance of \$3.4 billion in
16 debt, correct?

17 A That's what I see here.

18 Q Okay. And after-tax -- what does that
19 mean, after-tax yield of 2.7 percent in the
20 context of debt?

21 A The debt interest expense is
22 tax-deductible.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2581

1 Q Okay. So that's another way of saying
2 the net cost of the debt after your tax
3 deductions?

4 A Yes.

5 Q Okay.

6 A But I see that he understated the amount
7 of mandatory convertibles; in fact, 1.1 billion of
8 mandatory convertibles were issued, and he
9 forecasted only 792 billion. So there's just a
10 different allocation of those two --

11 Q Sure.

12 A -- categories.

13 Q Sure. He also predicted some values for
14 asset sales, correct?

15 A Yes.

16 Q Or -- well --

17 A Losses of earnings per share.

18 Q Okay. I'm sorry?

19 A He predicted losses of earnings per
20 share --

21 Q Yep.

22 A -- through the sales of assets.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2582

1 Q All right. And as you sit here today,
2 you don't know whether any of those facilities
3 that are identified -- Keystone, Conemaugh,
4 Hillabee -- excuse me, H-I-L-L-A-B-E-E, for the
5 reporter's benefit -- whether any of those sales
6 have been consummated?

7 A No, I'm sorry, I don't.

8 Q Or since you don't know whether they've
9 been consummated, you don't know what the sale
10 price was.

11 A Well, this doesn't relate to the sales
12 price. It --

13 Q Right.

14 A -- relates to the loss of earnings per
15 share.

16 Q True enough. But you still don't know
17 what the sale price was?

18 A No.

19 Q Okay. Thank you.

20 And then equity issuance dilution is the
21 next heading after asset sales lost earnings per
22 share. What does equity issuance dilution mean,

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2583

1 Ms. Lapson?

2 A As I understand it, it would mean that if
3 there are more shares outstanding, then the net
4 income of a company is divided by a greater number
5 of shares.

6 Q Okay. And this analyst was contemplating
7 an equity issuance of \$1.6 billion?

8 A In 2015.

9 Q Right. And then the same comment about
10 the convertibles; the analyst was looking at
11 800 million in mandatory convertibles and your
12 recollection is, in actuality, that number was
13 more like 1.1 billion, correct?

14 A Right. So there was \$2 billion of equity
15 that was actually issued in 2014 and a billion-1
16 of mandatory convertibles.

17 Q Okay. So all of that leads the analyst
18 to conclude there will be a net earnings per share
19 accretion in the bottom line of table 1 of 4 cents
20 per share in 2015, 12 cents per share in 2016, and
21 16 cents per share in 2017, right?

22 A Correct. I see that written here.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2584

1 Q Would you --

2 MR. COYLE: That's all I have on this
3 exhibit. It's probably a good time to take the
4 break.

5 CHAIRMAN KANE: Yes. And you have other
6 questions when we come back?

7 MR. COYLE: I do. Yes.

8 CHAIRMAN KANE: Okay. Let me just check.
9 The other --

10 MS. ELEFANT: No questions.

11 CHAIRMAN KANE: We'll just take -- the
12 Commission has some questions. So in order to --
13 we'll take a ten-minute break. We'll come back,
14 finish with this witness, and then we'll take a
15 lunch break.

16 (Whereupon, a short recess was taken.)

17 CHAIRMAN KANE: We're back on the record
18 at 12:32.

19 Mr. Coyle.

20 MR. COYLE: Thank you, Your Honor.

21 BY MR. COYLE:

22 Q Ms. Lapson, before we leave Exhibit

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2585

1 DCG 109, I had one more question for you about it.
2 On the second page of the exhibit under the
3 heading Investment Thesis, there's a paragraph
4 entitled, Exelon, and I wonder if you could read
5 that to yourself and let me know when you're
6 finished.

7 A Yes.

8 Q Do you have an understanding, Ms. Lapson,
9 whether it remains the case that Exelon faces
10 challenging fundamentals?

11 A I'm sorry. Are you asking me about this
12 individual's investment -- this individual's views
13 or about my views?

14 Q I was asking you about your views.

15 A Okay. And you're -- would you like to
16 define what you mean by challenging fundamentals
17 in your question?

18 Q In the same sense that the expression is
19 used in the paragraph that you just read on
20 Exhibit DCG 109.

21 A It is used here to say that there are --
22 that the generation business is facing lower

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2586

1 natural gas prices and an overabundance of power
2 supply in the PJM territory, and I think that both
3 of those continue to be true.

4 Q Thank you. Let me change topics and ask
5 you to go next to your supplemental direct
6 testimony, Joint Applicants' Exhibit (2K), at
7 page 25, lines 10 through 20. And as long as
8 Ms. Travers is helping you out, you might also
9 want to get out your rebuttal testimony,
10 Exhibit (3K), at page 16 over to page 17. They
11 both relate to the same topic.

12 A Let's take those page numbers again.

13 Q On Exhibit (2K), I'd like you to look at
14 page 25, lines 10 through 20. And on
15 Exhibit (3K), page 16, line 14, through page 17,
16 line 16.

17 A And on page -- (3K), pages?

18 Q 16, line 14, through page 17, line 16.
19 Just -- again, just read those to yourself. They
20 both relate to the same topic.

21 A Yes.

22 Q Okay. Now, it is correct, is it not,

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2587

1 that one of the aspects of ring-fencing on which
2 you and District government witness Dr. Wilson
3 disagree is whether the special purpose entity
4 ought to be placed immediately above the PHI
5 operating company level as Dr. Wilson proposes or
6 immediately above the PHI Holding Company level as
7 the joint applicants have proposed; is that right?

8 A In other words, above the -- above PEPCO
9 versus above PHI?

10 Q That's correct. Yep.

11 A Yes, we disagree on that point.

12 Q Okay. And to put this discussion in some
13 context for the Commission, could I ask you to
14 turn to your Exhibit (2K)-8, please.

15 A I don't know if I can hold all these
16 places. Do I still need to hold these other
17 places?

18 Q No, I just wanted you to know what we
19 were talking about. You can lose those and go to
20 (2K)-8.

21 A Yes.

22 Q Okay. (2K)-8 is a graphic representation

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2588

1 of the proposed post-merger corporate structure
2 under the joint applicants' proposed ring-fencing
3 conditions, right?

4 A Correct.

5 Q And can you describe for the Commission
6 where the proposed special purpose entity relative
7 to this acquisition is located on the graphic?

8 A Okay. On the graphic, there is a special
9 purpose entity that is above PHI. It is the owner
10 of PHI, and it in turn is owned by an organization
11 called EEDC.

12 Q And EEDC stands for Exelon Electric
13 Distribution Company; is that right?

14 A No. Exelon Energy Delivery Company.

15 Q Okay. Thank you.

16 And if you look a little further to the
17 right on the graphic, you see a reference to
18 RF HoldCo, correct?

19 A Correct.

20 Q RF HoldCo sits directly above Baltimore
21 Gas and Electric, or BGE, which is a utility
22 operating company, correct?

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2589

1 A I'm sorry. RF HoldCo --

2 Q Yes.

3 A -- sits between EEDC and Baltimore Gas
4 and Electric.

5 Q Okay. And Baltimore Gas and Electric is
6 an operating utility company, correct?

7 A Correct.

8 Q Okay. Am I correct that the placement of
9 RF HoldCo in the corporate structure depicted in
10 Exhibit (2K)-8 was required by the Maryland Public
11 Service Commission in approving Exelon's merger
12 with Constellation Energy?

13 A It was a part of the conditions of the
14 merger. I don't know who required it. I really
15 don't know. But it was a condition of the merger.

16 Q Okay. And the Maryland commission had to
17 approve those conditions in order for the merger
18 to take place, right?

19 A Correct.

20 Q Okay. Now, if I could ask you to go back
21 to take a look at your supplemental direct again,
22 Exhibit (2K), page 25, lines 16 to 17.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2590

1 A Was that the one that you told me that I
2 could close up and that I didn't have to come
3 back.

4 Q I tricked you, didn't I?

5 A Yes, you did. Yes.

6 Q Okay. At page 25, lines 16 to 17, you
7 say, Additional SPEs interposed between the PHI
8 utilities and PHI would be inconvenient and
9 unnecessary, in my opinion.

10 Do you see where I am?

11 A Yes.

12 Q Okay. And over on page 28, you use the
13 same expression when you say, The Commission may
14 deem it is no longer desirable to prolong the
15 inconvenience of the bankruptcy-remote entity in
16 its golden share, et cetera, right?

17 A Yes, I use that expression.

18 Q Okay. What do you mean by inconvenient
19 or inconvenience in those portions of your
20 testimony?

21 A There's a unnecessary entity -- there
22 could be an unnecessary entity in the organization

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2591

1 structure, there could be fees, there could be
2 legal formalities associated with maintaining
3 those organizations in effect.

4 Q For whom is that inconvenient,
5 Ms. Lapson?

6 A It may just gum up the organization
7 structure.

8 Q It's inconvenient for the holding company
9 owner, I suppose, isn't it?

10 A That could be.

11 Q Do you think utility customers find it
12 inconvenient when a utility on which they depend
13 for service gets dragged into a bankruptcy
14 proceeding?

15 A I think that there is a very, very low
16 probability of a utility, a PHI utility, being
17 pulled into a bankruptcy proceeding, and I think
18 that adding additional SPEs in the structure would
19 not materially change those probabilities.

20 The probability is so infinitesimally low
21 that I see no reason for introducing more
22 entities, more SPEs to make that separation.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2592

1 Q Now, if you'll indulge me in a
2 hypothetical, suppose that the SPE is interposed
3 between the operating companies of PHI. Right?

4 A Yes.

5 Q The way that RF HoldCo in Maryland is
6 interposed between Baltimore Gas and Electric and
7 EEDC. Are you with me?

8 A Yes.

9 Q Okay. And in that case, it isn't really
10 additional special purpose entities, because it
11 wouldn't be necessary to have one between PHI and
12 EEDC, would it?

13 A There would then be a single special
14 purpose entity as opposed to three special purpose
15 entities.

16 Q I don't know. Let's assume there is.
17 Let's assume there's a special --

18 A I'm sorry, but I'm just not -- I'm not
19 familiar with that structure. I can't think about
20 a special purpose entity being the parent company
21 of something. Special purpose entities don't do
22 anything. They can't do anything. They're not

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2593

1 permitted to do anything.

2 Q Right.

3 A They don't have real managements. They
4 don't do anything. They don't do any functions.
5 They can't share functions. Having a special
6 purpose entity as the parent of these three
7 operating companies seems to me would be a very
8 strange recommendation.

9 If that is Dr. Wilson's recommendation,
10 then I am -- I'm amazed. It means that the man
11 does not understand that special purpose entities
12 are not real companies. They are simply buffer
13 zones.

14 Q I wasn't advancing it as Dr. Wilson's. I
15 was asking you.

16 A Oh, it was a hypothetical.

17 Q Yes, ma'am.

18 A I see.

19 Q Yes. It was a hypothetical. And the
20 hypothetical was, if you put the SPE in between
21 the operating companies and the holding company
22 rather than above the holding company, you don't

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2594

1 have that redundancy that you were talking about
2 in your testimony, do you?

3 A In a hypothetical sense, no.

4 Q Do you know -- you were just mentioning
5 that special purpose entities don't do anything.
6 What do you consider to be adequate capitalization
7 for a special purpose entity?

8 A Adequate capitalization for a special
9 purpose entity could be as little as almost
10 nothing. It could be very -- it could be a token
11 amount. It could be 1 percent of -- it could
12 be -- I've certainly seen -- in the case of some
13 structured transactions, I've seen 1 percent or
14 less, half of a percent, fraction of a percent.

15 Q And the reason we care about adequate
16 capitalization of the special purpose entity is to
17 prevent substantive consolidation, correct?

18 A The special purpose entity is just a
19 separator. It's just being interposed as a
20 separator. It should -- it's really not going to
21 do anything. It's not going to fund the
22 transaction. It's not going to make any

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2595

1 management decisions. It's not going to conduct
2 any businesses.

3 Q Can we agree, Ms. Lapson, that the
4 expression "substantive consolidation" as it's
5 used in bankruptcy is approximately equivalent to
6 the doctrine of piercing the corporate veil,
7 generally speaking?

8 A I'm not an attorney, so I don't think
9 that I could make that judgment.

10 Q All right. Do you have any idea why
11 people are concerned about whether or not a
12 special purpose entity is adequately capitalized?

13 A I am going to make a statement -- make an
14 answer in a different way, which is to say that
15 the special purpose entity that is being proposed
16 here is -- provides a barrier, a level of
17 separation over and above the extraordinary amount
18 of separation that exists in the case of any
19 utility even without a special purpose entity.

20 In fact, substantive consolidation of
21 utilities is not really a very significant risk.
22 It is so minor that I'm not aware of any case of

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2596

1 substantive consolidation of a utility that was
2 not ring-fenced that did not have an SPE.
3 Substantive consolidation is just not happening as
4 a regular basis.

5 So adding a special purpose entity here
6 adds an added measure of separation to a situation
7 where there is already an exceedingly low
8 probability of substantive consolidation. And I
9 could take you through all the reasons that
10 substantive consolidation is a minor possibility
11 in the case of any well-run and well-operated
12 utility subsidiary.

13 Q That won't be necessary, but I wonder if
14 we could get back to my question, which was, do
15 you know why people are concerned, in drafting
16 ring-fencing conditions, about whether or not the
17 special purpose entity is adequately capitalized?

18 A Presumably so that the special purpose
19 entity itself does not become bankrupt.

20 Q And would that have something to do with
21 the special purpose entity itself not becoming
22 subject to substantive consolidation?

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2597

1 A Or becoming bankrupt itself and causing
2 some obligation. I really can't say.

3 Q Okay.

4 A I'm not qualified to give you that
5 answer.

6 Q Okay. Great. Thank you.

7 Second question: To what extent does the
8 District of Columbia Public Service Commission
9 regulate PEPCO Holdings, Inc., as opposed to
10 PEPCO, if you know?

11 A My understanding is that PEPCO Holdings,
12 Inc., is not regulated by the Commission, but I am
13 not thoroughly versed in that.

14 Q Okay. Now I'd like to ask you to -- this
15 is going to be another two exhibits at once, so
16 brace yourself. I'm going to warn Ms. Travers.

17 I'd like you to get out Exhibit (2K)-1,
18 which is your CV, and Exhibit DCG 113, which is
19 joint applicants' response to data request
20 DCG 7-17.

21 A Yes.

22 Q Now, in your CV, you talk about your

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2598

1 previous testimonial experience, correct?

2 A It's listed there, yes.

3 Q Okay. And then what's been marked for
4 identification as Exhibit DCG 113 asks you
5 specifically about your involvement in bankruptcy
6 cases, correct?

7 A Correct.

8 Q Okay. I want to focus your attention on
9 page numbered 32 of 53 on the bottom.

10 A Yes.

11 Q And I'd like you to read the first
12 paragraph of that page to yourself. Let me know
13 when you're finished.

14 A Is this concerning NorthWestern
15 Corporation?

16 Q That's correct.

17 A Yes.

18 Q Are you ready?

19 A Yes.

20 Q Okay. What exactly did you do in
21 connection with the NorthWestern bankruptcy?

22 A I was a credit analyst and was managing

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2599

1 other credit analysts at Fitch Ratings. And I
2 was -- my involvement was simply as an analyst who
3 had rated this.

4 As I indicated, in many cases my
5 involvement had to do with doing a -- with
6 directing analysts who did recovery valuations and
7 estimated the degree of recovery after the
8 bankruptcy occurred. Also, I was involved to a
9 limited extent in the rating of NorthWestern prior
10 to its bankruptcy. And I probably participated in
11 rating the company's emergence from bankruptcy as
12 a restructured company.

13 Q Is it fair to say, then, that you were
14 observing the bankruptcy rather than working on
15 behalf of any of the parties that were involved?

16 A That's absolutely true.

17 Q Great. Thank you.

18 Do you recall that the proximate cause of
19 NorthWestern's bankruptcy was an impairment of
20 NorthWestern's goodwill with respect to its
21 acquisition of the Expanets subsidiary from Avaya?

22 A That certainly is not my -- the way that

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2600

1 I would interpret the reason for their bankruptcy.

2 Q Was Exelon required to -- I'm sorry.

3 Exelon. I beg your pardon.

4 Was NorthWestern required to recognize an
5 impairment to goodwill in the neighborhood of
6 \$800 million with respect to its Expanets
7 subsidiary?

8 A I do not remember the exact number, but
9 I -- I certainly recall that there was an
10 impairment.

11 Q Do you recall what the total size of
12 NorthWestern's balance sheet was at the time that
13 the impairment was recognized?

14 A No, I do not.

15 Q Okay. Could you explain for the
16 Commission what impairment means?

17 A Well, this is -- impairment is an
18 accounting concept, and it means that something
19 that is valued on the balance sheet has to be
20 reviewed under certain circumstances to see
21 whether it could continue to be carried on the
22 balance sheet -- if it's an asset, can it be

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2601

1 carried on the balance sheet at that value?

2 If it cannot be carried on that value, if
3 there's not a reasonable basis for assuming that
4 its value is as such, then the valuation has to be
5 written down under certain -- at certain time
6 periods. And the impairment results in a -- not
7 only a write-down of the asset but a charge to
8 earnings.

9 Q Thank you.

10 A But my recollection of the NorthWestern
11 bankruptcy was that it was triggered by the fact
12 that the company was structured in such a way that
13 the utility was directly the owner and had
14 provided all the financing for subsidiaries that
15 were of very little value, and that they were part
16 of the dot-com and fiber -- there had been a
17 bubble in the dot-com and fiber sector, that those
18 businesses were not worth very much, and so the
19 accounting impairment was an after-the-fact
20 accounting recognition of a loss of value that had
21 taken place.

22 Q Do you know why NorthWestern was the

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2602

1 direct owner of the utility transmission and
2 distribution system it had purchased from Montana
3 Power Company in 2002?

4 A No.

5 Q Do you know that the -- do you recall
6 that section 10 of the Public Utility Holding
7 Company Act of 1935 required utility holding
8 companies to operate an integrated utility with a
9 utility property that they acquired? Is that part
10 of your working knowledge?

11 A Yes, I was familiar with the Public
12 Utility Holding Company Act.

13 Q All right. Are you aware that
14 NorthWestern had utility operating assets in South
15 Dakota?

16 A No.

17 Q And that when it acquired utility assets
18 in Montana, it had utility assets in asynchronous
19 interconnections?

20 A I have no such recollection, not being an
21 engineer.

22 Q Okay. Do you know what the significance

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2603

1 of operating an -- asynchronous interconnections

2 is, Ms. Lapson?

3 A No.

4 Q Okay.

5 A But I presume it meant that they were not
6 integrated.

7 Q Good guess.

8 Do you know how much advance notice the
9 Montana commission got concerning NorthWestern's
10 recognition of the impairment associated with
11 Expanets?

12 A No, I don't.

13 Q Do you know how much advance notice the
14 Montana commission got about NorthWestern's
15 bankruptcy filing?

16 A No, I do not.

17 Q Do you know whether the Montana Public
18 Service Commission imposed ring-fencing conditions
19 as a condition of its non-objection to
20 NorthWestern's plan of reorganization?

21 A I presume that they may have come upon
22 ring-fencing at that point in time.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2604

1 Q But you don't know one way or another?

2 A No.

3 Q Okay. Would it be fair to say, in your
4 view, Ms. Lapson, the absence of ring-fencing in
5 connection with the NorthWestern -- with the
6 NorthWestern bankruptcy and the events leading up
7 to it was pretty inconvenient for the utility's
8 customers and its regulators?

9 A I'm sure it was inconvenient, having an
10 absence of ring-fencing. But I did not say that
11 that relates to an absence of a special purpose
12 entity.

13 We have 72 ring-fencing commitments in
14 this transaction. Some of them relate to a
15 special purpose entity, but quite a few of them
16 relate to things other than a special purpose
17 entity which create a significant separation, and
18 that -- that separateness would prevent
19 substantive consolidation without the existence of
20 a special purpose entity. So special purpose
21 entities are not the only way to create
22 separateness within a utility holding company.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2605

1 The situation of NorthWestern
2 Corporation, or NorthWestern Energy was an
3 egregious case of a lack of separation, an
4 egregiously poor structure that was presumably an
5 effort to avoid regulation as a holding company
6 under the Public Utility Holding Company Act.

7 But such a structure is not a common
8 structure in the utility sector and would have --
9 could have been prevented by very common
10 structural means other than special purpose
11 entities.

12 Q Fair enough. Could have been prevented
13 by other ring-fencing measures, I suppose.

14 A Right. For example, maintaining separate
15 debt -- putting the non-utility businesses into
16 separate subsidiaries, having a holding company
17 that owned the non-utility businesses and owned
18 separate subsidiaries of utility businesses,
19 having separate bank accounts, having separate
20 debt ratings, having separate bondholders,
21 maintaining -- there are a large number of
22 ring-fencing mechanisms that would have created

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2606

1 sufficient separation here.

2 Q And you'd certainly want to make sure, if
3 you were a regulator considering a merger in this
4 day and age with that cautionary tale behind you,
5 that you had taken adequate steps to ensure the
6 maximum possible corporate separation in order to
7 avoid something like NorthWestern happening again,
8 wouldn't you?

9 A I would say that you would want to take
10 reasonable actions to make sure that the natural
11 separation that would exist between a utility
12 subsidiary and a parent holding company are
13 present. And all of those things should be
14 addressed.

15 And in my testimony, I listed a list
16 which Ms. Francis led me through -- I believe it
17 was (2K)-7 -- a list of some of the things that
18 can provide that type of separation.

19 Q Let's go back to --

20 A But I object to the word "maximum." You
21 can do unreasonable things to provide more and
22 more separation. There is no reason to have to go

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2607

1 that far when you have limited and minimized the
2 possibility of substantive consolidation to a
3 non-threat, a complete non-threat.

4 Q Well, let me ask you about that, 20/20
5 foresight. Back in days when you were doing your
6 analyst stuff for Fitch -- and NorthWestern was
7 part of your beat, as it were --

8 A Yes.

9 Q -- is that right?

10 Did you sound the alarms when
11 NorthWestern acquired Montana Power and say, oh,
12 my God, this is a holding company with mixed
13 ownership of regulated and unregulated businesses?

14 A We -- when I was at Fitch, we always
15 thought that -- and wrote that the structure was a
16 less protective structure, and we criticized the
17 structure of companies that had that -- what was
18 called the Public Utility Holding Company Act
19 pretzel structure; it was a structure to avoid
20 Public Utility Holding Company Act regulation.

21 Q Okay. So you did sound the alarm?

22 A We said that it was a less protective

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2608

1 structure for bondholders.

2 Q All right.

3 A I have to admit that I did not foresee
4 the entire dot-com crash. I presume that there
5 were many others who didn't foresee that was
6 coming at the time that those businesses were
7 entered into.

8 Q Is it fair to say that you did not
9 foresees NorthWestern's bankruptcy, either?

10 A I don't recall.

11 Q Okay. Thank you.

12 Now, let me ask you to go back to your
13 supplemental direct testimony, Exhibit (2K), at
14 27, line 6, through 28 -- I think it's 28, line 6.
15 We're talking there about the duration of the
16 stay-out period. I wanted to ask you about that
17 in particular.

18 A Yes.

19 Q All right. Fair summary -- is it a fair
20 summary that you say five years is a reasonable
21 stay-out period, and that's what the joint
22 applicants have proposed, and Dr. Wilson says ten

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2609

1 years, and you disagree?

2 A I think the ten years is very long. I
3 think that five years is -- it wasn't my choice of
4 numbers. That was a commitment that the -- was
5 proposed by the joint applicants, but there's
6 nothing wrong with that number. You know, I might
7 have proposed they would -- I might have proposed
8 at any time with the consent of the Commission.
9 That would have been my advice.

10 Q All right.

11 A I would not have recommended any
12 stay-out. I would have said, let the Commission
13 decide.

14 Q Okay. You do not -- as a matter of
15 counterpoint, though, you do not favor an
16 automatic sunset provision on ring-fencing; is
17 that correct?

18 A No, I do not recommend an automatic
19 sunset.

20 Q Okay. And what you do say, looking at
21 page 27, line 17, to page 28, line 6, is that the
22 Commission may deem that it is no longer desirable

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2610

1 to prolong the inconvenience of the
2 bankruptcy-remote entity and its golden share
3 while many of the more customary provisions of
4 separateness are likely to be maintained as a
5 matter of prudence and good corporate governance.

6 Right?

7 A Yes, I wrote that.

8 Q Okay. What happens if utility holding
9 companies don't change their business mix over
10 time? The same risks prevail.

11 A I'm sorry. What happens to what?

12 Q Well, does that -- does the absence of a
13 change in the business mix, referring to your
14 testimony -- the absence of a change in the
15 business mix militate in favor of keeping
16 ring-fencing in place?

17 A As I explained when I was being
18 cross-examined by Ms. Francis, I have had a change
19 from the time that I entered this testimony until
20 now in my views of how -- what types of changes
21 might -- the joint applicants might wish to make
22 over time or the Commission might wish to make

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2611

1 over time in the ring-fencing provisions.

2 So there could be a time in the future,
3 and it could be at any time, when is determined
4 that some provision here -- remember, we've now
5 gotten up to 72 ring-fencing commitments -- and
6 not only that; the ring-fencing commitments have
7 become very detailed. And the more detailed they
8 have been made, the more risk that there is that
9 at some time in the future we're going to find out
10 that some specific detail in one of those
11 mechanisms is costing more money than it is worth,
12 that it is raising the costs of doing some type of
13 engineering function or supply function or causing
14 more employee expense than necessary or whatever.

15 And at that point, I think it would be
16 useful to have a review of that provision if the
17 companies feel that there is a way to reduce that
18 inconvenience, that exposure, that cost, and
19 substitute something which is equally protective
20 but is more economical or simple or whatever.

21 So I think that there -- I now foresee --
22 I now understand this differently than I did when

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2612

1 we started out. It's really not yes ring-fencing
2 or no ring-fencing. Of course there is going to
3 be ring-fencing, as I wrote in my testimony. Of
4 course we want -- and I think that everyone in
5 this case wants to have good corporate governance
6 with separation of the utility from its parent
7 holding company and the separate viability of the
8 utilities. That is very good operating practice.
9 It's good management practice. It's good utility
10 practice. And it is something that I think will
11 be deemed to be desirable at any time.

12 But the specific provisions here should
13 be subject to review if the joint applicants bring
14 them to the Commission and if the Commission deems
15 that there would be no harm as a result of making
16 a change.

17 Q For a second there, I thought I heard
18 somewhere in that speech a bit of agreement with
19 Dr. Wilson. I must have been hallucinating.

20 A I think that the disagreement comes at
21 the special purpose entity. I don't think anyone
22 is -- the joint applicants are not proposing that

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2613

1 they should convert the structure of this into one
2 in which there's no protections in the form of
3 separateness and viability for the utility.

4 Q Did I not hear you say this morning, in
5 response to Mr. Lorenzo's question, that you
6 disagreed with Dr. Wilson's suggestion in his
7 supplemental answering (sic) testimony that there
8 ought to be a showing of affirmative benefit to
9 consumers required in order to relax the
10 ring-fencing measures?

11 A I did say that, and that is my view. I
12 think that the idea of ring-fencing, the concept
13 of ring-fencing is to prevent harm. Ring fencing
14 is in place in order to avoid harm. It does not
15 produce a benefit unless, of course, you agree
16 that -- if you would agree that ring-fencing
17 produces a benefit, just as having insurance
18 produces a benefit.

19 But aside from that, there is no -- the
20 whole purpose of ring-fencing is to avoid harm.
21 So you cannot say that the standard -- it would be
22 totally illogical to say that the standard for

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2614

1 changing a ring-fencing provision is to gain a
2 benefit because it was never there to create a
3 benefit; it was there to avoid harm.

4 So a change in the ring-fencing should be
5 permitted if changing it does not increase any
6 harm or doesn't produce any harm. It should be
7 changed with the same standard as when it was
8 first put in place to -- that there is no harm,
9 that it has avoided harm.

10 Q In the hypothetical that you were
11 spinning a few minutes ago, Ms. Lapson, you
12 envisioned a situation in which the regulated
13 entity, Exelon in this case, was able to come
14 forward with some kind of a showing that one or
15 more of the ring-fencing conditions was impeding
16 something that would benefit consumers. Do you
17 recall talking about that?

18 A Yes.

19 Q Okay. And so -- but what you're saying
20 is you wouldn't make that a prescriptive element
21 of modification, right?

22 A If the ring-fencing provisions, as you

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2615

1 must always use your left hand to shake hands
2 with, and you wish to substitute shaking hands
3 with your right hand, there would be -- there
4 would be no harm or benefit one way or another.
5 You would simply show that there was no harm by
6 shaking hands with your right hand rather than
7 your left hand.

8 Q Okay. Let's go back to the duration of
9 stay-out provision for a second, Ms. Lapson. You
10 would agree with me, would you not, there's no
11 playbook on this? There's no playbook. There's
12 no set of rules on the duration of a stay-out
13 provision for ring-fencing?

14 A I don't know why there would be any
15 duration. If the standard is that the
16 commission -- that the utility commission must
17 approve it, then why would the ability of the
18 utility commission to consider it, review it and
19 either approve it or reject it or whatever -- why
20 would that be subject to a stay-out? It's
21 actually -- I don't understand it.

22 So I don't understand ten years. It

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2616

1 seems like a remarkably long time to require no
2 change in something.

3 Q But you --

4 A The idea of five years, I could
5 perhaps -- I can perhaps understand the idea of
6 five years because it might take time to find out
7 where the shoe rubs. It might find out -- we
8 might not find out that one provision is onerous
9 and provides no benefit until three or four or
10 five years have passed. But ten years just seems
11 to me to be a strange and arbitrary number.

12 Q Okay. So five years isn't arbitrary, but
13 ten years is. That's your testimony?

14 A My personal view is that -- you know, I
15 don't know why five years was originally proposed
16 by the joint applicants. And I could understand
17 if a year went by and there was some provision
18 that was inconvenient and causing greater expense
19 or difficulty for the operations of the utility,
20 that the joint applicants might at that time bring
21 it to the Commission. And I think it would be
22 quite fitting for the Commission to consider it

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2617

1 because there are so many and such detailed
2 commitments here.

3 Q Let's change topics, Ms. Lapson. Let me
4 ask you to go to your rebuttal testimony, Joint
5 Applicants' Exhibit (3K), and read to yourself
6 from page 25, line 8, through page 27, line 16,
7 and let me know when you're ready.

8 A How far did you wish me to read?

9 Q Page 27, line 16.

10 A It actually goes on much farther than
11 that.

12 Q I know it does, but I only asked you to
13 read through page 27, line 16. So let me know
14 when you're finished. All right?

15 A Okay. I finished that.

16 Q Great. Now, you acknowledge, do you not,
17 Ms. Lapson, that Dr. Wilson does not use the
18 expression "double leverage" anywhere in his
19 testimony; is that right?

20 A That's correct.

21 Q So that's your characterization rather
22 than Dr. Wilson's?

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2618

1 A Yes.

2 Q Let me ask you to look now at what's been
3 marked for identification as Exhibit DCG 114 which
4 is --

5 A I have it.

6 Q -- joint applicants' response to data
7 request DCG 8-101.

8 A Yes.

9 Q You are the sponsor of that data request
10 response, are you not?

11 A Yes.

12 Q On the basis of that response, you
13 acknowledge, would you not, that whatever your
14 views on the subject of double leverage, some
15 United States jurisdictions believe it's
16 appropriate to adjust the capital structure used
17 to determine the allowed return on an operating
18 subsidiary of a holding company to reflect the
19 holding company's cost of financing; is that
20 right?

21 A Yes. As I indicated here, I'm aware that
22 Iowa and Tennessee have that practice.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2619

1 Q Are you aware whether this Commission has
2 ever done so in cases involving utility holding
3 companies?

4 A I am not aware if they have ever done so
5 back in history, but I am aware that in recent
6 PEPCO rate cases, the Commission has not done so
7 and has rejected arguments to do so.

8 Q Okay. How about the Maryland Public
9 Service Commission? Are you aware of what the
10 Maryland Public Service Commission does?

11 A Well, I know that since only Iowa and
12 Tennessee do have such practices, the Maryland
13 Public Service Commission does not.

14 Q You're sure that only Iowa and Tennessee
15 apply --

16 A No, actually, I'm not sure.

17 Q Okay. All right. Thank you.

18 Now, are you -- have you become familiar
19 with an individual who works for Exelon by the
20 name of William von Hoene, senior executive vice
21 president and chief strategy officer?

22 A I'm sorry. Name is?

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2620

1 Q von Hoene.

2 A No, I don't know him.

3 Q We discussed a little earlier in your
4 cross-examination how the acquisition of PHI is
5 supposed to be accretive to Exelon's earnings per
6 share. Do you recall that?

7 A You mean you took me through an analyst's
8 report --

9 Q Yep.

10 A -- written by a Bank of America analyst?

11 Q Yep.

12 A I recall that we discussed that report.

13 Q Okay. Good.

14 Let me ask you now to take a look at what
15 is in evidence as Exhibit DCG 92.

16 MR. COYLE: Before I examine, I'll note
17 for the record that DCG 92 is labeled
18 confidential, and ask Mr. Lorenzo whether I may
19 examine in open session on it.

20 MR. LORENZO: As with the other
21 documents, you may. We'll keep the designation of
22 the document as confidential, but you may examine.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2621

1 However, I will note that this is a
2 document I'm not -- I do not believe the witness
3 relied on, has ever seen before. While it's in
4 evidence, it's not something that's relevant to
5 her -- related to the basis of her testimony. And
6 I will not object in advance, but I will note that
7 if we get too deep into this, I think it's unfair
8 to question the witness on such a document in that
9 way.

10 CHAIRMAN KANE: I'm sure the witness is
11 perfectly capable of indicating whether or not she
12 can comment on any particular question or is
13 familiar with the material as the questions occur.
14 BY MR. COYLE:

15 Q Ms. Lapson, in formulating your testimony
16 responding to Dr. Wilson on this issue that we've
17 been discussing, both in your rebuttal testimony
18 beginning at page 25, line 8, and this morning in
19 your live sur-rebuttal, did you undertake to
20 review any of Exelon's internal documentation
21 concerning how it was going to finance the
22 acquisition of PHI?

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2622

1 A I do not have access to internal
2 documentation.

3 Q Then I take it that you have not seen --
4 let me just -- let me withdraw that and ask the
5 question straight up.

6 Have you seen Exhibit DCG 92 before?

7 A No, I have not.

8 Q Okay. Let me ask you to take a look at
9 page 17 of Exhibit DCG 92. I'm looking at 17 of
10 37 in the upper right-hand corner.

11 A Yes.

12 Q The page is headed, Sources and uses of
13 funds?

14 A Yes.

15 Q Would you please read the one, two,
16 three, four, five, six, seventh bullet under the
17 heading -- under the column headed, Model
18 assumptions.

19 A Assumes cash savings from elimination of
20 PHI dividend used to offset acquisition debt.

21 Q Great. Thank you.

22 Do you know what PHI's dividend is today,

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2623

1 Ms. Lapson?

2 A I don't have those numbers at hand.

3 Q Okay. Would you accept, subject to
4 check, the dividend is \$1.08 per share?

5 A Per PHI share?

6 Q Yes.

7 A Okay. If you say so, subject to check.

8 Q And that PHI has approximately
9 251 million shares outstanding?

10 A Subject to check.

11 Q Great. Now, let me ask you to take a
12 look at what's been marked for identification as
13 Exhibit DCG 115. And that is the joint
14 applicants' response to District government data
15 request 9-14. And you are the author of that
16 response, correct, Ms. Lapson?

17 A Correct.

18 Q You state in that response that the
19 Exelon/Constellation merger is the only merger
20 case of which you are aware that involves a
21 restriction on payment of dividends as a condition
22 of the merger, correct?

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2624

1 A Yes. That's what it says here.

2 Q Do you know whether the ring-fencing
3 conditions established with respect to
4 NorthWestern by the Montana Public Service
5 Commission contain a dividend payment restriction?

6 A No, I do not.

7 Q Let me ask you this: When you tie a
8 dividend limitation to the maintenance of a
9 debt-equity ratio in a ring-fenced company's
10 capital structure, how do you deal with goodwill
11 in the capital structure? Do you include goodwill
12 as equity in the calculation of the debt-equity
13 ratio?

14 MR. LORENZO: Your Honor, I'm going to
15 object. This calls for a legal conclusion based
16 upon what the Commission's precedent is for
17 setting the equity ratio in the District which is
18 what the Commission (sic) is based on and it's
19 something I don't believe Ms. Lapson is qualified
20 to opine on.

21 CHAIRMAN KANE: The witness can indicate
22 whether she can answer this.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2625

1 THE WITNESS: Well, actually, I'm really
2 baffled, though, by the question because I'm not
3 sure whose goodwill you're referring to here. Are
4 you referring to PEPCO's goodwill or are you
5 referring to Exelon's goodwill?

6 BY MR. COYLE:

7 Q I wasn't referring to anyone's goodwill
8 specifically. I was referring to how you
9 administer a ring-fencing condition that involves
10 a dividend limitation tied to a debt-equity ratio.
11 How would you calculate the debt-equity ratio?
12 Would you include goodwill? It's an abstract
13 question.

14 A The Commission would use whatever formula
15 it uses for including or excluding goodwill of
16 PEPCO from -- at the PEPCO level from the
17 calculation of PEPCO's equity. But I believe that
18 you are trying to tie this together in some way
19 with Exelon's goodwill and Exelon's books, which
20 is -- I'm afraid I'm becoming baffled by the
21 directions that you're leading.

22 Q Does goodwill provide any useful service

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2626

1 to utility customers, Ms. Lapson?

2 A That is a theoretical question that I
3 don't think I want to approach here. Very often
4 goodwill appears in a transaction because
5 something is purchased at a price that exceeds the
6 historical cost valuation of that item. And so it
7 could be a very useful purpose and it could
8 produce benefits for customers.

9 The concept of goodwill doesn't
10 necessarily address whether or not it is good or
11 bad. The valuation of patents, the valuation of
12 copyrights, all of that could be a part of
13 goodwill. So I'm not sure that I can make a value
14 judgment about whether or not it's useful for
15 utility customers, nor is it my place in this
16 proceeding to do so.

17 Q Okay.

18 A But I'm not sure that this transaction is
19 going to create any goodwill on PEPCO's books. Is
20 that your presumption, that there will be some
21 goodwill on PEPCO's books as a result of this
22 transaction?

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2627

1 Q If I have a presumption, Ms. Lapson, you
2 have my assurance I'll state it in the question.

3 Let me ask you to look now at what's been
4 marked for identification as Exhibit DCG 116 which
5 is your response to data request DCG 9-22. I'd
6 ask you to look specifically at subpart E of the
7 response. You are the sponsor of that response,
8 correct?

9 A Well, I'm just reading the question. I
10 have to read the answer.

11 Q Let me know when you get there.

12 A Yes.

13 Q All right. You acknowledge, do you not,
14 that you are not aware whether or not this
15 Commission has imputed the cost of capital of the
16 holding company to one of its operating
17 subsidiaries in setting rates, right?

18 A I have not done a detailed study into the
19 distant past. I am, however, familiar with this
20 Commission's order 1103 in the -- issued in the
21 first quarter of 2014 in a PEPCO rate case in
22 which this Commission rejected the proposal by OPC

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2628

1 and AOBA to impute debt or to reduce the equity
2 percentage of PEPCO. And the Commission said in
3 that order, we decline to do either -- that was to
4 do either of reducing the amount of equity, as
5 suggested by OPC, or to add short-term debt as OPC
6 and AOBA have urged to do.

7 We decline to do either, the Commission
8 said. We believe that a capital structure that
9 reflects all known and measurable changes is
10 generally more appropriate. We will use the
11 capital structure as proposed by PEPCO. We find
12 merit in PEPCO's argument that it would be
13 inappropriate to base PEPCO's capital structure on
14 the capital structure of PHI.

15 So that principle was stated in the
16 Commission's order number 1103 as recently as
17 March or April of 2014.

18 Q Now could we get back to my question? My
19 question was, you are not aware, are you, whether
20 this Commission -- whether or not this Commission
21 has imputed the cost of capital of a holding
22 company to one of its operating subsidiaries in

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2629

1 setting rates?

2 A I have not done a review of prior
3 practices of the Commission in history.

4 Q Thank you. You would agree with me,
5 Ms. Lapson, that this is not a rate case that
6 we're involved in.

7 A Yes, I would agree with that.

8 Q Great.

9 MR. COYLE: Now, I had asked Mr. Lorenzo
10 prior to my examination whether we could stipulate
11 to the admission of what has been marked for
12 identification as Exhibit DCG 110, which is joint
13 applicants' response to data request from the
14 D.C. -- from the Commission staff 1-20, DCG 111,
15 which is joint applicants' response to commission
16 staff data request 1-21, and DCG 112, which is
17 joint applicants' response to District government
18 data request DCG 2-3. And unfortunately, I wasn't
19 able to hear back from Mr. Lorenzo before I
20 started. But if we can stipulate to those, I'm
21 finished.

22 MR. LORENZO: I have no problem with

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2630

1 DCG 111 and 112, which are sponsored in part, at
2 least, by Ms. Lapson. I do have an issue in that
3 DCG 112 -- excuse me, 110 and 111 -- DCG 112 is
4 sponsored by Mr. Khouzami. And while it's
5 referenced in -- it gets complicated. It's
6 referenced in DCG 110. Is that it? 110?

7 MR. COYLE: I think it's 111.

8 MR. LORENZO: It's referenced in 111, but
9 that exhibit is sponsored jointly by Mr. Khouzami
10 and Ms. Lapson. And the reason for the joint
11 sponsorship is so that we could attach -- so that
12 they could reference DCG Exhibit marked for
13 identification 112.

14 What I'd like to do is -- and it's a
15 substantial exhibit. And because Mr. Khouzami is
16 no longer here, he's already taken the stand, and
17 his sponsor -- the joint sponsorship of the
18 earlier exhibit that referenced this was --
19 Mr. Khouzami was put on it so that we could attach
20 this, it's sort of unfair to bring this in through
21 Ms. Lapson at this time.

22 CHAIRMAN KANE: So you're indicating that

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2631

1 Ms. Lapson is not familiar and cannot be a witness
2 on this document?

3 MR. LORENZO: Yes. Should have asked
4 Mr. Khouzami about it when he was on the stand a
5 week ago.

6 CHAIRMAN KANE: Accept that.

7 MR. COYLE: Well, in that case, I guess
8 I'm not done.

9 BY MR. COYLE:

10 Q Ms. Lapson, would you take a look at
11 what's been marked for identification as Exhibit
12 DCG 112, please. Actually, start with DCG 111.

13 CHAIRMAN KANE: Mr. Lorenzo stipulated to
14 110 and 111?

15 MR. COYLE: That's correct.

16 MR. LORENZO: Yes, Your Honor.

17 THE WITNESS: 111 and 112?

18 BY MR. COYLE:

19 Q Sure. Let's start with 111. You are the
20 co-sponsor of 111, correct? It's the response to
21 staff data request 1-21.

22 A Yes.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2632

1 Q And that answer cross-references
2 Exhibit (sic) DCG 2-3, which has been marked for
3 identification as Exhibit 112, correct?

4 A Which is Mr. Khouzami's exhibit.

5 Q That's correct, which you
6 cross-referenced in the answer that you
7 co-sponsored --

8 A Yes.

9 Q -- to staff 1-21.

10 So my question is, when you co-sponsored
11 the response to 1-21 that cross-referenced the
12 response to DCG 2-3, marked for identification as
13 DCG 112, were you familiar with Exhibit DCG 112?

14 A Yes. I had been furnished with that
15 exhibit in order to -- it was not prepared by me.
16 It was furnished to me so that I would understand
17 the similarities and differences between the
18 proposed ring-fencing of the PHI entities versus
19 the Baltimore Gas and Electric situation.

20 Q So you are familiar with the documents
21 attached to the response?

22 A I have seen it before.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2633

1 Q Thank you very much. On that basis --

2 MR. COYLE: Well, I'll reserve the
3 argument to this point. But I have nothing
4 further for this witness.

5 CHAIRMAN KANE: Thank you.

6 DC SUN?

7 MS. SPENCER: Thanks, Your Honor. We
8 have no questions for this witness.

9 CHAIRMAN KANE: D.C. WASA?

10 MS. WHITE: No, we have no questions.

11 CHAIRMAN KANE: MAREC?

12 MS. ELEFANT: No questions, Your Honor.

13 CHAIRMAN KANE: The intervenors HAVE
14 asked to be screwed today because their witnesses
15 are not participating today.

16 Commissioner Fort?

17 COMMISSIONER FORT: I just have a couple
18 of questions. If you look at your (2K) on
19 page 19.

20 THE WITNESS: Excuse me for a moment.
21 (2K)?

22 COMMISSIONER FORT: (2K), 19 --

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2634

1 THE WITNESS: Page 19.

2 COMMISSIONER FORT: It's on lines 3
3 through 6. You're talking about the SPE, which
4 you discussed a bit earlier today. And it talks
5 about the fact that there are four directors. And
6 I just wanted to get some more information about
7 how the directors, particularly the independent
8 director, is selected.

9 So it says there will be four directors
10 appointed by EEDC, one of whom will be an
11 independent director.

12 THE WITNESS: Who will be an employee,
13 yes, of an administration company. Is that where
14 you're going with this?

15 COMMISSIONER FORT: Yes, that language.
16 So what's an example of an administration company
17 that does the work you reference in that part of
18 your answer?

19 THE WITNESS: There are companies that
20 are usually formed specifically for the purpose of
21 providing such officers, usually legally
22 experienced people, to be directors of special

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2635

1 purpose entities that are used in structured
2 transactions.

3 The structured finance transactions often
4 use this type of vehicle. And so, such -- they
5 can also provide employees who can be trustees or
6 form -- perform other such functions and carry
7 them out.

8 So they are -- you know, I can't tell you
9 anything more about them. I haven't specifically
10 dealt with such companies except to know that
11 there are transactions in which they have played a
12 role.

13 COMMISSIONER FORT: So you have not
14 yourself dealt with the type of administration
15 companies that you mention here?

16 THE WITNESS: No. I've never set up a
17 special purpose entity or administered it. When I
18 was at the credit rating agency, we would -- we
19 would have our legal department review the
20 provisions of the formation of a special purpose
21 entity to determine that it had been appropriately
22 set up, that the special purpose entity had

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2636

1 appropriate officers or directors who had -- you
2 know, who had the appropriate instructions to act
3 under.

4 COMMISSIONER FORT: But I'm curious about
5 the person who comes from the administration
6 company. So do I understand you've told me
7 everything you know about that type of -- about
8 the administration company that you mention in
9 that sentence?

10 THE WITNESS: I think that that's
11 everything that I know.

12 COMMISSIONER FORT: So who would select
13 the administration company, in your understanding?

14 THE WITNESS: Usually -- I'm sorry, I
15 don't know who selects the company. You might
16 want to ask another witness, perhaps Mr. McGowan.

17 COMMISSIONER FORT: Well, I'm asking you
18 because it's part of your testimony.

19 THE WITNESS: Right. I understand.

20 COMMISSIONER FORT: Are there independent
21 criteria --

22 THE WITNESS: There are well -- I think

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2637

1 there are well-known companies.

2 COMMISSIONER FORT: I'm sorry. We do
3 this one at a time.

4 THE WITNESS: Thank you. Sorry.

5 COMMISSIONER FORT: So you said they're
6 well-known companies. So I ask you an example of
7 the company, if they're well-known.

8 THE WITNESS: I think they're well-known
9 in the legal profession. They're not well-known
10 to me.

11 COMMISSIONER FORT: I thought I read in
12 your resume that one of your specialties in
13 banking was structured finance that used
14 bankruptcy-remote special purpose funding
15 entities. Don't I see that on page 3 of your
16 resume?

17 THE WITNESS: Yes. Yes.

18 COMMISSIONER FORT: Do you have a sense
19 of what type of independence criteria is used to
20 select SPE directors?

21 THE WITNESS: I do not. I'm sorry. I
22 can't list those criteria for you.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2638

1 COMMISSIONER FORT: If I were going to
2 look for the criteria, where would I find them?

3 THE WITNESS: Well, if I were looking for
4 the criteria, I would look in the -- in a credit
5 rating agency criteria set having to do with
6 structured finance because when I was at Fitch
7 Ratings, when there was a question about that, we
8 had a special legal team that dealt with
9 structured finance transactions, and they had
10 special structured finance criteria concerning
11 special purpose entities and
12 bankruptcy-remoteness. So I would refer such
13 questions to them.

14 COMMISSIONER FORT: Have you seen any of
15 the governing documents for the SPE that is
16 anticipated for this merger?

17 THE WITNESS: No, I have not. I'm not
18 even sure if they've been drafted yet.

19 COMMISSIONER FORT: Have you seen other
20 SPE governing documents?

21 THE WITNESS: Yes, I have.

22 COMMISSIONER FORT: Do they set out the

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2639

1 criteria for the directors?

2 THE WITNESS: There are instructions for
3 the directors as to how -- how the independent
4 director is to perform his or her duties.

5 COMMISSIONER FORT: And what would be a
6 typical instruction for how the independent
7 director would perform their duties?

8 THE WITNESS: Well, the duty has do, in
9 this case, with the duty of when to file a
10 bankruptcy, whether or not to file a bankruptcy
11 application. So it's a very limited duty.

12 And the instruction might be that the
13 director would only file an application to file
14 bankruptcy if -- only because the entity, the
15 special purpose entity itself, was bankrupt or
16 because of some particular instruction there, and
17 not for the convenience of the sponsor or for some
18 other reason. So it's a very limited set of
19 instructions.

20 As I said before, the SPE is not managing
21 the utility. It's not going to have transactions
22 or to conduct business. So the directors of that

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2640

1 entity are only in place to take action in very
2 limited circumstances. That's all that you want
3 them to do.

4 COMMISSIONER FORT: And that's what we're
5 talking about, and I'm trying to get an idea of
6 how they do that when we want them to do it.

7 So on lines 10 through 13 of your
8 testimony, it says, In addition, the SPE will
9 issue a non-economic interest in the SPE called
10 the golden share to an administration company
11 that's in the business of protecting SPEs and
12 separate from the administration company retained
13 to provide the person to serve as the independent
14 director for the SPE.

15 Is that a different set of administration
16 companies that --

17 THE WITNESS: Yes. I think it is
18 describing here two different administration
19 companies.

20 COMMISSIONER FORT: And what does the
21 second administration company do and what's an
22 example of that company?

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2641

1 THE WITNESS: These two are to be two
2 unrelated companies, each of whom would supply a
3 director, and each of them would have no business
4 other than providing such ministerial services,
5 and they would do so subject to a set of
6 instructions or directions or legal obligations of
7 a director.

8 COMMISSIONER FORT: Can that company have
9 a relationship with Exelon?

10 THE WITNESS: I don't believe so.

11 COMMISSIONER FORT: You don't believe so?

12 THE WITNESS: No, I don't believe so.

13 COMMISSIONER FORT: So that in order to
14 be independent, it would have to be someone who is
15 not working in any way at all for Exelon?

16 THE WITNESS: Yes. That's my
17 understanding.

18 COMMISSIONER FORT: Did the bankruptcies
19 that you have dealt with previously -- I think
20 they were listed on one of the exhibits that you
21 discussed with Mr. Coyle from the
22 D.C. government -- did they use SPEs?

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2642

1 THE WITNESS: I would have to look
2 through the list again, but I don't believe there
3 were any SPEs involved in those cases.

4 COMMISSIONER FORT: When you developed
5 your criteria or you evaluated the commitments in
6 this proceeding, did you look at the structure of
7 the Portland Electric Company, the one that was
8 involved in Enron?

9 THE WITNESS: I did.

10 COMMISSIONER FORT: And are all the
11 provisions that that company had included in the?
12 Commitments here.

13 THE WITNESS: Actually, the commitments
14 here are far in excess, and the ring-fencing
15 measures here are far in excess of the measures
16 that existed at Portland General Electric.

17 So I did make that comparison and came to
18 the conclusion that although Portland General
19 Electric was not consolidated -- there was never a
20 substantive consolidation, it was not drawn into
21 the bankruptcy of its parent, the ultimate parent
22 being Enron Corporation -- there was far less

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2643

1 ring-fencing than is present in this transaction.

2 COMMISSIONER FORT: Well, you know, you
3 could have ten very good provisions and you could
4 have 71 provisions that are not so good. So in
5 the case of Portland General Electric, we know
6 that their provisions worked, right?

7 THE WITNESS: Yes. There was no
8 provision at Portland General Electric that was
9 stronger than the provisions that are proposed
10 here. And there -- there was no -- there was no
11 special purpose entity in that case.

12 There was -- I'm trying to remember now
13 where the differences occurred, but there was no
14 provision that said that the officers of Portland
15 General Corporation and Portland General Electric
16 would not also hold offices at their parent
17 company, Enron. And we know that there were, in
18 fact, cases in which the -- they did act --
19 officers of Portland General did act part-time to
20 perform roles in the management of Enron. We know
21 that Enron shared offices -- Enron's trading
22 personnel shared offices in the Portland General

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2644

1 office.

2 And -- so there were numerous forms of
3 separation that did not exist there that are
4 precluded in these ring-fencing commitments.

5 COMMISSIONER FORT: I understand that
6 there are elements in the commitments that we are
7 looking at that are different and maybe better --

8 THE WITNESS: Stronger.

9 COMMISSIONER FORT: -- and you say are
10 stronger. I just wanted to know if all of the
11 elements that were present in Portland General are
12 also present in these commitments, if you
13 looked at that?

14 THE WITNESS: Yes, I did look at that,
15 and yes, there are all -- there are parallels for
16 all those that were present in the Portland
17 General transaction, but in addition, there are
18 many more and stronger commitments here.

19 COMMISSIONER FORT: What fees are
20 associated with an SPE?

21 THE WITNESS: I do not know. I think
22 someone else might be better able to provide that

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2645

1 information.

2 COMMISSIONER FORT: Do you know whether
3 or not those are fees that are passed on to
4 ratepayers?

5 THE WITNESS: That's a matter of
6 determination by the Commission as to whether that
7 expense is allowed or not allowed.

8 COMMISSIONER FORT: In your testimony,
9 your rejoinder this morning with Mr. Lorenzo, did
10 I hear you say that PHI does not have any
11 preferred stock?

12 THE WITNESS: It does not currently have
13 any preferred stock. Nor does PEPCO.

14 COMMISSIONER FORT: Are you familiar with
15 how -- are you familiar with the \$180 million that
16 Exelon is paying to PHI as part of this merger
17 that is being acquired, I think we were told --
18 that was being paid, I think we were told, through
19 the purchase of preferred stock?

20 THE WITNESS: No.

21 COMMISSIONER FORT: Those are all my
22 questions.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2646

1 CHAIRMAN KANE: Thank you. Two quick
2 follow-up questions before we break for lunch.

3 You were being questioned by Mr. Coyle
4 about the length of time for reviewing the
5 ring-fencing provisions. And you spoke of when
6 that might be appropriate to trigger or when
7 parties might want to trigger a review if, as I
8 recall your words, it became onerous.

9 What -- or would a review to increase the
10 protections also be appropriate? And if -- under
11 the five-year stay-out provision, if a commission
12 determined that they were not strong enough, there
13 was a need to increase the protections, would that
14 be prohibited under this proposal for five years?

15 THE WITNESS: I believe the way that this
16 proposal is structured, the joint applicants can
17 bring an application to make a change. The way
18 that the proposal is structured, I don't think
19 that it has any provision for the Commission to
20 bring an application for a change.

21 CHAIRMAN KANE: So your interpretation --
22 or would your interpretation be that the

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2647

1 Commission would then be prohibited from
2 bringing -- initiating an investigation of the
3 need for a change?

4 THE WITNESS: Well, I guess I would have
5 to ask -- I would have to answer that by saying
6 that I think -- under your authorities, I don't
7 think that -- I don't know that you have the
8 authority to implement a change unless -- to
9 require a change or to implement a change in the
10 parent holding company, in the relationship
11 between the parent holding company or at the SPE
12 level, but there are many things at PEPCO itself
13 that you do have authority over.

14 So when we're talking about ring-fencing
15 provisions here, there are some ring-fencing
16 provisions that have to do with PEPCO and that
17 would be well within the Commission's authority.
18 But things that have to do with the EEDC and the
19 SPE and PHI -- I'm sorry to use those
20 terminologies --

21 CHAIRMAN KANE: We understand what those
22 are. We've been familiar with them over the last

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2648

1 ten days.

2 THE WITNESS: EEDC is the Exelon Energy
3 Distribution Corp., I think.

4 CHAIRMAN KANE: Yes, Company. Yes.

5 THE WITNESS: Company. And then the
6 special purpose entity. And PHI might not be
7 within your authority, whereas other things might
8 be, and that's not my area of expertise.

9 CHAIRMAN KANE: But the ring-fencing
10 proposal that is in the joint applicants'
11 application does affect other than PEPCO? In
12 other words, it -- it's more comprehensive than
13 that, correct?

14 THE WITNESS: Yes, it is. Much more
15 comprehensive.

16 CHAIRMAN KANE: So your statement -- is
17 your statement, then, that were that accepted, the
18 Commission would be prohibited unless -- except at
19 the initiative of the joint applicants, for
20 reviewing or initiating any proposed changes in
21 those aspects of ring-fencing that are not
22 directly PEPCO?

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2649

1 THE WITNESS: That's the way I read the
2 commitment.

3 CHAIRMAN KANE: Are you familiar with the
4 affiliate transaction provisions of the D.C. law
5 that we operate under?

6 THE WITNESS: I believe that I was shown
7 the affiliate transaction regulations. I do not
8 remember them now. I remember I have reviewed the
9 ring-fencing provisions, and I think I was shown
10 the affiliate transaction provisions.

11 CHAIRMAN KANE: And so my question is,
12 have you compared the proposed ring-fencing
13 proposals in the joint applicants' proposal and
14 either -- and I realize you're not a lawyer --
15 either the provisions of D.C. code, including the
16 broad definition of affiliate in D.C. code, and
17 the regulations that have been promulgated by this
18 Commission?

19 THE WITNESS: Well, I did look
20 specifically at the ring-fencing provisions, not
21 the -- I didn't look with as much detail at the
22 affiliate transaction provisions. But there

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2650

1 are -- if I recall correctly, there were two
2 ring-fencing provisions that were significant and
3 that were both encompassed among the 72
4 ring-fencing commitments that are being taken on
5 here. So those I did specifically deem were
6 consistent.

7 But if -- on the affiliate transaction
8 side, I didn't really -- I wasn't taking
9 responsibility for the affiliate transaction
10 aspects of this transaction, so I didn't do that
11 detailed a review. But my understanding is that
12 anything that you have in the D.C. code would, of
13 course, apply no matter what it says in the -- in
14 this -- in these commitments. I don't think these
15 commitments can be less than your D.C. code.

16 CHAIRMAN KANE: But I'm trying to put
17 that together with your earlier statement that we
18 would not be able to change anything at our own
19 initiative, the Commission would -- anything that
20 had to do with PHI or the relationship with PHI --

21 THE WITNESS: Well, with regard --

22 CHAIRMAN KANE: -- which are all

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2651

1 affiliates, correct?

2 THE WITNESS: So with regard to your
3 affiliate transaction code, I'm sure that you
4 have -- that all exists and you have that power.
5 And you have the authority to do those things. So
6 if it's within your existing authorities, then of
7 course you would have the ability to do it.

8 I simply meant that if you wish EEDC to
9 have five directors instead of four or something
10 like that, I don't think that that is within your
11 affiliate transaction code. But I don't know.
12 I'm not an attorney, and I don't know the
13 specifics of your affiliate transaction code.

14 CHAIRMAN KANE: Let me ask a follow-up
15 question to a question Commissioner Fort was
16 asking about, this SPE administration company.
17 And as I understood what you were talking about,
18 there are two different ones. I'm trying to get a
19 picture of -- is this like a business that sort of
20 rents directors to SPEs? I mean, they're not
21 employees. They're like a temp firm for SPE
22 directors? I'm trying to identify what the

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2652

1 business model is. And sort of, then, who gets
2 held accountable for selecting them and for their
3 actions?

4 THE WITNESS: Well, it's something like a
5 trust administrator. I mean, you must have some
6 concept that there are people who administer
7 trusts, who are trustees, who are -- and I think
8 it is someone who undertakes that, perhaps --
9 perhaps there's some bonding of such individuals.
10 I'm not familiar with it, but I don't think -- you
11 know, I don't think that they're -- I have not
12 known of transactions where a problem occurred
13 because of the lack of independence of the SPE
14 directors. I -- I would surely have become aware
15 of it if that happened.

16 CHAIRMAN KANE: Thank you. No further
17 questions.

18 Redirect? I'm sorry. Commissioner
19 Phillips?

20 COMMISSIONER PHILLIPS: No questions.

21 CHAIRMAN KANE: Okay.

22 REDIRECT EXAMINATION

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2653

1 BY MR. LORENZO:

2 Q Just one short follow-up on Commissioner
3 Fort's question regarding who pays for the SPE.
4 Could you open your testimony to your
5 Exhibit (4K)-1. And then I'm going to direct you
6 to paragraph 68 on page 9 of 15. And could you
7 read that into the record?

8 A Oh, yes. Thank you.

9 None of the cost of establishing,
10 operating or modifying the SPE will be borne by
11 PEPCO or its distribution customers. The cost of
12 obtaining the opinion of legal counsel referred to
13 in paragraphs 60 and 67 or any future opinion will
14 not be borne by PEPCO or its distribution
15 customers.

16 MR. LORENZO: Thank you. That's all I
17 had, Your Honor.

18 CHAIRMAN KANE: Thank you.

19 MR. LORENZO: And I'd like to move the
20 admission of Exhibits -- Joint Applicants'
21 Exhibits (2K), (2K)-1 through (2K)-12, (3K),
22 (3K)-1 through (3K)-2, and (4K) and (4K)-1.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2654

1 CHAIRMAN KANE: They are moved into
2 evidence.

3 (Joint Applicants Exhibit Numbers (2K),
4 (2K)-1 through (2K)-12, (3K), (3K)-1 through
5 (3K)-2, (4K) and (4K)-1 were received into
6 evidence.)

7 MS. FRANCIS: Your Honor, AOBA would like
8 to move its Exhibits 98 and 99.

9 CHAIRMAN KANE: They are moved into
10 evidence.

11 (AOBA Cross Exhibit Numbers 98 and 99
12 were received into evidence.)

13 CHAIRMAN KANE: Mr. Coyle?

14 MR. COYLE: Your Honor, District
15 government moves the admission of Exhibits DCG 108
16 through 116, inclusive, including specifically
17 Exhibit DCG 112.

18 MR. LORENZO: Your Honor, we have
19 reviewed the exhibit and will stipulate to its
20 truthfulness and authenticity.

21 CHAIRMAN KANE: Thank you. Very good.

22 (DCG Cross Exhibit Numbers 108 through

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2655

1 116 were received into evidence.)

2 CHAIRMAN KANE: It is 2:00 p.m. We have
3 just spent three-and-a-half hours on our
4 one-and-a-half-hour witness. But we will then --
5 you are excused.

6 THE WITNESS: Thank you.

7 (Witness excused.)

8 CHAIRMAN KANE: And everyone is excused
9 for lunch, and we will reconvene at 3:00 with
10 Mr. Dismukes.

11 (Whereupon, at 2:01 p.m., a lunch recess
12 was taken.)

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Capital Reporting Company
Formal Case No. 1119 04-20-2015

2656

1 AFTERNOON SESSION

2 (3:03 p.m.)

3 CHAIRMAN KANE: We're back on the record.

4 It is 3:04 -- 3:03 p.m. And -- Mr. Lorenzo.

5 MR. LORENZO: Two points, Your Honor,
6 both dealing with Ms. Lapson's testimony. One, we
7 checked with the company regarding the
8 confidentiality of -- especially of the Fitch
9 report.

10 CHAIRMAN KANE: Yes.

11 MR. LORENZO: And I understand being a
12 year old, it's already out of date. So we could
13 declassify it, as it were, in that way.

14 The second offer we have is Commissioner
15 Fort asked a number of questions about the set-up
16 and administration of an SPE, sort of the
17 nitty-gritty of how it's done. And if it's the
18 Commission's desire, we will offer to respond that
19 to that via a bench data request in order to
20 answer those questions.

21 CHAIRMAN KANE: Yeah. We'd be interested
22 in seeing that.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2657

1 MR. LORENZO: Okay. Very good, Your
2 Honor.

3 CHAIRMAN KANE: Now, you said the Fitch
4 report is out of date. Are you indicating that
5 it's not relevant?

6 MR. LORENZO: No. It's -- the Fitch
7 report that Mr. Coyle was using to question is
8 about a year old. It was from April of 2014. So
9 the confidential nature of -- the sensitivity of
10 the information is no longer --

11 CHAIRMAN KANE: Thank you for clarifying
12 that.

13 MR. LORENZO: Okay. Very good.

14 CHAIRMAN KANE: All right. OPC, you may
15 call your witness.

16 MR. GRAY: Thank you, Your Honor. Jason
17 Gray for the Office of People's Counsel. At this
18 time, the People's Counsel would like to call
19 Dr. David Dismukes.

20 WHEREUPON,

21 DAVID DISMUKES,
22 called as a witness, and after having been first

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2658

1 sworn by the secretary, was examined and testified
2 as follows:

3 DIRECT EXAMINATION

4 BY MR. GRAY:

5 Q Good afternoon, Dr. Dismukes.

6 A Good afternoon.

7 Q Could you please state your name for the
8 record.

9 A David E. Dismukes.

10 MR. GRAY: And, Your Honor, pursuant to
11 order 17790, I'd like to mark Dr. Dismukes'
12 prefiled testimony at this time. It is his direct
13 testimony, which is Exhibit OPC (A), and the
14 supporting exhibits, OPC (A)-1 to OPC (A)-45, as
15 well as Dr. Dismukes' supplemental direct
16 testimony, OPC (2A) and supporting exhibits
17 OPC (2A)-1 to OPC (2A)-5.

18 CHAIRMAN KANE: They are so marked.

19 (OPC Exhibit Numbers (A), (A)-1 through
20 (A)-45, (2A), and (2A)-1 through (2A)-5 were
21 marked for identification.)

22 MR. GRAY: And conformed versions of the

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2659

1 prefilled testimony were filed on March 25th.
2 However, this morning we noted one correction that
3 needs to be made to Dr. Dismukes' direct
4 testimony, and I would like to clear that issue up
5 now, if that's okay.

6 CHAIRMAN KANE: Yes.

7 BY MR. GRAY:

8 Q Dr. Dismukes, do you have that
9 correction?

10 A I do not. I think it's on page 99,
11 line 7.

12 Q Very good guess.

13 A Thank you.

14 Q Page 99, line 7, there's a reference to
15 PHI's. I believe that reference should be to
16 PEPCO; is that correct?

17 A Yes, sir.

18 MR. GRAY: And with that one change, Your
19 Honor, I would tender the witness for cross.

20 CHAIRMAN KANE: Company?

21 MR. GADSDEN: Thank you, Your Honor.

22 CROSS-EXAMINATION

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2660

1 BY MR. GADSDEN:

2 Q Dr. Dismukes, my name is Tom Gadsden.

3 I'm one of the attorneys representing the joint
4 applicants in this proceeding.

5 Your attachment A to your direct
6 testimony, which is your curriculum vitae, lists a
7 number of regulatory and legislative proceedings
8 in which you've presented testimony; is that
9 correct?

10 A Yes, sir.

11 Q And am I correct that several of those
12 appearances involved PEPCO or one of its
13 affiliates, Delmarva or ACE, Atlantic City
14 Electric?

15 A Yes, sir.

16 Q And specifically at page 2 of your direct
17 testimony, you note that you previously testified
18 before this Commission in formal case numbers 1087
19 and 1103. Do you see that?

20 A Yes, sir.

21 Q Are those the only proceedings in which
22 you've appeared before this Commission or have

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2661

1 there been others?

2 A Those are the only two.

3 Q And were they both rate cases?

4 A Yes, sir.

5 Q Dr. Dismukes, am I correct that you've
6 never submitted formal testimony in proceedings
7 involving a utility merger or change of control?

8 A Yes, sir. That's correct.

9 Q Could you turn to -- and there should be
10 a binder up there somewhere. Could you turn to
11 what has been preliminarily marked for
12 identification in your binder as Joint Applicants'
13 Cross-Examination Exhibit 21 --

14 MR. GADSDEN: -- which I would ask, Your
15 Honors, be marked for the record as Joint
16 Applicants' Exhibit 9.

17 CHAIRMAN KANE: So marked.

18 (Joint Applicants Cross Exhibit Number 9
19 was marked for identification.)

20 BY MR. GADSDEN:

21 Q Do you have that, Dr. Dismukes?

22 A Yes, sir.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2662

1 Q Am I correct that Exhibit 9 comprises the
2 OPC's response to PEPCO data request number 1-3,
3 which you co-sponsored with some other OPC
4 witnesses?

5 A Yes, sir.

6 Q And in your response, you indicated that
7 even though you had not presented any testimony,
8 any formal testimony in a merger proceeding, you
9 had published an article, quote, associated with
10 merger-related regulatory issues.

11 Do you see that?

12 A That's correct.

13 Q Is attachment 1-3 to your response
14 entitled, Electric M&A, a regulator's guide, the
15 article that you refer to?

16 A Yes, sir.

17 Q I've got just a few questions with
18 respect to that article, Dr. Dismukes. On the
19 first page of the article, which has been
20 identified as page 2 of 5 of Cross-Examination
21 Exhibit 21, in the right-hand column you note,
22 Many regulators believe the broader public

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2663

1 interest standard encompasses a host of
2 quantifiable (objective) and non-quantifiable
3 (normative) criteria.

4 Do you see that?

5 A Yes, sir.

6 Q Is that still your understanding?

7 A Yes, sir.

8 Q If we could go to the second page of the
9 article which is page 3 of Exhibit 21 -- and this
10 would be the second full paragraph.

11 A In the left column?

12 Q The right-hand column, I'm sorry.

13 A Okay.

14 Q You state, Regulators should consider --
15 I'm sorry. Left-hand column. Regulators -- it's
16 right above that, I'm sorry. I've given you --
17 first full paragraph under rate impacts --

18 A Okay.

19 Q -- left-hand column. And you state that,
20 Regulators should consider restricting their
21 investigation of a proposed merger to the merits
22 of the merger alone, deferring rate design changes

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2664

1 to a future rate investigation or a later annual
2 merger savings review.

3 Do you see that?

4 A Yes.

5 Q Does that continue to be your opinion?

6 A I don't know in this particular
7 proceeding that it would be. I think that,
8 looking at the potential benefits associated with
9 this merger should also include the impacts
10 associated with what the merger will have on rates
11 for ratepayers. And in this particular instance,
12 I think it's an important component of that.

13 I think if you look at the time and the
14 context within which this article was written, I
15 think you'll notice on page 1 -- this was back in
16 1996, you know, which is quite some time ago
17 now -- when we saw the first big explosion of
18 electric M&A activity -- in fact, if you look back
19 at this time period, a lot of that M&A activity
20 was different in nature than what you've seen
21 today.

22 And I think the historic standards and

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2665

1 the progressing standards in policy for these have
2 changed some. Some things have continued to be
3 the same, but others I think have progressed as
4 well.

5 And one of the things that you've seen in
6 many of these mergers has been the fact that rate
7 freezes or some kind of holding constant of rates
8 has been a constant component of those proposals.

9 Q In the right-hand column, the second full
10 paragraph, you state, Merged companies that meet
11 or exceed projected savings could be allowed to
12 keep a gradually larger share of such savings.

13 Do you continue to subscribe to that view
14 or is this also something which you've
15 reconsidered over the years?

16 A Well, I think it depends on the nature of
17 the offer that's on the table. I think -- one
18 thing to keep in mind about this article is it's
19 kind of a scoping article that surveys the
20 literature and surveys kind of the current status
21 of what was going on as of 1996 when a lot of
22 these mergers were occurring.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2666

1 One of the things that I was pointing out
2 here is that you could have, as part of a merger
3 proposal, some kind of performance-based plan
4 where you have a minimum guarantee of merger
5 savings that are going back to ratepayers, and to
6 the extent that the utility beats that ex-post
7 merger, you may have a performance benefit or
8 reward as a consequence of that.

9 So it depends on the nature -- that kind
10 of proposal has not been offered here in this
11 particular merger. It's been a one-time CIF to
12 kind of get away from these issues of debating and
13 trying to figure out what those merger savings
14 would be. But as you can imagine, in other
15 proceedings it's different.

16 Q Okay. Finally, at the bottom of page 2,
17 the sentence that carries over, you wrote, Most
18 PUCs, however, have struck a middle ground and
19 allowed utilities to recover the cost of the
20 acquisition premium from the savings that result.
21 Any excess savings are then passed on to
22 customers. Do you see that?

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2667

1 A Yes, sir.

2 Q Dr. Dismukes, I have a few questions
3 regarding your discussion of the merger standard
4 to be applied in this case, and would ask you to
5 turn to page 6 of your direct testimony. Tell me
6 when you're there.

7 A I'm there.

8 Q Okay. At lines 15 and 16, you quote from
9 the Commission's order number 11075 to the effect
10 that a merger, quote, must produce a direct and
11 traceable financial benefit to ratepayers.

12 And I believe, as you note in footnote 5,
13 that quote comes from the Commission's decision in
14 the 2002 PEPCO/Conectiv merger proceeding?

15 A Yes, sir.

16 Q What is your understanding of what it
17 means for a benefit to be direct and traceable?

18 A My interpretation of that is comparable
19 to what's used in rate-making in terms of a known
20 and measurable benefit that can be quantified.

21 Q Now, if you look at page 7 of your direct
22 testimony this time, and specifically line 19 --

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2668

1 and here you're referring to the Commission's
2 order number 17530, and you refer to mergers
3 producing, quote, a direct and tangible benefit to
4 ratepayers.

5 Preliminarily -- that order was one that
6 was issued earlier in this proceeding; is that
7 correct?

8 A Yes, sir.

9 Q Is there a difference in your mind
10 between a traceable benefit and a tangible
11 benefit?

12 A No, sir.

13 Q Does the absence of the word "financial"
14 mean that the Commission will consider
15 non-financial benefits?

16 A I presume the Commission can consider
17 non-financial benefits as well, yes.

18 Q If you now look at page 8 of your
19 testimony, specifically lines 11 and 12, here you
20 refer to direct and quantifiable ratepayer
21 benefits. Do you see that?

22 A Yes, sir.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2669

1 Q What does quantifiable mean in this
2 context?

3 A Those that are measurable.

4 Q And the -- did the quantifiable standard
5 come from a prior commission order or is that your
6 interpretation of a prior commission order or
7 what?

8 A Well, in this particular Q&A what I'm
9 focusing on is the criteria by which both myself
10 as well as some of the other witnesses have
11 evaluated -- and the office of public (sic)
12 counsel has evaluated this merger with a
13 particular emphasis on those things that are known
14 and measurable and direct and quantifiable that
15 are tangible benefits that the Commission can
16 recognize and see as positive outcomes of the
17 proposed merger.

18 Q On page 9 of your direct testimony, now
19 at lines 3 and 4, here you referred to clear net
20 benefits. What did you have in mind there?

21 A In this instance, clear benefits that
22 show that ratepayers will be better off as a

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2670

1 consequence of this merger occurring.

2 Q How do we determine whether they're net?

3 A Net of those costs, net of the costs
4 associated with the proposed transaction.

5 Q Okay. And you believe that the
6 Commission should balance overall benefits and
7 harms and determine whether there's a net benefit?

8 A Yes, sir.

9 Q Beginning on page 10 -- and maybe this is
10 what you alluded to before -- but page 10 of your
11 direct testimony, you use the "phrase direct,
12 quantifiable, traceable and tangible benefits."
13 And that's on line 3.

14 Is that the standard that you ended up
15 using in evaluating potential merger benefits?

16 A Yes, sir.

17 Q Would it be fair to say that you did not
18 apply the direct, quantifiable, traceable and
19 tangible standard when it came to evaluating
20 potential merger harms and costs?

21 A I think many of those were difficult to
22 actually quantify and I don't believe that the

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2671

1 company had quantified those in its application.
2 But just because they were non-quantifiable
3 doesn't mean that they should be ignored or not be
4 considered as a consequences of the merger.

5 Q Well, let's take a look at the bottom of
6 page 26 of your direct testimony, if we could.
7 The answer that begins on line 18, if you could
8 just review that and tell me when you've had a
9 chance to do so.

10 A Okay.

11 Q Here in the sentence that begins on
12 line 19, you state, Ratepayers have no assurances
13 to any of the longer-term merger-related
14 efficiency benefits asserted by the joint
15 applicants, and you discuss certain efficiency
16 benefits that may or may not arise.

17 Then on line 23, you state, Compare this
18 with the wide range of potential direct and
19 indirect merger-related costs discussed earlier
20 which, while also uncertain, will likely be larger
21 than the limited number of potential merger
22 benefits.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2672

1 Do you see that?

2 A Yes, sir.

3 Q So for purposes of your analysis, merger
4 costs need not be direct. They can be indirect.
5 And they need not be quantifiable and traceable,
6 but instead can be potential and uncertain. Is
7 that a fair summary?

8 A Well, I think in this instance, they --
9 because they had not been quantified, they
10 certainly should be considered here.

11 Q Very well.

12 A I can -- if you look at, at least, the
13 direct and traceable benefits that were provided,
14 they were relatively low, I think primarily
15 associated with those that had been offered in the
16 CIF as a direct, quantifiable benefit, and at that
17 time, for the direct testimony, was somewhere
18 around \$52 a customer.

19 I think if you compare those, at least
20 subjectively, with the wide range of costs and
21 risks that have been outlined not only by myself
22 but by a number of other witnesses for public

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2673

1 counsel that include some of the financial risk,
2 some of the accounting and regulatory risk, some
3 of the reliability-oriented risk, you need not
4 come up with a specific number to show that,
5 relative to \$52 a customer, those are likely to be
6 probably greater even if you could try to take a
7 stab at quantifying them.

8 Q I understand that's your position.

9 Dr. Dismukes, on page 2 of your direct
10 testimony on line 13, you note that you were
11 retained by the OPC to serve as its main policy
12 witness. Do you see that?

13 A Yes, sir.

14 Q And as I understand it, one of your
15 duties -- and I believe you state as much -- was
16 to introduce the OPC's other witnesses and to
17 summarize their testimony and recommendations,
18 correct?

19 A Yes, sir.

20 Q Presumably, in preparing your testimony,
21 you first reviewed the testimony to be submitted
22 by the OPC's other witnesses?

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2674

1 A Yes, sir.

2 Q Is there anything in that testimony of
3 the other witnesses with which you disagree?

4 A No, sir.

5 Q If you could turn to page 11 of your
6 testimony. Beginning at the answer that begins on
7 line 9, you're somewhat critical of the joint
8 applicants for not recommending a specific use of
9 the CIF, but instead, in your words, punting that
10 issue to the Commission. Do you see that?

11 A Yes, sir.

12 Q Is it your belief that the Commission is
13 not equipped to make that decision on its own?

14 A No, sir.

15 Q And if we move over to page 30 of your
16 direct testimony, here at lines 8 through 10 --
17 and this is a portion of your testimony in which
18 you're summarizing certain recommendations; is
19 that correct?

20 A Yes, sir.

21 Q At lines 8 through 10, you state, The
22 District's CIF payment should be increased to a

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2675

1 one-time payment/distribution that should be
2 allocated to all customers over the 12 months
3 following merger approval as a bill credit.

4 A Yes, sir.

5 Q Okay. When you wrote this last October,
6 what did you mean when you said the CIF should be
7 increased? Increased to what?

8 A I didn't have a specific number, just
9 that \$52 seemed like a low number in my opinion.

10 Q And when you said it should be allocated
11 to all customers, what did you have in mind?

12 A As a credit on their bill.

13 Q Well, would every customer get the same
14 amount or did you have something else in mind?

15 A I didn't have a specific allocation in
16 mind. One that is equitably distributed across
17 customer classes was my intent in making this
18 recommendation.

19 Q So that's an issue that you prefer to
20 punt to the Commission; is that correct?

21 A No, I think it would be one that would be
22 consistent with the Commission's rate design

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2676

1 policies in the past, rate-making practices in the
2 past.

3 Q At page 11 of your supplemental direct
4 testimony -- if you could turn to that.

5 MR. GRAY: There should be two binders.

6 THE WITNESS: Is it in the back of the
7 second binder?

8 MR. GRAY: It's a yellow cover binder.
9 There's volume 1 and volume 2. I believe you are
10 in volume 1.

11 THE WITNESS: I didn't see the
12 supplemental. I don't see it in here. It says
13 direct only.

14 MR. GRAY: Could we go off the record for
15 just one second?

16 CHAIRMAN KANE: Yes.

17 (Discussion held off the record.)

18 THE WITNESS: Okay. I have it,
19 Mr. Gadsden. What page were you saying again?
20 I'm sorry.

21 BY MR. GADSDEN:

22 Q I'm sorry. Page 11. Are with you me?

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2677

1 A Yes, sir.

2 Q Okay. Down at the bottom of the page,
3 starting on line 20, you state, rate affordability
4 is an important factor when determining if the
5 level of the CIF is reasonable. A key
6 consideration must be whether the proposal
7 negatively impacts the ability for seniors, those
8 on fixed income and other economically challenged
9 customers to be able to afford this essential
10 service.

11 Do you see that one?

12 A Yes, sir.

13 Q Do you believe that rate affordability
14 should be taken into account in determining how
15 the District's share of the CIF should be
16 allocated to customers?

17 A I have not proposed that in my
18 recommendation.

19 Q What is your recommendation as to the
20 allocation of the CIF?

21 A It should be allocated on a basis that's
22 comparable to the cost of service rate-making

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2678

1 purposes. If the company or the Commission would
2 like to address any other issues related to
3 low-income households, that would be something
4 that is supplemental to the primary CIF.

5 Q Would you oppose the allocation of some
6 portion of the CIF to low-income customers?

7 A No, sir.

8 Q If I could ask you to go back to your
9 direct testimony at page 31 -- this is still in
10 the section of your direct where you're discussing
11 various recommended conditions to merger approval.
12 And I would draw your attention to the section
13 which begins in the middle of -- subsection which
14 begins in the middle of page 31 dealing with
15 corporate governance.

16 A Yes, sir.

17 Q Your first recommendation reads, At least
18 one-third and no fewer than two members of PEPCO's
19 board of directors should be independent; is that
20 correct?

21 A Yes, sir.

22 Q If you could find your cross-examination

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2679

1 exhibit binder, I would ask you to turn to what we
2 have preliminarily identified as Joint Applicants'
3 Cross-Examination Exhibit 22, which consists of
4 your response to our data request 3-11.

5 MR. GADSDEN: And, Your Honors, I would
6 ask that that document be identified as Joint
7 Applicants' Exhibit 10.

8 CHAIRMAN KANE: So identified.

9 (Joint Applicants Cross Exhibit Number 10
10 was marked for identification.)

11 MR. GADSDEN: Thank you, Your Honor.

12 BY MR. GADSDEN:

13 Q Do you have that one, Dr. Dismukes?

14 A Yes, sir.

15 Q In this data request we asked you whether
16 the majority of PEPCO's board was independent
17 today, and you responded that you did not know
18 because that information was not readily
19 available; is that correct?

20 A Yes, sir.

21 Q If you would now turn to what we've
22 marked as Joint Applicants' Cross-Examination

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2680

1 Exhibit 23 --

2 MR. GADSDEN: -- which, Your Honors, I
3 would ask be identified as Joint Applicants'
4 Exhibit 11.

5 CHAIRMAN KANE: So marked.

6 (Joint Applicants Cross Exhibit Number 11
7 was marked for identification.)

8 BY MR. GADSDEN:

9 Q Dr. Dismukes, would you accept, subject
10 to check, that this document is an excerpt from
11 PEPCO's 2013 form 1 report filed with the Federal
12 Energy Regulatory Commission?

13 A Yes, sir.

14 Q Okay. Have you had a chance to look at
15 this?

16 A Yes, sir.

17 Q And if we turn to page 8 of that exhibit,
18 which is the final page, I believe --

19 A Yes, sir.

20 Q -- can we agree that PEPCO's directors
21 are listed there?

22 A Yes, sir.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2681

1 Q And if we go back to page 6 of that same
2 exhibit, can we agree that PEPCO's officers are
3 listed there?

4 A Yes, sir.

5 Q And from this exhibit, can we agree that
6 all of the directors listed on page 8, with the
7 exception of Mr. Charles Dickerson, are identified
8 as officers of PEPCO on page 6?

9 A Yes, sir.

10 Q And would you accept, subject to check,
11 that Mr. Dickerson is an officer of PHI?

12 A Yes, sir.

13 Q Another recommendation that you offer on
14 page 31 of your direct testimony at line 14 is
15 that the majority of PHI's board should remain
16 independent. Do you see that one?

17 A Yes, sir.

18 Q And could you now turn to what we have
19 marked for identification as Joint Applicants'
20 Cross-Examination Exhibit 24 --

21 MR. GADSDEN: -- which, Your Honor, I
22 would ask be marked for the record as Joint

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2682

1 Applicants' Exhibit 12.

2 CHAIRMAN KANE: So marked.

3 (Joint Applicants Cross Exhibit Number 12
4 was marked for identification.)

5 BY MR. GADSDEN:

6 Q Dr. Dismukes, am I correct that this is
7 your response to our data request number 3-12?

8 A Yes, sir.

9 Q Here we asked you if you were aware of
10 any subsidiary of a holding company, the majority
11 of whose board was independent; is that correct?

12 A Yes, sir.

13 Q And you answered that you were not aware
14 of any of that type because that type of
15 information is not generally publicly available;
16 is that correct?

17 A Yes, sir.

18 Q And from our prior discussion of PEPCO's
19 FERC form 1, am I correct that you did not review
20 FERC form 1s filed by other utility holding
21 companies?

22 A I did, and I didn't realize this was

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2683

1 limited to just utility holding companies. I
2 thought it was just holding companies generally.

3 Q Okay. One last question in this area,
4 Dr. Dismukes, and it's really in the nature of a
5 request for clarification. At page 32 of your
6 direct testimony, line 3, you state -- again,
7 another corporate governance recommendation -- you
8 state, PEPCO's and PHI's CEOs should reside in
9 PEPCO's service territory, correct?

10 A Yes, sir.

11 Q And if we were to go to page 99 -- and
12 I'm not asking you to do it except subject to
13 check, or you can look if you'd like, but page 99
14 of your direct testimony you repeat the same
15 language.

16 A Okay.

17 Q But at page 19 of your supplemental
18 direct testimony, at lines 5 and 6 -- I'll read
19 the whole sentence beginning at line 3:
20 Certainly, showing a strong commitment to the
21 District and maintaining a strong local presence
22 would be served by supporting my recommendation

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2684

1 that the majority of PEPCO's board, as well as its
2 CEO, reside in the District.

3 I guess the question is, since PEPCO's
4 service territory spans both the District and
5 Maryland, are you insisting that the CEO reside in
6 the District or is Maryland an acceptable
7 alternative?

8 A I was recommending that the CEO be in the
9 district because that's where the headquarters is
10 located.

11 Q Okay.

12 A Or supposed to be located.

13 Q Well, it is located, isn't it?

14 A Right. It is.

15 Q And company has not indicated any plans
16 to change the location of its headquarters, has
17 it?

18 A No, it has not.

19 Q Move on to a new area, Dr. Dismukes. If
20 I could ask you to turn to page 1 of 3 of your
21 direct testimony.

22 A Yes, sir.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2685

1 Q Here, and in the discussion that follows,
2 you note that PEPCO's reliability performance has
3 been an issue with the OPC in the past; is that
4 correct?

5 A Yes, sir.

6 Q And if we page over to 106, at the bottom
7 of the page, 106, line 17, you state, Moreover, in
8 formal case 1103, the Commission reiterated its
9 belief that PEPCO's reliability performance was
10 continuing to improve.

11 Do you see that?

12 A Yes, sir.

13 Q I think you indicated previously that you
14 testified in case 1103, did you not?

15 A Yes, sir.

16 Q Could you refer to what appears in your
17 binder as Joint Applicants' Cross-Examination
18 Exhibit Number 25 --

19 MR. GADSDEN: -- which I would ask be
20 marked as Joint Applicants' Exhibit 13.

21 CHAIRMAN KANE: So marked.

22 (Joint Applicants Cross Exhibit Number 13

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2686

1 was marked for identification.)

2 MR. GADSDEN: Thank you, Your Honor.

3 THE WITNESS: Okay.

4 BY MR. GADSDEN:

5 Q Do you recognize this as OPC's response
6 to PEPCO data request 1-4?

7 A Yes, sir.

8 Q And in this data request, we asked you to
9 identify proceedings in which you had presented
10 testimony in cases involving either PEPCO or its
11 affiliates; is that correct?

12 A Yes, sir.

13 Q If you could take just a minute and
14 confirm that what we have attached to the cover
15 sheet of that data request are excerpts from three
16 of the proceedings that you identify in the
17 narrative description on the first page.

18 A Okay.

19 Q And those, I believe, you had identified
20 in your data response as attachments 1-4A, 4B and
21 4F.

22 A Okay. I'll agree, subject to check, that

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2687

1 those match up those --

2 Q Okay. Could you --

3 A -- to file names.

4 Q -- turn to attachment 1-4B.

5 A These aren't marked that way. So if you
6 could help me -- just tell me what page number of
7 the exhibit, we will probably...

8 Q I believe that excerpt -- and this is an
9 excerpt from your testimony in case 1103 before
10 the D.C. Public Service Commission -- begins on
11 page 28.

12 A Okay.

13 Q If you could turn to page 32 of the
14 exhibit, or page 3 of the testimony at the bottom.

15 A Yes, sir.

16 Q And we can confirm that at line 13,
17 running down to line 15, you state -- you
18 testified in that proceeding, While PEPCO's
19 reliability-related performance over the past year
20 has improved substantially from prior levels, the
21 company continues to perform poorly relative to
22 other utilities.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2688

1 Do you see that?

2 A Yes, sir.

3 Q If I could ask you to turn to
4 attachment 1-4F of that response, which I believe
5 begins on page 42.

6 A Okay.

7 Q And if we turn to page 61 of
8 Cross-Examination Exhibit 25, which is the final
9 page of the excerpt -- well, let me back up.

10 Do you recognize this as testimony that
11 you presented before the Maryland Public Service
12 Commission in case number 9286?

13 A Yes, sir.

14 Q Okay. If we move to page 18, the final
15 page.

16 A Yes, sir.

17 Q You testified in that case, did you not,
18 that PEPCO's past reliability measures -- and here
19 I'm reading from line 20 -- raise serious
20 questions about its ability to perform in the
21 future. And then again at line 23, you stated,
22 The company's past capital budgeting performance

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2689

1 suggests that it has a consistently difficult time
2 accurately forecasting its overall and
3 reliability-related investment needs.

4 Do you see that?

5 A Yes, sir.

6 Q Dr. Dismukes, if you could turn to
7 page 58 of your direct testimony and tell me when
8 you're there.

9 A I'm there.

10 Q Okay. Here, in an answer that starts on
11 line 5 of page 58 --

12 A Yes, sir.

13 Q -- you discuss what you characterize as a
14 meta-study, M-E-T-A, study --

15 A Yes, sir.

16 Q -- performed by Lawrence Berkeley labs?

17 A Yes, sir.

18 Q And it was, in part, on the results of
19 this study that Dr. Tierney relied in her
20 calculations; is that correct?

21 A That's correct. The calculator that she
22 used to estimate the reliability benefits based

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2690

1 off the results included in that Lawrence Berkeley
2 lab study in part.

3 Q I don't know whether you still have our
4 Cross-Examination Exhibit 25, which was the one
5 that had excerpts from your prior testimony
6 attached to it.

7 A Yes, sir.

8 Q I think that was marked for the record as
9 Joint Applicants' Exhibit 13. Would you refer to
10 attachment 1-4A, which begins at page 3 of that
11 exhibit, and confirm that that is an excerpt from
12 testimony that you presented before the Delaware
13 Public Service Commission in docket number 13-115?

14 A Yes, sir.

15 Q I forgot to make a note here,
16 Dr. Dismukes, so it may take me a minute.

17 MR. GADSDEN: If I could have a minute,
18 Your Honor.

19 My apologies, Your Honor.

20 BY MR. GADSDEN:

21 Q Okay. I found it.

22 A Okay.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2691

1 Q Sorry about that.

2 Let me direct you to page 16 of your
3 Delaware testimony. Here in the answer that
4 begins on line 3, you discuss the company's
5 position regarding measurement of reliability
6 investment cost-effectiveness; is that correct?

7 A Are we on page 16?

8 Q Page 12.

9 A Page 12. Oh. No wonder I can't find
10 that. Okay.

11 Q That's my trick question.

12 A There you go. All right. I'm there,
13 yes.

14 Q Page 12?

15 A Uh-huh.

16 Q Now, you refer in the answer that begins
17 on line 3 to a 2008 Department of Energy
18 meta-study. Is this the same meta-study that you
19 talk about in your direct testimony in this case?

20 A Yes, sir.

21 Q And can we agree that you conclude that
22 answer at lines 14 and 15 by stating, It is not

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2692

1 clear why a similar methodology could not be
2 applied to the company's proposed reliability
3 programs in Delaware?

4 Is that correct?

5 A Yes, sir.

6 Q Dr. Dismukes, on page 20 of your direct
7 testimony in this case, you list in bullet form a
8 number of costs that you claim will outweigh the
9 benefits of the merger.

10 A Yes, sir.

11 Q The last item that you list reads as
12 follows: Corporate positions on renewable energy
13 that are philosophically different from those
14 established by the Commission.

15 Do you see that?

16 A Yes, sir.

17 Q By "the Commission," am I correct that
18 you're referring to this Commission, the District
19 of Columbia Public Service Commission?

20 A Yes, sir.

21 Q Could you open your binder to what we
22 have preliminarily marked for identification as

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2693

1 Cross-Examination Exhibit Number 26 --

2 MR. GADSDEN: -- which I would ask be
3 marked for the record as Joint Applicants'
4 Exhibit 14.

5 CHAIRMAN KANE: So marked.

6 (Joint Applicants Cross Exhibit Number 14
7 was marked for identification.)

8 BY MR. GADSDEN:

9 Q If you're there, Dr. Dismukes, can you
10 confirm -- or do you recognize this document as
11 your response to PEPCO data request 1-8?

12 A Yes, sir.

13 Q And in this data request we asked you to
14 describe in detail the Commission's philosophy on
15 renewables, and you responded by directing us to
16 the testimony and exhibits sponsored by OPC
17 witness Morgan; is that correct?

18 A Yes, sir.

19 Q Did you review Mr. Morgan's testimony
20 before you prepared your own?

21 A Yes, sir.

22 Q And did you look at it before drafting

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2694

1 this response?

2 A Yes, I did.

3 Q Can we agree -- or would you accept,
4 subject to check, that nowhere in his direct
5 testimony does Mr. Morgan discuss the Commission's
6 philosophy on renewables or specific positions
7 that it may have established with respect to
8 renewables?

9 A That's not my understanding.

10 Q What is your understanding?

11 A It was my understanding that he was
12 critical about those positions with regards to
13 positions that Exelon had taken in other
14 jurisdictions.

15 Q We're not talking about Exelon's
16 positions at this point. We're talking about the
17 Commission's philosophy with regard to renewables
18 and positions that it has established with respect
19 to renewables.

20 A Oh. And you're asking me, did he outline
21 each of those philosophies?

22 Q Did he outline any of them?

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2695

1 A I don't recall that he did.

2 Q Now, on page 24 at lines 17 and 18, you
3 ask yourself to explain some of the problems OPC
4 has with Exelon's corporate philosophy regarding
5 renewables. Do you see that?

6 A Yes, sir.

7 Q If you could refer to what has been
8 preliminarily marked in your binder as Joint
9 Applicants' Cross-Examination Exhibit 27 --

10 MR. GADSDEN: -- which, Your Honors, I
11 would ask be identified as Joint Applicants'
12 Exhibit 15.

13 CHAIRMAN KANE: So marked.

14 (Joint Applicants Cross Exhibit Number 15
15 was marked for identification.)

16 MR. GADSDEN: Thank you, Your Honor.

17 BY MR. GADSDEN:

18 Q Dr. Dismukes, do you recognize this
19 document as your response to PEPCO data
20 request 1-9?

21 A Yes, sir.

22 Q In this data request, we asked you to

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2696

1 describe the Exelon corporate philosophy on
2 renewables that you referred to in this portion of
3 your testimony, and again, you responded by
4 directing us -- well, in this case, you responded
5 by directing us to your response to data
6 request 1-8 which, as we just established, you
7 referred us to Mr. Morgan's testimony; is that
8 correct?

9 A Yes, sir.

10 Q Now, what aspects of Mr. Morgan's
11 testimony did you have in mind here?

12 A "Here" being where?

13 Q "Here" being in your direct testimony
14 when you're talking about problems that OPC has
15 with Exelon's corporate philosophy.

16 A Can you reask that question? I got lost
17 on that. I'm sorry.

18 Q All right. Let's start again. Page 24
19 of your direct testimony, the question at lines 17
20 and 18 reads, Can you explain some of the problems
21 OPC has with Exelon's corporate philosophy
22 regarding renewables?

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2697

1 Are you with me so far?

2 A Yes, sir.

3 Q Okay. We asked you to flesh that out in
4 the answer that followed. And you referred us to
5 your previous response to data request 1-8 which,
6 in turn, referred us to Mr. Morgan's testimony.

7 A Correct.

8 Q And my question is what aspects of --
9 what specific problems did you have in mind that
10 presumably we can find if we go to Dr. --
11 Mr. Morgan's testimony?

12 A I think, as a general matter, Mr. Morgan
13 expressed concerns about the relatively aggressive
14 opposition that the company had had -- that Exelon
15 had had with regards to the renewals of the
16 production tax credits.

17 Q Oh. Is it your understanding that
18 Mr. Morgan supported an extension of the
19 production tax credit for wind?

20 A I don't recall.

21 Q Did you have occasion to review
22 Mr. Morgan's cross-examination on this issue?

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2698

1 A I saw some of it, yes.

2 Q Would you accept, subject to check, that
3 Mr. Morgan indicated when he was questioned on
4 this issue that he did not have a specific
5 position on the extension of the PTC and that, in
6 fact, he found merit in arguments for ending the
7 PTC?

8 A Yes, sir.

9 Q And in fact, Dr. Dismukes, in the past,
10 you too have opposed extension of the wind
11 production tax credit, have you not?

12 A Yes, sir.

13 Q And if we look at the attachments to
14 Joint Applicants' Exhibit 15, we will find two
15 articles that you authored on that subject; is
16 that correct?

17 A Yes, sir.

18 Q And do those two attachments appear to be
19 complete and accurate copies of the articles that
20 you authored on the subject of the wind production
21 tax credit?

22 A Yes, sir.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2699

1 MR. GADSDEN: Your Honor, if we could
2 just take one moment here. We had a little mishap
3 with respect to our last cross-examination
4 exhibit. This will be the last one that we move.
5 It is in the binder as Cross-Examination
6 Exhibit 28. It is a very large, multi-page Excel
7 spreadsheet. I apologize for its size, but we'll
8 represent to you that it was provided to us by
9 Dr. Dismukes electronically, that when we went to
10 print it out, it was 12 pages of largely
11 indecipherable stuff. So we have chosen to give
12 you a larger version.

13 CHAIRMAN KANE: Something we can read.

14 MR. GADSDEN: Something you can read.

15 The mishap is that the versions that were
16 placed in your binder do not have the question
17 that was asked and the narrative response that was
18 provided that introduced this as an attachment.
19 And Ms. Travers now has those. And I don't know
20 what the procedure is for amending it, but I'm
21 sure you'll tell me.

22 CHAIRMAN KANE: Thank you. The procedure

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2700

1 is to give them to the Commission secretary who
2 will see that they're properly marked and added
3 and distributed, as well as to the witness.

4 MR. GADSDEN: And my apologies to you,
5 Dr. Dismukes, for not including that earlier.

6 CHAIRMAN KANE: Again, for the record,
7 this is the two-page -- two pages that precede the
8 attachment, the spreadsheet attachment.

9 MR. GADSDEN: Correct.

10 CHAIRMAN KANE: That should be included
11 with that as one exhibit.

12 MR. GADSDEN: Correct.

13 BY MR. GADSDEN:

14 Q Tell me when you've had a chance to
15 review that, Dr. Dismukes.

16 A I have.

17 Q So let's go back to page 10 of your
18 direct testimony, if we could. I believe you
19 alluded to this earlier in discussing why you
20 believe that the original proposed CIF was
21 inadequate.

22 And you stated in the sentence beginning

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2701

1 at line 15, In addition, it is important to
2 recognize that this 100 million seed money
3 represents a very small contribution relative to
4 other merger-related statistics, general to the
5 industry and even specific to the merging
6 companies.

7 Do you see that?

8 A Yes, sir.

9 MR. GADSDEN: Your Honor, if I could have
10 marked for identification as Joint Applicants'
11 Cross-Examination Exhibit 28 and -- marked for the
12 record as Joint Applicants' Exhibit 16 the
13 late-arriving two-page narrative answer that
14 Dr. Dismukes provided as well as a five-page Excel
15 spreadsheet attachment.

16 CHAIRMAN KANE: Yes, that will be marked.

17 (Joint Applicants Cross Exhibit Number 16
18 was marked for identification.)

19 BY MR. GADSDEN:

20 Q And in this data request, Dr. Dismukes,
21 we referenced your testimony at page 10, lines 15
22 through 18, the sentence that I just read and

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2702

1 basically asked you to support it. And you
2 provided us with a considerable amount of
3 material, not all of which has been attached,
4 because I believe the actual -- all of the
5 attachments together would have totalled somewhere
6 in excess of 300 pages. I believe there were a
7 lot of EIA reports and things of that nature.

8 But I believe that the attachment which
9 we did provide will be sufficient for purposes of
10 my question, and if you feel otherwise, please
11 feel free to say so.

12 A Okay.

13 Q In your response, you indicate that
14 you've not conducted a comprehensive analysis of
15 all mergers. And here I'm reading from subpart A
16 of your response. But you go on to note that
17 you're aware of what transpired in the
18 Exelon/Constellation merger proceedings several
19 years ago, and you point to four specific
20 transactions, presumably for illustrative
21 purposes. Is that a fair characterization?

22 A Yes, sir.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2703

1 Q This could be a bit difficult, but if you
2 could look at the Excel spreadsheet.

3 A Okay.

4 Q In your narrative response -- and again,
5 we're not going to go through all four of these; I
6 just want to get a sense of how this information
7 was pulled together. The first transaction you
8 refer to is Macquarie Consortium/Puget Energy, and
9 you identify a figure of \$95. Can you tell me
10 what the \$95 represents? Is that a per customer
11 savings figure of some form?

12 A Yes, sir.

13 Q If we look at the spreadsheet and we go
14 down about halfway, specifically to -- I think
15 it's the 14th transaction, announcement date, far
16 left-hand column of 10/26/07, year 2007, going
17 across, we see Macquarie Consortium and Puget
18 Energy; is that correct?

19 A Yes, sir.

20 Q And if we turn to the second page -- and
21 here's where it gets even more difficult unless
22 you count down 14, but if you go to the column E&G

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2704

1 and go down about halfway down the page, we see
2 the \$95 figure; is that correct?

3 A Yes, sir.

4 Q And am I correct that -- well, first of
5 all, let me ask this: Did you perform all these
6 calculations yourself?

7 A Yes. These were put together from
8 various sources of information that we either
9 compiled or had from prior work in examining the
10 issue. And some of the sources vary from general
11 public reports to, I think, some EIA information
12 to other sources of information.

13 Q Okay.

14 A I think there was some S&L information
15 that was included in here, et cetera.

16 Q If we go back to page 1, would I be
17 correct -- or would you accept, subject to check,
18 that the \$95 per customer figure was derived --
19 and now we're on the far right-hand side of this
20 matrix -- dividing the figure of \$100 million
21 under the estimated savings column by the target
22 electric customers in the far right-hand column of

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2705

1 1,048,402? If we do that arithmetic, we get \$95
2 per customer. Would you accept that, subject to
3 check?

4 A Yes, sir.

5 Q As far as the estimated savings figure of
6 \$100 million, do you know whether that figure
7 included anticipated generation-related savings?

8 A I don't recall.

9 Q Do you know whether it's net of cost to
10 achieve?

11 A I don't recall.

12 Q Do you know over what period of time
13 those savings were estimated to materialize?

14 A I don't recall. They should have been in
15 those voluminous documents that you referenced
16 earlier.

17 Q Do you know what the Washington Utilities
18 and Transportation Commission did with this
19 information?

20 A No, sir.

21 Q Am I correct that -- now turn over to
22 page 2 -- that in addition to having 1,048,000

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2706

1 electric customers, Puget is also identified as
2 having close to 722,000 gas customers?

3 A Yes, sir.

4 Q But I gather the gas customers were not
5 taken into account and calculated in the \$95 per
6 customer figure, were they?

7 A I don't recall.

8 Q If you could turn back to the first page,
9 this would be the fourth column from the right,
10 captioned, Premium offer. Do you see that?

11 A Yes, sir.

12 Q Could you tell us what those figures
13 represent?

14 A I believe that is the percent increase
15 relative to the average share price five days
16 before the transaction.

17 Q Okay. So in the case of the Macquarie
18 transaction we were just looking at, the
19 acquisition premium was a little over 26 percent?

20 A Yes, sir.

21 Q And for the 2002 -- 2001 PEPCO/Conectiv
22 transaction, which appears at the bottom of that

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2707

1 page, indicated premium is about 33 percent?

2 A Yes, sir.

3 Q And we'll take one more, maybe about the
4 tenth item down, the 2010 acquisition of Allegheny
5 Energy by FirstEnergy, that would be a premium of
6 about 35 percent?

7 A Yes, sir.

8 Q Okay.

9 MR. GADSDEN: Your Honor, I believe
10 that's all I have.

11 CHAIRMAN KANE: Thank you.

12 Ms. Francis?

13 MS. FRANCIS: No questions, Your Honor.

14 CHAIRMAN KANE: Mr. Coyle?

15 MR. COYLE: No questions, Your Honor.

16 CHAIRMAN KANE: DC SUN?

17 MS. SPENCER: We have no questions, Your
18 Honor.

19 CHAIRMAN KANE: D.C. WASA?

20 MS. WHITE: No questions.

21 MS. ELEFANT: No questions.

22 CHAIRMAN KANE: The Commission has some

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2708

1 questions.

2 COMMISSIONER FORT: I just have a few,
3 and it goes to your testimony on corporate
4 governance.

5 THE WITNESS: Yes, ma'am.

6 COMMISSIONER FORT: Could you turn to
7 page 95, lines 11 through 16. You're talking a
8 bit about the fact that the PHI corporate
9 governance guidelines are different, just kind of
10 generally --

11 THE WITNESS: Yes, ma'am.

12 COMMISSIONER FORT: -- in that section.
13 Can you give me an idea or describe with some more
14 specificity what makes PHI's governance principles
15 different from the Exelon utility companies as you
16 understand it? I know you identify a difference
17 in how they define how many independent members
18 are on the board.

19 THE WITNESS: Right.

20 COMMISSIONER FORT: What else is causing
21 you some concerns.

22 THE WITNESS: I don't recall. I think

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2709

1 the general point I was making there is that there
2 were differences that had not been reconciled as
3 part of the application that I felt needed to be
4 reconciled as part of that, and unfortunately I
5 don't remember them at this point right now.

6 COMMISSIONER FORT: When you say
7 reconciled, how would that be reconciled? Is that
8 not an issue that would occur during a transition
9 period?

10 THE WITNESS: Yes, ma'am.

11 COMMISSIONER FORT: One of the items that
12 you cite is that the PHI corporate governance
13 guidelines -- in those guidelines there are
14 requirements that the board members have
15 significant credentials in a variety of areas. Do
16 you have any reason to believe that the Exelon
17 board members don't have similar experience or
18 credentials?

19 THE WITNESS: No, ma'am.

20 COMMISSIONER FORT: And then on page 100,
21 you make three recommendations on lines 7 through
22 9, and one of the recommendations says that the

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2710

1 joint applicants should not relocate PEPCO's
2 employees from the District of Columbia to
3 Exelon's headquarters without notifying the
4 Commission.

5 Can you tell me why you made that
6 recommendation?

7 THE WITNESS: Just so the Commission
8 would be notified in terms of the changing
9 composition and concentration of work being done
10 here in the District relative to the headquarters
11 of Exelon and how that was changing over time as
12 the transition period evolved.

13 COMMISSIONER FORT: As you understand it,
14 is there currently any requirement for PHI to
15 notify us if they sent somebody from their PHI
16 office up to New Jersey?

17 THE WITNESS: No, ma'am.

18 COMMISSIONER FORT: And just so I
19 understand, you think this is something we should
20 adopt just so we know where people are? Would
21 this occur at some particular level within the
22 company?

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2711

1 THE WITNESS: I would at least argue
2 maybe collectively for all the trades in other
3 locations and then, as well, generally splitting
4 it out by major areas for management employees
5 that are shifting. And again, it's to give the
6 Commission an idea of how -- a way of following up
7 and holding accountable the company's claims about
8 maintaining, you know, a viable presence here in
9 the District with regards to its operations.

10 COMMISSIONER FORT: Okay. Thank you.

11 THE WITNESS: Yes, ma'am.

12 CHAIRMAN KANE: Thank you. I've got a
13 couple of questions. Look at page 40 of your
14 direct testimony, OPC (A), on line 8 and 9 so we
15 set the context of the question. You note that
16 one of the merger (sic) applicants' commitments
17 is, quote -- it's item number 9 here --
18 continuation of existing demand response and
19 energy efficiency programs.

20 Do you see that?

21 THE WITNESS: Yes, ma'am.

22 CHAIRMAN KANE: And then on page 25 of

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2712

1 your direct testimony, you make a reference to
2 Commissioner Morgan's testimony starting at the
3 top of that page on line -- former Commissioner
4 Morgan's testimony, OPC witness Morgan's
5 testimony, where you say, Mr. Morgan also notes
6 there is little -- likely little to nothing Exelon
7 can bring to the table on energy efficiency in the
8 District and for PEPCO's ratepayers since the
9 District's Clean and Affordable Energy Act, the
10 CAEA, statute precludes direct utility involvement
11 in energy efficiency program delivery.

12 Do you see that?

13 THE WITNESS: Yes, ma'am.

14 CHAIRMAN KANE: Okay. Are you familiar
15 with the Clean and Affordable Energy Act?

16 THE WITNESS: No, ma'am.

17 CHAIRMAN KANE: So you're just
18 referencing the fact that Mr. Morgan said this?

19 THE WITNESS: Yes, ma'am.

20 CHAIRMAN KANE: Okay. So you would not
21 be able to tell me whether or not you know or
22 could point to anything in that act that precludes

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2713

1 the company from directly being involved in
2 delivering energy efficiency programs?

3 THE WITNESS: No, ma'am.

4 CHAIRMAN KANE: So you are not -- are you
5 familiar with the direct load control program that
6 this Commission had ordered the company to carry
7 out?

8 THE WITNESS: No, ma'am I'm not familiar
9 with that.

10 CHAIRMAN KANE: So you're not aware that
11 that is an energy efficiency program?

12 THE WITNESS: (Shaking head.)

13 CHAIRMAN KANE: All right. Then I won't
14 ask any more questions about that since you're not
15 familiar with it, because I was going to also ask
16 if you knew about the sustainable energy utility.

17 THE WITNESS: No, ma'am, I'm not familiar
18 with that.

19 CHAIRMAN KANE: Not at all, okay.

20 Let me then go on to another question
21 which is about the use of the customer investment
22 fund. I believe you said a few minutes ago, in

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2714

1 response to company counsel's question, that you
2 would recommend -- is it you or is it OPC -- would
3 recommend the Commission, if it chose to do a bill
4 credit -- if there were a merger, if there were a
5 customer investment fund, and if the Commission
6 chose to do a bill credit as a part of the use of
7 that fund, that you would do it in the same way
8 that cost of service allocation is done about
9 customer classes?

10 THE WITNESS: Yes, ma'am, generally
11 speaking.

12 CHAIRMAN KANE: Generally speaking. And
13 I'm going to speak generally --

14 THE WITNESS: Okay.

15 CHAIRMAN KANE: -- because sometimes
16 customer cost allocation is a litigious issue.

17 But are you aware that the residential
18 customer class in the District in general is
19 generally allocated in rate design the way the
20 Commission does it anywhere from 15 to 25 percent
21 at maximum of the cost of service or the revenue
22 requirement in general?

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2715

1 THE WITNESS: In general, yes, ma'am, I
2 am familiar with --

3 CHAIRMAN KANE: You are aware of that.
4 So by making a recommendation to the Commission
5 that if there were a merger and if there were a
6 fund and if a bill credit were one of the things
7 the Commission were to consider as part of the use
8 of that fund, you would be aware that, for a
9 residential customer, we would not be talking
10 about anywhere near 50 or 95 or \$128 per customer
11 based on the way the Commission allocates cost and
12 revenue among classes of customers.

13 THE WITNESS: Yes, ma'am.

14 CHAIRMAN KANE: Okay. Thank you. And
15 then I want to ask you on page 19 of your direct
16 testimony, starting at the bottom, if you'd turn
17 to that page. Looking at -- starting on page --

18 THE WITNESS: Commissioner, let me back
19 up just a second --

20 CHAIRMAN KANE: Sure.

21 THE WITNESS: I just want to make
22 clear -- because I want to make sure that I'm

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2716

1 speaking on the same terms that you are. When I
2 make that general reference to cost of service, I
3 would be suggesting that it be done on a revenue
4 share responsibility based on the final revenue
5 distribution that you've decided on in a rate
6 case, not necessarily the true, you know, cost of
7 service in terms of the earned rates of return
8 from that cost of service. So I think that may be
9 what you were getting at, as opposed to what the
10 final decision was, say, for the company in the
11 last rate case.

12 CHAIRMAN KANE: Well, I wasn't --

13 THE WITNESS: I was being less than
14 general than you --

15 CHAIRMAN KANE: -- truly making -- I just
16 wanted to have on the record an awareness that we
17 do have a -- whether it's revenue or whether it's
18 cost --

19 THE WITNESS: Yes, ma'am.

20 CHAIRMAN KANE: -- and they are not the
21 same thing in any particular case, that the
22 customer -- the residential customer class is a

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2717

1 relatively small proportion of the overall.

2 THE WITNESS: Yes, ma'am.

3 CHAIRMAN KANE: Okay. Thank you.

4 Then turning to starting on line 18 on
5 page 19, the question to you is, earlier you noted
6 that the costs will outweigh the benefits
7 associated with the proposed merger. And then
8 you're asked, what are the costs? And you have,
9 going over on to page 20, a list of costs:

10 Sub-quality reliability performance, higher
11 financial risk given the higher risk nature of
12 Exelon's current business model, a reduction and,
13 thereby, weakening of District-specific input into
14 PEPCO's corporate governance, more difficult and
15 costly commission regulation and oversight, local
16 District employment losses and corporate positions
17 on renewable energy that are philosophically
18 different. You were asked about that.

19 These risks -- or these costs that you're
20 citing here, would you characterize those as known
21 and measurable?

22 THE WITNESS: No, ma'am. Not

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2718

1 necessarily.

2 CHAIRMAN KANE: And would you
3 characterize them as potential?

4 THE WITNESS: I would characterize them
5 as potential, yes, ma'am.

6 CHAIRMAN KANE: And would you
7 characterize them as things that could happen in
8 the future and that might persist for some time?

9 THE WITNESS: Yes, ma'am.

10 CHAIRMAN KANE: And that may affect
11 future customers?

12 THE WITNESS: Yes, ma'am.

13 CHAIRMAN KANE: So again, I want to be
14 clear on what -- because you're the policy witness
15 for OPC. Something like a bill credit, however
16 structured, is a one-time -- would you agree is a
17 one-time payment to a particular definitive group
18 of customers who exist at a certain time?

19 THE WITNESS: Yes, ma'am.

20 CHAIRMAN KANE: And -- whereas the risks
21 and costs that you're citing are potential -- are
22 future, could affect future customers over a

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2719

1 significant amount of time?

2 THE WITNESS: Yes, ma'am. And I had a
3 discussion, I think, to that effect that was in my
4 supplemental testimony.

5 CHAIRMAN KANE: Thank you.

6 THE WITNESS: Yes, ma'am.

7 CHAIRMAN KANE: I think that concludes
8 questions.

9 MR. GRAY: Just very little redirect.

10 REDIRECT EXAMINATION

11 BY MR. GRAY:

12 Q Dr. Dismukes, do you have in front of you
13 Joint Applicants' Cross-Examination Exhibit
14 Number 27 which was marked as Joint Applicants'
15 Number 15?

16 A Yes.

17 Q Do you see at the bottom of the first
18 page of that response there's a reference to your
19 two articles on elimination of the federal
20 production tax credit. Do you recall questions
21 about that?

22 A Yes, sir.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2720

1 Q Can you please explain, what is the
2 difference, if there is a difference, between your
3 opposition to the production tax credit and your
4 understanding of Exelon's opposition to the
5 production tax credit?

6 A Well, you know, my argument generally has
7 been one of -- and it's been outlined in both of
8 these papers -- that there are multiple policy
9 issues related to these -- this particular tax
10 incentive and how it impacts both taxpayers and
11 ratepayers generally. It's my understanding that
12 Exelon, however, on the other hand, has been
13 pursuing these, looking at what they mean relative
14 to their financial interest and their bottom line,
15 particularly relative to their merchant fleet of
16 nuclear generation.

17 Q Okay. Thank you. Do you recall a
18 question by counsel about page 58 of your direct
19 testimony? It was a reference to the Lawrence
20 Berkeley lab meta-study.

21 A Yes, sir.

22 Q Can you please explain your position --

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2721

1 let me back up.

2 I believe the question was about your
3 prior testimony in Delaware regarding the
4 meta-study. Do you recall that?

5 A Yes, sir.

6 Q Can you please explain your position,
7 with that prior testimony in mind, as to why the
8 Commission should proceed with caution in using
9 that type of study here?

10 A Right. So in these testimonies that
11 counsel referenced in Maryland and in Delaware in
12 particular, the issue at that time were some
13 relatively aggressive proposals as well as some
14 new rate-making mechanisms that had been requested
15 by the company for reliability capital
16 expenditures in both of those jurisdictions for a
17 variety of programs that the Commission is
18 familiar with that are similar to some of the ones
19 that have been discussed here in the District.

20 As part of that process, I was somewhat
21 critical of the company's applications in both
22 jurisdictions, because no cost benefit studies had

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2722

1 been provided during that time period and no
2 attempts had been made at trying to even quantify
3 benefits that may arise to get even an order of
4 magnitude of what those benefits may be relative
5 to the reliability investments that were being
6 discussed at that time.

7 And I have -- also in both of those
8 testimonies -- I think somewhere else in that
9 Maryland testimony I noted, with the Commission,
10 that there are potential estimates of benefits,
11 which are through this ICE calculator that
12 Dr. Tierney has used that the company has provided
13 in these proceeding. But in those proceedings I
14 also noted that while it gives you a good ballpark
15 idea of benefits, there are certain challenges
16 associated with those measurements, and they've
17 been recognized here in the Mid-Atlantic region,
18 in Maryland, I think in the District as well.

19 A meta-study is essentially a study of
20 studies. It's a compilation or a survey of
21 studies and study results that had been conducted
22 by researchers about what the value of outages

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2723

1 are. And so that calculator is derived from
2 essentially an average or a compilation of these
3 study results to compute what a dollar benefit
4 would be for various different customer classes.
5 And so it's as good as the underlying survey upon
6 which it's based. And so that accuracy of it is
7 based on essentially the underlying studies in the
8 surveys.

9 It's not a specific study itself that
10 quantifies these benefits, but one that goes out
11 and pulls them from other places.

12 And so if you're looking at an
13 analysis -- or that survey is highly proportioned
14 to, say, studies that were done in California as
15 opposed to the Mid-Atlantic region or those that
16 were done in the south as opposed to, say, New
17 England, or the geographic composition varied,
18 it's going to have an implication associated with
19 that calculator.

20 Another thing to keep in mind in that
21 discussion that I had in those analyses versus
22 what Dr. Tierney has done is that the mechanics of

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2724

1 those two things differ a little bit. In those
2 testimonies, which were in '11, '12 and in '13
3 time frame, some of the numbers that we were
4 looking at at that time came directly from the
5 physical hard copy of the study itself. It had
6 been compiled in spreadsheets. And I think PEPCO
7 had actually used one at one time early on in its
8 cost benefit study of the undergrounding program.

9 That ICE calculator that we have today
10 that is in the DOE web page is something that has
11 now become more of a black box. You enter a
12 number, and it calculates those benefits
13 from (sic) you. And it changes based on how they
14 change that calculator.

15 And one of the things that I've noticed
16 with that calculator is if you try to go in and
17 replicate numbers today that were submitted in the
18 record in this proceeding as recently as a couple
19 of weeks ago, that calculator changes.

20 So there's as much as a 10 percent
21 difference in running some of these numbers when
22 you look at those statistics. So it's a bit of a

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2725

1 black box.

2 What I was looking at here was relatively
3 to the physical hard copy numbers that come from
4 the tables in the study, which has its own set of
5 challenges. And now we've got this, you know,
6 additional program that's out there as well that
7 is a moving target.

8 So when it comes to looking at a big
9 issue for policy-making purposes, such as the
10 merger, I would -- you know, I would recommend
11 some caution in what those benefit numbers may be,
12 and looking at them relative to cost and benefits
13 for the overall merger.

14 Q Thank you. Now, do you have in front of
15 you Joint Applicants' Cross-Examination Exhibit 25
16 which was marked for the record as Joint
17 Applicants' 13? This is the excerpt of your
18 testimonies from Delaware, the District and
19 Maryland.

20 A Yes, sir.

21 Q Could you please turn to page 28 of that
22 exhibit.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2726

1 A Okay.

2 Q I believe this is the excerpt from formal
3 case 1103 here in the District; is that right?

4 A Yes, sir.

5 Q Could you please read the date at the
6 bottom of that page?

7 A August 9th, 2013.

8 Q Thank you. Now, could you please turn to
9 page 42 of that same exhibit.

10 A Okay.

11 Q This is your testimony from Maryland in
12 case 9286. Could you read the date at the bottom
13 of that page?

14 A Yes. It's March 23rd, 2012.

15 Q With regard to both of these sets of
16 testimony, what was the last calendar year of
17 actual reliability performance that you had
18 available?

19 A I don't recall exactly, but it probably
20 would have been a year prior to whenever that
21 number -- the date of that testimony at least, and
22 some of the spring numbers may have been earlier

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2727

1 than that. I -- I believe at least it would have
2 been at least the prior year. So for '12 it would
3 have been through '11, and for '13 it would have
4 been through '12.

5 Q Do you know when this Commission
6 established the EQSS?

7 A I don't recall the specific date. I
8 think in the 2010 time frame. I don't recall
9 exactly.

10 Q Do you have an understanding in relative
11 terms of how PEPCO's 2014 actual reliability
12 performance fared as compared to the historical
13 levels you discuss in this prior testimony?

14 A They've improved significantly. I don't
15 recall the specific numbers breakout between SAIDI
16 and SAIFI, but I think with SAIDI, I think the
17 company has had, if I'm not mistaken, something
18 like a 20 percent improvement every year for the
19 last two years at least.

20 Q Thank you.

21 MR. GRAY: That's all the questions I
22 have.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2728

1 MR. GADSDEN: Am I not allowed to
2 cross-examine him on his redirect?

3 CHAIRMAN KANE: No.

4 MR. GADSDEN: No? Thank you.

5 CHAIRMAN KANE: That was part of the
6 procedure we agreed to --

7 MR. GADSDEN: Very well.

8 CHAIRMAN KANE: -- hoping to kind of
9 consolidate and streamline it a little bit.

10 I did -- having just said that, I do have
11 one follow-up question. I just want to be sure.
12 You speak of outweighing -- risks outweighing
13 benefits, costs outweighing benefits, or
14 vice versa, that benefits should outweigh the
15 costs. And I just want to be clear. Are you
16 talking about dollar costs or is another
17 consideration that OPC is recommending to the
18 Commission the persistence of -- or the
19 sustainability of either a benefit or a risk?

20 THE WITNESS: That could be part of the
21 overall issue as well because, as you -- our
22 discussion was earlier, some of these risks could

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2729

1 last on some time period, whereas the CIF is a
2 one-time payment.

3 CHAIRMAN KANE: Well, I wasn't speaking
4 specifically about CIF, but just in general --

5 THE WITNESS: I think --

6 CHAIRMAN KANE: -- when does one
7 outweighs -- when you do the balance, could
8 time -- is a legitimate consideration, in OPC's
9 view, the time persistence of either the benefit
10 or the risk?

11 THE WITNESS: I would say with the risk
12 and the cost, yes. With the benefits, the only
13 real benefit I see is the one-time benefit with
14 the CIF. You know, potentially, some of the
15 efficiency benefits that you go through time, but
16 I mean, that's supposed to have some relationship
17 with the CIF as well. Right?

18 So -- the caveat I would have on that
19 would be with the energy efficiency, if you
20 decided to put it in something a little bit longer
21 on the benefits side.

22 CHAIRMAN KANE: Thank you. All right.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2730

1 The witness may be excused, and we'll do our --
2 you will do your exhibits.

3 MR. GRAY: Your Honor, at this time, I
4 would move for admission of Exhibits OPC (A),
5 OPC (A)-1 to OPC (A)-45, OPC (2A) and OPC (2A)-1 to
6 OPC (2A)-5.

7 CHAIRMAN KANE: They are admitted.
8 (OPC Exhibit Numbers (A), (A)-1 through
9 (A)-45, (2A) and (2A)-1 through (2A)-5 were
10 received into evidence.)

11 MR. GADSDEN: Your Honor, I would move
12 Joint Applicants' Exhibits 9 through 16.

13 CHAIRMAN KANE: And they are admitted.
14 (Joint Applicants Cross Exhibit Numbers 9
15 through 16 were received into evidence.)

16 MR. GADSDEN: Thank you.

17 CHAIRMAN KANE: Very good. The witness
18 is excused.

19 THE WITNESS: Thank you.

20 (Witness excused.)

21 CHAIRMAN KANE: And back to Witness
22 Ramas.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2731

1 WHEREUPON,

2 DONNA RAMAS,

3 called as a witness, and after having been first
4 sworn by the secretary, was examined and testified
5 as follows:

6 MR. SEARS: Good afternoon,
7 Commissioners. My name is Arick Sears on behalf
8 of the Office of the People's Counsel.

9 DIRECT EXAMINATION

10 BY MR. SEARS:

11 Q Ms. Ramas, can you please state your name
12 and business address for the record.

13 A Donna Marie Ramas. 4654 Driftwood Drive,
14 Commerce Township, Michigan.

15 Q And do you have before you today your
16 direct testimony, Exhibit OPC (C), consists of 36
17 pages, and Exhibits OPC (C)-1 through OPC (C)-17
18 which were prefiled on your behalf in this
19 proceeding on November 3rd, 2014?

20 A Yes, I do.

21 Q Do you also have your supplemental direct
22 testimony, Exhibit OPC (2C), consisting of 11

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2732

1 pages, and two supporting exhibits which was
2 prefiled on your behalf in this proceeding on
3 March 20th, 2015?

4 A I believe so. Just a moment.

5 Yes, I do.

6 Q And was this testimony and were these
7 exhibits prepared by you or under your direct
8 supervision and control?

9 A Yes, they were.

10 Q And do you have any additions or
11 corrections to make to your testimony at this
12 time?

13 A No, I do not.

14 Q And is this testimony and are these
15 Exhibit true and correct to the best of your
16 knowledge?

17 A Yes.

18 MR. SEARS: At this time, I ask that
19 Witness Ramas' direct testimony be marked for
20 identification as Exhibit OPC (C) and the
21 supporting exhibits as Exhibit OPC (C)-1 through
22 (C)-17.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2733

1 CHAIRMAN KANE: They are so marked.

2 (OPC Exhibit Numbers (C) and (C)-1
3 through (C)-17 were marked for identification.)

4 MR. SEARS: In addition, I ask that
5 Witness Ramas' supplemental direct testimony be
6 marked for identification as Exhibit OPC (2C), and
7 the supporting exhibits as Exhibits OPC (2C)-1 and
8 (2C)-2.

9 CHAIRMAN KANE: They are so marked.

10 (OPC Exhibit Numbers (2C), (2C)-1 and
11 (2C)-2 were marked for identification.)

12 MR. SEARS: With that, Witness Ramas is
13 available for cross-examination.

14 CHAIRMAN KANE: Mr. Lorenzo?

15 MR. LORENZO: Thank you, Your Honor.

16 CROSS-EXAMINATION

17 BY MR. LORENZO:

18 Q Good afternoon, Ms. Ramas.

19 A Good afternoon.

20 Q We've met here before, haven't we?

21 A Several times.

22 Q It's good to see you again.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2734

1 A You too.

2 Q I want to talk a little bit about cost to
3 achieve, and I want you to turn to page 15 of your
4 direct testimony, OPC Exhibit (C). And why don't
5 you look at -- around line 19 through 20. And you
6 make the statement that, The costs to achieve
7 exceed the projected savings target during the
8 pre-close period and for the first full year
9 post-merger.

10 Do you see that?

11 A Yes, I do.

12 Q And on the next page, on page 16,
13 lines 13 through 18, you make the statement that
14 if PEPCO were to file a rate case application
15 post-merger that incorporated a test period that
16 falls prior to the net cost savings becoming
17 positive, the cost to achieve incorporated in such
18 a filing could potentially exceed cost savings; is
19 that correct?

20 A Correct.

21 Q And then on page 17, line 7 through 9,
22 you say, The Commission should make it clear that

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2735

1 PEPCO will not be permitted to include any costs
2 to achieve in rates charged to the District of
3 Columbia ratepayers that exceed the demonstrated
4 cost savings in rates.

5 Do you see that?

6 A Yes, I do.

7 Q And I believe that you repeat this
8 criticism in your supplemental direct testimony
9 around page 3, 18 through -- lines 18 through 22?

10 A I do recall saying that. I can confirm
11 the page number if you'd like. Yes, I did also
12 iterate that, because it was a concern that was
13 not addressed in the supplemental testimony filed
14 by the joint applicants.

15 Q Okay. That's where we're going.

16 And you also claim that you have --
17 that -- on page 11 in your supplemental direct --
18 yes, at lines 1 through 13 -- I'll just summarize
19 this at 9 and 10 -- you criticize the joint
20 applicants again, not addressing your proposal,
21 saying that the joint applicants were free to
22 identify alternative solutions and they did not.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2736

1 Do you see that?

2 A I'm sorry. Which page were you on?

3 Q I am on page 11 of your supplemental
4 direct. I'm looking at lines 9 and 10, but it's
5 really the entire paragraph 1 through 13.

6 A Yes, that goes to that issue as well as
7 other issues raised in my testimony.

8 Q That's right. Are you aware that
9 D.C. Water Witness Gorman suggested, as an
10 alternative solution to the problem of cost to
11 achieve exceeding merger synergy savings, that
12 those costs to achieve be amortized over a period
13 of ten years?

14 A I recall him recommending amortization,
15 but I haven't read his testimony recently, so I
16 don't recall the period. But I could agree,
17 subject to check.

18 Q Okay. Rather than pull his testimony
19 out.

20 And Mr. Gorman describes a ten-year
21 amortization of these costs as more equitable
22 because of intergenerational equity concerns.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2737

1 Would you agree with that? Would you agree that
2 an amortization of costs to achieve would result
3 in a more equitable distribution of the cost to
4 achieve because of intergenerational equity
5 concerns?

6 MS. WHITE: Excuse me, Your Honor. I had
7 a question. I am not sure that Mr. Lorenzo is --

8 MR. LORENZO: That's why I --

9 MS. WHITE: The intergenerational equity
10 issue.

11 MR. LORENZO: I apologize for that.

12 MS. WHITE: I think it's shareholders,
13 customers -- thank you, Your Honor.

14 MR. LORENZO: I'm sorry. I apologize for
15 that.

16 BY MR. LORENZO:

17 Q Let me strike the previous question and
18 ask, would you agree that amortizing the cost to
19 achieve over ten years or over some period of time
20 would be more equitable because of
21 intergenerational equity concerns?

22 A It would depend on what is included in

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2738

1 those costs to achieve.

2 MS. WHITE: I'm sorry, Madam Chairman.

3 CHAIRMAN KANE: Yes, Ms. White.

4 MS. WHITE: My objection on the

5 characterization of Mr. Gorman is being --

6 concerned with intergenerational equity. That --

7 I think that's not an appropriate characterization

8 of his testimony. I believe he was expressing

9 concern about the allocation of benefits and risks

10 between shareholders and customers.

11 MR. LORENZO: I apologize, Your Honor.

12 CHAIRMAN KANE: Again.

13 MR. LORENZO: Again. I was trying to get

14 away from Mr. Gorman's testimony and just ask a

15 question outright as a hypothetical to Ms. Ramas.

16 CHAIRMAN KANE: Without reference to

17 Mr. Gorman's testimony.

18 MR. LORENZO: Without reference -- the

19 only reference to Mr. Gorman's testimony was that

20 he recommended a ten-year amortization period.

21 MS. WHITE: With that understanding, I

22 have no problem with that question. Thank you.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2739

1 CHAIRMAN KANE: Start the question again
2 and without any reference to Mr. Gorman, please.

3 BY MR. LORENZO:

4 Q Without any reference to Mr. Gorman's
5 testimony, would you agree that amortizing the
6 cost to achieve over a period of time, such as ten
7 years, would be more equitable due to
8 intergenerational equity concerns?

9 A It could be. But you need to look at the
10 specific costs to achieve and what savings those
11 costs to achieve are triggering. And -- for
12 example, I wouldn't agree that all costs to
13 achieve should somehow be deferred and amortized
14 over ten years.

15 I pointed out several issues with some of
16 the costs to achieve in this case, such as the
17 supplemental executive retirement plan costs,
18 things to those (sic) effect. And some of the
19 costs to achieve -- you really need to look at the
20 specific cost to achieve, because some involve
21 implementing new computer programs which would
22 presumably then be depreciated over the life of

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2740

1 those new programs. So I couldn't just outright
2 say, yeah, ten years is appropriate.

3 But I would agree, if you have a rate
4 case filing and the costs to achieve are, in fact,
5 exceeding the cost savings, then that would be
6 something at the Commission's disposal to consider
7 is amortizing those to a future period if they
8 are, in fact, appropriate costs to be passed down
9 to customers.

10 Q Very good. And did you review
11 Mr. Khouzami's rebuttal testimony on that issue?

12 A Yes.

13 Q And would you agree, subject to check,
14 that Mr. Khouzami said that the joint applicants
15 are not conceptually opposed to an amortization
16 period for the cost to achieve?

17 A Yes. He said he wasn't opposed to it,
18 but again, the disappointment expressed in my
19 testimony was that the joint applicants haven't
20 come out and stated that they would ensure that in
21 future rate cases the costs to achieve that they
22 seek to recover from customers will not exceed the

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2741

1 savings.

2 So what -- he said that that's something
3 that could be considered. I guess I was hoping
4 that at this point in these proceedings the
5 company would have made a more affirmative
6 statement that they would not seek to recover cost
7 to achieve in excess of the savings.

8 Q Did you review Mr. -- did you listen in
9 at home when Mr. Khouzami was being crossed?

10 A For brief periods, and did I read some of
11 the transcripts, but I couldn't say that I read
12 or -- either seen or read his entire cross.

13 Q Would you accept, subject to check, that
14 he's already -- that he stated in
15 cross-examination -- and it's at transcript
16 page 1797, lines 5 through 18, that we've already
17 stipulated -- we've already said in my own
18 testimony that we'd be open to some sort of
19 amortization process if that's what the Commission
20 deemed was appropriate; at this time, though, we
21 think it premature to discuss that, given that it
22 should be something that is discussed in a rate

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2742

1 proceeding?

2 A Yes, I do recall reading that.

3 Q Thank you.

4 Switching topics, I want to talk a little
5 bit about push-down accounting. And I believe you
6 address that on -- in your direct testimony at
7 page 22. And I'm particularly looking at lines 10
8 through 12. And I believe your concern here is
9 the fact that if costs are pushed -- if the
10 acquisition premium is pushed down into the
11 service company and some of the service company
12 costs are allocated to PEPCO, that indeed some of
13 the acquisition premium would be -- and that was
14 included in rates, that some of the acquisition
15 premium would be paid by PEPCO ratepayers. Is
16 that a fair summary of your concerns?

17 A Yes. And that continued in my
18 supplemental testimony as well. I do acknowledge
19 that the joint applicants have made some further
20 commitments with regards to the push-down
21 accounting issue, but they still do not
22 specifically state that there would be no purchase

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2743

1 accounting adjustments for PHI Service Company.

2 So as of the time I wrote my supplemental

3 testimony, it was still a concern with regards to

4 the service company costs that could be passed on

5 to PEPCO in D.C.

6 Q Is it a concern today?

7 A I seem to recall during the cross of -- I

8 believe it was Mr. Khouzami, and correct me, of

9 course -- feel free -- that they were willing to

10 commit not to push those costs down to PHI Service

11 Company, but I haven't seen anything in writing in

12 the merger commitments. So I would hope that

13 somehow that would end up in a final decision in

14 this case, that if it's not added to the merger

15 commitments explicitly, that there's something in

16 the Commission's order just to make it clear that

17 those PHI Service Company assets won't be inflated

18 as a result of the acquisition if it's

19 consummated.

20 Q So you'll agree, subject to check, that

21 Mr. Khouzami informed Chair Kane on April 8th --

22 and, again, it's at transcript 2134 -- that we are

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2744

1 not pushing down purchase accounting below the PHI
2 level?

3 A Yeah, I recall reading that was the
4 intent. I don't -- without having the transcript
5 here, I can't say it was a firm commitment he
6 made, but hopefully it would be beneficial if that
7 is a firm commitment that he's making.

8 Q Okay. I want to talk a little bit about
9 net operating loss carry-forwards, a complex
10 subject at best --

11 A And not a fun one.

12 Q -- and we'll see if we can make this --
13 we'll see if we can make some sense out of this.

14 And I believe that's discussed in your
15 testimony on page 29. This is your direct
16 testimony, OPC Exhibit (C).

17 A Yes, it begins on page 29 and continues
18 to at least the next page.

19 Q Yes. Do you know how big PEPCO's net
20 operating loss carry-forward is?

21 A Yes, if you give me a moment. As of the
22 current date, I do not. In a data response, I did

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2745

1 provide the balance for PHI Service Company and
2 for PEPCO as of December 31st, 2013. However, I
3 don't have the current balance. And I do know
4 that at the end of December of this year, that
5 bonus depreciation was extended into 2014. So
6 that presumably would have some impact on the
7 current balance of the net operating loss
8 carry-forward.

9 I don't know if that would have increased
10 it or decreased it because I haven't seen any
11 information at this point as to what that current
12 balance or the December 2014 balance was.

13 Q But just for a ballpark number, what
14 number do you have there for December 31st, 2013,
15 was it, or 2014?

16 A The number I had is at December 31st,
17 2013, on a PEPCO basis, it was \$169 million. And
18 give me a moment because I want to make sure that
19 that's the -- I don't know if that's the net
20 operating loss carry-forward amount or the
21 deferred tax asset that would be in FERC
22 account 190. So if you'll give me just a

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2746

1 moment --

2 Q Sure.

3 A -- I want to make sure I'm giving you the
4 right number.

5 Yeah. The 169 million as of
6 December 31st, 2013, was a net operating loss
7 carry-forward deferred tax asset. So that would
8 be determined by multiplying the various tax rates
9 by the net operating loss carry-forward balance,
10 which would be significantly higher than the
11 \$169 million.

12 Q Okay. Would you accept, subject to
13 check, it's around \$700 million? Does that sound
14 right?

15 A On a PHI basis?

16 Q On a PHI basis.

17 A On a PHI basis, that sounds about right.
18 But again, I don't know the current balance.

19 Q Sure. Now, under Internal Revenue Code
20 section 382, there's an annual limitation on the
21 use of net operating loss carry-forwards, correct?

22 A Yes. And in fact, it was a response to a

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2747

1 data request that the joint applicants responded
2 to that first drew my attention to that fact, so
3 then I researched that section of the code
4 further.

5 Q Right. And you'll agree that one of the
6 reasons for this section is to prevent sort of
7 trafficking in tax losses, having -- buying
8 companies that have nothing but tax losses in
9 order to take advantage of the NOL?

10 A That would make senses, but I would not
11 like to speculate on why the IRS sets up any
12 provisions within the code, but that would -- it
13 could be the reason.

14 Q And the basic calculation of the
15 limitation, you take the value of the lost
16 corporation -- in this case, PHI -- and you
17 multiply it by the federal tax-exempt long-term
18 rate, correct?

19 A Yeah. What you do is you take the value
20 of the company immediately prior to the
21 acquisition being consummated. So you would take
22 the stock price right before the merger, multiply

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2748

1 by the number of shares to get the value, and then
2 you would multiply that by the long-term
3 tax-exempt rate, and it's the highest rate for the
4 prior three months before the date the calculation
5 is made.

6 Q And you'll agree that's running about
7 2-1/2 percent right now?

8 A Actually, I just looked it up yesterday.
9 It was about 2.68 percent as of February 2015, was
10 the most recent number I had found.

11 Q Right. And you'll agree, when
12 determining the fair market value of a
13 corporation, you add to the corporation -- you add
14 to that fair market value any assumed debt that
15 Exelon in this case would be taking over?

16 A I believe it spells out that the
17 determination is basically you take the stock
18 price times the market value of the stock as of
19 the date right before the acquisition.

20 Q But isn't there a 2003 revenue procedure
21 that allows you to include the assumed debt in a
22 fair market value calculation?

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2749

1 A If there is, I'm not aware of that. But
2 there may be.

3 Q There may be. And aren't you also
4 allowed to include the annual depreciation on the
5 acquired assets as -- included in that
6 calculation?

7 A If you are, I'm not aware of that. And
8 again, I didn't provide the calculation. I did
9 indicate in my testimony that I requested the
10 company to provide that calculation and was not
11 provided that. But there can be nuances in that
12 calculation, and that's why I didn't present the
13 calculation with my testimony. It's numbers the
14 company would need to provide.

15 Q Would you agree, subject to check, that
16 the current outstanding debt of PHI and PEPCO is
17 around \$5 billion?

18 A Subject to check.

19 Q And that if we assume the fair market
20 value of PHI is what, in fact, Exelon paid for it,
21 that the stock price on -- at or near the closing
22 will be the stock -- the share price that Exelon

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2750

1 is paying; that's about \$6.8 billion?

2 A Correct. I would agree with that. But
3 again, as I said before, I'm not certain about
4 that offset for debt because I hadn't read
5 anything about that debt offset within
6 section 382.

7 Q Okay. And then whatever the fair market
8 value is, if it's \$6.8 billion or \$6.8 billion
9 plus the \$5 billion in debt, that would be
10 multiplied by the 2.68 percent that you alluded
11 to?

12 A That's my understanding. But, again, I
13 can't vouch for the accuracy of the debt offset
14 that you referenced.

15 Q Okay. Very good.

16 Are you aware of how -- of whether Exelon
17 itself has net operating loss carry-forwards?

18 A Based on a response to a discovery
19 request in this case, they did as of the end of
20 2013. The response had indicated that they had
21 anticipated using that up in 2014, but I'm not
22 sure if that -- I believe that response was

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2751

1 prepared before the announcement of the bonus
2 depreciation for 2014. So I have no knowledge of
3 whether or not they currently have a net operating
4 loss carry-forward on their books or not.

5 Q Did you have an opportunity to review
6 PEPCO's response to a bench data request that was
7 filed with the Commission last Friday before you
8 testified today?

9 A I don't believe so. I don't recall
10 having -- was it specifically to a net operating
11 loss carry-forward number?

12 Q Yes.

13 A No, then I don't recall having reviewed
14 that.

15 MR. LORENZO: Your Honor, I ask your
16 indulgence. I brought some extra copies of our
17 response to the --

18 CHAIRMAN KANE: Speak into the mic,
19 please.

20 MR. LORENZO: Sorry. I brought some
21 extra copies of our response to the data request,
22 and would like to see if any of the information in

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2752

1 that data request would change the witness'
2 opinion. I can't obviously introduce the data
3 request as an exhibit through her because she
4 can't vouch for it. We intend to do that with
5 Mr. McGowan when he takes the stand. But I would
6 like to see if any of the information there would
7 change her opinion.

8 CHAIRMAN KANE: You want to show her the
9 exhibit --

10 MR. LORENZO: Show it to her.

11 CHAIRMAN KANE: -- that you propose to
12 introduce later?

13 MR. LORENZO: Yes.

14 CHAIRMAN KANE: Yes.

15 MR. LORENZO: Thank you, Your Honor.

16 CHAIRMAN KANE: Well, let me ask the
17 People's Counsel, were you about to make -- no
18 objection. Okay. Thank you.

19 MR. LORENZO: And Your Honor, I note this
20 is a confidential data request that we submitted,
21 because it deals with company taxes in that way,
22 but I'll ask the bench's indulgence. Should I

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2753

1 distribute it to the parties who signed a
2 confidentiality agreement or should I just -- can
3 I just show it to the witness?

4 CHAIRMAN KANE: Well, if it's
5 confidential, how are we going to ask her --

6 MR. LORENZO: Well, I have to --

7 CHAIRMAN KANE: You plan to ask her
8 questions about it that will not violate the
9 confidential nature of it?

10 MR. LORENZO: Yes.

11 CHAIRMAN KANE: Have you filed this with
12 us already?

13 MR. LORENZO: We filed this as a data
14 request last Friday.

15 CHAIRMAN KANE: Last Friday. Data
16 request. And it was filed as confidential?

17 MR. LORENZO: It was filed as
18 confidential.

19 CHAIRMAN KANE: Then presumably anyone
20 who has -- is there anyone in the room who has not
21 signed the confidentiality agreement or who isn't
22 Commission staff?

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2754

1 All right. Since it was just filed last
2 Friday, we do need to give it to the witness to
3 look at, and to the secretary.

4 Mr. Lorenzo, would you again identify
5 what the title or the name of this document is?

6 MR. LORENZO: Yes, Your Honor. It is
7 joint applicants' confidential response to bench
8 data request number 5, filed with the Commission
9 on April 17th, 2015.

10 BY MR. LORENZO:

11 Q Ms. Ramas, after you've had a chance to
12 review it, let me know.

13 A It's a little lengthy, so it might take
14 me just a moment.

15 All right. I've read it.

16 Q Thank you.

17 A Was there a question outstanding?

18 Q No, there was not.

19 A Okay. Again, by reading this, within my
20 testimony, part of what I recommended was that the
21 companies report on the impact of any potential
22 net operating loss carry-forward. I didn't

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2755

1 recommend these specific adjustments, just that
2 the companies be required to report that
3 information to the Commission, as well as report
4 any information regarding any changes in tax
5 selections made post-merger.

6 So that would continue to be my
7 recommendation, that that reporting should still
8 be required, even with the information provided in
9 this confidential bench request response.

10 Q You'll agree that the confidential bench
11 response indicates that Exelon anticipates being
12 able to consume PHI's NOLC, net operating loss
13 carry-forward, by 2017?

14 A Yes. It's a confidential response, so I
15 don't want to say too much more about, but yeah,
16 it indicates that that's their current
17 anticipation.

18 Q And their -- and that PEPCO's current --
19 strike that.

20 And that, on a stand-alone basis, PHI and
21 PEPCO anticipate they will not be able to use the
22 NOLC carry-forward fully to 2019. That's in

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2756

1 response E.

2 A That's what the confidential response
3 indicates.

4 Q Thank you.

5 A But again, that wouldn't alleviate my
6 recommendation that that information, once it's
7 known, be reported to the Commission so it has it
8 to evaluate in future proceedings.

9 Q Very good. I want to talk a little bit
10 about another of your -- another of your
11 recommendations which deal with rate case filing
12 requirements. And I believe those appear on
13 page 32 through 33 of your direct testimony.

14 A Yeah, I had several recommended reporting
15 requirements. And this specific section you cite
16 has to do with information regarding costs that
17 are direct charge or allocated to PEPCO.

18 Q That's right. And I was going to ask you
19 to explain what the filing requirements were.

20 A I specifically quoted them directly from
21 the Commission's order in the prior case, from the
22 prior rate case, and they're pretty

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2757

1 self-explanatory.

2 Q Okay.

3 A I can read them if you --

4 Q No, it's not necessary. What I want to
5 know is if, in your expert opinion as a regulatory
6 expert who's testified here on numerous occasions,
7 would these reporting requirements -- do these
8 reporting requirements apply to PEPCO to report
9 the same information for the Exelon Business
10 Service Corporation as well as for PHI Service
11 Company?

12 A It's my opinion that they should, but the
13 way they were specifically spelled out in the
14 order of the case that I cite to, order
15 number 17424, at that time, this merger wasn't
16 being considered so they were specific to PEPCO's
17 service company. So the reason I recommended this
18 is so that that information doesn't slip through
19 the cracks, that they also be required to provide
20 the same information for the EBSC, Exelon Business
21 Service Company, as well as PEPCO's service
22 company.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2758

1 Q So I take it your answer to the question
2 is, no, you don't believe these are applicable to
3 the Exelon Business Service Company, these
4 reporting requirements?

5 A I hope they are, but the way they're
6 worded in the order -- that's why I raise them in
7 my testimony, is I don't want something like that
8 to slip through the cracks because there have been
9 frustrations in prior cases, getting the amount of
10 costs coming to D.C. on a D.C. jurisdictional
11 basis -- and I hope to alleviate in future cases
12 potential discovery issues with this subject.

13 So it would be preferable that any order
14 coming out in this case specify that those filing
15 requirements also apply to Exelon Business Service
16 Company as well.

17 Q Okay.

18 MR. LORENZO: That's all I have, Your
19 Honor.

20 CHAIRMAN KANE: Thank you.

21 MS. FRANCIS: No questions, Your Honor.

22 CHAIRMAN KANE: Mr. Coyle?

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2759

1 MR. COYLE: No questions from D.C.
2 government, Your Honor.

3 MS. SPENCER: Your Honor, we have no
4 questions.

5 CHAIRMAN KANE: D.C. Water?

6 MS. WHITE: No questions from D.C. Water.

7 MS. ELEFANT: No questions.

8 CHAIRMAN KANE: Redirect?

9 MR. SEARS: No redirect.

10 CHAIRMAN KANE: No redirect.

11 No questions from the commissioners.
12 You're excused.

13 THE WITNESS: Thank you.

14 (Witness excused.)

15 CHAIRMAN KANE: Exhibits.

16 MR. SEARS: OPC moves for admission of
17 Exhibit OPC (C), Exhibits OPC (C)-1 through
18 (C)-17, (2C), (2C)-1 and (2C)-2.

19 CHAIRMAN KANE: They are moved.

20 (OPC Exhibit Numbers (C), (C)-1 through
21 (C)-17, (2C), (2C)-1 and (2C)-2 were received into
22 evidence.)

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2760

1 CHAIRMAN KANE: All right. You're
2 excused.

3 It's ten after 5:00. We've been back for
4 a little over two hours. I note on the estimated
5 schedule we have Witness Woolridge, estimated for
6 15 minutes. And MAREC, your witness, estimated
7 for half an hour.

8 MS. ELEFANT: Yes, that's correct. And
9 just to clarify -- and this is something I have
10 raised with the applicants -- our witness will
11 just be available today, so hopefully we will get
12 to him by 6:30 or so. It seems like we will, by
13 the estimates.

14 MR. LORENZO: Your Honor, I anticipate
15 that Mr. Woolridge's cross-examination will be
16 between 15 minutes and a half-hour.

17 CHAIRMAN KANE: Then I'm going to -- that
18 adds up to about 45 minutes. I'm going to take a
19 ten-minute break, give the reporter and all of us
20 a break. Back in ten minutes. And we should be
21 able to finish up today by around 6:00, which
22 means we'll have to move Mr. McGowan -- start with

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2761

1 Mr. McGowan in the morning rather than trying to
2 get in 15, 20 minutes or so of him this evening.
3 Very good.

4 (Whereupon, a short recess was taken.)

5 CHAIRMAN KANE: We're back on the record
6 at 5:21 p.m. Has the witness been sworn in?

7 WHEREUPON,

8 J. RANDALL WOOLRIDGE,
9 called as a witness, and after having been first
10 sworn by the secretary, was examined and testified
11 as follows:

12 MS. LOPEZ: Good afternoon. My name is
13 Danielle Lopez. I'm here representing the Office
14 of the People's Counsel.

15 DIRECT EXAMINATION

16 BY MS. LOPEZ:

17 Q Good afternoon, Dr. Woolridge.

18 A Good afternoon.

19 Q Can you please state your full name,
20 occupation and address.

21 A My name is the initial J, Randall
22 Woolridge, and that's spelled W-O-O-L-R-I-D-G-E.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2762

1 I am a professor of finance at Pennsylvania State
2 University.

3 Q And do you have before you your direct
4 testimony in this case? It was pre-marked
5 Exhibit OPC (D), along with the accompanying
6 Exhibits OPC (D)-1 through (D)-6.

7 A I do.

8 Q And was this testimony prepared by you or
9 under your direct supervision?

10 A Yes.

11 Q And do you adopt this testimony as your
12 sworn testimony here in this case?

13 A Yes, I do.

14 MS. LOPEZ: The witness is available for
15 cross-examination.

16 CHAIRMAN KANE: Thank you.

17 Mr. Lorenzo?

18 MR. LORENZO: Thank you, Your Honor.

19 CROSS-EXAMINATION

20 BY MR. LORENZO:

21 Q Good afternoon, Dr. Woolridge.

22 A Good afternoon.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2763

1 Q I want to discuss with you page 13,
2 lines 1 and 2 of your testimony. Tell me when
3 you've gotten there.

4 A Yes.

5 Q And you ask yourself, do you agree that
6 the financial strength of Exelon is a benefit to
7 PEPCO?

8 Do you see that?

9 A Yes.

10 Q And you respond, no.

11 A That's correct.

12 Q That's correct. So let's examine that a
13 little closer. Can you turn to what has been
14 previously marked for identification as Joint
15 Applicants' Exhibit 30.

16 MR. LORENZO: I want that marked Joint
17 Applicants' Exhibit Number 17, I believe we're up
18 to.

19 THE WITNESS: Are those the
20 cross-examination exhibits?

21 BY MR. LORENZO:

22 Q Yes. There should be a book up there

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2764

1 that says joint applicants -- cross-examination
2 binder of joint applicants.

3 A Yes.

4 Q Are you there?

5 CHAIRMAN KANE: How are they marked?

6 MR. LORENZO: Excuse me, Your Honor?

7 CHAIRMAN KANE: I just want you to repeat
8 the number of the exhibits, how it's marked.

9 MR. LORENZO: The exhibit is
10 preliminarily marked as Joint Applicants' Exhibit
11 Number 30 --

12 CHAIRMAN KANE: 30, all right.

13 MR. LORENZO: -- and I want it marked as
14 Joint Applicants' Cross Exhibit Number 17.

15 CHAIRMAN KANE: 17, thank you.

16 (Joint Applicants Cross Exhibit Number 17
17 was marked for identification.)

18 MR. LORENZO: You're welcome, Your Honor.

19 BY MR. LORENZO:

20 Q And you'll agree with me this is a
21 Moody's Investors Service credit opinion --

22 MR. LORENZO: And this is a confidential

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2765

1 attachment, again, which we have permission from
2 the company, as I found out, permission to use
3 excerpts from it live in cross-examination.

4 BY MR. LORENZO:

5 Q And would you agree, Dr. Woolridge, that
6 this is a Moody's Investors Service credit opinion
7 on Potomac Electric Power Company?

8 A Yes.

9 Q And you'll agree that, if we look at the
10 first page and go down to the bottom of the page,
11 they have an opinion, and they call it rating
12 drivers. Do you see that?

13 A Yes.

14 Q And the last rating driver is that the
15 merger into the Exelon family viewed positively?

16 A Yes. I mean, they -- they indicate here
17 it's viewed positively, and I guess they have a
18 paragraph which supports that on page 3 of the
19 document.

20 Q That's correct. And am I reading the
21 last sentence of that paragraph correctly when we
22 say, We think being part of the bigger and more

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2766

1 diverse Exelon Corporation -- corporate family
2 will benefit PEPCO because specific regulatory
3 commitments will be made as part of the merger
4 proceeding and because Exelon's larger suite of
5 T&D utilities will provide relief of PHI's
6 increasingly untenable dividend policy?

7 Do you see that?

8 A Yes, I see that. I mean, obviously this
9 was just published. It was long before my --
10 well, it was before I published my initial
11 testimony. And in my testimony, I related to the
12 fact that -- looking for financial benefits based
13 on the statements of Mr. Crane about the financial
14 strength of Exelon, and in fact, I made that
15 objection in my direct testimony, and neither
16 Mr. Crane or Ms. Lapson really came back
17 with (sic) any respect about the traceable
18 benefits to PEPCO of the -- the merger with
19 Exelon.

20 Q How do you interpret Moody's statement
21 about PHI's increasingly untenable dividend
22 policy?

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2767

1 A Well, I mean, the traceable benefits are
2 supposed to be to customers, not to management,
3 and this looks like the untenable dividend policy
4 is really a management issue, not a customer
5 issue. I mean, you go back to what the benefits
6 are supposed to be. If the financial strength is
7 a benefit, then there should be benefits to
8 ratepayers, not to management.

9 And the debt -- dividend policy is set by
10 management. It's not set by ratepayers.

11 Q Would you agree as a general -- all
12 things being equal, that more positive credit
13 ratings from rating agencies such as Moody's and
14 Fitch are a benefit to customers?

15 A But their credit ratings are not better
16 than PEPCO's. I mean, obviously, in this case,
17 Potomac Electric is a BAA-1, which is above where
18 Exelon is. I mean, it's -- it's roughly the same
19 as Exelon. Obviously S&P has better ratings for
20 Potomac Electric than it does for Exelon.

21 So again, you know -- I know Ms. Lapson
22 goes on at length about, well, the bond -- the

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2768

1 credit ratings are about the same. Well, the
2 credit ratings are about the same; I don't see
3 where it's a financial benefit to the ratepayers.

4 Q Would you agree -- going back to the
5 untenable dividend policy -- again, it's a nice
6 speech, but you haven't answered my question on,
7 how do you interpret what PHI's untenable dividend
8 policy -- what Moody's means by that?

9 A I don't know.

10 Q Could you turn to what has been
11 previously marked as Exhibit -- Joint Applicants'
12 Exhibit Number 31 --

13 MR. LORENZO: And I'd like that to be
14 marked as Joint Applicants' Cross Exhibit 18.

15 CHAIRMAN KANE: So marked.

16 (Joint Applicants Cross Exhibit Number 18
17 was marked for identification.)

18 BY MR. LORENZO:

19 Q And you agree this is a Fitch rating
20 report --

21 A Yes.

22 Q -- from April 10th, 2015? And they also

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2769

1 view the merger as credit-positive for PEPCO,
2 correct?

3 A They do. They make the statement about
4 greater financial flexibility. Again, they don't
5 define that. And again, I'm not sure what that
6 means in terms of the benefit -- financial benefit
7 to ratepayers.

8 Q Do you --

9 A I do think that if that was a benefit,
10 that in their rebuttal testimony to me, Mr. Crane
11 or Ms. Lapson would have drawn out what the
12 financial benefits are of the merger with Exelon.

13 Q Do you see where it says -- we can go
14 through some of this. If you go to page 5, the
15 paragraph discussing the Exelon merger, do you see
16 where Fitch says, Fitch considers the pending
17 merger to being credit-positive; it would create a
18 stronger, better capitalized parent company with a
19 far greater financial -- with far greater
20 financial flexibility? Then, going on, Fitch
21 anticipates PEPCO would benefit from the improved
22 operating efficiencies and lower costs as a result

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2770

1 of the merger.

2 Do you see that?

3 A I see that, but again, I don't see where
4 the financial benefit is. Where is the -- where
5 are the direct positives for the ratepayers?
6 Certainly they didn't change the ratings for
7 either -- PEPCO's ratings didn't go up because of
8 the -- you know, if they went up, maybe if Exelon
9 was rated A and PEPCO was triple-B, you could see
10 where the stronger capitalized company -- there
11 would be a benefit in terms of lower cost capital
12 for the ratepayers of PEPCO. But I don't see, and
13 certainly the company witnesses haven't laid out,
14 what are the direct, traceable financial benefits
15 to ratepayers.

16 Q Do you think, again -- once again, you
17 don't think the merger being viewed as
18 credit-positive by Moody's and Finch (sic) is a
19 benefit -- a long-term benefit to better credit
20 ratings?

21 A They didn't change the credit ratings, so
22 no. The credit ratings haven't changed, so

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2771

1 there's no benefit. There's no traceable benefit
2 to ratepayers.

3 If they changed the ratings and boosted
4 them up, which I don't know how likely that is
5 given the ratings of Exelon, I would say there's a
6 positive there; there's a traceable benefit. That
7 means they can issue bonds at lower rates in the
8 future.

9 But there is no credit rating change
10 here. They just said they see it as a positive
11 without any movement. Just because it's a
12 positive doesn't mean you're going to issue bonds
13 at a lower rate. Only if there's a upgrade in
14 their bond ratings will there be a lower interest
15 rate on their bonds.

16 Q You'll agree that on the first page of
17 this report where they discuss rating
18 sensitivities, they also say that one of
19 negative -- negative rating action would result
20 from the inability to close the EXC merger -- and
21 EXC is the stock exchange ticker for Exelon?

22 A Yes.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2772

1 Q Very good.

2 MR. LORENZO: I have no further
3 questions.

4 MS. FRANCIS: No questions, Your Honor.

5 MR. COYLE: No questions, Your Honor.
6 Thank you.

7 MS. SPENCER: No questions.

8 MS. WHITE: No questions, Your Honor.

9 MS. ELEFANT: No questions, Your Honor.

10 CHAIRMAN KANE: Redirect? OPC?

11 MS. LOPEZ: No redirect.

12 CHAIRMAN KANE: And any exhibits?

13 MS. LOPEZ: Yes. I would like to have
14 Exhibit OPC (D) and supporting Exhibits OPC (D)-1
15 through (D)-6 marked and admitted.

16 CHAIRMAN KANE: They are so marked and
17 admitted.

18 (OPC Exhibit Numbers (D) and (D)-1
19 through (D)-6 were marked for identification and
20 received into evidence.)

21 MR. LORENZO: Joint applicants would move
22 admission of Joint Applicants' Exhibits 17 and 18.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2773

1 CHAIRMAN KANE: They are moved.

2 (Joint Applicants Cross Exhibit Numbers
3 17 and 18 was received into evidence.)

4 CHAIRMAN KANE: You are excused,
5 Mr. Woolridge.

6 (Witness excused.)

7 CHAIRMAN KANE: Okay. Moving right
8 along.

9 MS. ELEFANT: Good afternoon, Your Honor.
10 My name is Carolyn Elefant. I represent the
11 Mid-Atlantic Renewable Energy Coalition, and we
12 will have Mr. Burcat as our witness.

13 WHEREUPON,

14 BRUCE BURCAT,
15 called as a witness, and after having been first
16 sworn by the secretary, was examined and testified
17 as follows:

18 MS. ELEFANT: Your Honor, before I begin,
19 I wanted to just address a preliminary matter. In
20 reviewing the paper copies of the testimony -- and
21 I typically, and unfortunately perhaps, usually
22 look at electronically filed copies -- I realized

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2774

1 that I had inadvertently omitted the Exhibit 3
2 which is referenced on page 13. This was part of
3 our prefiled testimony that was submitted
4 November 4th, but when we filed our conformed
5 testimony, it was inadvertently omitted. It's
6 discussed within the testimony. I'll pass it
7 around, and I will wait to see if there are any
8 objections at that time, if that's all right.

9 CHAIRMAN KANE: And is it the same as you
10 filed in November?

11 MS. ELEFANT: Yes, Your Honor, and I can
12 question the witness as to that as well.

13 CHAIRMAN KANE: Go ahead.

14 MS. ELEFANT: This is confidential, so I
15 assume whoever is getting a copy is subject to the
16 confidentiality.

17 CHAIRMAN KANE: I believe everyone in the
18 room is subject to that. But if there is anyone,
19 please do not take a copy.

20 DIRECT EXAMINATION

21 BY MS. ELEFANT:

22 Q Good afternoon, Mr. Burcat. Could you

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2775

1 please state and spell your name for the record.

2 A Sure. It's Bruce Burcat, B-U-R-C-A-T.

3 Q And on whose behalf are you testifying
4 today?

5 A The Mid-Atlantic Renewable Energy
6 Coalition.

7 Q And do you have before you what has been
8 preliminarily marked as MAREC (1A), entitled,
9 Amended direct testimony on behalf of Bruce Burcat
10 on behalf of MAREC?

11 A I do.

12 Q And does that testimony have appended to
13 it two exhibits?

14 A Yes.

15 Q And then I just circulated a third
16 exhibit. Do you recognize that exhibit?

17 A I didn't -- oh, I do have it. Yes. Yes,
18 I do.

19 Q And that was part of your -- is that part
20 of your testimony as well? Or is that referencing
21 your testimony?

22 A Yes, it is.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2776

1 Q Did you prepare this testimony by
2 yourself or was it prepared under your
3 supervision.

4 A It was prepared by myself.

5 MS. ELEFANT: And at this time, I would
6 like to tender Mr. Burcat for cross-examination.

7 CHAIRMAN KANE: Thank you.

8 Mr. Lorenzo.

9 MR. KULAK: Good afternoon, Your Honors.
10 Ken Kulak of the law firm of Morgan Lewis
11 appearing on behalf of the joint applicants.

12 CROSS-EXAMINATION

13 BY MR. KULAK:

14 Q Good afternoon, Mr. Burcat.

15 A Good afternoon, Mr. Kulak.

16 Q Mr. Burcat, in this proceeding you've
17 advocated for a condition on the merger that would
18 require competitively sourced long-term power
19 purchase agreements from D.C. -- eligible
20 resources for D.C.'s Renewable Portfolio Standard,
21 or RPS, right?

22 A That's correct.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2777

1 Q And on page 19 of your testimony, you
2 cite provisions of D.C. law which require PEPCO to
3 solicit fixed price offers of one-year, two-year
4 or three or more years for standard offer service,
5 right?

6 A That is correct.

7 Q I believe your view, as you explain on
8 page 19, is that this provision provides
9 flexibility -- that's your word -- to allow
10 long-term contracting for renewable resources,
11 right?

12 A Yes. To the Commission, yes.

13 Q Mr. Burcat, you understand PEPCO meets
14 RPS requirements associated with standard offer
15 service by obtaining the requisite renewable
16 energy credits, or RECs, from wholesale suppliers
17 providing standard offer service, right?

18 A That's the procedure that's being -- in
19 use at this time, yes.

20 Q So in this proceeding, as part of this
21 condition, you're proposing that PEPCO and this
22 Commission alter the current procurement

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2778

1 arrangements so that PEPCO would do its own RFP
2 for some portion of the RPS requirements for a
3 standard offer service load, right?

4 A Well, no, not exactly. As part of this
5 proceeding, we are opposed to the merger, but we
6 have stated that -- or I have stated that if the
7 merger -- if the Commission decides to impose
8 conditions on the merger to approve the merger in
9 that respect, then we would believe that certain
10 conditions should attach in that particular
11 instance.

12 Q Well, with respect to the long-term
13 contract condition you've proposed, who would be
14 the counterparty to the wind developer or wind
15 facility under your condition?

16 A It would be the utility, PEPCO, in D.C.

17 Q So that would be a change in the current
18 process, right, Mr. Burcat?

19 A Well, my understanding is that PEPCO is
20 the counterparty under the standard offer service
21 in D.C. to the wholesale contracts that are
22 currently in existence.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2779

1 Q But you're not envisioning that the
2 renewable developers would be providing standard
3 offer service?

4 A No.

5 Q And Mr. Burcat, are you proposing that
6 the terms of those renewable power purchase
7 agreements should be three years?

8 A No, I am not.

9 Q What would be the minimum term of those
10 renewable power purchase agreements associated
11 with the condition you're proposing?

12 A We've talked about long-term contracts,
13 and generally what we talk about are 10 to 15, and
14 possibly up to 20 years.

15 Q So if those contracts were won by a wind
16 generator, including potentially members of MAREC,
17 those contracts would be fixed price contracts,
18 right?

19 A That's correct.

20 Q And so they would lock in a rate for wind
21 energy or wind energy renewable energy credits for
22 10 years or 20 years that customers would pay as

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2780

1 part of standard offer service?

2 A That's correct.

3 Q Mr. Burcat, MAREC was an intervenor in
4 proceedings before the New Jersey Board of Public
5 Utilities relating to approve of the Exelon/PHI
6 merger, right?

7 A Yes.

8 Q And in your supplemental testimony you
9 explained MAREC's decision not to oppose the
10 settlement reached between the companies and the
11 parties in the New Jersey proceedings for approval
12 of the merger, right?

13 A In this testimony, we talked about the
14 differences between New Jersey's set of
15 circumstances and what the circumstances are here
16 in D.C. and, yes, we basically -- definitely
17 decided that there were reasons not to oppose the
18 merger because we agreed to a -- essentially a
19 letter that provided some benefit to MAREC as far
20 as doing a proceeding in New Jersey or potentially
21 opening a proceeding in New Jersey that would look
22 at long-term contracting.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2781

1 Q And just to be specific, as I understand
2 it, that letter states that Exelon would, quote,
3 not object to and consider -- excuse me, I'm
4 quoting from your testimony -- would, quote, not
5 object to and consider it reasonable for MAREC to
6 request to open a proceeding, if the merger is
7 consummated in New Jersey, to consider the use of
8 a competitive process for Atlantic City Energy
9 Company for procurement of a portion of energy and
10 renewable energy credits bundled through long-term
11 contracts, unquote, to meet RPS requirements,
12 right?

13 A That's correct.

14 Q In your supplemental testimony in this
15 proceeding, you also explain that the New Jersey
16 settlement shouldn't apply in D.C. because,
17 quote -- and I believe this is from page 18 of
18 your supplemental testimony -- the landscape is
19 far different in New Jersey because Atlantic City
20 Electric is the third largest out of the four
21 investor-owned electric utilities in New Jersey,
22 right?

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2782

1 A That's one of the reasons.

2 Q There are also proceedings for approval
3 of this merger before the Delaware Public Service
4 Commission relating to Delmarva Power, an
5 affiliate of PEPCO, right?

6 A That's correct.

7 Q And in the Delaware proceedings, MAREC is
8 also an intervenor, right?

9 A That's correct.

10 Q And you yourself filed testimony in that
11 proceeding, right?

12 A I did not.

13 Q Excuse me. But MAREC is --

14 A Yes, Mr. Bradford, who filed in Maryland,
15 also filed in Delaware for us.

16 Q Thank you for that correction.

17 Through Mr. Bradford, MAREC raised many
18 of the same concerns it has presented to this
19 Commission in your testimony, particularly
20 regarding Exelon's position on the expired wind
21 production tax credit, or PTC, right?

22 A That's correct.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2783

1 MR. KULAK: Your Honors, I'd like to
2 introduce the exhibit that has been marked as
3 Applicants' Cross Exhibit Number 33. This would
4 be Applicants' Cross Exhibit Number 19.

5 CHAIRMAN KANE: So marked.

6 (Joint Applicants Cross Exhibit Number 19
7 was marked for identification.)

8 BY MR. KULAK:

9 Q Mr. Burcat, do you have that exhibit
10 there?

11 A I do not.

12 Q All right. Let's help you with that.
13 It's in the binder --

14 A Okay.

15 Q -- labeled cross exhibit binders of the
16 joint applicants.

17 A Okay.

18 Q And it will be under tab 33.

19 A I found it.

20 MR. KULAK: For the record, I'd like to
21 note this exhibit has been filed with the
22 Commission.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2784

1 BY MR. KULAK:

2 Q Mr. Burcat, you've seen this document
3 before, correct?

4 A Sure.

5 Q In fact, it's your signature appearing on
6 page 32 of this document, right?

7 A That's correct.

8 Q And this is the amended settlement that
9 was filed in the Delaware proceedings?

10 A Yes, it is.

11 Q And per the settlement, MAREC is, in
12 fact, supporting the approval of the merger in
13 Delaware, right?

14 A That's correct.

15 Q And this is in part because of a
16 commitment in that proceeding, number 84, relating
17 to long-term renewable power purchase agreement
18 contracts, right?

19 A That is correct.

20 Q MAREC also filed a brief in support of
21 the Delaware settlement, correct?

22 A Yes, we did.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2785

1 MR. KULAK: Your Honors, I'd like to now
2 introduce Joint Applicants' Exhibit previously
3 marked as Number 34 as Cross Exhibit Number 20.

4 CHAIRMAN KANE: So marked.

5 (Joint Applicants Cross Exhibit Number 20
6 was marked for identification.)

7 BY MR. KULAK:

8 Q Mr. Burcat, I assume you're also familiar
9 with this document?

10 A I am.

11 Q Your signature at the end?

12 A Double-check. Yes.

13 Q All right. I'd like to just direct your
14 attention to page 7 at the end of the brief.

15 A Okay.

16 Q I think you state on page 7 -- MAREC
17 states in its brief that Exelon's commitment
18 regarding long-term contracts in the context of
19 the entire agreement is, quote, a fair resolution
20 of our major concern with the proposed merger,
21 unquote, in Delaware, right?

22 A That's correct.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2786

1 Q Mr. Burcat, how many investor-owned
2 electric utilities are there in Delaware?

3 A There's one investor-owned utility in
4 Delaware, electric utility. Delmarva Power.

5 Q Delmarva Power, right. And the electric
6 load not served by Delaware -- Delmarva Power is
7 served by electric cooperatives right?

8 A And municipalities.

9 Q Do you know what percentage of the total
10 retail electric customer load is served in
11 Delaware by Delmarva Power?

12 A Somewhere in the neighborhood -- it may
13 have changed since my -- since I knew this last,
14 but somewhere in the range of maybe 70 to
15 75 percent of the load.

16 Q Do you happen to know what percentage of
17 electric customers by customer count are served by
18 Delmarva Power?

19 A I mean, if you're counting residential
20 and industrial customers, I would say it's
21 probably close to 80 percent.

22 Q Changing subjects, Mr. Burcat. On

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2787

1 page 13 of your amended direct testimony, you
2 state that the PTC results in cost savings that
3 are, quote, ultimately passed along to ratepayers
4 in the form of lower energy and RPS compliance
5 costs, right?

6 A That's correct.

7 MR. KULAK: Your Honors, I'd like to now
8 introduce the document that has been marked as
9 Joint Applicants' Cross Exhibit Number 41. We
10 would like to have that admitted as Cross Exhibit
11 Number 21.

12 CHAIRMAN KANE: So marked.

13 (Joint Applicants Cross Exhibit Number 21
14 was marked for identification.)

15 BY MR. KULAK:

16 Q Do you have the document, Mr. Burcat?

17 A I do.

18 Q Mr. Burcat, you've been provided with a
19 copy of this Commission's report on D.C. RPS
20 compliance for 2013 sent to city council by Chair
21 Kane on January 30th, 2015. I'd like to direct
22 your attention to page 15 of this report. If you

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2788

1 want to take a moment and just review the second
2 table on that report -- page.

3 A Okay.

4 Q Mr. Burcat, this table appears to
5 indicate an average weighted price of \$2.38 for
6 wind renewable energy credits for wind in the
7 District, right?

8 A That's what it says, yes.

9 Q You have no reason to doubt that's
10 correct, right?

11 A Well, I mean, I do -- it's been my
12 understanding, and certainly even more recently,
13 that these prices have gone up. This is a 2013
14 number.

15 Q Right. But you haven't provided any
16 different testimony or data on those prices?

17 A Yeah, but it's not necessarily my
18 understanding of what the prices are.

19 Q But that's certainly your understanding
20 of what the price was for 2013 compliance, right?

21 A No. I'm saying that's not my
22 understanding of what the price was in 2013. I

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2789

1 think that's what's been reported. I'm not
2 necessarily taking issue with the Commission, but
3 that's not my particular understanding of what
4 prices were back then, and they've come up
5 considerably since that point in time.

6 MR. KULAK: I'd like to now introduce the
7 documents that have been marked as Joint
8 Applicants' Cross Exhibits Number 39 and 40. And
9 we'll have those marked as Cross
10 Exhibits Number 22 and 23.

11 CHAIRMAN KANE: They are so marked.

12 (Joint Applicants Cross Exhibit Numbers
13 22 and 23 were marked for identification.)

14 BY MR. KULAK:

15 Q Mr. Burcat, do you have those there?

16 A Yes, 39 and 40.

17 Q Right. Now, Number 39 is the document
18 that is dated April 1st, 2013, again, a letter
19 from Chair Kane to the council describing
20 compliance for the year 2012 for the D.C. RPS,
21 correct?

22 A I'm looking for -- 2012 on that document.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2790

1 I see 2013, but I don't see 2012.

2 Q I think if you turn to -- the page, it
3 will explain that it is the -- I'm sorry. I
4 apologize. It's 2011.

5 A Where does it say 2011 on the document?

6 Q Well, let's just turn to page 13 if we
7 could. I think you'll see it there.

8 A Okay.

9 Q I think that shows for the year 2011 a
10 wind price of \$2.67 for wind RECs, right?

11 A Yeah. I haven't reviewed this whole
12 document, but for that particular table it does
13 talk about 2011 prices for wind RECs.

14 Q And if you want to look at Exhibit 40,
15 that's the report for the year 2012, and that I
16 believe, same table, shows a price of \$2.37,
17 right?

18 A \$2.37, yep.

19 Q So Mr. Burcat, in your testimony, you
20 haven't provided any dollar amount for what you
21 believe the PTC may have actually saved D.C.
22 customers in terms of renewable -- RPS compliance

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2791

1 costs, have you?

2 A Could you -- haven't done what?

3 Q Sure. You haven't provided any dollar
4 amount for what you believe the wind production
5 tax credit actually saved D.C. customers in terms
6 of RPS compliance costs, have you?

7 A Not a specific amount, but there are -- I
8 mean, it's clear that it has saved customers for
9 several reasons. One is that the cost of wind --
10 the pricing of wind is related to the operational
11 costs of wind, the fact that there is the PTC
12 and -- I mean, there are basically three
13 components to that, and the PTC is part of that.

14 If you take the PTC out, which is a 23
15 cent per kilowatt hour amount, it actually
16 ultimately would be -- would have to be made up
17 somewhere else. That's obviously showing that the
18 price would be reduced if you took that production
19 tax credit component out of the pricing of wind.

20 Q But you, sitting here today, can't tell
21 us in the compliance years that I've shown you
22 from these reports whether the investors in these

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2792

1 projects took a larger portion of the PTC or even
2 substantially all of it as opposed to be passing
3 on the savings to D.C. customers, can you?

4 A Well, I can also go back -- this isn't,
5 again, specific to D.C. customers, but I think it
6 works across all utility customers -- the impacts
7 of the PTC. I don't know how much I can talk
8 about this confidential document that was
9 Exhibit 3 in my testimony.

10 Q Not unless you're asked about it,
11 Mr. Burcat.

12 A Well, no, you're asking me about the --

13 Q Well, let's just deal with my question.
14 My question is --

15 A I think this is answering your question.

16 MS. ELEFANT: I just wanted to clarify.
17 There is some -- the testimony was declassified,
18 and so the information in the testimony that
19 references it is certainly something that can be
20 discussed in the open session since the joint
21 applicants declassified the testimony on page 13.

22 THE WITNESS: Yeah. In this document, it

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2793

1 talks about --

2 MS. ELEFANT: I'm sorry. But as for the
3 document, there may be other information in the
4 document that the applicants have continued to
5 classify, and they would have to say if it would
6 be permissible to discuss that, so...

7 THE WITNESS: It's in my testimony, my
8 public testimony.

9 MS. ELEFANT: Your public testimony is
10 the testimony that's in front of you --

11 THE WITNESS: Yes.

12 MS. ELEFANT: -- and, yes, whatever is
13 discussed in your testimony is public and it's
14 been declassified, so everything in there is open
15 to discussion.

16 THE WITNESS: Yeah. I'm just going to --
17 trying to find that page number. But the gist of
18 it is that Exelon -- in Maryland, Exelon opposed
19 an increase to the RPS standards in Maryland, and
20 in order to do that, they did their own cost
21 evaluation of what the costs would be to consumers
22 in Maryland. And they basically said with the PTC

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2794

1 and without the PTC.

2 And in that particular instance, they
3 showed a pretty large differential between the
4 two. If the PTC was not extended, then there
5 would be a significant additional cost to Maryland
6 ratepayers. And I think that particular document
7 would be valid in the sense that -- I don't
8 necessarily agree with the overall numbers, but
9 that particular difference, where Exelon believes
10 itself that the PTC does have a value, and that if
11 you were to eliminate that value, it would be more
12 expensive for Exelon customers in any
13 jurisdiction. It would carry across jurisdictions
14 if you believed your own particular analysis.

15 BY MR. KULAK:

16 Q Mr. Burcat, my question was, who gets the
17 payment. It can go to the investors or it could
18 go to savings; you can't tell me how it's being
19 divided today, can you, for D.C. customers?

20 A Well --

21 Q That's a yes or no question, Mr. Burcat.
22 Can you tell me how much of the PTC goes to

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2795

1 investors or how much is realized by savings by
2 customers in the District of Columbia?

3 A I can't give you a specific number, but
4 it's --

5 Q Thank you, Mr. Burcat.

6 A -- a competitive market, and in order to
7 get the business, the -- the developers are going
8 to bid their lowest price. So there's clearly a
9 component that goes back to customers.

10 Q Mr. Burcat, in your testimony, you also
11 contend that Exelon's opposition to the expired
12 PTC was -- I believe you used the word
13 hypocritical, because you believe that Exelon is
14 seeking subsidies for its nuclear plants to,
15 quote, avoid competitive pressures from the
16 wholesale market, unquote, right?

17 A Yes.

18 Q And you cite the Ginna plant in New York
19 where you state that Exelon is seeking relief from
20 competitive market, right?

21 A That's correct.

22 Q I'd like to turn to Joint Applicants'

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2796

1 Exhibit -- previously marked as Cross Exhibit
2 Number 36 --

3 MR. KULAK: -- which I would like to
4 introduce as Cross Exhibit Number 24.

5 CHAIRMAN KANE: So marked.

6 (Joint Applicants Cross Exhibit Number 24
7 was marked for identification.)

8 BY MR. KULAK:

9 Q Mr. Burcat, I've given you a copy of a
10 filing by Rockland General Electric with the New
11 York PSC dated February 13th, 2015 which was
12 before your March 20, 2015 supplemental testimony
13 filing, right?

14 A You're saying it's part of my
15 supplemental --

16 Q No, no. It was issued before your
17 supplemental testimony was filed.

18 A Oh. Yes.

19 Q Do you know what Rockland General
20 Electric is?

21 A Yeah, it's an operating utility in
22 northwestern -- it's basically a distribution

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2797

1 company in northwestern New York .

2 Q If you can take a moment and just review
3 pages 2 and three of this filing.

4 A Okay.

5 Q Mr. Burcat, it's your understanding
6 Rockland -- excuse me -- Rochester Gas and
7 Electric is not affiliated with Exelon, right?

8 A That's correct.

9 Q And as explained in this filing, Exelon
10 told state officials that closing the plant was
11 under -- the Ginna plant was under consideration,
12 right?

13 A That's correct.

14 Q And -- but if there was a need to
15 continue to operate the plant for reliability
16 reasons, Exelon would do so if it was compensated
17 through what is known as a reliability support
18 services agreement, correct?

19 A That's correct.

20 Q And in fact, the New York ISO concluded
21 that there would be reliability violations if the
22 plant was taken out of service, right?

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2798

1 A My understanding, that's correct.

2 Q Let's turn to page 4 of this document.

3 Take a moment and read that.

4 A Okay.

5 Q So Rochester conducted an RFP to see if
6 there were any alternatives, didn't they?

7 A I mean, that's basically what this is
8 talking about, yes.

9 Q And, in fact, subsequently, the New York
10 Public Service Commission concluded, as with the
11 New York ISO, that there was a reliability need
12 and ordered Exelon and Rochester to negotiate an
13 RSSA, right?

14 A That's correct.

15 Q Do you know what the term of the RSSA is
16 supposed to be?

17 A How many years?

18 Q Yes.

19 A I understand it's four years. And I also
20 understand that the FERC has reviewed this and has
21 raised some significant concerns about this
22 particular agreement and has sent this back for

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2799

1 further negotiation.

2 Q Is there anything in your testimony or in
3 this summary of the history here that indicates
4 that Exelon is keeping a plant open just because
5 it can't compete or that Rochester is assisting
6 Exelon in that effort?

7 A I don't think Rochester is assisting
8 Exelon in that effort, but I do think that Exelon
9 is participating in a competitive market. It's
10 shown its strategy of, in these competitive
11 markets with their nuclear plants, to basically --
12 where they're facing some financial difficulty or
13 some issues in these markets, to seek basically
14 some kind of additional or state-subsidized
15 remuneration during a particular term. In some
16 cases -- in fact, the original request by Exelon
17 in this particular case was for a long-term
18 situation, not the four years that the Commission
19 ordered, or ultimately pushed into the -- you
20 know, the four-year settlement in this particular
21 case.

22 So I do think there is a -- because we've

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2800

1 seen it in other jurisdictions as well. We've
2 seen it at three plants in Illinois, and continued
3 discussion in Illinois about that particular --
4 the same type of situation there.

5 Q Mr. Burcat, I'll ask my question again.
6 Is there anything -- do you believe -- let me ask
7 it slightly differently. Do you believe that the
8 findings of the New York Public Service Commission
9 and the New York ISO with respect to reliability
10 aren't correct here?

11 A I'm not disputing the reliability piece
12 of this. What I'm saying is that Exelon has a
13 concerted effort on non-performing nuclear
14 facilities to seek -- some might say a subsidy
15 from ratepayers to keep these particular plants
16 open.

17 I'm not disagreeing that there might be
18 reliability issues impacted by this, but I do
19 think that this is a strong effort by Exelon in
20 these particular jurisdictions, yes.

21 Q Mr. Burcat, you also sponsored discovery
22 responses in the Maryland proceeding relating to

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2801

1 your testimony in that jurisdiction on behalf of
2 MAREC, right?

3 A Correct.

4 MR. KULAK: Your Honors, if we could now
5 turn to Joint Applicants' Number 35 which I like
6 to have marked as Cross Exhibit Number 25.

7 CHAIRMAN KANE: So marked.

8 (Joint Applicants Cross Exhibit Number 25
9 was marked for identification.)

10 THE WITNESS: I'm there.

11 BY MR. KULAK:

12 Q Mr. Burcat, this is a discovery request
13 that asks you to provide data or assumptions with
14 respect to your contention that the support for
15 the expiration of the PTC would lead to higher
16 costs for Maryland customers, right?

17 I'm just asking about the first page,
18 Mr. Burcat.

19 A Yeah, I'm looking at that just to make
20 sure that I'm comfortable with the way you
21 characterized it.

22 Okay. Yes.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2802

1 Q This was prepared by you or under your
2 supervision, correct?

3 A That's correct.

4 MR. KULAK: Nothing further, Your Honors.

5 MR. DANIELS: OPC has no questions.

6 MS. FRANCIS: AOBA has no questions.

7 MR. COYLE: District government has no
8 questions.

9 MS. SPENCER: DC SUN has no questions.

10 MS. WHITE: D.C. Water has no questions.

11 CHAIRMAN KANE: Commission questions?

12 Yes, Commissioner Fort.

13 COMMISSIONER FORT: You were talking
14 about the District SOS program, or standard offer
15 service program, and the fact that the regulations
16 allow the District to use a portfolio approach, is
17 what you say. What do you understand a portfolio
18 approach to be under those regs?

19 THE WITNESS: Under those regs? Okay.
20 Essentially what I see it -- in this case is it's
21 the length of the contracts that can be used for
22 standard offer service. In that particular case,

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2803

1 essentially maybe a mixture of shorter-term and
2 medium-term and long-term contracts.

3 COMMISSIONER FORT: If I were to tell you
4 that the mixture is one-year contracts and
5 three-year contracts, does that impact your
6 recommendation?

7 THE WITNESS: Well, if that's what it is,
8 but I do see that the regulation does provide for
9 the opportunity to do contracts greater than three
10 years, according to those particular regulations.

11 I don't think -- there's certainly not a
12 restriction, and there's a discussion which is
13 highlighted in my testimony on page 19 that says
14 the electric company shall select conforming
15 offers to meet the Commission's percentage targets
16 in accordance with the evaluation provision
17 included in the RFP. The final contract mix
18 should include contracts of at least three years
19 for no less than 40 percent of the total load.

20 So at least three years to me means it
21 could be a lot longer than that, or a little bit
22 longer than that.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2804

1 COMMISSIONER FORT: And under your
2 proposal, would the District have to do a
3 competitive procurement or long-term purchase
4 contracts? Is that how you're explaining it?

5 THE WITNESS: Yeah. Again, my -- our
6 proposal is not our position, necessarily, because
7 our proposal is basically saying we're opposing
8 the merger. But what we are saying is that for --
9 yes, our position would be that one of the -- and
10 believe me, we are looking for a portfolio
11 approach. We would never say -- I think it would
12 be imprudent for the Commission to impose a
13 hundred percent of the renewables purchases and
14 energy coming from long-term contracts. I think
15 that would be imprudent.

16 What we're talking about is a portfolio
17 approach. It could be a mix of 25 percent of
18 those contracts, 30 percent, 50 percent. And I
19 don't think anything greater than 50 percent makes
20 sense because we are looking -- we do strongly
21 agree with the portfolio approach.

22 COMMISSIONER FORT: Do you know what

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2805

1 percentage of the District's fuel mix is currently
2 from wind?

3 THE WITNESS: I saw a document. I
4 believe it's basically REC purchases, somewhere
5 around 20 percent.

6 COMMISSIONER FORT: Do you know what
7 percentage of the District's fuel mix is from
8 nuclear energy?

9 THE WITNESS: That I do not know.

10 COMMISSIONER FORT: Is there -- other
11 than the opposition to the PTC, is there any other
12 reason that we should be concerned about Exelon?

13 THE WITNESS: Yeah. I think we
14 touched -- I touched on it a little bit during my
15 testimony during questioning by counsel that,
16 clearly the concern about the fact that 55 percent
17 of the capacity of Exelon generation, their
18 affiliates' generation, is nuclear. Right now,
19 we're talking about PEPCO and its affiliates being
20 basically wires companies. So I think the
21 Commission should be very concerned,
22 extraordinarily concerned, about this change, a

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2806

1 huge sea change that would occur with the merger
2 when you're talking about a company that's so
3 reliant on one form of energy.

4 I believe their energy purchases are even
5 higher than their capacity levels, meaning that --
6 or their energy production is even higher than the
7 55 percent, as opposed to just what their capacity
8 is in their system. So it's something that should
9 be concerning, and again, related to what they're
10 trying to do in some of these other jurisdictions.

11 That doesn't mean that they're not going
12 to do it here or try to do something here in D.C.
13 or in Maryland or New Jersey or in Delaware.

14 COMMISSIONER FORT: And when you say that
15 it's something they're doing in other
16 jurisdictions, what do you mean specifically?

17 THE WITNESS: I'm talking about with the
18 Ginna plant -- I never pronounce that right -- but
19 the Ginna plant in New York and the legislation
20 that they're pursuing in Illinois to supplement
21 their income, I guess, or their revenues coming in
22 for their nuclear plants there through customer

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2807

1 rates.

2 COMMISSIONER FORT: But do you understand
3 that we are restructured and we have no generation
4 here in the District of Columbia?

5 THE WITNESS: That's correct. And both
6 of those jurisdictions are restructured
7 jurisdictions as well.

8 COMMISSIONER FORT: But we have no
9 generation -- no generating plants here in the
10 District of Columbia.

11 THE WITNESS: That's right. But they
12 still could come to this Commission, just like
13 they did in New York. I realize that's in New
14 York, but they could come to this Commission and
15 basically say, we have a local plant, Calvert
16 Cliffs, that's important to D.C., and -- I'm
17 telling you -- a lot of pressure could be put on
18 through the PJM process if they say that's a
19 must-run facility and there's reliability issues.
20 It's a possibility. I'm not saying it's something
21 they're going to do.

22 And to being honest with you, I don't

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2808

1 know what the financial shape is of that
2 particular unit or the other units that could be
3 possibly supplying energy to D.C.

4 COMMISSIONER FORT: But if that's a
5 must-run, couldn't that happen anyway under the
6 scenario you just --

7 THE WITNESS: It could be, but now it's
8 your local utility saying it's -- there's a lot
9 more connection to D.C. than it was in the first
10 place. It's a local utility; there's a hundred
11 percent of the load.

12 COMMISSIONER FORT: Thank you.

13 CHAIRMAN KANE: Thank you. Mr. Burcat, I
14 know this is holding everybody up, but I want a
15 clarification on this issue, because you saw there
16 should be a requirement -- this is prefaced --
17 you're opposed to it, but if we were to do it, or
18 if it were to be approved, these were suggested --
19 or your recommended conditions --

20 THE WITNESS: That's correct.

21 CHAIRMAN KANE: -- three of them.

22 Requirement for competitively sourced

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2809

1 long-term purchase power agreements for a
2 substantial procurement from resources eligible
3 for the D.C. RPS, which would help mitigate
4 adverse cost increases.

5 Can you show me -- what cost increases
6 are you referring to?

7 THE WITNESS: Yeah, I probably should
8 have put more description in --

9 CHAIRMAN KANE: Yes.

10 THE WITNESS: -- that particular -- but
11 that's basically cost increases that -- for
12 instance, during the polar vortex, rates could
13 jump significantly because of -- the cost of
14 electricity jumped dramatically because of the
15 lack of natural gas capacity at those particular
16 moments.

17 And there are times through history, not
18 as much recently, when natural gas prices took a
19 nose dive in the past couple of years, but we know
20 over the past seven, eight years that natural gas
21 was extremely high at some point and, through
22 standard offer service, that amount can fluctuate.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2810

1 Wind, on the other hand, has no fuel
2 cost. Therefore, its price is stable. When you
3 do a long-term contract for wind on day one, you
4 know what that price will also be on the end of
5 the 15-year contract if it's a 15-year contract,
6 and it's usually going to be the same price,
7 because there's no fuel cost, as the first day,
8 unless there is a small inflation factor included
9 in that.

10 But you're going to know what the price
11 is, and you're not going to see any volatility
12 with that. So we think it's a very important
13 hedge on long-term prices.

14 CHAIRMAN KANE: And when you speak of
15 competitively sourced long-term purchase power
16 agreements, again, you are referring only to the
17 standard offer service procurement process?

18 THE WITNESS: Our proposal here, that's
19 the case.

20 CHAIRMAN KANE: That's the case. But are
21 you aware that that is the only procurement that
22 this Commission has any role in or any authority

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2811

1 over?

2 THE WITNESS: That's correct.

3 CHAIRMAN KANE: And are you suggesting
4 that there is -- I still want to know what --
5 you've talked about mitigate adverse cost
6 increases. You are aware -- are you aware that
7 our procurement for the SOS contract is -- for
8 residential is three-year contracts, one-third of
9 it expiring each year, and that for the small
10 commercial, it's -- they're one-year contracts,
11 and it's a fixed rate?

12 THE WITNESS: I used to be the executive
13 director of the Delaware Public Service Commission
14 for 15 years. We had the same exact process
15 there. And we had some very -- while gas rates
16 were really fluctuating, after we restructured,
17 they went up, they went down, but they primarily
18 went up significantly, even with those three-year
19 rolling contracts.

20 So it is something that we think is very
21 beneficial to the jurisdiction to do it that way.
22 Plus, it ensures that if REC prices go

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2812

1 significantly higher, that they would be fixed at
2 this point in time. They would be part of the
3 contract to the utility. So you would not be
4 subject to any fluctuation in REC prices because
5 you're -- basically, under those three-year
6 contracts, the REC prices are provided by the
7 wholesale suppliers, and that's inputted into the
8 price the three-year price.

9 And we don't know how they're purchasing
10 those particular RECs. They could be doing them
11 on very short-term markets and arbitraging or they
12 could be -- but they're including those costs in
13 those three-year prices, and they can be quite
14 significant for standard offer service customers
15 going down the line.

16 CHAIRMAN KANE: Are you aware that the
17 compliance fee in the District under the law, not
18 something controlled by this Commission, but under
19 the law, after 2016 for the most expensive RECs,
20 which is solar, starts to go down significantly?

21 THE WITNESS: That's correct. And you
22 don't want the compliance fee for wind to -- you

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2813

1 don't want to get to the compliance fee for wind.

2 CHAIRMAN KANE: Right.

3 THE WITNESS: It's not -- you're

4 not necessarily building any new generation

5 because of that. And it's -- the prices would be

6 too high in my opinion to get to the alternative

7 compliance fee. So you wouldn't want that to be

8 the price that's controlling the costs for

9 consumers at that point.

10 CHAIRMAN KANE: But the compliance fee

11 does control the REC fee in the sense that --

12 would you agree that the alternative compliance

13 fee, which is usually a non-compliance fee, not

14 meeting the standard -- it sets the maximum that a

15 REC is going to go for?

16 THE WITNESS: That's correct. And you

17 don't want to hit that maximum. So what you want

18 to do is, through a process that we're explaining

19 through long-term contracts -- and if you have the

20 energy included in that, that the price is going

21 to be levelized through the term of that contract,

22 and the REC prices are never going to hit the

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2814

1 alternative compliance fee in that case.

2 CHAIRMAN KANE: But if the -- I'm trying
3 to follow -- the REC prices, by law, are going
4 down, how does a long-term contract save money?

5 THE WITNESS: Well, my understanding is
6 that the REC prices, by law, are not going to come
7 down to the point during the term of this -- the
8 RPS requirements, are not going to come down to
9 the point where, if you do a long-term contract,
10 you can assure that that price is going to be
11 something less than the alternative compliance fee
12 through the term of the contract.

13 CHAIRMAN KANE: I didn't mean to state
14 that the REC prices were coming down by law; the
15 non-compliance fee is coming down by law.

16 THE WITNESS: Right, but you're not going
17 to hit that non-compliance fee, you know, through
18 negotiations through a competitive procurement.
19 If that were the case, you wouldn't do the
20 contract.

21 CHAIRMAN KANE: Are you aware -- or is
22 there, in your opinion, a shortage of renewable

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2815

1 energy for retailers, including the SOS provider
2 in its role as a retail provider -- is there a
3 shortage of renewable energy eligible for meeting
4 the District's RPS requirements, and if so, in
5 which category of renewable resources?

6 THE WITNESS: Yeah. I mean, I could tell
7 you that the biggest -- one of the biggest drivers
8 of the construction, the development of wind
9 energy farms, are through -- because of the fact
10 that there's long-term contracting.

11 CHAIRMAN KANE: That wasn't my question.
12 My question is, in each of the categories, the
13 tier 1, tier 2, wind, biomass, solar, D.C.-based
14 solar, geothermal, that are eligible for each
15 retail supplier in the District, including the SOS
16 provider who at the moment happens to be PEPCO,
17 for them to purchase in order to meet the RPS
18 requirements applicable -- is there a shortage?

19 Because your organization represents
20 developers of renewable energy, correct?

21 THE WITNESS: For the most part. We have
22 some public interest groups.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2816

1 CHAIRMAN KANE: Well, includes. I should
2 say includes developers of renewable energy.

3 Is there a shortage of renewable
4 resources eligible for use in compliance with the
5 District's RPS requirements?

6 THE WITNESS: If you told me today, I
7 would say no.

8 CHAIRMAN KANE: Okay.

9 THE WITNESS: If you told me several
10 years down the road, just pure economics, if wind
11 farms and -- wind farms are -- should be -- I
12 mean, they're utility scale; they should be
13 providing at some point probably most of the RECs
14 for tier 1 compliance.

15 When you talk about black liquor -- well,
16 black liquor is no longer --

17 CHAIRMAN KANE: Black liquor --

18 THE WITNESS: -- is gone.

19 CHAIRMAN KANE: -- is being phased out.

20 THE WITNESS: Right, so that will be out
21 of there. You're talking about geothermal, you're
22 talking about some hydro, but if you compare to

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2817

1 all of those different resources, wind is going to
2 be, if it's developed sufficiently with -- you
3 know, through these long-term contracts because,
4 quite frankly, without the long-term contracts, we
5 have financing issues for our developers, so it's
6 another reason to do these things. The wind
7 developments are not going to get built, and then
8 D.C. and other jurisdictions in this region will
9 be left with a shortage at some point in time, and
10 REC prices will definitely go up.

11 CHAIRMAN KANE: Will go up to meet the
12 compliance fee?

13 THE WITNESS: Yeah. I don't know how far
14 they'll go up, but they'll certainly rise. And
15 our goal is not to have them rise.

16 CHAIRMAN KANE: The third suggestion you
17 make is that Exelon should be required to plan and
18 construct a transmission upgrade that Exelon would
19 support and develop that would promote additional
20 renewable capacity available to be transmitted to
21 eastern PJM, and a new AC line would also allow
22 low-cost wind energy to flow further east to the

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2818

1 benefit of ratepayers.

2 THE WITNESS: It would also reduce
3 congestion.

4 CHAIRMAN KANE: What is your
5 understanding of the authority that this -- first
6 of all, where would this transmission capacity be
7 built, or were you suggesting it be built?

8 THE WITNESS: Well, in -- I mean, we have
9 this proposal -- we had this proposal in Maryland
10 as well, but we know this is a constrained area.
11 Let me clarify that position, because it's another
12 one that we clarified in Maryland when I was on
13 the stand there.

14 We would not suggest that this not be
15 done through the PJM process. What we would
16 suggest is it would be need to be done through the
17 PJM process. So -- and so we would hope, you
18 know, through this process, if the Commission was
19 to condition this merger, that they would
20 condition the merger on Exelon going to PJM and
21 working with PJM through their process. And we
22 certainly wouldn't -- I think we clarified this in

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2819

1 a discovery response, but we would not expect them
2 to construct something that wasn't cost-effective
3 and didn't satisfy the goals of the Commission if
4 that were the case.

5 So hopefully I clarified that a little
6 bit better.

7 CHAIRMAN KANE: I was really focusing on
8 the word "required" and your understanding of what
9 authority this Commission has over transmission.

10 THE WITNESS: I do want to emphasize that
11 I think that this Commission has -- because it is
12 a merger and because there's a strong public
13 interest standard to approve the merger, that the
14 Commission can certainly, in its conditions -- and
15 this is my opinion -- but in the conditions, you
16 know, could require things that would protect D.C.
17 ratepayers and implement things that may typically
18 not be direct control, but they could certainly
19 require as a condition -- they don't have to
20 accept it and the merger may not have to go
21 through -- but as a direct -- yeah, you could
22 require them to take some steps to determine if

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2820

1 there was a viable transmission project to be
2 built through the PJM process.

3 CHAIRMAN KANE: So you are amending this
4 recommendation from require to plan and
5 construct -- did I hear you to say require them to
6 make an application or to explore the possibility
7 of?

8 THE WITNESS: Explore -- I think
9 that's -- planning is more like exploring, but I
10 would want them to -- yeah, I would think they
11 would do preliminary work to show that, at least
12 initially, whether that even makes sense to go to
13 PJM.

14 We do think it's important, because
15 having come from Delaware, there's a -- it's a
16 highly congested area there as well. I know it's
17 a problem here. It not only impacts renewables
18 coming into the jurisdiction, but it also impacts
19 customer rates.

20 CHAIRMAN KANE: Delaware is how long? A
21 hundred miles or so end to end? Is there
22 transmission in Delaware that's under the control

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2821

1 of the Delaware commission?

2 THE WITNESS: No, there isn't.

3 CHAIRMAN KANE: You had no say over
4 building transmission?

5 THE WITNESS: No. And there was a
6 condition --

7 CHAIRMAN KANE: Or siting?

8 THE WITNESS: No. There is a merger --
9 there's no siting at all.

10 CHAIRMAN KANE: In the State of Delaware.

11 THE WITNESS: In the State of Delaware.
12 There was a condition that was agreed to. It was
13 a settlement in the PEPCO/Conectiv/Delmarva merger
14 in 2001, 2002, which required them to actually
15 speed up the transmission -- a PJM planned
16 transmission project two, three years in advance
17 because of some severe congestion on the Delmarva
18 peninsula. And that was a provision in the
19 settlement agreement in that particular case.

20 CHAIRMAN KANE: Okay. Thank you for
21 those clarifications. I have no further
22 questions.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2822

1 COMMISSIONER FORT: I do have one --

2 CHAIRMAN KANE: Commissioner Fort?

3 COMMISSIONER FORT: -- question, still on
4 this idea of transmission upgrade. Have you
5 looked at what the cost to District ratepayers
6 would be?

7 THE WITNESS: No, and I think that would
8 be the -- one of the main considerations. I know
9 in the discovery response we provided the company
10 that we would never ask the -- there would have to
11 be some kind of cost benefit analysis, and we
12 would never ask consumers to pay more than the
13 benefit that they would receive in that particular
14 instance.

15 We just think that the congestion issue
16 is such a large issue that it's worth planning
17 such -- or at least discussing such a project over
18 PJM and see if there's a process that would lead
19 to a benefit to the District if that were done,
20 and we think that would have a -- help bringing in
21 renewable energy.

22 COMMISSIONER FORT: Do you know whether

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2823

1 or not, if that was included in a District order,
2 whether or not, under some reading of multi-driver
3 approaches, that would come back on the District
4 having to incur a portion of the cost?

5 THE WITNESS: Well, yeah. I mean,
6 there's FERC order 1000.

7 COMMISSIONER FORT: Yes, there is.

8 THE WITNESS: So, you know, there might
9 be some of that discussion going on to see if the
10 jurisdictions would be willing -- if it came down
11 to a cost allocation principle, that would be part
12 of the cost benefit analysis, if there was some
13 kind of FERC order 1000 requirement for the states
14 under the statement state agreement approach, to
15 take a look at that.

16 COMMISSIONER FORT: And I guess my
17 question was, if we put in the order, does that
18 make that more likely?

19 THE WITNESS: It's going to depend on how
20 much -- how much it is to reduce congestion, which
21 would be broadly allocated, and how much it would
22 be related to the benefits to renewable energy.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2824

1 It may be very limited, so the cost could
2 be actually very minimal in the sense that it
3 could be broadly disbursed according to PJM cost
4 allocation rules. But that's not -- you know, if
5 there was a pretty significant public policy piece
6 to it, then the cost could be greater directly to
7 the District.

8 So yes, I agree with you there is some
9 review that obviously would be done, and it may
10 be -- early on, you may know that this would not
11 work, but it could work if it had sufficient
12 planning, and I think -- we think it's a good
13 idea.

14 CHAIRMAN KANE: Thank you.

15 Redirect? I'm sorry. Any other --
16 redirect?

17 MS. ELEFANT: No, there's no redirect.

18 CHAIRMAN KANE: Thank you. Exhibits.

19 MS. ELEFANT: Yes. I'd like to move the
20 amended direct testimony of Mr. Burcat, which is
21 MAREC (1A), and the attached Exhibits (1A)-1,
22 (1A)-2, and then the confidential Exhibit (1A)-3,

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2825

1 which was inadvertently omitted from this version,
2 but filed as part of November. I'll entertain any
3 objections.

4 CHAIRMAN KANE: Those are admitted.

5 (MAREC Exhibit Numbers (1A) and (1A)-1
6 through (1A)-3 were received into evidence.)

7 MS. ELEFANT: Thank you, Your Honor.

8 MR. KULAK: Your Honors, I would like to
9 move Joint Applicants' Cross Exhibit Numbers 19
10 through 25 into evidence.

11 CHAIRMAN KANE: They are moved.

12 (Joint Applicants Cross Exhibit Numbers
13 19 through 25 were received into evidence.)

14 CHAIRMAN KANE: Does that conclude -- no
15 other procedural matters? So we are --

16 MR. CALDWELL: Your Honor?

17 CHAIRMAN KANE: Oh, yes.

18 MR. CALDWELL: Brian Caldwell with the
19 District of Columbia government. The parties have
20 waived cross on DCG witness Subodh Mathur, and so
21 I was -- my question is, does the Commission plan
22 to ask any questions of Mr. Mathur? Otherwise, we

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2826

1 can just move his testimony in by stipulation.

2 He submitted testimony on the impact of
3 the transaction on low-income customers.

4 CHAIRMAN KANE: We may.

5 MR. CALDWELL: Thank you.

6 CHAIRMAN KANE: So we should hold that in
7 abeyance. We may have some questions for him. We
8 should be able to let you know in morning. Does
9 he need advance notice to come?

10 MR. CALDWELL: He's in town. He would
11 need a few hours.

12 CHAIRMAN KANE: He's local. Okay.
13 That's fine. Thank you.

14 MS. WHITE: Madam Chair?

15 CHAIRMAN KANE: Yes.

16 MS. WHITE: If I might --

17 CHAIRMAN KANE: Yes.

18 MS. WHITE: -- it's my understanding that
19 we have several witnesses tomorrow that are --
20 either flown in for tomorrow and have flights out
21 tomorrow or that are only available tomorrow
22 because of prior commitments on Wednesday, and I

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2827

1 wondered if the parties should talk informally
2 before we disperse about how we can accommodate
3 people's schedules tomorrow.

4 COMMISSIONER FORT: Can we talk here?
5 Because the Commission needs to know who they're
6 going to see tomorrow.

7 MS. WHITE: Absolutely. Absolutely.

8 COMMISSIONER FORT: I know we don't --
9 aren't part of this process, but we really do need
10 to know who's coming up tomorrow.

11 MS. ELEFANT: Your Honor, I'm sorry to
12 interrupt. May my witness be excused because he
13 actually --

14 CHAIRMAN KANE: Yes.

15 MS. ELEFANT: He does have a flight.

16 CHAIRMAN KANE: Yes.

17 MS. ELEFANT: I'm happy to stay.

18 CHAIRMAN KANE: Yes, excuse your witness.
19 Thank you very much. Good to see you again.

20 (Witness excused.)

21 CHAIRMAN KANE: Tomorrow, in addition to
22 Mr. McGowan, who is here --

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2828

1 MR. LORENZO: Who is here, and we would
2 like to put him on and finish the company's case.

3 CHAIRMAN KANE: Yes.

4 MR. LORENZO: It's sort of been trickling
5 out.

6 CHAIRMAN KANE: We did that just to
7 accommodate schedules.

8 Well, besides Mr. McGowan, we do want to
9 start with, if we can, tomorrow, we've got
10 Mr. Mara, Smith, Comings, Shane, Gorman, Chang and
11 Chambers.

12 Anyone aware that any of those people, if
13 we -- they were to be held over or to not finish
14 tomorrow, would not be available on Wednesday?

15 Mr. Coyle?

16 MR. COYLE: Yes, ma'am. Mr. Chambers and
17 Mr. Shane are not going to be available on
18 Wednesday. I don't know about Chang and Comings.
19 I think I could probably -- if I can find a hotel
20 for them, I can probably pay them to stick around.

21 Chambers and Shane have unalterable other
22 scheduling commitments, I'm afraid.

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2829

1 CHAIRMAN KANE: All right.

2 Mara, Smith. Any others?

3 Ms. White, did you have --

4 MS. WHITE: Mr. Gorman is not available
5 on the 22nd.

6 CHAIRMAN KANE: Okay. Not available on
7 the 22nd.

8 MS. WHITE: That's --

9 CHAIRMAN KANE: Well, according to what
10 we have, here is an estimate of only about half an
11 hour for each of those three, who have been
12 mentioned, plus any questions that the Commission
13 may have.

14 So I'm going to suggest we start -- that
15 Mara, Smith and Comings -- and you're going to
16 check on Chang, if we had to hold over -- because
17 we still have three other witnesses on Wednesday
18 also.

19 I don't want to interrupt Mr. McGowan.

20 MR. LORENZO: I would rather, you know,
21 we start with -- would suggest we start with
22 Mr. McGowan and then take the witnesses who are

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2830

1 unavailable on Wednesday, Chambers and Shane, and
2 maybe Comings or --

3 CHAIRMAN KANE: And Gorman, yes.

4 MR. LORENZO: And move them up so that --

5 CHAIRMAN KANE: Move them up --

6 MR. LORENZO: Right after --

7 CHAIRMAN KANE: Yeah, we'll start with
8 Mr. McGowan tomorrow, so we can -- we've got down
9 three-and-a-half hours for him, plus some
10 Commission; we should be able, even with a short
11 lunch, be able to get him finished and then get to
12 these other three witnesses before the end of the
13 day. All right?

14 So if you will let Witnesses Mara, Smith,
15 Comings and Chang know that one or another of
16 those may need to be available on Wednesday.

17 Okay? Thank you. That done, we will all
18 hopefully get home before these heavy windstorms
19 and rain starts. Thank you. We are adjourned
20 until 10:00 tomorrow morning.

21 (Whereupon, at 6:41 p.m., the above
22 proceedings were adjourned.)

Capital Reporting Company
Formal Case No. 1119 04-20-2015

2831

1 CERTIFICATE OF COURT REPORTER

2 I, DENISE M. BRUNET, Certified Court
3 Reporter, do hereby certify that the statements
4 and testimony that appear in the foregoing
5 transcript are the statements and testimony taken
6 by me in shorthand and thereafter reduced to
7 computerized transcription by me or under my
8 direction; do hereby certify that the foregoing
9 transcript is a true and correct record of the
10 statements and testimony given; that I am neither
11 counsel for, related to, nor am employed by any of
12 the parties to the action; and further, that I am
13 not a relative of employee of any attorney or
14 counsel employed by the parties thereto, nor
15 financially or otherwise interested in the outcome
16 of the action.

17 *Denise M. Brunet*
18



Denise M. Brunet
Certified Court Reporter

Capital Reporting Company
Formal Case No. 1119 04-20-2015

Page 1

<u>\$</u>	2816:14	2668:19 2674:5	12:32 2584:18
\$1.08 2623:4	1,048,000 2705:22	2676:3,22	1-20 2629:14
\$1.6 2583:7	1,048,402 2705:1	2680:4,6 2708:7	1200 2476:4
\$100 2704:20	1.1 2574:12	2724:2 2727:3	1-21 2629:16
2705:6	2581:7 2583:13	2731:22 2735:17	2631:21
\$128 2715:10	10 2478:13	2736:3	2632:9,11
\$169 2745:17	2511:20 2514:16	110 2629:12	13 2478:16 2537:3
2746:11	2528:6 2544:18	2630:3,6	2640:7 2673:10
\$180 2645:15	2570:11,13	2631:14	2685:20,22
\$2 2553:20	2586:7,14	1103 2533:17	2687:16 2690:9
2583:14	2602:6 2640:7	2627:20 2628:16	2724:2 2725:17
\$2.37 2790:16,18	2670:9,10	2660:19	2727:3 2734:13
\$2.38 2788:5	2674:16,21	2685:8,14	2735:18 2736:5
\$2.67 2790:10	2679:7,9	2687:9 2726:3	2763:1 2774:2
\$3 2553:22	2700:17 2701:21	11075 2667:9	2787:1 2790:6
\$3.4 2580:15	2724:20 2735:19	111 2629:14	2792:21
\$3.5 2568:2	2736:4 2742:7	2630:1,3,7,8	1-3 2662:2,13
2572:18	2779:13,22	2631:12,14,17,1	13-115 2690:13
\$5 2749:17 2750:9	10/26/07 2703:16	9,20	1333 2473:15
\$52 2672:18	10:00 2570:16	1119 2473:5	13th 2796:11
2673:5 2675:9	2830:20	2480:4	14 2478:17
\$6.8 2750:1,8	10:03 2473:13	112 2629:16	2586:15,18
\$700 2746:13	2480:7	2630:1,3,13	2681:14 2691:22
\$800 2600:6	100 2526:6,14	2631:12,17	2693:4,6
\$95 2703:9,10	2701:2 2709:20	2632:3,13	2703:22
2704:2,18	1000 2823:6,13	2654:17	1-4 2686:6
2705:1 2706:5	1050 2475:4	113 2526:6	1-4A 2686:20
	106 2685:6,7	2597:18 2598:4	2690:10
	108 2478:4	1133 2474:17	1-4B 2687:4
	2548:12 2549:9	114 2618:3	1-4F 2688:4
	2561:11	115 2623:13	14th 2703:15
<u>1</u>	2654:15,22	116 2478:4 2627:4	15 2478:18
1 2535:4 2575:10	1087 2660:18	2654:16 2655:1	2566:14
2576:6 2583:19	109 2570:21	12 2478:15	2569:2,9
2594:11,13	2576:7	2523:20 2583:20	2570:1,11,13
2664:15	2585:1,20	2668:19 2675:2	2653:6 2667:8
2676:9,10	10th 2768:22	2682:1,3	2687:17 2691:22
2680:11 2682:19	11 2478:14	2691:8,9,14	2695:12,14
2684:20 2704:16	2502:16 2538:12	2699:10 2724:2	2698:14
2735:18 2736:5		2727:2,4 2742:8	
2763:2 2815:13			

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Capital Reporting Company
Formal Case No. 1119 04-20-2015

Page 2

2701:1,21 2714:20 2719:15 2734:3 2760:6,16 2761:2 2779:13 2787:22 2811:14 15th 2474:17 2475:19 15-year 2810:5 16 2478:19 2564:17 2565:12 2583:21 2586:10,15,16,1 8 2589:22 2590:6 2617:6,9,13 2667:8 2691:2,7 2701:12,17 2708:7 2730:12,15 2734:12 1615 2474:12 169 2746:5 17 2479:4 2526:13,19,20 2527:10 2544:19 2586:10,15,18 2589:22 2590:6 2609:21 2622:9 2685:7 2695:2 2696:19 2734:21 2763:17 2764:14,15,16 2772:22 2773:3 1701 2474:8 1730 2475:9 17424 2533:18 2757:15 17530 2668:2 17790 2482:2	2658:11 1797 2741:16 17th 2475:4 2482:3,9 2496:16,18 2497:6 2500:18,22 2501:8 2504:3 2505:7 2508:4 2511:3 2754:9 18 2479:5 2511:4 2671:7 2688:14 2695:2 2696:20 2701:22 2717:4 2734:13 2735:9 2741:16 2768:14,16 2772:22 2773:3 2781:17 1-8 2693:11 2696:6 2697:5 18th 2496:9,12 19 2479:8 2576:18 2577:10 2579:12 2633:19,22 2634:1 2667:22 2671:12 2683:17 2715:15 2717:5 2734:5 2777:1,8 2783:4,6 2803:13 2825:9,13 1-9 2548:2 2695:20 190 2745:22 19103 2474:8 1935 2602:7 1996 2664:16 2665:21 19th 2476:4	2496:18 2497:3,13 2502:15 2526:10 1A 2775:8 2824:21 2825:5 1A)-1 2824:21 2825:5 1A)-2 2824:22 1A)-3 2824:22 2825:6 1s 2682:20 1st 2789:18 <hr/> 2 <hr/> 2 2498:2 2523:20 2526:1 2575:7,8,10 2660:16 2662:20 2666:16 2673:9 2676:9 2705:22 2763:2 2797:3 2815:13 2.68 2748:9 2750:10 2.7 2580:19 2:00 2655:2 2:01 2655:11 20 2473:10 2479:9 2511:5 2513:18 2514:8 2545:15 2546:4 2566:14 2569:2,9 2570:2 2586:7,14 2677:3 2688:19 2692:6 2717:9 2727:18 2734:5 2761:2 2779:14,22 2785:3,5 2796:12 2805:5	20/20 2607:4 20001 2474:5 2475:15 20005 2473:16 2474:18 2475:19 2001 2706:21 2821:14 2002 2602:3 2667:14 2706:21 2821:14 2003 2748:20 20036 2474:13 2475:5,9 2476:5 20037 2476:9 2007 2703:16 2008 2691:17 2010 2707:4 2727:8 2011 2790:4,5,9,13 2012 2536:15 2726:14 2789:20,22 2790:1,15 2013 2680:11 2726:7 2745:2,14,17 2746:6 2750:20 2787:20 2788:13,20,22 2789:18 2790:1 2014 2496:9,12 2526:10 2565:5 2583:15 2627:21 2628:17 2657:8 2727:11 2731:19 2745:5,12,15 2750:21 2751:2 2015 2473:10 2482:3,9
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Capital Reporting Company
Formal Case No. 1119 04-20-2015

Page 3

2497:6,7 2500:18 2576:17 2577:2,9 2580:5 2583:8,20 2732:3 2748:9 2754:9 2768:22 2787:21 2796:11,12 2016 2577:13 2580:7 2583:20 2812:19 2017 2580:8 2583:21 2755:13 2019 2755:22 202 2474:5,14,18 2475:6,10,15,20 2476:5,10 20-day 2514:1 20th 2480:7 2732:3 21 2479:10 2540:11 2661:13 2662:21 2663:9 2787:11,13 2-1/2 2748:7 2-10 2494:1 2522:21 2134 2743:22 215 2474:9 22 2479:11 2523:20 2539:12 2540:3 2679:3 2735:9 2742:7 2789:10,13 2200 2476:8 22nd 2829:5,7 23 2479:12 2671:17 2680:1 2688:21	2789:10,13 2791:14 2-3 2629:18 2632:2,12 23rd 2726:14 24 2479:13 2681:20 2695:2 2696:18 2796:4,6 2481 2477:4 2491 2477:5 2494 2478:2 25 2479:14 2545:15 2546:5 2586:7,14 2589:22 2590:6 2617:6 2621:18 2685:18 2688:8 2690:4 2711:22 2714:20 2725:15 2801:6,8 2804:17 2825:10,13 251 2623:9 2536 2478:3 25644 2477:6 25th 2659:1 26 2536:17 2544:18,21 2671:6 2693:1 2706:19 2652 2477:7 2654 2478:2,3,4,8 2658 2477:9 2478:11 2659 2477:10 2661 2478:12 2679 2478:13	2680 2478:14 2682 2478:15 2685 2478:16 2693 2478:17 2695 2478:18 27 2537:21 2608:14 2609:21 2617:6,9,13 2695:9 2719:14 2701 2478:19 2719 2477:11 2730 2478:11,12,13,1 4,15,16,17,18,19 2731 2477:13 2733 2477:14 2478:21 2479:3 2759 2478:21 2479:3 2761 2477:16 2762 2477:17 2764 2479:4 2768 2479:5 2772 2479:7 2773 2479:4,5 2774 2477:19 2776 2477:20 2783 2479:8 2785 2479:9 2787 2479:10 2789 2479:12 2796 2479:13 28 2542:16 2543:11 2590:12 2608:14 2609:21 2687:11 2699:6	2701:11 2725:21 2801 2479:14 2825 2479:8,9,10,12,1 3,14 289-8400 2475:10 29 2511:22 2513:10 2538:22 2744:15,17 296-3390 2475:6 297-6100 2476:10 2A 2478:10 2658:16,20 2730:5,9 2A)-1 2478:10 2658:17,20 2730:5,9 2A)-5 2478:11 2658:17,20 2730:6,9 2C 2479:2 2731:22 2733:6,10 2759:18,21 2C)-1 2479:2 2733:7,10 2759:18,21 2C)-2 2479:3 2733:8,11 2759:18,21 2K 2478:5 2482:6 2544:18 2586:6,13 2589:22 2608:13 2633:18,21,22 2653:21 2654:3 2K)-1 2478:6 2482:6 2502:11,19 2503:4 2597:17
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Capital Reporting Company
Formal Case No. 1119 04-20-2015

Page 4

2653:21 2654:4 2K)-11 2526:9,14 2K)-12 2478:6 2482:7 2653:21 2654:4 2K)-7 2497:12,14,17 2503:2,3,4,6 2508:10 2606:17 2K)-8 2500:2,12 2587:14,20,22 2589:10 2K)-9 2528:1,9 2531:8,9 <hr/> 3 <hr/> 3 2500:17,21 2501:7 2505:6 2511:4,20 2562:18 2564:8 2565:4,13 2634:2 2637:15 2663:9 2669:19 2670:13 2683:6,19 2684:20 2687:14 2690:10 2691:4,17 2735:9 2765:18 2774:1 2792:9 3.5 2573:8 3:00 2655:9 3:03 2656:2,4 3:04 2656:4 30 2542:6 2674:15 2763:15 2764:11,12 2804:18 300 2474:4 2475:5 2476:4 2702:6	309 2533:18 30th 2565:4 2787:21 31 2541:1 2678:9,14 2681:14 2768:12 3-11 2679:4 3-12 2682:7 31st 2745:2,14,16 2746:6 32 2598:9 2683:5 2687:13 2756:13 2784:6 33 2707:1 2756:13 2783:3,18 34 2785:3 35 2482:22 2483:11 2707:6 2801:5 36 2731:16 2796:2 37 2622:10 38 2535:2 382 2746:20 2750:6 39 2789:8,16,17 3K 2478:7 2482:8 2586:10,15,17 2617:5 2653:21 2654:4 3K)-1 2478:7 2482:8 2653:22 2654:4 3K)-2 2478:8 2482:9 2653:22 2654:5 3rd 2731:19 <hr/> 4 <hr/>	4 2500:21 2547:7,10 2583:19 2669:19 2798:2 40 2547:9 2711:13 2789:8,16 2790:14 2803:19 41 2787:9 42 2535:1 2537:3 2577:13 2579:13 2688:5 2726:9 44 2535:1 441 2475:14 45 2760:18 4654 2731:13 467-6370 2474:14 48 2528:15,18,20 2529:7,11 2530:5,7,9,11 2531:1,9 2533:22 2534:19 4-8 2510:13,18 2511:3,19 49 2534:19 49.19 2533:17 2534:1 4A)-2 2510:21 2513:12 4B 2686:20 4F 2686:21 4K 2478:8 2482:11 2653:22 2654:5 4K)-1 2478:8 2482:11 2501:1 2504:2 2505:8 2506:12,17,18 2508:3,6,13 2511:15 2513:11	2653:5,22 2654:5 4th 2475:14 2774:4 <hr/> 5 <hr/> 5 2507:1 2662:20 2667:12 2683:18 2689:11 2741:16 2754:8 2769:14 5.5 2558:1 5:00 2760:3 5:21 2761:6 50 2715:10 2804:18,19 500 2474:17 53 2598:9 55 2805:16 2806:7 57 2514:17,19,22 2515:5 58 2689:7,11 2720:18 <hr/> 6 <hr/> 6 2500:21 2501:7 2524:5 2608:14 2609:21 2634:3 2667:5 2681:1,8 2683:18 6.0 2558:1 6:00 2760:21 6:30 2760:12 6:41 2830:21 60 2653:13 600-South 2475:14 61 2528:5,10 2688:7
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Capital Reporting Company
Formal Case No. 1119 04-20-2015
Page 5

618-5000 2474:5 62 2493:4 626-6260 2476:5 67 2653:13 68 2653:6 682-3500 2475:20 <hr/> 7 <hr/> 7 2514:15 2524:6 2528:5 2659:11,14 2667:21 2709:21 2734:21 2785:14,16 70 2786:14 70-some 2516:18 71 2643:4 7-17 2597:20 72 2516:18 2519:2,11,18,19, 22 2524:18 2604:13 2611:5 2650:3 722,000 2706:2 727-3071 2474:18 727-6211 2475:15 73 2492:7 2510:11 2514:16 75 2786:15 792 2581:9 <hr/> 8 <hr/> 8 2501:7 2617:6 2621:18 2668:18 2674:16,21 2680:17 2681:6 2711:14 80 2786:21	800 2474:13 2583:11 8-101 2618:7 84 2784:16 84698 2503:15 2504:5 860 2577:4,10 2579:12,13 89 2493:21 2494:15 2522:15 8th 2743:21 <hr/> 9 <hr/> 9 2478:12 2502:16 2505:6 2653:6 2661:16,18 2662:1 2669:18 2674:7 2709:22 2711:14,17 2730:12,14 2734:21 2735:19 2736:4 90 2492:5 2510:10 2514:16 901 2474:4 2475:19 91 2493:2,8 9-1 2547:15 9-14 2623:15 92 2620:15,17 2622:6,9 9-22 2627:5 9271 2503:17 9286 2688:12 2726:12 9311 2536:12 9361 2495:16 95 2708:7 2715:10	963-5000 2474:9 98 2478:2 2494:2,4 2522:18 2654:8,11 99 2478:3 2526:6 2536:18,20,21 2654:8,11 2659:10,14 2683:11,13 9th 2726:7 <hr/> A <hr/> A)-1 2478:9 2658:14,19 2730:8 A)-45 2478:10 2658:14,20 2730:5,9 a.m 2473:13 2480:7 abbreviation 2572:8 2576:20 abeyance 2826:7 ability 2485:7 2499:2,5,8,14,21 2523:1 2615:17 2651:7 2677:7 2688:20 able 2485:6 2522:5 2567:19 2614:13 2629:19 2644:22 2650:18 2677:9 2712:21 2755:12,21 2760:21 2826:8 2830:10,11 above-captioned 2473:13 abreast 2495:19	absence 2483:13 2604:4,10,11 2610:12,14 2668:13 absolutely 2599:16 2827:7 abstract 2625:12 AC 2817:21 accept 2496:21 2503:20 2533:16,19 2548:9 2570:3 2577:4 2579:9 2623:3 2631:6 2680:9 2681:10 2694:3 2698:2 2704:17 2705:2 2741:13 2746:12 2819:20 acceptable 2684:6 accepted 2527:2,14 2648:17 access 2483:6 2485:4 2496:3 2498:3,12 2499:5 2513:16 2519:5 2622:1 accessible 2512:17 2513:5 accommodate 2827:2 2828:7 companies 2497:12 2500:3 accompanying 2762:5 accordance 2571:6 2803:16 according 2803:10 2824:3 2829:9
---	---	--	---

Capital Reporting Company
Formal Case No. 1119 04-20-2015

Page 6

account 2677:14 2706:5 2745:22 accountable 2652:2 2711:7 accounting 2578:10,13 2600:18 2601:19,20 2673:2 2742:5,21 2743:1 2744:1 accounts 2578:8 2605:19 accretion 2566:4 2572:6 2574:19 2575:11 2576:6 2583:19 accretive 2569:8 2570:4 2620:5 accuracy 2723:6 2750:13 accurate 2555:1 2698:19 accurately 2689:2 ACE 2512:3 2517:5 2518:9 2557:4 2660:13 achieve 2705:10 2734:3,6,17 2735:2 2736:11,12 2737:2,4,19 2738:1 2739:6,10,11,13, 16,19,20 2740:4,16,21 2741:7 acknowledge 2493:18 2542:2 2617:16 2618:13	2627:13 2742:18 acknowledged 2484:21 acquire 2484:13 acquired 2545:17 2546:16,17 2602:9,17 2607:11 2645:17 2749:5 acquires 2578:8 acquiring 2557:5 acquisition 2480:4 2490:22 2491:1 2501:16 2550:2,8,17 2555:21 2557:11 2568:3 2569:7 2572:15 2574:7 2577:8,16 2588:7 2599:21 2620:4 2621:22 2622:20 2666:20 2706:19 2707:4 2742:10,13,14 2743:18 2747:21 2748:19 across 2675:16 2703:17 2792:6 2794:13 act 2602:7,12 2605:6 2607:18,20 2636:2 2643:18,19 2712:9,15,22 action 2640:1 2771:19 2831:12,16 actions 2522:7 2606:10 2652:3 activities 2517:8	2518:11 activity 2664:18,19 actual 2702:4 2726:17 2727:11 actuality 2583:12 actually 2502:15 2534:16 2555:3 2570:1,7 2574:18 2583:15 2615:21 2617:10 2619:16 2625:1 2631:12 2642:13 2670:22 2724:7 2748:8 2790:21 2791:5,15 2821:14 2824:2 2827:13 add 2507:20 2628:5 2748:13 added 2506:21 2596:6 2700:2 2743:14 adding 2567:15 2591:18 2596:5 addition 2505:12,13 2640:8 2644:17 2701:1 2705:22 2733:4 2827:21 additional 2483:1 2484:14 2486:8 2590:7 2591:18 2592:10 2725:6 2794:5 2799:14 2817:19 additions 2732:10 address 2504:1 2626:10 2678:2 2731:12 2742:6	2761:20 2773:19 addressed 2489:19,20 2505:2 2606:14 2735:13 addresses 2500:9 addressing 2504:22 2735:20 adds 2596:6 2760:18 adequate 2483:7 2537:13 2594:6,8,15 2606:5 adequately 2595:12 2596:17 adjourned 2830:19,22 adjust 2618:16 adjustments 2743:1 2755:1 administer 2625:9 2652:6 administered 2635:17 administration 2634:13,16 2635:14 2636:5,8,13 2640:10,12,15,1 8,21 2651:16 2656:16 administrative 2525:9 administrator 2652:5 admission 2629:11 2653:20 2654:15 2730:4
---	---	---	---

(866) 448 - DEPO

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Capital Reporting Company
Formal Case No. 1119 04-20-2015

Page 7

2759:16 2772:22 admit 2608:3 admitted 2492:7 2730:7,13 2772:15,17 2787:10 2825:4 adopt 2710:20 2762:11 adopted 2511:6 advance 2603:8,13 2621:6 2821:16 2826:9 advancing 2593:14 advantage 2747:9 adverse 2562:11 2809:4 2811:5 advice 2609:9 Advisory 2481:22 2495:18 advocated 2776:17 advocates 2488:21 affect 2488:6 2562:12 2648:11 2718:10,22 affected 2517:7 2518:10 2537:16,18 2538:6,8 2540:6 2542:10,12,20 affecting 2487:15 affiliate 2498:15,20 2501:3 2508:22 2509:2 2510:6 2649:4,7,10,16,2 2 2650:7,9 2651:3,11,13	2782:5 affiliated 2797:7 affiliates 2488:3 2651:1 2660:13 2686:11 2805:18,19 affirmative 2613:8 2741:5 afford 2677:9 affordability 2677:3,13 Affordable 2712:9,15 affords 2566:10,18 afraid 2625:20 2828:22 aft 2577:22 afternoon 2656:1 2658:5,6 2731:6 2733:18,19 2761:12,17,18 2762:21,22 2773:9 2774:22 2776:9,14,15 after-tax 2580:18,19 after-the-fact 2601:19 against 2529:13 age 2606:4 agencies 2486:19 2495:20 2502:8 2503:7,9,10 2529:15 2530:15 2547:1 2560:3 2563:16 2767:13 agency 2536:7 2545:1	2557:14,16 2558:10,12 2562:15 2635:18 2638:5 ages 2495:16,17 aggregate 2516:15,19 aggressive 2697:13 2721:13 agley 2577:22 ago 2495:16,17 2564:13 2614:11 2631:5 2664:16 2702:19 2713:22 2724:19 agreed 2522:6 2528:18 2530:5 2728:6 2780:18 2821:12 agreement 2525:17 2534:4 2563:8,16,21 2612:18 2753:2,21 2784:17 2785:19 2797:18 2798:22 2821:19 2823:14 agreements 2559:14 2776:19 2779:7,10 2809:1 2810:16 ahead 2774:13 al 2480:5 Alabama 2574:3 alarm 2607:21 alarms 2607:10 Allegheny 2707:4 Allen 2475:8 alleviate 2756:5	2758:11 allocated 2675:2,10 2677:16,21 2714:19 2742:12 2756:17 2823:21 allocates 2715:11 allocation 2581:10 2675:15 2677:20 2678:5 2714:8,16 2738:9 2823:11 2824:4 allow 2484:4 2567:16 2777:9 2802:16 2817:21 allowed 2535:5 2618:17 2645:7 2665:11 2666:19 2728:1 2749:4 allows 2748:21 alluded 2670:10 2700:19 2750:10 alone 2663:22 already 2487:8 2492:7 2514:13 2517:11 2522:6 2532:7 2560:16 2596:7 2630:16 2656:12 2741:14,16,17 2753:12 alter 2777:22 alternative 2684:7 2735:22 2736:10 2813:6,12 2814:1,11 alternatives 2798:6 am 2493:11
--	--	---	--

(866) 448 - DEPO

www.CapitalReportingCompany.com © 2015

Capital Reporting Company
Formal Case No. 1119 04-20-2015
Page 8

2495:14 2496:7,11 2500:11 2506:10 2515:10 2523:12 2527:4,17 2528:8,19 2529:3 2530:5 2550:21 2576:9 2589:8 2590:10 2593:10 2595:13 2597:12 2619:4,5 2627:19 2660:11 2661:5 2662:1 2682:6,19 2692:17 2704:4 2705:21 2715:2 2728:1 2736:3 2737:7 2762:1 2765:20 2779:8 2785:10 2831:10,11,12 amazed 2593:10 amended 2775:9 2784:8 2787:1 2824:20 amending 2699:20 2820:3 amendment 2489:17 America 2571:15 2620:10 among 2505:3 2519:18,19 2529:12 2574:21 2650:3 2715:12 amortization 2736:14,21 2737:2 2738:20 2740:15 2741:19 amortized 2736:12 2739:13	amortizing 2737:18 2739:5 2740:7 amount 2499:16 2553:16 2566:21 2573:7,10,13,14 2574:11,15 2577:18 2581:6 2594:11 2595:17 2628:4 2675:14 2702:2 2719:1 2745:20 2758:9 2790:20 2791:4,7,15 2809:22 amplification 2495:10 amplify 2495:8,9 analyses 2723:21 analysis 2576:6 2578:21 2672:3 2702:14 2723:13 2794:14 2822:11 2823:12 analyst 2487:22 2488:1 2490:16 2498:16 2499:12 2535:7 2548:8 2571:16 2575:20 2576:3 2577:15,19 2578:2,20 2580:14 2583:6,10,17 2598:22 2599:2 2607:6 2620:10 analysts 2548:5 2551:20 2599:1,6 analyst's 2566:2 2620:7	and/or 2484:18 ANN 2473:18 announced 2502:4 2567:10 2573:6 announcement 2546:12 2547:4 2549:10 2569:5,6 2703:15 2751:1 annual 2664:1 2746:20 2749:4 answer 2480:21 2507:6 2517:4 2520:9 2522:11,13 2552:21 2558:19 2595:14 2597:5 2624:22 2627:10 2632:1,6 2634:18 2647:5 2656:20 2671:7 2674:6 2689:10 2691:3,16,22 2697:4 2701:13 2758:1 answered 2517:11,17,22 2518:2 2530:3 2682:13 2768:6 answering 2613:7 2792:15 answers 2507:15 anticipate 2755:21 2760:14 anticipated 2638:16 2705:7 2750:21 anticipates 2755:11 2769:21 anticipation	2755:17 anyone 2612:21 2753:19,20 2774:18 2828:12 anyone's 2625:7 anything 2490:2 2506:8 2521:9,10 2592:22 2593:1,4 2594:5,21 2635:9 2650:12,18,19 2674:2 2712:22 2743:11 2750:5 2799:2 2800:6 2804:19 anyway 2578:1 2808:5 anywhere 2617:18 2714:20 2715:10 AOBA 2475:2 2478:2,3 2482:21 2486:6 2492:5,7 2493:2,4,7,21,22 2494:2,4 2510:9,11,12,18 2511:3,19 2514:16 2522:14,18,21 2536:10,16,18,21 2628:1,6 2654:7,11 2802:6 apologies 2690:19 2700:4 apologize 2699:7 2737:11,14 2738:11 2790:4 Apparently
--	--	--	--

Capital Reporting Company
Formal Case No. 1119 04-20-2015

Page 9

2557:3,4 appear 2500:15 2698:18 2756:12 2831:4 appearances 2474:22 2475:1,22 2476:1 2660:12 appeared 2660:22 appearing 2776:11 2784:5 appears 2555:10 2576:6 2626:4 2685:16 2706:22 2788:4 appended 2775:12 applicable 2527:2,15,22 2530:22 2758:2 2815:18 applicants 2474:2 2478:5,12,13,14, 15,16,17,18,19 2479:4,5,8,9,10, 11,13,14 2480:16 2481:7 2482:22 2487:1 2488:18 2493:22 2500:8 2501:1,10 2504:7,19 2506:20,22 2507:12 2510:12,18 2514:2 2522:6 2528:18 2530:5,21 2531:4,10 2532:2,5 2533:2,8 2535:18 2544:18 2562:21 2586:6	2587:7 2588:2 2597:19 2608:22 2609:5 2610:21 2612:13,22 2616:16,20 2617:5 2618:6 2623:14 2629:13,15,17 2646:16 2648:10,19 2649:13 2653:20 2654:3 2660:4 2661:12,16,18 2671:15 2674:8 2679:2,7,9,22 2680:3,6 2681:19 2682:1,3 2685:17,20,22 2690:9 2693:3,6 2695:9,11,14 2698:14 2701:10,12,17 2710:1 2711:16 2719:13,14 2725:15,17 2730:12,14 2735:14,20,21 2740:14,19 2742:19 2747:1 2754:7 2760:10 2763:15,17 2764:1,2,10,14,1 6 2768:11,14,16 2772:21,22 2773:2 2776:11 2783:3,4,6,16 2785:2,5 2787:9,13 2789:8,12 2792:21 2793:4 2795:22 2796:6 2801:5,8 2825:9,12	application 2473:4 2489:16 2496:12 2507:2 2532:8 2639:11,13 2646:17,20 2648:11 2671:1 2709:3 2734:14 2820:6 applications 2721:21 applied 2667:4 2692:2 apply 2619:15 2650:13 2670:18 2757:8 2758:15 2781:16 appointed 2634:10 approach 2489:15 2626:3 2802:16,18 2804:11,17,21 2823:14 approaches 2823:3 appropriate 2512:11 2533:22 2535:9 2618:16 2628:10 2636:1,2 2646:6,10 2738:7 2740:2,8 2741:20 appropriately 2635:21 approval 2473:6 2503:16 2515:8,11,16,17 2517:1 2518:17 2520:5,13,20 2521:19 2522:7	2675:3 2678:11 2780:11 2782:2 2784:12 approve 2589:17 2615:17,19 2778:8 2780:5 2819:13 approved 2808:18 approving 2589:11 approximately 2573:7 2595:5 2623:8 April 2473:10 2480:7 2565:4 2628:17 2657:8 2743:21 2754:9 2768:22 2789:18 arbitraging 2812:11 arbitrary 2616:11,12 area 2648:8 2683:3 2684:19 2818:10 2820:16 areas 2562:14 2709:15 2711:4 aren't 2687:5 2749:3 2800:10 2827:9 argue 2711:1 argument 2489:22 2490:4 2628:12 2633:3 2720:6 arguments 2619:7 2698:6 Arick 2474:15 2731:7 arise 2671:16
---	---	--	--

(866) 448 - DEPO

www.CapitalReportingCompany.com © 2015

Capital Reporting Company
Formal Case No. 1119 04-20-2015
Page 10

2722:3 arithmetic 2705:1 arrangements 2778:1 article 2662:9,15,18,19 2663:9 2664:14 2665:18,19 articles 2698:15,19 2719:19 aside 2613:19 aspects 2504:6 2587:1 2648:21 2650:10 2696:10 2697:8 asserted 2671:14 assessment 2503:22 2508:7 asset 2574:6 2575:1,4 2581:14 2582:21 2600:22 2601:7 2745:21 2746:7 assets 2566:11 2573:1,15,17 2581:22 2602:14,17,18 2743:17 2749:5 Assistant 2475:13 assisting 2799:5,7 associated 2545:8 2556:3 2591:2 2603:10 2644:20 2662:9 2664:8,10 2670:4 2672:15 2717:7 2722:16 2723:18 2777:14 2779:10	assume 2519:20 2592:16,17 2749:19 2774:15 2785:8 assumed 2562:5,8,10 2748:14,21 Assumes 2622:19 assuming 2519:22 2601:3 assumption 2550:9 assumptions 2622:18 2801:13 assurance 2627:2 assurances 2519:14 2671:12 assure 2814:10 assuring 2553:10 asynchronous 2602:18 2603:1 Atlantic 2488:3 2660:13 2781:8,19 attach 2630:11,19 2778:10 attached 2632:21 2686:14 2690:6 2702:3 2824:21 attachment 2510:13,17 2511:19 2512:1 2548:22 2549:4 2571:4,8 2660:5 2662:13 2687:4 2688:4 2690:10 2699:18 2700:8 2701:15 2702:8 2765:1	attachments 2548:1,5 2549:2 2686:20 2698:13,18 2702:5 attempts 2722:2 attention 2514:17 2528:5 2560:17 2576:2 2598:8 2678:12 2747:2 2785:14 2787:22 attorney 2475:13 2595:8 2651:12 2831:13 attorneys 2660:3 attributed 2502:1 August 2726:7 authenticity 2654:20 author 2623:15 authored 2698:15,20 authoritative 2502:3 authorities 2647:6 2651:6 authority 2514:14 2517:1 2518:17 2520:5 2522:10 2647:8,13,17 2648:7 2651:5 2810:22 2818:5 2819:9 AUTHORIZATI ON 2473:6 authorized 2512:3 automatic 2609:16,18 available 2480:20	2484:15 2485:11,14 2491:11 2496:5 2509:5 2514:5 2679:19 2682:15 2726:18 2733:13 2760:11 2762:14 2817:20 2826:21 2828:14,17 2829:4,6 2830:16 Avaya 2599:21 Avenue 2474:4 2475:9 2476:8 average 2530:11 2706:15 2723:2 2788:5 avoid 2509:8,17 2605:5 2606:7 2607:19 2613:14,20 2614:3 2795:15 avoided 2509:22 2614:9 avoids 2508:13 aware 2521:3 2522:12 2534:12 2547:19 2548:1 2595:22 2602:13 2618:21 2619:1,4,5,9 2623:20 2627:14 2628:19 2652:14 2682:9,13 2702:17 2713:10 2714:17 2715:3,8 2736:8 2749:1,7 2750:16 2810:21 2811:6 2812:16 2814:21 2828:12 awareness
---	--	---	---

Capital Reporting Company
Formal Case No. 1119 04-20-2015
Page 11

2716:16 away 2486:15 2544:10 2552:9 2666:12 2738:14 awkward 2489:12 2525:1 <hr/> B <hr/> BAA-1 2767:17 background 2578:10 bad 2626:11 baffled 2625:2,20 balance 2600:12,19,22 2601:1 2670:6 2729:7 2745:1,3,7,12 2746:9,18 ballpark 2722:14 2745:13 Baltimore 2486:3 2538:13 2588:20 2589:3,5 2592:6 2632:19 ban 2488:21 2489:4 bank 2571:15 2605:19 2620:10 banking 2637:13 bankrupt 2508:21 2596:19 2597:1 2639:15 bankruptcies 2641:18 bankruptcy 2498:15 2508:18,20 2509:1,8,12,18	2510:5 2591:13,17 2595:5 2598:5,21 2599:8,10,11,14, 19 2600:1 2601:11 2603:15 2604:6 2608:9 2639:10,14 2642:21 bankruptcy- remote 2590:15 2610:2 2637:14 bankruptcy- remoteness 2638:12 barrier 2595:16 base 2485:20 2531:21 2538:15 2539:15 2540:14 2541:4 2628:13 baseball 2561:7 2567:14 based 2487:21 2490:17 2525:17 2575:14 2577:13 2578:10 2624:15,18 2689:22 2715:11 2716:4 2723:6,7 2724:13 2750:18 2766:12 baseless 2491:7 basic 2747:14 basically 2532:17 2702:1 2748:17 2780:16 2791:12 2793:22 2796:22 2798:7 2799:11,13 2804:7 2805:4,20	2807:15 2809:11 2812:5 basis 2523:14 2524:14 2552:2 2567:13 2568:11 2596:4 2601:3 2618:12 2621:5 2633:1 2677:21 2745:17 2746:15,16,17 2755:20 2758:11 bearing 2519:2,4 beat 2607:7 beats 2666:6 became 2507:3 2646:8 become 2498:14 2501:11 2507:5,19 2525:1 2562:15 2596:19 2611:7 2619:18 2652:14 2724:11 becoming 2596:21 2597:1 2625:20 2734:16 beg 2600:3 begin 2773:18 beginning 2571:21 2621:18 2670:9 2674:6 2683:19 2700:22 begins 2549:14 2559:19 2671:7,11 2674:6 2678:13,14 2687:10 2688:5 2690:10 2691:4,16	2744:17 behalf 2474:2,10 2475:2,7,11,16 2476:2,6 2532:4 2544:7 2599:15 2731:7,18 2732:2 2775:3,9,10 2776:11 2801:1 behind 2490:4 2606:4 belief 2570:3 2674:12 2685:9 believe 2502:5,22 2506:9 2509:4 2517:5 2518:8,13,14 2520:11,18 2521:17 2530:3 2531:2,12 2533:21 2535:8 2550:15 2554:15 2561:3 2567:8,13 2568:4 2606:16 2618:15 2621:2 2624:19 2625:17 2628:8 2641:10,11,12 2642:2 2646:15 2649:6 2659:15 2662:22 2667:12 2670:5,22 2673:15 2676:9 2677:13 2680:18 2686:19 2687:8 2688:4 2700:18,20 2702:4,6,8 2706:14 2707:9 2709:16 2713:22 2721:2 2726:2 2727:1 2732:4
--	--	--	---

Capital Reporting Company
Formal Case No. 1119 04-20-2015

Page 12

2735:7 2738:8 2742:5,8 2743:8 2744:14 2748:16 2750:22 2751:9 2756:12 2758:2 2763:17 2774:17 2777:7 2778:9 2781:17 2790:16,21 2791:4 2795:12,13 2800:6,7 2804:10 2805:4 2806:4 believed 2794:14 believes 2794:9 bench 2570:8 2656:19 2751:6 2754:7 2755:9,10 benchmarks 2566:21 2567:6 bench's 2752:22 beneficial 2744:6 2811:21 benefit 2522:1 2535:18 2582:5 2613:8,15,17,18 2614:2,3,16 2615:4 2616:9 2666:7 2667:11,17,20 2668:3,10,11 2670:7 2672:16 2721:22 2723:3 2724:8 2725:11 2728:19 2729:9,13 2763:6 2766:2 2767:7,14 2768:3 2769:6,9,21	2770:4,11,19 2771:1,6 2780:19 2818:1 2822:11,13,19 2823:12 benefits 2489:1 2576:14 2626:8 2664:8 2668:15,17,21 2669:15,20,21 2670:6,12,15 2671:14,16,22 2672:13 2689:22 2692:9 2717:6 2722:3,4,10,15 2723:10 2724:12 2725:12 2728:13,14 2729:12,15,21 2738:9 2766:12,18 2767:1,5,7 2769:12 2770:14 2823:22 Berkeley 2689:16 2690:1 2720:20 besides 2828:8 best 2489:8,13,17 2506:16 2520:14,15,21,2 2 2521:20 2732:15 2744:10 best-laid 2577:21 better 2644:7,22 2669:22 2767:15,19 2769:18 2770:19 2819:6 BETTY 2473:18 BGE 2588:21 bid 2795:8	bigger 2765:22 biggest 2815:7 bill 2675:3,12 2714:3,6 2715:6 2718:15 billion 2553:19,20,22 2568:2 2572:18 2573:8 2574:12 2580:15 2581:7,9 2583:7,13,14 2749:17 2750:1,8,9 billion-1 2583:15 binder 2661:10,12 2676:7,8 2679:1 2685:17 2692:21 2695:8 2699:5,16 2764:2 2783:13 binders 2676:5 2783:15 biomass 2815:13 bit 2540:2 2561:6 2563:1 2576:5 2612:18 2634:4 2703:1 2708:8 2724:1,22 2728:9 2729:20 2734:2 2742:5 2744:8 2756:9 2803:21 2805:14 2819:6 black 2724:11 2725:1 2816:15,16,17 board 2515:8,11,12,16 2516:22 2518:18 2520:6 2522:8	2678:19 2679:16 2681:15 2682:11 2684:1 2708:18 2709:14,17 2780:4 Bockius 2474:7 Boggs 2476:3 bond 2534:4 2767:22 2771:14 bondholders 2605:20 2608:1 bonding 2652:9 bonds 2499:14 2771:7,12,15 bonus 2745:5 2751:1 book 2497:14 2526:3 2570:22 2763:22 books 2512:3,14,21 2513:13,17 2514:2,5,12 2544:9,13 2548:18 2625:19 2626:19,21 2751:4 boosted 2771:3 borne 2653:10,14 Boston 2573:19 bottom 2537:6,10 2565:16 2583:19 2598:9 2666:16 2671:5 2677:2 2685:6 2687:14 2706:22 2715:16 2719:17 2720:14 2726:6,12 2765:10
---	--	---	--

(866) 448 - DEPO

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Capital Reporting Company
Formal Case No. 1119 04-20-2015

Page 13

bound 2483:20	2688:22	2610:9,13,15	2749:6,8,10,12,13
box 2565:15	buffer 2593:12	2639:22 2640:11	calculations
2724:11 2725:1	building 2475:18	2641:3 2651:19	2689:20 2704:6
brace 2597:16	2813:4 2821:4	2652:1 2717:12	calculator
Bradford	built 2817:7	2731:12	2689:21 2722:11
2782:14,17	2818:7 2820:2	2757:9,20	2723:1,19
break 2480:3,12	bullet 2571:20,22	2758:3,15	2724:9,14,16,19
2564:2,3 2570:9	2622:16 2692:7	2795:7	Caldwell 2475:12
2584:4,13,15	bundled 2781:10	businesses	2571:15
2646:2	Burcat 2477:18	2488:11 2519:15	2825:16,18
2760:19,20	2773:12,14	2521:7 2537:17	2826:5,10
breakout 2727:15	2774:22	2538:7 2539:7	calendar 2726:16
Brian 2475:12	2775:2,9	2540:7 2543:15	California
2825:18	2776:6,14,16	2557:6 2595:2	2723:14
brief 2741:10	2777:13 2778:18	2601:18	Calvert 2807:15
2784:20	2779:5 2780:3	2605:15,17,18	capable 2621:11
2785:14,17	2783:9 2784:2	2607:13 2608:6	capacity 2559:13
briefly 2576:10	2785:8	button 2534:9	2805:17
bring 2612:13	2786:1,22	buying 2747:7	2806:5,7
2616:20 2630:20	2787:16,18	<hr/>	2809:15 2817:20
2646:17,20	2788:4 2789:15	C	2818:6
2712:7	2790:19 2792:11	C)-1 2478:20	capital
bringing 2647:2	2794:16,21	2731:17 2732:21	2483:2,12,19
2822:20	2795:5,10	2733:2	2484:1,5
broad 2649:16	2796:9 2797:5	2759:17,20	2485:3,12
broader 2662:22	2800:5,21	C)-17 2478:21	2486:2 2487:22
broadly 2576:5	2801:12,18	2731:17 2732:22	2490:18
2823:21 2824:3	2808:13 2824:20	2733:3	2491:2,3
brought 2578:13	B-U-R-C-A-T	2759:18,21	2529:15
2751:16,20	2775:2	CAEA 2712:10	2534:6,15
Bruce 2477:18	burden 2486:9,18	calculate 2546:4	2551:9,18
2773:14	2487:13 2525:9	2558:16 2625:11	2618:16
2775:2,9	Burns 2577:21	calculated	2624:10,11
Brunet 2473:22	business 2534:20	2528:15 2706:5	2627:15
2831:2,19	2539:4,19	calculates 2724:12	2628:8,11,13,14,
bubble 2601:17	2540:7	calculation	21 2688:22
budget 2485:3	2542:11,21	2575:10,13	2721:15 2770:11
budgeting	2555:14,22	2576:7 2577:12	capitalization
	2556:2,4,7,11	2624:12 2625:17	2529:12 2568:13
	2563:7 2567:16	2747:14	2594:6,8,16
	2585:22	2748:4,22	

(866) 448 - DEPO

www.CapitalReportingCompany.com © 2015

Capital Reporting Company
Formal Case No. 1119 04-20-2015

Page 14

capitalized 2595:12 2596:17 2769:18 2770:10 capped 2541:8 captioned 2706:10 CARA 2475:17 card 2536:14 care 2594:15 Carolyn 2476:7,8 2773:10 carried 2600:21 2601:1,2 carries 2486:17 2666:17 carry 2635:6 2713:6 2794:13 carry-forward 2744:20 2745:8,20 2746:7,9 2751:4,11 2754:22 2755:13,22 carry-forwards 2744:9 2746:21 2750:17 case 2473:5 2480:4 2495:16 2496:8 2503:17 2506:6 2519:8 2530:20 2531:18,21 2533:13,17 2536:11 2552:8 2553:5 2554:15 2555:8 2585:9 2592:9 2594:12 2595:18,22 2596:11 2605:3 2612:5 2614:13	2623:20 2627:21 2629:5 2631:7 2639:9 2643:5,11 2660:18 2667:4 2685:8,14 2687:9 2688:12,17 2691:19 2692:7 2696:4 2706:17 2716:6,11,21 2726:3,12 2734:14 2739:16 2740:4 2743:14 2747:16 2748:15 2750:19 2756:11,21,22 2757:14 2758:14 2762:4,12 2767:16 2799:17,21 2802:20,22 2810:19,20 2814:1,19 2819:4 2821:19 2828:2 cases 2490:13 2505:1 2527:2,15 2598:6 2599:4 2619:2,6 2642:3 2643:18 2661:3 2686:10 2740:21 2758:9,11 2799:16 cash 2551:21 2552:1 2556:14 2567:7 2568:9 2573:3 2575:20,21 2622:19 categories 2567:2,3	2581:12 2815:12 category 2556:16 2567:12 2815:5 cause 2525:14 2526:22 2536:2 2545:13,17 2546:16 2560:7 2599:18 causing 2597:1 2611:13 2616:18 2708:20 caution 2721:8 2725:11 cautionary 2606:4 caveat 2729:18 cent 2791:15 Center 2574:2 cents 2566:14 2569:2,9 2570:2 2576:18 2577:10,13 2579:12,13 2583:19,20,21 CEO 2684:2,5,8 CEOs 2683:8 certain 2534:21 2547:19 2566:11 2600:20 2601:5 2671:15 2674:18 2718:18 2722:15 2750:3 2778:9 certainly 2495:17 2520:18 2579:10 2594:12 2599:22 2600:9 2606:2 2672:10 2683:20 2770:6,13 2788:12,19 2792:19 2803:11 2817:14 2818:22	2819:14,18 CERTIFICATE 2831:1 Certified 2831:2,20 certify 2831:3,8 cetera 2571:22 2590:16 2704:15 CFO 2565:22 Chair 2743:21 2787:20 2789:19 2826:14 Chairman 2473:18 2480:2,11,15 2481:3,15 2482:16 2491:12,16 2494:3 2517:13,16,21 2536:19 2543:22 2549:6 2564:20 2565:2,6 2569:19 2570:12,15 2584:5,8,11,17 2621:10 2624:21 2630:22 2631:6,13 2633:5,9,11,13 2646:1,21 2647:21 2648:4,9,16 2649:3,11 2650:16,22 2651:14 2652:16,21 2653:18 2654:1,9,13,21 2655:2,8 2656:3,10,21 2657:3,11,14
--	---	---	--

(866) 448 - DEPO

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Capital Reporting Company
Formal Case No. 1119 04-20-2015

Page 15

2658:18 2659:6,20 2661:17 2676:16 2679:8 2680:5 2682:2 2685:21 2693:5 2695:13 2699:13,22 2700:6,10 2701:16 2707:11,14,16,1 9,22 2711:12,22 2712:14,17,20 2713:4,10,13,19 2714:12,15 2715:3,14,20 2716:12,15,20 2717:3 2718:2,6,10,13,2 0 2719:5,7 2728:3,5,8 2729:3,6,22 2730:7,13,17,21 2733:1,9,14 2738:2,3,12,16 2739:1 2751:18 2752:8,11,14,16 2753:4,7,11,15,1 9 2758:20,22 2759:5,8,10,15,1 9 2760:1,17 2761:5 2762:16 2764:5,7,12,15 2768:15 2772:10,12,16 2773:1,4,7 2774:9,13,17 2776:7 2783:5 2785:4 2787:12 2789:11 2796:5 2801:7 2802:11 2808:13,21 2809:9 2810:14,20 2811:3 2812:16 2813:2,10	2814:2,13,21 2815:11 2816:1,8,17,19 2817:11,16 2818:4 2819:7 2820:3,20 2821:3,7,10,20 2822:2 2824:14,18 2825:4,11,14,17 2826:4,6,12,15,1 7 2827:14,16,18,2 1 2828:3,6 2829:1,6,9 2830:3,5,7 challenged 2677:8 challenges 2722:15 2725:5 challenging 2585:10,16 Chambers 2828:11,16,21 2830:1 chance 2671:9 2680:14 2700:14 2754:11 Chang 2828:10,18 2829:16 2830:15 change 2495:4 2512:19 2513:9 2518:2 2523:9,10 2524:18 2525:16 2533:2 2534:14 2535:17 2586:4 2591:19 2610:9,13,14,18 2612:16 2614:4 2616:2 2617:3 2646:17,20 2647:3,8,9	2650:18 2659:18 2661:7 2684:16 2724:14 2752:1,7 2770:6,21 2771:9 2778:17 2805:22 2806:1 changed 2517:12 2524:16 2528:11 2614:7 2665:2 2770:22 2771:3 2786:13 changes 2500:7 2610:20 2628:9 2648:20 2663:22 2724:13,19 2755:4 changing 2489:9 2614:1,5 2710:8,11 2786:22 characteristics 2541:6 characterization 2617:21 2702:21 2738:5,7 characterize 2689:13 2717:20 2718:3,4,7 characterized 2801:21 charge 2556:15 2557:22 2558:7 2601:7 2756:17 charged 2735:2 charges 2559:9,10 Charles 2681:7 chart 2500:6,14,16 check 2496:20	2533:16,20 2548:9 2554:16 2577:5,6 2584:8 2623:4,7,10 2680:10 2681:10 2683:13 2686:22 2694:4 2698:2 2704:17 2705:3 2736:17 2740:13 2741:13 2743:20 2746:13 2749:15,18 2829:16 checked 2656:7 checking 2503:20 chief 2619:21 choice 2609:3 chose 2714:3,6 chosen 2699:11 CIF 2666:11 2672:16 2674:9,22 2675:6 2677:5,15,20 2678:4,6 2700:20 2729:1,4,14,17 circulated 2775:15 circumstance 2498:19 circumstances 2504:12 2600:20 2640:2 2780:15 cite 2709:12 2756:15 2757:14 2777:2 2795:18 citing 2717:20 2718:21 city 2488:3
--	--	--	---

(866) 448 - DEPO

www.CapitalReportingCompany.com © 2015

Capital Reporting Company
Formal Case No. 1119 04-20-2015

Page 16

2660:13 2781:8,19 2787:20 claim 2692:8 2735:16 claims 2482:21 2486:7 2711:7 clarification 2683:5 2808:15 clarifications 2821:21 clarified 2818:12,22 2819:5 clarify 2760:9 2792:16 2818:11 clarifying 2657:11 class 2714:18 2716:22 classes 2675:17 2714:9 2715:12 2723:4 classify 2793:5 Clean 2712:9,15 clear 2497:2 2508:14 2509:3 2529:1 2659:4 2669:19,21 2692:1 2715:22 2718:14 2728:15 2734:22 2743:16 2791:8 clearly 2795:8 2805:16 client 2564:3 Cliffs 2807:16 close 2504:8,9 2505:5 2513:6 2590:2 2706:2	2771:20 2786:21 closely 2501:19 closer 2763:13 closing 2749:21 2797:10 coal 2573:21 Coalition 2773:11 2775:6 code 2649:15,16 2650:12,15 2651:3,11,13 2746:19 2747:3,12 collectively 2711:2 Columbia 2473:2,15 2475:12 2487:16 2512:22 2513:14,18 2514:3,6,11 2515:17 2517:2,9 2518:12,16 2520:12,15,16,1 9,22 2521:2,21 2544:8 2597:8 2692:19 2710:2 2735:3 2795:2 2807:4,10 2825:19 Columbia's 2535:19 column 2508:5,12 2622:17 2662:21 2663:11,12,15,1 9 2665:9 2703:16,22 2704:21,22 2706:9 combination	2550:8 combined 2556:15 ComEd's 2537:13 comes 2508:2 2563:15 2579:2,6,13 2612:20 2636:5 2667:13 2725:8 comfortable 2529:17 2801:20 coming 2533:6 2552:8 2564:2 2608:6 2758:10,14 2804:14 2806:21 2814:14,15 2820:18 2827:10 Comings 2828:10,18 2829:15 2830:2,15 comment 2487:20 2531:5 2562:9 2569:3 2583:9 2621:12 commentary 2548:5,9,13 2549:10 2550:13,15 2560:15 2571:16 2574:17 2575:6 commented 2531:3,8 comments 2532:3 2565:16 Commerce 2731:14 commercial 2811:10 commission	2473:1,14 2480:20 2484:3 2489:15 2490:2,12 2503:14 2504:5 2506:5 2513:18 2514:3,11 2515:18 2517:3 2518:16 2520:4 2521:4 2522:2,9 2524:8 2525:4,17 2527:3,15,21 2528:16 2529:10,20 2531:15 2534:1,11 2536:1 2584:12 2587:13 2588:5 2589:11,16 2590:13 2597:8,12 2600:16 2603:9,14,18 2609:8,12,22 2610:22 2612:14 2615:16,18 2616:21,22 2619:1,6,9,10,13 2624:5,18 2625:14 2627:15,22 2628:2,7,20 2629:3,14,15 2645:6 2646:11,19 2647:1 2648:18 2649:18 2650:19 2660:18,22 2668:14,16 2669:5,6,15 2670:6 2674:10,12 2675:20 2678:1 2680:12 2685:8
---	--	---	--

(866) 448 - DEPO

www.CapitalReportingCompany.com © 2015

Capital Reporting Company
Formal Case No. 1119 04-20-2015
Page 17

2687:10 2688:12 2690:13 2692:14,17,18,1 9 2700:1 2705:18 2707:22 2710:4,7 2711:6 2713:6 2714:3,5,20 2715:4,7,11 2717:15 2721:8,17 2722:9 2727:5 2728:18 2734:22 2741:19 2751:7 2753:22 2754:8 2755:3 2756:7 2777:12,22 2778:7 2782:4,19 2783:22 2789:2 2798:10 2799:18 2800:8 2802:11 2804:12 2805:21 2807:12,14 2810:22 2811:13 2812:18 2818:18 2819:3,9,11,14 2821:1 2825:21 2827:5 2829:12 2830:10 Commissioner 2473:19,20 2562:19 2563:17 2564:5,22 2633:16,17,22 2634:2,15 2635:13 2636:4,12,17,20 2637:2,5,11,18 2638:1,14,19,22 2639:5 2640:4,20 2641:8,11,13,18 2642:4,10	2643:2 2644:5,9,19 2645:2,8,14,21 2651:15 2652:18,20 2653:2 2656:14 2708:2,6,12,20 2709:6,11,20 2710:13,18 2711:10 2712:2,3 2715:18 2802:12,13 2803:3 2804:1,22 2805:6,10 2806:14 2807:2,8 2808:4,12 2822:1,2,3,22 2823:7,16 2827:4,8 commissioners 2489:7 2491:18 2731:7 2759:11 commissions 2525:5 Commission's 2520:12,19 2521:18 2527:5,19 2530:19 2531:21 2624:16 2627:20 2628:16 2647:17 2656:18 2667:9,13 2668:1 2675:22 2693:14 2694:5,17 2740:6 2743:16 2756:21 2787:19 2803:15 commit 2512:21	2743:10 commitment 2482:22 2483:10,14,22 2486:7,13,14 2487:1,4 2488:10 2489:14,19 2490:16 2495:4 2504:17,21 2510:20 2511:22 2513:10,20 2514:17,19,22 2515:5 2516:12,17 2519:1,4,11,13,1 7 2521:8 2524:18 2525:6,11 2526:19 2528:5,10 2530:22 2531:2,4,7,11,20 ,22 2532:4,6,12 2533:2,3 2534:5,8 2535:15 2609:4 2649:2 2683:20 2744:5,7 2784:16 2785:17 commitments 2485:5 2488:7,9 2489:10,11 2498:17 2500:8 2501:2,4 2502:18 2505:8 2511:6,13,15 2516:5,9,16,18,2 0 2518:22 2519:3,13 2524:19,22 2525:2,14,15 2532:1,2,7,9,10, 14,20,22 2534:2	2604:13 2611:5,6 2617:2 2642:5,12,13 2644:4,6,12,18 2650:4,14,15 2711:16 2742:20 2743:12,15 2766:3 2826:22 2828:22 committed 2483:20 committing 2490:17 2535:21 common 2526:22 2527:1,14 2528:11,12,14 2530:11 2531:20 2533:12,21 2553:20,22 2554:21 2605:7,9 Commonwealth 2486:4 2537:8 communication 2497:1 companies 2488:3 2504:13 2563:10 2566:22 2567:6 2578:7 2579:3,14 2592:3 2593:7,12,21 2602:8 2607:17 2610:9 2611:17 2619:3 2634:19 2635:10,15 2637:1,6 2640:16,19 2641:2 2665:10 2682:21 2683:1,2 2701:6 2708:15 2747:8 2754:21 2755:2
---	---	--	---

Capital Reporting Company
Formal Case No. 1119 04-20-2015

Page 18

2780:10 2805:20 company 2473:5 2484:10 2489:15 2498:7,12,18 2499:18 2500:10,13 2508:22 2509:2 2510:7 2525:16 2535:21 2538:17,18 2539:14,18 2540:4 2542:3,18 2543:3,7,11 2545:3,16,18 2546:16,17 2551:18 2552:7 2560:8,10 2566:9,17 2567:22 2568:2,8 2578:7 2583:4 2587:5,6 2588:13,14,22 2589:6 2591:8 2592:20 2593:21,22 2599:12 2601:12 2602:3,7,12 2604:22 2605:5,6,16 2606:12 2607:12,18,20 2612:7 2618:18 2627:16 2628:22 2634:13,16 2636:6,8,13,15 2637:7 2640:10,12,21,2 2 2641:8 2642:7,11 2643:17 2647:10,11 2648:4,5 2651:16 2656:7	2659:20 2671:1 2678:1 2682:10 2684:15 2687:21 2697:14 2710:22 2713:1,6 2714:1 2716:10 2721:15 2722:12 2727:17 2741:5 2742:11 2743:1,4,11,17 2745:1 2747:20 2749:10,14 2752:21 2757:11,17,21,2 2 2758:3,16 2765:2,7 2769:18 2770:10,13 2781:9 2797:1 2803:14 2806:2 2822:9 company's 2499:20 2537:11 2538:15 2543:12 2599:11 2618:19 2624:9 2688:22 2691:4 2692:2 2711:7 2721:21 2828:2 comparable 2518:17 2520:5 2667:18 2677:22 compare 2671:17 2672:19 2816:22 compared 2510:20 2550:3 2649:12 2727:12 comparison 2642:17 compensated 2797:16 compete 2799:5 competitive	2781:8 2795:6,15,20 2799:9,10 2804:3 2814:18 competitively 2776:18 2808:22 2810:15 compilation 2722:20 2723:2 compiled 2704:9 2724:6 complete 2607:3 2698:19 completed 2574:5 completely 2483:5 2490:9 2524:15 complex 2744:9 compliance 2787:4,20 2788:20 2789:20 2790:22 2791:6,21 2812:17,22 2813:1,7,10,12 2814:1,11 2816:4,14 2817:12 complicated 2630:5 component 2664:12 2665:8 2791:19 2795:9 components 2791:13 composition 2710:9 2723:17 comprehensive 2505:10,17 2506:3 2648:12,15	2702:14 comprises 2662:1 compute 2723:3 computer 2739:21 computerized 2831:7 concentration 2710:9 concept 2575:17 2600:18 2613:12 2626:9 2652:6 conceptually 2740:15 concern 2487:17 2545:17 2735:12 2738:9 2742:8 2743:3,6 2785:20 2805:16 concerned 2595:11 2596:15 2738:6 2805:12,21,22 concerning 2598:14 2603:9 2621:21 2638:10 2806:9 concerns 2488:17 2697:13 2708:21 2736:22 2737:5,21 2739:8 2742:16 2782:18 2798:21 concerted 2800:13 concession 2561:21 concessions 2562:4,8,10 conclude 2583:18 2691:21 2825:14
---	---	--	--

(866) 448 - DEPO

www.CapitalReportingCompany.com © 2015

Capital Reporting Company
Formal Case No. 1119 04-20-2015
Page 19

concluded 2797:20 2798:10 concludes 2719:7 conclusion 2523:15 2524:20 2554:19 2624:15 2642:18 condition 2550:4 2589:15 2603:19 2623:21 2625:9 2776:17 2777:21 2778:13,15 2779:11 2818:19,20 2819:19 2821:6,12 conditional 2503:15 conditions 2529:2 2588:3 2589:13,17 2596:16 2603:18 2614:15 2624:3 2678:11 2778:8,10 2808:19 2819:14,15 conduct 2595:1 2639:22 conducted 2702:14 2722:21 2798:5 Conemaugh 2573:21 2582:3 conference 2565:5 conferring 2564:21 confidence 2489:6 confidential 2548:21,22	2549:2,4 2563:4,5,6,9,20, 22 2565:6 2571:5,9 2620:18,22 2657:9 2752:20 2753:5,9,16,18 2754:7 2755:9,10,14 2756:2 2764:22 2774:14 2792:8 2824:22 confidentiality 2563:15 2656:8 2753:2,21 2774:16 confirm 2686:14 2687:16 2690:11 2693:10 2735:10 conformance 2527:5,19 conformed 2497:4,12 2500:3 2523:19 2528:2,8 2658:22 2774:4 conforming 2803:14 congested 2820:16 congestion 2818:3 2821:17 2822:15 2823:20 connection 2545:3 2598:21 2604:5 2808:9 consent 2525:3,5 2609:8 consequence 2666:8 2670:1 consequences 2525:2,10	2671:4 consider 2481:4 2489:16,17 2512:18 2555:21 2557:11 2594:6 2615:18 2616:22 2663:14,20 2668:14,16 2715:7 2740:6 2781:3,5,7 considerable 2702:2 considerably 2557:8 2789:5 consideration 2525:4 2677:6 2728:17 2729:8 2797:11 considerations 2822:8 considered 2486:19 2557:10 2671:4 2672:10 2741:3 2757:16 considering 2606:3 considers 2556:6 2557:3,5 2769:16 consisted 2548:5,8 consistent 2530:14 2536:4,6 2650:6 2675:22 consistently 2689:1 consisting 2731:22 consists 2679:3 2731:16 consolidate	2728:9 consolidated 2509:1 2539:17 2540:4 2550:3,10,16 2556:14 2557:7 2567:17,18,21 2568:5,11,14 2578:9,12,15 2579:2 2642:19 consolidation 2508:14,16,17 2509:17,21 2578:13 2594:17 2595:4,20 2596:1,3,8,10,22 2604:19 2607:2 2642:20 Consortium 2703:17 Consortium/ Puget 2703:8 constant 2665:7,8 Constellation 2501:17 2532:15 2589:12 Constellation/ Exelon 2503:13 constitutes 2498:9 2508:15 constrained 2818:10 construct 2817:18 2819:2 2820:5 construction 2485:13 2815:8 consult 2558:11 2564:1,2 consume 2755:12 consumers 2613:9
---	--	--	---

Capital Reporting Company
Formal Case No. 1119 04-20-2015

Page 20

2614:16 2793:21 2813:9 2822:12 consummated 2582:6,9 2743:19 2747:21 2781:7 contact 2563:12 contain 2624:5 contemplated 2574:6 contemplating 2583:6 contend 2795:11 contention 2801:14 context 2498:8 2535:14 2553:17 2580:20 2587:13 2664:14 2669:2 2711:15 2785:18 continental 2513:6 contingent 2498:6 continuation 2711:18 continue 2484:9 2537:12 2539:8 2542:20 2543:15 2586:3 2600:21 2664:5 2665:13 2755:6 2797:15 continued 2474:22 2475:1,11,22 2476:1 2478:22 2665:2 2742:17 2793:4 2800:2 continues 2540:6,17 2542:10 2687:21	2744:17 continuing 2685:10 contract 2778:13 2803:17 2810:3,5 2811:7 2812:3 2813:21 2814:4,9,12,20 contracting 2777:10 2780:22 2815:10 contracts 2778:21 2779:12,15,17 2781:11 2784:18 2785:18 2802:21 2803:2,4,5,9,18 2804:4,14,18 2811:8,10,19 2812:6 2813:19 2817:3,4 contrary 2490:9,11 2491:8 2518:14 contribute 2483:1 2580:3,4 contribution 2576:15,17 2578:5,11,14 2579:1,22 2701:3 contributions 2486:5 2487:7 contributor 2566:13 control 2661:7 2713:5 2732:8 2813:11 2819:18 2820:22 controlled 2812:18	controlling 2813:8 convenience 2639:17 conversion 2552:5 2553:2 2555:8,9 convert 2552:3 2554:10 2613:1 converted 2555:3 convertible 2550:20 2551:2,12 2552:14 2554:9 2555:2,11 convertibles 2552:10 2553:3,19 2572:22 2574:10 2581:7,8 2583:10,11,16 converts 2575:1,5 cooperatives 2786:7 coordinating 2508:10 copies 2698:19 2751:16,21 2773:20,22 copy 2510:11 2536:9,13 2724:5 2725:3 2774:15,19 2787:19 2796:9 copyrights 2626:12 corner 2622:10 Corp 2523:3 2538:5,18 2540:12 2541:2 2565:22 2648:3	corporate 2490:10,11 2491:8 2497:17 2498:3 2504:14 2512:4 2588:1 2589:9 2595:6 2606:6 2610:5 2612:5 2678:15 2683:7 2692:12 2695:4 2696:1,15,21 2708:3,8 2709:12 2717:14,16 2766:1 corporation 2473:4 2598:15 2605:2 2642:22 2643:15 2747:16 2748:13 2757:10 2766:1 correct 2492:21 2493:10 2494:11,14,18,1 9 2495:14 2496:5,6,7,11,14 ,19 2497:21,22 2500:7,11,15 2501:5 2502:18,19 2503:17 2506:10 2508:9 2511:1,10,11 2512:6,9 2513:15 2515:10 2516:3,4,7 2519:9,10 2523:6,12,17 2524:6 2526:11,12 2527:4,17 2528:8,19 2530:6 2531:1 2542:5 2545:4,5
--	--	--	--

(866) 448 - DEPO

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Capital Reporting Company
Formal Case No. 1119 04-20-2015

Page 21

2546:1,2	2703:18	2666:19 2677:22	2756:16 2758:10
2547:5,20	2704:2,4,17	2705:9	2769:22 2787:5
2548:2,3	2705:21 2732:15	2714:8,16,21	2791:1,6,11
2549:12 2550:5	2734:19,20	2715:11	2793:21 2801:16
2551:6 2554:6,7	2743:8 2746:21	2716:2,6,8,18	2812:12 2813:8
2555:4,22	2747:18 2750:2	2721:22 2724:8	council 2787:20
2556:1,4,5,8	2760:8	2725:12 2729:12	2789:19
2558:5,6	2763:11,12	2734:2,16,17,18	counsel 2474:16
2560:16	2765:20 2769:2	2735:4 2736:10	2475:4 2491:13
2561:12,13	2776:22 2777:6	2737:3,18	2562:20
2572:10 2574:22	2779:19 2780:2	2739:6,20	2563:1,13
2575:11	2781:13	2740:5,16	2653:12
2576:21,22	2782:6,9,22	2741:6 2770:11	2657:17,18
2578:2,15	2784:3,7,14,19,2	2787:2 2791:9	2669:12 2673:1
2579:3	1 2785:22	2793:20 2794:5	2720:18 2721:11
2580:6,9,12,16	2787:6 2788:10	2809:4,5,11,13	2731:8 2752:17
2581:14	2789:21 2795:21	2810:2,7 2811:5	2761:14 2805:15
2583:13,22	2797:8,13,18,19	2822:5,11	2831:11,14
2586:22 2587:10	2798:1,14	2823:4,11,12	counsel's 2714:1
2588:4,18,19,22	2800:10 2801:3	2824:1,3,6	count 2703:22
2589:6,7,8,19	2802:2,3 2807:5	cost-effective	2786:17
2594:17	2808:20 2811:2	2819:2	counterparty
2598:1,6,7,16	2812:21 2813:16	cost-effectiveness	2778:14,20
2609:17 2617:20	2815:20 2831:9	2691:6	counterpoint
2623:16,17,22	correction	costing 2611:11	2609:15
2627:8	2659:2,9	costly 2717:15	counting 2786:19
2631:15,20	2782:16	costs 2579:16	couple 2492:2
2632:3,5	corrections	2580:11 2611:12	2544:7 2572:3
2648:13 2651:1	2732:11	2670:3,20	2576:11 2633:17
2659:16	correctly 2488:20	2671:19	2711:13 2724:18
2660:9,11	2506:19 2650:1	2672:4,20	2809:19
2661:5,8	2765:21	2692:8	course 2485:4
2662:1,12	co-sponsor	2717:6,8,9,19	2493:13 2495:1
2668:7 2673:18	2631:20	2718:21	2534:12 2578:19
2674:19 2675:20	co-sponsored	2728:13,15,16	2612:2,4
2678:20 2679:19	2632:7,10	2734:6 2735:1	2613:15 2650:13
2682:6,11,16,19	2662:3	2736:12,21	2651:7 2743:9
2683:9 2685:4	cost 2574:21	2737:2 2738:1	court 2508:18
2686:11	2580:12 2581:2	2739:10,11,12,1	2509:12 2569:19
2689:20,21	2611:18 2618:19	6,17,19	2831:1,2,20
2691:6	2626:6 2627:15	2740:4,8,21	
2692:4,17	2628:21	2742:9,12	
2693:17 2696:8	2653:9,11	2743:4,10	
2697:7 2698:16			
2700:9,12			

(866) 448 - DEPO

www.CapitalReportingCompany.com © 2015

Capital Reporting Company
Formal Case No. 1119 04-20-2015
Page 22

covenant 2534:20	2605:22	2502:9 2558:12	2491:11,19
covenants	credentials	2636:21	2495:15 2497:2
2534:3,4	2709:15,18	2637:19,22	2544:2 2620:4
cover 2676:8	credit 2486:19	2638:2,4,5,10	2659:22 2661:13
2686:14	2498:12,16,17,2	2639:1 2642:5	2662:20 2678:22
coverage 2556:15	2	2663:3 2669:9	2679:3,22
2558:1,7 2559:9	2499:12,13,17,1	critical 2674:7	2681:20 2685:17
Coyle 2475:8	9,20 2502:7	2694:12 2721:21	2688:8 2690:4
2477:6	2503:7	criticism 2735:8	2693:1 2695:9
2480:13,14,15,1	2523:2,4,13,15	criticize 2735:19	2697:22
6 2544:3,5,6	2524:12 2529:15	criticized 2607:16	2699:3,5
2546:21 2548:20	2530:14,15	cross 2477:2	2701:11 2719:13
2549:4,7 2563:1	2536:6,8	2478:2,3,4,12,13	2725:15
2564:7,20	2537:13,14,15	,14,15,16,17,18,	2733:13,16
2565:3,8,9	2538:3,4,5,16	19	2741:15 2760:15
2569:14,17	2539:6,17	2479:4,5,8,9,10,	2762:15,19
2570:5,7,14,17,1	2540:5,15	11,13,14 2494:4	2763:20 2764:1
8 2571:3,11,12	2541:6 2543:14	2536:21	2765:3
2584:2,7,19,20,2	2551:4,22	2654:11,22	2776:6,12
1 2620:16	2552:7 2554:9	2659:19 2661:18	cross-examine
2621:14 2625:6	2556:18 2557:1	2679:9 2680:6	2728:2
2629:9 2630:7	2598:22 2599:1	2682:3 2685:22	cross-examined
2631:7,9,15,18	2635:18 2638:4	2693:6 2695:14	2610:18
2633:2 2641:21	2675:3,12	2701:17 2730:14	cross-referenced
2646:3	2697:19	2741:12 2743:7	2632:6,11
2654:13,14	2698:11,21	2764:14,16	cross-references
2657:7	2714:4,6 2715:6	2768:14,16	2632:1
2707:14,15	2718:15 2719:20	2773:2	curious 2636:4
2758:22 2759:1	2720:3,5	2783:3,4,6,15	current
2772:5 2802:7	2764:21 2765:6	2785:3,5	2501:14,21
2828:15,16	2767:12,15	2787:9,10,13	2506:14,17
cracks 2757:19	2768:1,2	2789:8,9,12	2521:14 2522:3
2758:8	2770:19,21,22	2796:1,4,6	2523:4 2536:7
Crane 2766:13,16	2771:9 2782:21	2801:6,8	2550:3
2769:10	2791:5,19	2825:9,12,20	2552:19,22
Crane's 2513:12	creditors 2509:4	cross-acceleration	2553:4,9
crash 2608:4	credit-positive	2498:21	2665:20 2717:12
create 2604:17,21	2769:1,17	cross-default	2744:22
2614:2 2626:19	2770:18	2498:21	2745:3,7,11
2769:17	credits 2697:16	crossed 2741:9	2746:18 2749:16
created 2503:5	2777:16 2779:21	cross-examination	2755:16,18
	2781:10 2788:6	2480:18	2777:22 2778:17
	criteria 2496:4		

Capital Reporting Company
Formal Case No. 1119 04-20-2015

Page 23

<p>currently 2486:18 2487:15 2514:6 2521:4 2541:8 2553:15 2645:12 2710:14 2751:3 2778:22 2805:1</p> <p>curriculum 2660:6</p> <p>customary 2610:3</p> <p>customer 2672:18 2673:5 2675:13,17 2703:10 2704:18 2705:2 2706:6 2713:21 2714:5,9,16,18 2715:9,10 2716:22 2723:4 2767:4 2786:10,17 2806:22 2820:19</p> <p>customers 2486:15 2510:2 2517:6,8 2518:9,12 2591:11 2604:8 2626:1,8,15 2653:11,15 2666:22 2675:2,11 2677:9,16 2678:6 2704:22 2706:1,2,4 2715:12 2718:11,18,22 2737:13 2738:10 2740:9,22 2767:2,14 2779:22 2786:17,20 2790:22 2791:5,8 2792:3,5,6</p>	<p>2794:12,19 2795:2,9 2801:16 2812:14 2826:3</p> <p>cut 2498:13</p> <p>CV 2597:18,22</p> <hr/> <p>D</p> <hr/> <p>D)-1 2479:6 2762:6 2772:14,18</p> <p>D)-6 2479:7 2762:6 2772:15,19</p> <p>D.C 2473:9,16 2474:5,13,18 2475:5,7,9,11,15,16,19 2476:2,5,9 2480:18 2489:7 2490:12 2512:5 2521:18 2523:21 2533:12 2544:1 2577:20 2629:14 2633:9 2641:22 2649:4,15,16 2650:12,15 2687:10 2707:19 2736:9 2743:5 2758:10 2759:1,5,6 2776:19 2777:2 2778:16,21 2780:16 2781:16 2787:19 2789:20 2790:21 2791:5 2792:3,5 2794:19 2802:10 2806:12 2807:16 2808:3,9 2809:3 2817:8 2819:16</p> <p>D.C.-based</p>	<p>2815:13</p> <p>D.C.'s 2776:20</p> <p>Dakota 2602:15</p> <p>danger 2483:6 2545:8</p> <p>Danielle 2474:16 2761:13</p> <p>DANIELS 2474:15 2491:14 2802:5</p> <p>data 2492:2,10,16 2493:22 2510:12,18 2511:3,19 2522:21 2547:13,14 2548:2 2571:4 2597:19 2618:6,9 2623:14 2627:5 2629:13,16,18 2631:21 2656:19 2662:2 2679:4,15 2682:7 2686:6,8,15,20 2693:11,13 2695:19,22 2696:5 2697:5 2701:20 2744:22 2747:1 2751:6,21 2752:1,2,20 2753:13,15 2754:8 2788:16 2801:13</p> <p>date 2553:5 2656:12 2657:4 2703:15 2726:5,12,21 2727:7 2744:22 2748:4,19</p>	<p>dated 2789:18 2796:11</p> <p>dates 2496:21 2534:14</p> <p>David 2477:8 2657:19,21 2658:9</p> <p>day 2606:4 2810:3,7 2830:13</p> <p>days 2513:19 2514:8 2607:5 2648:1 2706:15</p> <p>DC 2633:6 2707:16 2802:9</p> <p>DCG 2478:4 2547:7,9,14 2548:2,12 2549:9 2561:11 2562:18 2564:8 2565:4,13 2570:21,22 2576:7 2585:1,20 2597:18,20 2598:4 2618:3,7 2620:15,17 2622:6,9 2623:13 2627:4,5 2629:12,14,16,18 2630:1,3,6,12 2631:12 2632:2,12,13 2654:15,17,22 2825:20</p> <p>deal 2579:21,22 2624:10 2756:11 2792:13</p> <p>dealing 2656:6 2678:14</p>
---	---	--	---

(866) 448 - DEPO

www.CapitalReportingCompany.com © 2015

Capital Reporting Company
Formal Case No. 1119 04-20-2015

Page 24

deals 2752:21	6 2746:6	definitely 2568:15 2780:16 2817:10	2566:22 2573:11
dealt 2635:10,14 2638:8 2641:19	decide 2514:12 2563:11 2609:13	definition 2649:16	depends 2665:16 2666:9
debating 2666:12	decided 2716:5 2729:20 2780:17	definitive 2502:17 2718:17	depicted 2589:9
debenture 2554:13	decides 2778:7	degree 2501:12 2599:7	depreciated 2739:22
debt 2486:8,11,17,18, 20 2487:2,3 2488:1,9 2491:5 2504:19,21 2529:15 2550:8,10,16,20 2552:9 2554:13,18,20 2557:21 2558:8 2559:6,10 2567:18,21 2568:2,17,21 2572:18 2573:4,7,10,14 2574:21 2575:5,19 2579:16 2580:12,16,20,2 1 2581:2 2605:15,20 2622:20 2628:1,5 2748:14,21 2749:16 2750:4,5,9,13 2767:9	decision 2517:7 2518:10 2667:13 2674:13 2716:10 2743:13 2780:9	Delaware 2690:12 2691:3 2692:3 2721:3,11 2725:18 2782:3,7,15 2784:9,13,21 2785:21 2786:2,4,6,11 2806:13 2811:13 2820:15,20,22 2821:1,10,11	depreciation 2745:5 2749:4 2751:2
	decisions 2527:6,20 2595:1		derived 2704:18 2723:1
	declassified 2792:17,21 2793:14		describe 2588:5 2693:14 2696:1 2708:13
	declassify 2656:13		describes 2736:20
	decline 2628:3,7	delivering 2713:2	describing 2640:18 2789:19
	decreased 2745:10	delivery 2473:5 2588:14 2712:11	description 2686:17 2809:8
	deducted 2579:18	Delmarva 2488:4 2557:4 2660:13 2782:4 2786:4,5,6,11,18 2821:17	design 2663:22 2675:22 2714:19
	deductions 2581:3		designation 2501:20,22 2502:4,6 2620:21
	deem 2590:14 2609:22 2650:5	demand 2554:6 2711:18	designed 2509:17
	deemed 2612:11 2741:20	demonstrate 2527:12	desirable 2590:14 2609:22 2612:11
	deems 2612:14	demonstrated 2735:3	desire 2656:18
	deep 2621:7	Denise 2473:22 2831:2,19	despite 2510:4 2539:3
	default 2488:5 2498:14,20,21 2534:6	department 2635:19 2691:17	detail 2506:21 2525:13 2559:15 2611:10 2649:21 2693:14
debt-equity 2624:9,12 2625:10,11	deferred 2739:13 2745:21 2746:7	depend 2591:12 2737:22 2823:19	detailed 2505:9,13,14,19 2506:4 2507:4,5,19
debtor 2499:2	deferring 2663:22	depending 2546:3	
debts 2499:3,8 2509:5	defers 2553:14		
December 2496:16 2745:2,4,12,14,1	define 2562:1 2585:16 2708:17 2769:5		

(866) 448 - DEPO

www.CapitalReportingCompany.com © 2015

Capital Reporting Company
Formal Case No. 1119 04-20-2015

Page 25

2524:20 2526:8 2611:7 2617:1 2627:18 2650:11 determination 2530:19 2534:1 2546:20 2645:6 2748:17 determine 2494:21 2618:17 2635:21 2670:2,7 2819:22 determined 2529:10 2611:3 2646:12 2746:8 determining 2677:4,14 2748:12 develop 2817:19 developed 2642:4 2817:2 developer 2778:14 developers 2779:2 2795:7 2815:20 2816:2 2817:5 development 2815:8 developments 2817:7 Dickerson 2681:7,11 differ 2724:1 difference 2535:6,13 2668:9 2708:16 2720:2 2724:21 2794:9 differences 2504:10,11,12 2505:3 2632:17	2643:13 2709:2 2780:14 different 2508:19 2511:8 2517:15 2530:2 2534:13 2558:8,11,21 2566:20 2567:6,21 2568:6,7 2581:10 2595:14 2640:15,18 2644:7 2651:18 2664:20 2666:15 2692:13 2708:9,15 2717:18 2723:4 2781:19 2788:16 2817:1 differential 2794:3 differently 2513:20 2611:22 2800:7 differs 2557:7 difficult 2670:21 2689:1 2703:1,21 2717:14 difficulty 2616:19 2799:12 digits 2503:18 dilution 2582:20,22 diminishing 2507:22 direct 2477:2 2481:16 2482:2,4,5,10,20 2490:1 2496:8,11,17 2497:3,5,8,13	2500:4,18,22 2501:8 2504:2 2505:7 2511:4,9,14 2528:2,4 2544:17 2586:5 2589:21 2602:1 2608:13 2653:5 2658:3,12,15 2659:3 2660:5,16 2667:5,10,17,21 2668:3,20 2669:14,18 2670:11,18 2671:6,18 2672:4,13,16,17 2673:9 2674:16 2676:3,13 2678:9,10 2681:14 2683:6,14,18 2684:21 2689:7 2691:2,19 2692:6 2694:4 2696:13,19 2700:18 2711:14 2712:1,10 2713:5 2715:15 2720:18 2731:9,16,21 2732:7,19 2733:5 2734:4 2735:8,17 2736:4 2742:6 2744:15 2756:13,17 2761:15 2762:3,9 2766:15 2770:5,14 2774:20 2775:9 2785:13 2787:1,21 2819:18,21	2824:20 directing 2599:6 2693:15 2696:4,5 direction 2572:21 2831:8 directions 2625:21 2641:6 directly 2537:18 2538:7 2542:12 2588:20 2601:13 2648:22 2713:1 2724:4 2756:20 2824:6 director 2634:8,11 2639:4,7,13 2640:14 2641:3,7 2811:13 directors 2634:5,7,9,22 2636:1 2637:20 2639:1,3,22 2651:9,20,22 2652:14 2678:19 2680:20 2681:6 disagree 2483:5 2524:15 2587:3,11 2609:1 2674:3 disagreed 2613:6 disagreeing 2800:17 disagreement 2612:20 disappointment 2740:18 disbursed 2824:3 discovery 2536:11 2750:18 2758:12
--	--	---	--

(866) 448 - DEPO

www.CapitalReportingCompany.com © 2015

Capital Reporting Company
Formal Case No. 1119 04-20-2015

Page 26

2800:21 2801:12 2819:1 2822:9 discuss 2497:5 2671:15 2689:13 2691:4 2694:5 2727:13 2741:21 2763:1 2771:17 2793:6 discussed 2620:3,12 2634:4 2641:21 2671:19 2721:19 2722:6 2741:22 2744:14 2774:6 2792:20 2793:13 discussing 2533:3 2621:17 2678:10 2700:19 2769:15 2822:17 discussion 2524:3 2531:17 2569:6 2587:12 2667:3 2676:17 2682:18 2685:1 2719:3 2723:21 2728:22 2793:15 2800:3 2803:12 2823:9 discussions 2512:13 Dismukes 2477:8 2655:10 2657:19,21 2658:5,9,11,15 2659:3,8 2660:2 2661:5,21 2662:18 2667:2 2673:9 2679:13 2680:9 2682:6 2683:4 2684:19 2689:6 2690:16 2692:6 2693:9 2695:18 2698:9 2699:9	2700:5,15 2701:14,20 2719:12 disperse 2827:2 disposal 2740:6 disputing 2800:11 distant 2627:19 distinct 2509:11 distinguish 2557:13 distress 2510:4 distribute 2753:1 distributed 2675:16 2700:3 distribution 2539:6,21 2543:13 2588:13 2602:2 2648:3 2653:11,14 2716:5 2737:3 2796:22 district 2473:2,14 2475:12 2487:16 2512:22 2513:14,17 2514:3,6,11 2515:17 2517:2,9 2518:12,15 2520:3,11,15,16, 19,22 2521:1,21 2522:9 2535:18 2544:8 2587:2 2597:8 2623:14 2624:17 2629:17 2654:14 2683:21 2684:2,4,6,9 2692:18 2710:2,10 2711:9 2712:8 2714:18 2717:16	2721:19 2722:18 2725:18 2726:3 2735:2 2788:7 2795:2 2802:7,14,16 2804:2 2807:4,10 2812:17 2815:15 2822:5,19 2823:1,3 2824:7 2825:19 District's 2521:21 2674:22 2677:15 2712:9 2805:1,7 2815:4 2816:5 District-specific 2717:13 dive 2809:19 diverse 2766:1 divided 2583:4 2794:19 dividend 2526:21 2527:13 2528:13 2536:2 2622:20,22 2623:4 2624:5,8 2625:10 2766:6,21 2767:3,9 2768:5,7 dividends 2526:17 2529:13 2535:22 2623:21 dividing 2704:20 docket 2690:13 doctrine 2508:17 2595:6 document 2510:19 2536:10,13 2560:14 2561:10 2564:11,16,18,2	2 2565:2,7 2620:22 2621:2,8 2631:2 2679:6 2680:10 2693:10 2695:19 2754:5 2765:19 2784:2,6 2785:9 2787:8,16 2789:17,22 2790:5,12 2792:8,22 2793:3,4 2794:6 2798:2 2805:3 documentation 2621:20 2622:2 documents 2547:19 2620:21 2632:20 2638:15,20 2705:15 2789:7 DODDY 2473:19 DOE 2724:10 dollar 2723:3 2728:16 2790:20 2791:3 dollars 2553:19 2580:4,5 done 2490:7 2503:20 2515:19 2577:16 2619:2,4,6 2627:18 2629:2 2631:8 2656:17 2710:9 2714:8 2716:3 2723:14,16,22 2791:2 2818:15,16 2822:19 2824:9 2830:17 Donna 2477:12 2731:2,13
---	---	---	--

(866) 448 - DEPO

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Capital Reporting Company
Formal Case No. 1119 04-20-2015

Page 27

dot-com 2601:16,17 2608:4	2719:12 2722:12 2723:22 2761:17 2762:21 2765:5	2805:14,15 2809:12 2814:7	economically 2677:8
double 2489:22 2490:5 2617:18 2618:14	drafted 2638:18	duties 2639:4,7 2673:15	economics 2816:10
Double-check 2785:12	drafting 2596:15 2693:22	duty 2639:8,9,11	Edison 2486:4 2537:9 2539:1
doubt 2788:9	dragged 2591:13	<hr/> E <hr/>	EEDC 2588:11,12 2589:3
downgrade 2545:13 2560:12,22 2561:16,17	dramatically 2809:14	E&G 2703:22	2592:7,12 2634:10 2647:18 2648:2 2651:8
downgraded 2560:9	draw 2498:13,19 2678:12	earlier 2558:18 2620:3 2630:18 2634:4 2650:17 2668:6 2671:19 2700:5,19 2705:16 2717:5 2726:22 2728:22	effect 2484:7 2486:21 2508:7 2550:17 2591:3 2667:9 2719:3 2739:18
downgrading 2560:21	drawn 2509:1 2532:14 2642:20 2769:11	early 2577:16 2724:7 2824:10	effects 2501:4
downward 2554:4	drew 2747:2	earn 2577:18	efficiencies 2769:22
Dr 2480:19 2487:17 2488:16,20 2489:22 2490:4 2587:2,5 2593:9,14 2608:22 2612:19 2613:6 2617:17,22 2621:16 2657:19 2658:5,11,15 2659:3,8 2660:2 2661:5,21 2662:18 2667:2 2673:9 2679:13 2680:9 2682:6 2683:4 2684:19 2689:6,19 2690:16 2692:6 2693:9 2695:18 2697:10 2698:9 2699:9 2700:5,15 2701:14,20	Driftwood 2731:13	earned 2716:7	efficiency 2671:14,15 2711:19 2712:7,11 2713:2,11 2729:15,19
	Drive 2731:13	earning 2579:1	effort 2605:5 2799:6,8 2800:13,19
	driven 2504:11 2550:7	earnings 2485:1,2,19 2565:5 2569:4,8 2572:8 2575:11,17 2576:21 2581:17,19 2582:14,21 2583:18 2601:8 2620:5	egg 2509:13
	driver 2765:14	east 2474:4 2540:12,15,18 2817:22	egregious 2605:3
	drivers 2549:16 2555:15 2765:12 2815:7	eastern 2817:21	egregiously 2605:4
	driving 2551:22	EBITDAR 2557:21	EIA 2702:7 2704:11
	due 2485:3 2499:3,8 2538:18 2541:6 2739:7	EBSC 2757:20	eight 2809:20
	Duncan 2474:11 2475:8	economical 2553:12 2611:20	either 2485:8 2525:7 2560:8 2608:9 2615:19 2628:3,4,7 2649:14,15
	duration 2488:17 2608:15 2615:8,12,15		
	during 2480:12 2495:15 2497:2 2709:8 2722:1 2734:7 2743:7 2799:15		

(866) 448 - DEPO

www.CapitalReportingCompany.com © 2015

Capital Reporting Company
Formal Case No. 1119 04-20-2015

Page 28

<p>2686:10 2704:8 2728:19 2729:9 2741:12 2770:7 2826:20</p> <p>electric 2473:5 2486:3 2488:4 2538:13 2539:6,14,16,20 2541:2 2542:8 2543:6,13 2588:12,21 2589:4,5 2592:6 2632:19 2642:7,16,19 2643:5,8,15 2660:14 2662:14 2664:18 2704:22 2706:1 2765:7 2767:17,20 2781:20,21 2786:2,4,5,7,10, 17 2796:10,20 2797:7 2803:14</p> <p>electricity 2538:8 2539:8 2542:13 2543:17 2809:14</p> <p>Electric's 2541:5</p> <p>electronically 2699:9 2773:22</p> <p>Elefant 2476:7,8 2477:19 2584:10 2633:12 2707:21 2759:7 2760:8 2772:9 2773:9,10,18 2774:11,14,21 2776:5 2792:16 2793:2,9,12 2824:17,19 2825:7 2827:11,15,17</p> <p>element 2566:4</p>	<p>2614:20</p> <p>elements 2572:14,17 2644:6,11</p> <p>eligible 2776:19 2809:2 2815:3,14 2816:4</p> <p>eliminate 2487:2 2794:11</p> <p>elimination 2622:19 2719:19</p> <p>Ellen 2477:3 2481:7,10,20</p> <p>else 2519:14,18,22 2520:1 2644:22 2675:14 2708:20 2722:8 2791:17</p> <p>elsewhere 2575:15</p> <p>emergence 2599:11</p> <p>emphasis 2669:13</p> <p>emphasize 2819:10</p> <p>employed 2481:21 2831:11,14</p> <p>employee 2611:14 2634:12 2831:13</p> <p>employees 2635:5 2651:21 2710:2 2711:4</p> <p>employer 2547:1</p> <p>employment 2717:16</p> <p>enable 2484:10</p> <p>encompassed 2650:3</p> <p>encompasses</p>	<p>2663:1</p> <p>energy 2473:5 2538:1 2540:8 2574:2 2588:14 2589:12 2605:2 2648:2 2680:12 2691:17 2692:12 2703:8,18 2707:5 2711:19 2712:7,9,11,15 2713:2,11,16 2717:17 2729:19 2773:11 2775:5 2777:16 2779:21 2781:8,9,10 2787:4 2788:6 2804:14 2805:8 2806:3,4,6 2808:3 2813:20 2815:1,3,9,20 2816:2 2817:22 2822:21 2823:22</p> <p>engage 2488:10 2519:16</p> <p>engineer 2602:21</p> <p>engineering 2611:13</p> <p>England 2723:17</p> <p>Enron 2642:8,22 2643:17,20,21</p> <p>Enron's 2643:21</p> <p>ensure 2606:5 2740:20</p> <p>ensures 2811:22</p> <p>enter 2724:11</p> <p>entered 2490:16,21 2509:6 2534:2 2608:7 2610:19</p> <p>entering 2491:6</p>	<p>entertain 2825:2</p> <p>entire 2490:17 2568:6,12,13 2578:9 2608:4 2736:5 2741:12 2785:19</p> <p>entities 2503:16 2509:11 2556:15 2591:22 2592:10,15,21 2593:11 2594:5 2604:21 2605:11 2632:18 2635:1 2637:15 2638:11</p> <p>entitled 2571:16 2576:13 2580:12 2585:4 2662:14 2775:8</p> <p>entity 2473:6 2487:20 2508:20 2509:18 2542:4 2557:7 2568:6,13 2587:3 2588:6,9 2590:15,21,22 2592:14,20 2593:6 2594:7,9,16,18 2595:12,15,19 2596:5,17,19,21 2604:12,15,17,2 0 2610:2 2612:21 2614:13 2635:17,21,22 2639:14,15 2640:1 2643:11 2648:6</p> <p>entries 2508:11</p> <p>entry 2518:19 2520:7</p> <p>envisioned 2614:12</p>
--	---	--	--

(866) 448 - DEPO

www.CapitalReportingCompany.com © 2015

Capital Reporting Company
Formal Case No. 1119 04-20-2015
Page 29

envisioning 2779:1	2736:22 2737:4,9,21 2738:6 2739:8	evaluation 2793:21 2803:16	2761:15 2774:20
EPS 2572:6,8 2576:15,17,20 2578:4 2579:21	equivalent 2523:3 2561:1 2595:5	evening 2761:2	examine 2498:17 2548:20 2571:6 2620:16,19,22 2763:12
EQSS 2727:6	especially 2656:8	event 2485:2 2498:20 2534:5	examined 2481:12 2658:1 2731:4 2761:10 2773:16
equal 2767:12	ESQUIRE 2474:3,6,7,11,15 ,16 2475:3,8,12,17 2476:3,7	events 2604:6	examining 2704:9
equally 2516:10 2611:19	essential 2677:9	everybody 2808:14	example 2534:3 2551:15 2605:14 2634:16 2637:6 2640:22 2739:12
equipped 2674:13	essentially 2722:19 2723:2,7 2780:18 2802:20 2803:1	everyone 2612:4 2655:8 2774:17	EXC 2771:20,21
equitable 2736:21 2737:3,20 2739:7	established 2576:20 2624:3 2692:14 2694:7,18 2696:6 2727:6	everything 2480:12 2636:7,11 2793:14	exceed 2665:11 2734:7,18 2735:3 2740:22
equitably 2675:16	establishing 2653:9	evidence 2489:3 2493:4 2510:11 2524:11 2525:18 2547:7 2562:18 2565:4 2620:15 2621:4 2654:2,6,10,12 2655:1 2730:10,15 2759:22 2772:20 2773:3 2825:6,10,13	exceeding 2736:11 2740:5
equity 2483:2,3,7 2484:9,17,22 2485:4,12,16,18 2486:5 2487:7 2491:3 2499:21 2526:22 2527:1,13,14 2528:11,14,15 2529:11,12 2530:12,18,22 2531:20 2533:4,12,21 2534:6,15,19 2536:2 2551:3,4,9,12,13 ,15,17 2552:3,8,14,18,2 0,22 2553:13,16,21 2554:9,12 2555:2,3,10 2572:22 2575:16,17 2582:20,22 2583:7,14 2624:12,17 2625:17 2628:1,4	estimate 2689:22 2829:10	evidentiary 2473:12 2480:3	exceedingly 2596:7
	estimated 2599:7 2704:21 2705:5,13 2760:4,5,6	evolved 2710:12	exceeds 2517:1 2626:5
	estimates 2722:10 2760:13	exact 2600:8 2811:14	Excel 2699:6 2701:14 2703:2
	et 2480:5 2571:22 2590:16 2704:15	exactly 2499:16 2534:8 2558:15 2567:2 2598:20 2726:19 2727:9 2778:4	excellent 2539:4,19
	evaluate 2756:8	examination 2481:16 2629:10 2652:22 2658:3 2719:10 2731:9	except 2635:10 2648:18 2683:12
	evaluated 2642:5 2669:11,12		exception 2681:7
	evaluating 2670:15,19		excerpt 2680:10 2687:8,9 2688:9 2690:11 2725:17 2726:2
			excerpts 2686:15 2690:5 2765:3
			excess 2562:10 2642:14,15 2666:21 2702:6

Capital Reporting Company
Formal Case No. 1119 04-20-2015
Page 30

2741:7 exchange 2554:20 2771:21 excluded 2558:13 excluding 2625:15 excuse 2498:1 2544:9 2582:4 2630:3 2633:20 2737:6 2764:6 2781:3 2782:13 2797:6 2827:18 excused 2655:5,7,8 2730:1,18,20 2759:12,14 2760:2 2773:4,6 2827:12,20 executive 2565:22 2619:20 2739:17 2811:12 Exelon 2473:4,5 2480:5 2483:1,2,12,19,20 2484:2,7,8,13,16 2485:5,15,17,22 2486:1,5 2487:8 2490:7,16,19 2491:5 2500:14 2501:17 2523:3,9,12 2524:12 2537:15 2538:5,17 2545:9,11,22 2547:3 2550:9,16 2552:8 2553:18 2560:16 2561:11,19 2563:10 2565:5,22 2569:5,7	2573:15 2574:5 2577:8 2585:4,9 2588:12,14 2600:2,3 2614:13 2619:19 2641:9,15 2645:16 2648:2 2694:13 2696:1 2697:14 2708:15 2709:16 2710:11 2712:6 2720:12 2748:15 2749:20,22 2750:16 2755:11 2757:9,20 2758:3,15 2763:6 2765:15 2766:1,14,19 2767:18,19,20 2769:12,15 2770:8 2771:5,21 2781:2 2793:18 2794:9,12 2795:13,19 2797:7,9,16 2798:12 2799:4,6,8,16 2800:12,19 2805:12,17 2817:17,18 2818:20 Exelon/ Constellation 2501:21 2623:19 2702:18 Exelon/PHI 2780:5 Exelon's 2486:7 2491:2 2537:15 2538:5 2549:10 2550:3 2555:22 2556:3,17 2557:1	2572:6,15 2577:1 2589:11 2620:5 2621:20 2625:5,19 2694:15 2695:4 2696:15,21 2710:3 2717:12 2720:4 2766:4 2782:20 2785:17 2795:11 exercised 2552:10 2553:2 2555:12 exhibit 2478:1 2479:1 2482:11 2493:2,8,21 2494:4,8,10 2497:12,17 2500:2,12 2501:1 2504:3 2506:12 2507:1 2508:3 2510:10,11,21 2511:15,20 2513:11,12 2514:16 2522:15 2526:1,7,9,15 2528:9 2536:17,21 2544:18 2547:7 2548:12 2562:18,21 2564:8 2565:3,13 2576:7 2584:3,22 2585:2,20 2586:6,10,13,15 2587:14 2589:10,22 2597:17,18 2598:4 2608:13 2617:5 2618:3 2620:15 2622:6,9	2623:13 2627:4 2629:12 2630:9,12,15,18 2631:11 2632:2,3,4,13,15 2653:5 2654:3,11,17,19, 22 2658:13,19 2661:13,16,18 2662:1,21 2663:9 2679:1,3,7,9 2680:1,4,6,17 2681:2,5,20 2682:1,3 2685:18,20,22 2687:7,14 2688:8 2690:4,9,11 2693:1,4,6 2695:9,12,14 2698:14 2699:4,6 2700:11 2701:11,12,17 2719:13 2725:15,22 2726:9 2730:8,14 2731:16,22 2732:15,20,21 2733:2,6,10 2734:4 2744:16 2752:3,9 2759:17,20 2762:5 2763:15,17 2764:9,10,14,16 2768:11,12,14,1 6 2772:14,18 2773:2 2774:1 2775:16 2783:2,3,4,6,9,1 5,21 2785:2,3,5 2787:9,10,13
---	--	---	---

Capital Reporting Company
Formal Case No. 1119 04-20-2015

Page 31

2789:12 2790:14 2792:9 2796:1,4,6 2801:6,8 2824:22 2825:5,9,12 exhibits 2478:22 2482:6,8 2597:15 2641:20 2653:20,21 2654:8,15 2658:14,16 2693:16 2730:2,4,12 2731:17 2732:1,7,21 2733:7 2759:15,17 2762:6 2763:20 2764:8 2772:12,14,22 2775:13 2789:8,10 2824:18,21 exist 2606:11 2644:3 2718:18 existed 2642:16 existence 2604:19 2778:22 existing 2550:9 2651:6 2711:18 exists 2521:10 2595:18 2651:4 Expanets 2599:21 2600:6 2603:11 expect 2480:21 2502:7 2505:1 2819:1 expectation 2484:3 expectations	2484:11 expected 2524:13 2569:7 expecting 2577:8 expects 2556:14 expenditures 2485:12 2721:16 expense 2580:21 2611:14 2616:18 2645:7 expensive 2794:12 2812:19 experience 2487:21 2552:12 2575:14,19 2598:1 2709:17 experienced 2634:22 expert 2757:5,6 expertise 2648:8 expiration 2801:15 expired 2782:20 2795:11 expiring 2811:9 explain 2498:9 2508:15 2513:22 2515:14 2522:5 2551:7 2600:15 2695:3 2696:20 2720:1,22 2721:6 2756:19 2777:7 2781:15 2790:3 explained 2610:17 2780:9 2797:9 explaining 2804:4 2813:18 explanation	2561:15 explicit 2529:9 explicitly 2483:1 2500:12 2743:15 explore 2820:6,8 exploring 2820:9 explosion 2664:17 ex-post 2666:6 exposure 2611:18 expressed 2697:13 2740:18 expressing 2738:8 expression 2561:20 2566:16 2572:11 2585:18 2590:13,17 2595:4 2617:18 extended 2745:5 2794:4 extension 2697:18 2698:5,10 extent 2483:21 2493:11 2504:9 2597:7 2599:9 2666:6 extra 2494:22 2751:16,21 extraordinarily 2805:22 extraordinary 2595:17 extremely 2504:9 2505:9,19 2532:22 2809:21 eyes 2507:17 <hr/> F <hr/> faces 2585:9	facilities 2498:17 2499:13,17 2582:2 2800:14 facility 2498:22 2778:15 2807:19 facing 2585:22 2799:12 fact 2483:9 2486:12 2487:8,18 2502:15 2506:3 2507:4 2521:3 2523:12 2525:9 2528:17 2530:4 2534:11 2535:4 2547:2 2560:17 2581:7 2595:20 2601:11 2634:5 2643:18 2664:18 2665:6 2698:6,9 2708:8 2712:18 2740:4,8 2742:9 2746:22 2747:2 2749:20 2766:12,14 2784:5,12 2791:11 2797:20 2798:9 2799:16 2802:15 2805:16 2815:9 factor 2551:22 2677:4 2810:8 factors 2497:16 2498:2 fair 2558:17 2599:13 2604:3 2605:12 2608:8,19 2670:17 2672:7 2702:21 2742:16 2748:12,14,22 2749:19 2750:7
---	---	---	--

(866) 448 - DEPO

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Capital Reporting Company
Formal Case No. 1119 04-20-2015
Page 32

2785:19 fall 2527:1,14 2528:14 2535:1 2536:2,15 falling 2548:18 falls 2534:6 2734:16 familiar 2514:4 2541:14,21 2575:14 2576:8,9 2592:19 2602:11 2619:18 2621:13 2627:19 2631:1 2632:13,20 2645:14,15 2647:22 2649:3 2652:10 2712:14 2713:5,8,15,17 2715:2 2721:18 2785:8 familiarize 2564:19 family 2765:15 2766:1 fared 2727:12 farms 2815:9 2816:11 farther 2617:10 fast 2577:20 favor 2609:15 2610:15 favorable 2487:3 February 2482:3,9 2496:18 2497:6,7 2500:18,22 2501:8 2504:3 2505:7 2508:4	2511:3 2748:9 2796:11 federal 2680:11 2719:19 2747:17 fee 2812:17,22 2813:1,7,10,11,1 3 2814:1,11,15,17 2817:12 feel 2529:16 2611:17 2702:10,11 2743:9 fees 2591:1 2644:19 2645:3 felt 2516:8,11 2709:3 fencing 2613:13 FERC 2682:19,20 2745:21 2798:20 2823:6,13 fewer 2678:18 FFO 2557:22 2558:4,20 2559:5 FFO-to-debt 2558:19 2559:2,4 fiber 2601:16,17 figure 2666:13 2703:9,11 2704:2,18,20 2705:5,6 2706:6 figures 2706:12 file 2496:8,11 2639:9,10,13 2687:3 2734:14 filed 2494:10 2496:13,15,16	2526:9 2659:1 2680:11 2682:20 2735:13 2751:7 2753:11,13,16,1 7 2754:1,8 2773:22 2774:4,10 2782:10,14,15 2783:21 2784:9,20 2796:17 2825:2 filing 2603:15 2734:18 2740:4 2756:11,19 2758:14 2796:10,13 2797:3,9 final 2489:21 2680:18 2688:8,14 2716:4,10 2743:13 2803:17 Finally 2666:16 finance 2483:16,17 2490:10,11 2491:8 2621:21 2635:3 2637:13 2638:6,9,10 2762:1 financial 2485:21 2486:9 2487:13,14,22 2490:15,19 2498:6 2499:10,18 2510:1,3,6 2525:7 2534:13,14 2535:6 2536:5 2537:12 2540:20 2550:4 2556:13 2562:8,11	2566:22 2567:17 2568:5,7,19 2667:11 2668:13 2673:1 2717:11 2720:14 2763:6 2766:12,13 2767:6 2768:3 2769:4,6,12,19,2 0 2770:4,14 2799:12 2808:1 financially 2831:15 financing 2490:20 2498:4 2549:14,17,19 2568:3,16 2572:15,17 2574:7 2601:14 2618:19 2817:5 financings 2490:6 2491:5 Finch 2770:18 findings 2800:8 fine 2826:13 finish 2584:14 2760:21 2828:2,13 finished 2547:16 2549:15,21 2555:18 2585:6 2598:13 2617:14,15 2629:21 2830:11 firm 2651:21 2744:5,7 2776:10 first 2480:8 2481:11 2484:21 2492:3 2508:12 2511:18,22 2515:4,7
--	--	---	---

Capital Reporting Company
Formal Case No. 1119 04-20-2015
Page 33

2528:22 2531:20 2540:14 2544:17 2547:6 2554:14 2571:14,20,21 2572:18 2598:11 2614:8 2627:21 2657:22 2662:19 2663:17 2664:17 2673:21 2678:17 2686:17 2703:7 2704:4 2706:8 2719:17 2731:3 2734:8 2747:2 2761:9 2765:10 2771:16 2773:15 2801:17 2808:9 2810:7 2818:5 FirstEnergy 2707:5 FirstEnergy's 2539:7 2542:20 2543:15 Fitch 2495:20 2547:2 2548:12 2549:9 2550:1,19 2551:5,8,21 2554:8 2555:1,20 2556:6,13 2557:3,5,13,20,2 2 2558:9 2559:4,17 2560:2,15 2561:3,21 2563:3,8 2575:15,19 2599:1 2607:6,14 2638:6 2656:8 2657:3,6 2767:14 2768:19 2769:16,20	Fitch's 2560:18 2562:9 fitting 2616:22 five 2524:5 2608:20 2609:3 2616:4,6,10,12,1 5 2622:16 2646:14 2651:9 2706:15 five-page 2701:14 five-year 2646:11 fixed 2529:16 2556:14 2557:22 2558:7 2559:8,9 2576:2 2677:8 2777:3 2779:17 2811:11 2812:1 fleet 2720:15 flesh 2697:3 flexibility 2769:4,20 2777:9 flight 2827:15 flights 2826:20 Floor 2476:9 flow 2551:21 2552:1 2556:14 2575:21 2817:22 flown 2826:20 flows 2567:7 2568:10 fluctuate 2809:22 fluctuating 2811:16 fluctuation 2812:4 focus 2514:17 2525:19 2526:13 2530:2 2538:13	2539:1,13 2542:16 2598:8 focused 2519:11 focusing 2557:20 2669:9 2819:7 follow-up 2493:14 2646:2 2651:14 2653:2 2728:11 footnote 2667:12 forecast 2562:11 2578:1 forecasted 2581:9 forecasting 2689:2 forecasts 2557:21,22 2562:9 foregoing 2831:4,8 foreign 2542:4 foresee 2608:3,5 2611:21 foresees 2608:9 foresight 2607:5 forgot 2690:15 forgotten 2567:4 form 2578:12 2613:2 2635:6 2680:11 2682:19,20 2692:7 2703:11 2787:4 2806:3 formal 2473:5 2480:4 2483:9,13,22 2488:22 2533:17 2660:18 2661:6 2662:8 2685:8 2726:2	formalities 2591:2 formation 2635:20 formed 2634:20 former 2547:1 2712:3 forms 2483:17 2499:21 2644:2 formula 2625:14 formulating 2621:15 Fort 2473:19 2562:19 2563:17 2564:5,22 2633:16,17,22 2634:2,15 2635:13 2636:4,12,17,20 2637:2,5,11,18 2638:1,14,19,22 2639:5 2640:4,20 2641:8,11,13,18 2642:4,10 2643:2 2644:5,9,19 2645:2,8,14,21 2651:15 2656:15 2708:2,6,12,20 2709:6,11,20 2710:13,18 2711:10 2802:12,13 2803:3 2804:1,22 2805:6,10 2806:14 2807:2,8 2808:4,12 2822:1,2,3,22 2823:7,16 2827:4,8
--	--	--	--

Capital Reporting Company
Formal Case No. 1119 04-20-2015
Page 34

forth 2579:17	2735:21 2743:9	2632:14,16	2540:4,15,17
forthcoming 2487:11	freezes 2665:7	Furthermore 2491:2	2541:2,5
Fort's 2653:3	Friday 2751:7	future 2488:11	2542:3,8 2586:1
forward 2488:9	2753:14,15	2521:15 2551:21	2588:21
2501:13 2510:7	2754:2	2553:13 2568:10	2589:3,5 2592:6
2521:18	front 2546:7	2575:21	2632:19
2552:2,18	2547:21 2558:14	2611:2,9	2706:2,4 2797:6
2553:12 2614:14	2719:12 2725:14	2653:13 2664:1	2809:15,18,20
founding 2495:18	2793:10	2688:21	2811:15
fourth 2476:9	frustrations	2718:8,11,22	gather 2706:4
2565:15 2706:9	2758:9	2740:7,21	general 2475:3,13
four-year 2554:17	fuel 2805:1,7	2756:8 2758:11	2563:13
2799:20	2810:1,7	2771:8	2642:16,18
fraction 2594:14	fulfill 2484:11		2643:5,8,15,19,2
frame 2724:3	full 2496:3 2515:1	<hr/> G <hr/>	2 2644:11,17
2727:8	2663:10,17	Gadsden 2474:6	2697:12 2701:4
Francis 2475:3	2665:9 2734:8	2477:10 2659:21	2704:10 2709:1
2477:5	2761:19	2660:1,2	2714:18,22
2491:16,17,20	fully 2755:22	2661:14,20	2715:1
2492:6,8	fun 2744:11	2676:19,21	2716:2,14
2493:3,5,20	function 2611:13	2679:5,11,12	2729:4 2767:11
2494:6 2503:11	functions 2593:4,5	2680:2,8	2796:10,19
2517:14,17,19	2635:6	2681:21 2682:5	generally 2568:17
2518:4,5	fund 2483:3,12,22	2685:19	2595:7 2628:10
2522:17,19	2574:6 2594:21	2686:2,4	2682:15 2683:2
2525:21 2526:2	2713:22	2690:17,20	2708:10 2711:3
2529:1 2534:2	2714:5,7	2693:2,8	2714:10,12,13,1
2536:16 2537:1	2715:6,8	2695:10,16,17	9 2720:6,11
2543:20,22	fundamentals	2699:1,14	2779:13
2606:16 2610:18	2585:10,16	2700:4,9,12,13	generate 2577:9
2654:7	funded 2573:4	2701:9,19	generating
2707:12,13	funding 2483:7,19	2707:9	2573:1,17
2758:21 2772:4	2484:14,17,19,2	2728:1,4,7	2807:9
2802:6	2 2485:11,16	2730:11,16	generation
frankly 2817:4	2487:5 2637:14	gain 2488:13	2537:17 2538:7
Frann 2475:3	funds 2499:5	2522:2 2614:1	2542:11,21
2505:18	2558:4 2559:5,8	gains 2490:8	2556:3,7,11
fraudulent 2509:7	2622:13	gang 2577:22	2585:22 2720:16
free 2702:11	furnished	garbled 2562:5	2805:17,18
		gas 2486:3	2807:3,9 2813:4
		2538:13	generation- related 2705:7

Capital Reporting Company
Formal Case No. 1119 04-20-2015
Page 35

generator 2779:16	15,19,22	2659:7,18	
generic 2502:12	2626:4,9,13,19,2 1	2676:5,8,14	<hr/> H <hr/>
Genzer 2474:11		2719:9,11	half 2537:10
geographic 2723:17	Gorman 2523:22	2727:21 2730:3	2594:14 2760:7 2829:10
geothermal 2815:14 2816:21	2736:9,20	great 2484:13	half-hour 2760:16
gets 2591:13	2738:5 2739:2	2487:14 2544:16	halfway 2703:14 2704:1
2630:5 2652:1	2828:10 2829:4	2546:22 2597:6	hallucinating 2612:19
2703:21 2794:16	2830:3	2599:17 2617:16	hand 2547:8
getting 2716:9	Gorman's	2622:21 2623:11	2573:3
2758:9 2774:15	2738:14,17,19	2629:8	2615:1,3,6,7
Ginna 2795:18	2739:4	greater 2507:9	2623:2 2720:12 2810:1
2797:11	gotten 2488:13	2524:16 2568:9	hands 2533:15 2615:1,2,6
2806:18,19	2611:5 2763:3	2583:4 2616:18	happen 2718:7 2786:16 2808:5
gist 2793:17	governance	2673:6	happened 2652:15
given 2507:10,18	2610:5 2612:5	2769:4,19	happens 2610:8,11 2815:16
2509:3 2554:5	2678:15 2683:7	2803:9 2804:19	happy 2827:17
2576:18 2663:16	2708:4,9,14	2824:6	hard 2504:10 2724:5 2725:3
2717:11 2741:21	2709:12 2717:14	Grid 2539:18	hardly 2545:17
2771:5 2796:9	governing	2540:16,18	harm 2489:20 2612:15
2831:10	2638:15,20	ground 2666:18	2613:13,14,20 2614:3,6,8,9 2615:4,5
gives 2722:14	government	group 2509:19 2718:17	harms 2670:7,20
giving 2550:16	2475:7,11	groups 2815:22	haven't 2495:12 2635:9 2733:20 2736:15 2740:19 2743:11 2745:10 2768:6 2770:13,22 2788:15
2560:3,5 2746:3	2480:18 2487:16	grow 2484:10	
goal 2817:15	2544:1,8 2587:2	growth 2486:2	
goals 2819:3	2623:14 2629:17	guarantee 2666:4	
God 2607:12	2641:22 2654:15	guess 2514:7 2558:19 2577:14	
going-forward 2524:13	2759:2 2802:7 2825:19	2603:7 2631:7	
golden 2590:16	gradually 2665:12	2647:4 2659:12	
2610:2 2640:10	granted 2517:1 2518:18 2520:6	2684:3 2741:3	
gone 2788:13	granular 2495:5	2765:17 2806:21 2823:16	
2816:18	granularity 2525:13	guidance 2572:6 2574:20	
goodwill 2599:20	graphic 2587:22 2588:7,8,17	guide 2662:14	
2600:5	Gray 2474:11	guidelines 2708:9 2709:13	
2624:10,11	2477:9,11	gum 2591:6	
2625:3,4,5,7,12,	2657:16,17 2658:4,10,22		

Capital Reporting Company
Formal Case No. 1119 04-20-2015

Page 36

2790:11,20 2791:2,3 having 2481:11 2525:6 2529:8 2537:3 2593:5 2604:9 2605:16,19,20 2613:17 2638:5 2657:22 2705:22 2706:2 2728:10 2731:3 2744:4 2747:7 2751:10,13 2761:9 2773:15 2820:15 2823:4 head 2480:22 2713:12 headed 2555:14 2622:12,17 heading 2582:21 2585:3 2622:17 headquarters 2512:4 2684:9,16 2710:3,10 hear 2517:20 2613:4 2629:19 2645:10 2820:5 heard 2612:17 hearing 2473:12 hearings 2480:3 heavy 2830:18 hedge 2810:13 held 2652:2 2676:17 2828:13 help 2492:13 2687:6 2783:12 2809:3 2822:20 helping 2586:8	hereby 2831:3,8 here's 2703:21 he's 2578:11 2630:16 2741:14 2744:7 2826:10,12 high 2501:17 2571:22 2809:21 2813:6 higher 2523:3 2538:17 2540:18 2553:3,9 2560:19 2566:11 2567:19 2568:8 2574:14 2717:10,11 2746:10 2801:15 2806:5,6 2812:1 highest 2501:12,18 2748:3 highlighted 2803:13 highly 2723:13 2820:16 Hillabee 2574:2 2582:4 H-I-L-L-A-B-E-E 2582:4 historic 2664:22 historical 2626:6 2727:12 history 2619:5 2629:3 2799:3 2809:17 hit 2813:17,22 2814:17 Hoene 2619:20 2620:1	hold 2494:19 2519:7 2587:15,16 2643:16 2826:6 2829:16 HoldCo 2574:21 2575:5 2588:18,20 2589:1,9 2592:5 holding 2566:9,17 2568:1 2587:6 2591:8 2593:21,22 2602:6,7,12 2604:22 2605:5,6,16 2606:12 2607:12,18,20 2610:8 2612:7 2618:18,19 2619:2 2627:16 2628:21 2647:10,11 2665:7 2682:10,20 2683:1,2 2711:7 2808:14 Holdings 2473:4 2480:5 2569:8 2579:14 2597:9,11 home 2741:9 2830:18 honest 2807:22 Honor 2480:10,14 2481:6,14 2482:1,12 2491:10 2492:6 2493:3,20 2502:22 2517:10,14,18,1 9 2518:4 2522:18 2525:22	2536:16 2543:20 2549:3 2584:20 2624:14 2631:16 2633:7,12 2653:17 2654:7,14,18 2656:5 2657:2,16 2658:10 2659:19,21 2679:11 2681:21 2686:2 2690:18,19 2695:16 2699:1 2701:9 2707:9,13,15,18 2730:3,11 2733:15 2737:6,13 2738:11 2751:15 2752:15,19 2754:6 2758:19,21 2759:2,3 2760:14 2762:18 2764:6,18 2772:4,5,8,9 2773:9,18 2774:11 2825:7,16 2827:11 Honors 2661:15 2679:5 2680:2 2695:10 2776:9 2783:1 2785:1 2787:7 2801:4 2802:4 2825:8 hope 2743:12 2758:5,11 2818:17 hopefully 2744:6 2760:11 2819:5 2830:18
--	--	--	--

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Capital Reporting Company
Formal Case No. 1119 04-20-2015
Page 37

hoping 2728:8 2741:3	2598:11 2627:5 2630:14 2653:19 2658:11 2768:13 2783:1,20 2785:1,13 2787:7,21 2789:6 2795:22 2824:19	2706:1 identifies 2501:3 identify 2565:19 2571:14 2651:22 2686:9,16 2703:9 2708:16 2735:22 2754:4	2556:8 2564:20 2565:3 2569:15 2574:8 2581:18 2582:7 2585:11 2589:1 2592:18 2593:10 2595:8,22 2597:4,16 2600:2 2604:9 2610:11 2618:21 2619:16,22 2621:2,10 2622:9 2624:14 2625:1,2,20 2626:13,18 2627:9 2629:20 2631:8 2636:4,14,17 2637:2,21 2638:17 2640:5 2643:12 2647:19 2650:16 2651:3,12,18,22 2652:10,18 2653:5 2660:3 2663:12,15,16 2667:7 2669:8 2676:20,22 2683:12 2688:19 2689:9 2691:12 2696:17 2699:20 2702:15 2713:8,17 2714:13 2715:22 2727:17 2736:2,4 2737:14 2738:2 2742:7 2746:3 2749:1,7 2750:3,21 2760:17,18 2761:13 2769:5 2781:3 2788:21 2789:1,22 2790:3
host 2663:1			
hotel 2828:19			
hour 2760:7 2791:15 2829:11			
hours 2655:3 2760:4 2826:11 2830:9	idea 2513:21 2595:10 2613:12 2616:4,5 2640:5 2708:13 2711:6 2722:15 2822:4 2824:13	ignored 2671:3 I'll 2482:14 2543:9 2544:6 2571:3 2579:9 2620:16 2627:2 2633:2 2683:18 2686:22 2735:18 2752:22 2774:6 2800:5 2825:2	
households 2678:3	identification 2493:21 2494:5 2536:22 2548:11 2570:20 2598:4 2618:3 2623:12 2627:4 2629:12 2630:13 2631:11 2632:3,12 2658:21 2661:12,19 2679:10 2680:7 2681:19 2682:4 2686:1 2692:22 2693:7 2695:15 2701:10,18 2732:20 2733:3,6,11 2763:14 2764:17 2768:17 2772:19 2783:7 2785:6 2787:14 2789:13 2796:7 2801:9	Illinois 2800:2,3 2806:20 illogical 2484:7 2491:7 2613:22 illustrative 2702:20 I'm 2492:1,12,14 2493:15 2496:10 2500:20 2502:11,20 2503:3 2510:8 2511:21 2514:4,7,20 2515:22 2516:1 2517:19 2519:10 2520:1,17 2521:3,15,17 2522:12 2523:18 2525:19 2526:5,18 2527:7,9 2529:21 2530:1 2533:9 2537:21 2538:11 2543:8 2545:19 2548:14 2549:16 2552:21	
huge 2806:1			
hundred 2552:5 2555:9,10 2804:13 2808:10 2820:21			
hydro 2816:22			
hypocritical 2795:13			
hypothetical 2519:21 2592:2 2593:16,19,20 2594:3 2614:10 2738:15			
<hr/> I <hr/>			
Iberdrola 2541:7,14,16,17, 18,20,21 2542:2			
Iberdrola's 2541:8			
ICE 2722:11 2724:9			
I'd 2530:1 2536:9,17 2537:2 2538:12 2539:1,13 2541:1 2542:6,17 2548:22 2586:13 2597:14,17	identified 2492:5 2493:2 2510:9 2525:21 2582:3 2662:20 2679:2,6,8 2680:3 2681:7 2686:19 2695:11		

Capital Reporting Company
Formal Case No. 1119 04-20-2015
Page 38

2793:2,16 2800:11,12,17 2801:10,17,19,2 0 2806:17 2807:16,20 2814:2 2824:15 2827:11,17 2828:22 2829:14 imagine 2489:5 2666:14 immediate 2577:14 immediately 2576:14 2587:4,6 2747:20 impact 2745:6 2754:21 2803:5 2826:2 impacted 2800:18 impacts 2663:17 2664:9 2677:7 2720:10 2792:6 2820:17,18 impairment 2599:19 2600:5,10,13,16, 17 2601:6,19 2603:10 impeding 2614:15 implement 2647:8,9 2819:17 implemented 2538:19 implementing 2739:21 implication 2490:5 2723:18 implied 2566:12	important 2509:21 2535:14 2566:13 2575:18 2664:12 2677:4 2701:1 2807:16 2810:12 2820:14 impose 2486:9 2778:7 2804:12 imposed 2603:18 improve 2685:10 improved 2687:20 2727:14 2769:21 improvement 2727:18 imprudent 2804:12,15 imputation 2491:4 impute 2628:1 imputed 2627:15 2628:21 inability 2771:20 inadequate 2700:21 inadequately 2483:3 inadvertently 2774:1,5 2825:1 inappropriate 2628:13 inartfully 2529:22 Inc 2473:4 2597:9,12 incentive 2720:10 include 2508:13 2559:10,11,12 2624:11 2625:12 2664:9 2673:1 2735:1 2748:21	2749:4 2803:18 included 2511:8,13 2558:13 2642:11 2690:1 2700:10 2704:15 2705:7 2737:22 2742:14 2749:5 2803:17 2810:8 2813:20 2823:1 includes 2816:1,2 including 2510:13 2625:15 2649:15 2654:16 2700:5 2779:16 2812:12 2815:1,15 inclusive 2654:16 income 2529:16 2576:3 2578:9,12,15 2579:2,15 2583:4 2677:8 2806:21 inconvenience 2481:1 2590:15,19 2610:1 2611:18 inconvenient 2489:12 2590:8,18 2591:4,8,12 2604:7,9 2616:18 incorporated 2734:15,17 incorrect 2495:6 increase 2521:8 2550:2 2614:5 2646:9,13 2706:14 2793:19 increased 2674:22	2675:7 2745:9 increases 2809:4,5,11 2811:6 increasingly 2766:6,21 incremental 2566:8,17 2568:1 incur 2823:4 incurred 2510:4 indecipherable 2699:11 indeed 2742:12 independence 2637:19 2652:13 independent 2498:4 2502:2 2557:16 2634:7,11 2636:20 2639:3,6 2640:13 2641:14 2678:19 2679:16 2681:16 2682:11 2708:17 indicate 2624:21 2702:13 2749:9 2765:16 2788:5 indicated 2480:17 2512:3 2599:4 2618:21 2662:6 2684:15 2685:13 2698:3 2707:1 2750:20 indicates 2755:11,16 2756:3 2799:3 indicating 2517:22 2621:11
--	--	---	---

Capital Reporting Company
Formal Case No. 1119 04-20-2015
Page 39

<p>2630:22 2657:4</p> <p>indication 2560:5</p> <p>indicator 2522:22</p> <p>indirect 2671:19 2672:4</p> <p>individual 2504:12 2524:22 2525:15 2619:19</p> <p>individuals 2652:9</p> <p>individual's 2585:12</p> <p>indulge 2592:1</p> <p>indulgence 2751:16 2752:22</p> <p>industrial 2786:20</p> <p>industry 2489:9 2501:12,14,22 2536:14 2701:5</p> <p>infinitesimally 2591:20</p> <p>inflated 2743:17</p> <p>inflation 2810:8</p> <p>influenced 2506:15</p> <p>informally 2827:1</p> <p>information 2494:13 2634:6 2645:1 2657:10 2679:18 2682:15 2703:6 2704:8,11,12,14 2705:19 2745:11 2751:22 2752:6 2755:3,4,8 2756:6,16 2757:9,18,20 2792:18 2793:3</p> <p>informed 2743:21</p>	<p>infused 2485:17</p> <p>initial 2574:15 2761:21 2766:10</p> <p>initially 2506:22 2526:9 2530:17 2820:12</p> <p>initiate 2515:6 2517:7 2518:10</p> <p>initiating 2647:2 2648:20</p> <p>initiative 2648:19 2650:19</p> <p>input 2717:13</p> <p>inputted 2812:7</p> <p>inside 2561:6 2567:14</p> <p>insisting 2684:5</p> <p>instance 2664:11 2669:21 2672:8 2778:11 2794:2 2809:12 2822:14</p> <p>instant 2519:6</p> <p>instead 2651:9 2672:6 2674:9</p> <p>instruction 2639:6,12,16</p> <p>instructions 2636:2 2639:2,19 2641:6</p> <p>instrument 2554:13,19,20</p> <p>insulation 2538:18 2540:19</p> <p>insurance 2613:17</p> <p>integrated 2602:8 2603:6</p> <p>intend 2752:4</p>	<p>intended 2527:4,18</p> <p>intent 2675:17 2744:4</p> <p>interconnections 2602:19 2603:1</p> <p>interest 2489:18 2520:14,15,22 2521:1,20 2559:10 2580:21 2640:9 2663:1 2720:14 2771:14 2815:22 2819:13</p> <p>interested 2656:21 2831:15</p> <p>interests 2489:8</p> <p>intergenerational 2736:22 2737:4,9,21 2738:6 2739:8</p> <p>internal 2621:20 2622:1 2746:19</p> <p>interposed 2590:7 2592:2,6 2594:19</p> <p>interpret 2600:1 2766:20 2768:7</p> <p>interpretation 2646:21,22 2667:18 2669:6</p> <p>interrupt 2827:12 2829:19</p> <p>intervenor 2780:3 2782:8</p> <p>intervenors 2633:13</p> <p>introduce 2673:16 2752:2,12 2783:2 2785:2 2787:8 2789:6</p>	<p>2796:4</p> <p>introduced 2699:18</p> <p>introducing 2591:21</p> <p>invest 2515:6 2517:7 2518:11 2520:13,20 2521:19</p> <p>investigation 2647:2 2663:21 2664:1</p> <p>investment 2486:2 2585:3,12 2689:3 2691:6 2713:21 2714:5</p> <p>investments 2484:9 2722:5</p> <p>investor-owned 2781:21 2786:1,3</p> <p>investors 2484:11 2486:20 2529:16 2764:21 2765:6 2791:22 2794:17 2795:1</p> <p>involve 2739:20</p> <p>involved 2573:7 2599:8,15 2629:6 2642:3,8 2660:12 2713:1</p> <p>involvement 2598:5 2599:2,5 2712:10</p> <p>involves 2623:20 2625:9</p> <p>involving 2490:13 2619:2 2661:7 2686:10</p> <p>Iowa 2618:22</p>
---	---	--	---

Capital Reporting Company
Formal Case No. 1119 04-20-2015

Page 40

2619:11,14 IRS 2747:11 Island 2475:9 isn't 2502:18 2505:16 2547:4 2591:9 2592:9 2616:12 2684:13 2748:20 2753:21 2792:4 2821:2 ISO 2797:20 2798:11 2800:9 issuance 2552:15 2553:12,21 2580:15 2582:20,22 2583:7 issue 2485:7 2486:8 2487:10 2499:14,21 2553:11 2621:16 2630:2 2640:9 2659:4 2674:10 2675:19 2685:3 2697:22 2698:4 2704:10 2709:8 2714:16 2721:12 2725:9 2728:21 2736:6 2737:10 2740:11 2742:21 2767:4,5 2771:7,12 2789:2 2808:15 2822:15,16 issued 2550:9 2551:16 2553:18,20,21 2574:12 2581:8 2583:15 2627:20 2668:6 2796:16 issues 2662:10 2666:12 2678:2 2720:9 2736:7	2739:15 2758:12 2799:13 2800:18 2807:19 2817:5 issuing 2553:8 item 2526:13,20 2626:6 2692:11 2707:4 2711:17 items 2497:20 2573:11 2709:11 iterate 2735:12 it's 2481:1 2483:16 2495:6 2504:10 2507:21 2517:11,14 2519:22 2520:1 2522:11 2531:10,17 2533:17 2543:6 2545:19 2548:16,21 2552:17 2561:6 2563:2,3,4,6,7,9 2564:15 2565:4 2566:8,10 2567:15 2570:22 2579:15 2584:3 2591:8 2594:19,20,21,2 2 2595:1,4 2598:2 2600:22 2608:14 2612:1,9 2615:20 2618:15 2621:3,4,7 2624:18 2625:12 2626:14 2630:4,5,7,8,14, 20 2631:20 2634:2 2636:18 2639:11,18,21 2648:12 2651:6 2652:4 2656:12,17	2657:5,6 2659:10 2663:15 2664:12 2665:18 2666:11,15 2676:8 2683:4 2703:15 2705:9 2711:5,17 2716:17 2720:7,11 2722:20 2723:5,6,9,18 2724:22 2726:14 2733:22 2736:4 2737:12 2741:15 2743:14,18,22 2746:13 2748:3 2749:13 2750:8 2753:4 2754:13 2755:14 2756:6 2757:4,12 2760:3 2764:8 2765:17 2767:10,18 2768:3,5 2771:11 2774:5 2775:2 2783:13 2784:5 2786:20 2788:11,17 2790:4 2791:8 2793:7,13 2794:18 2795:4 2796:14,21,22 2797:5 2798:19 2799:9 2802:20 2805:4 2806:8,15 2807:20 2808:7,8,10 2810:5,6,12 2811:10,11 2813:3,5 2817:2,5 2818:11 2820:14,15,16 2822:16 2823:19	2824:12 2826:18 2828:4 I've 2487:8 2519:5 2532:3 2547:9 2549:22 2564:13,15 2567:4 2572:4,13 2594:12,13 2635:16 2662:17 2663:16 2711:12 2724:15 2754:15 2791:21 2796:9 IX 2473:7 <hr/> J <hr/> Jack 2565:16 January 2787:21 Jason 2474:11 2657:16 Jersey 2495:2 2506:13,15,21 2507:14 2510:19 2511:7 2512:2,12 2513:20 2515:12 2516:13,22 2517:6 2518:9,18 2520:6 2522:7 2528:19 2529:2 2530:5 2710:16 2780:4,11,20,21 2781:7,15,19,21 2806:13 Jersey's 2780:14 JOANNE 2473:19 John 2475:8 2544:6 joint 2473:3 2474:2
---	---	--	--

(866) 448 - DEPO

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Capital Reporting Company
Formal Case No. 1119 04-20-2015

Page 41

2478:5,12,13,14, 15,16,17,18,19 2479:4,5,8,9,10, 11,13,14 2480:16 2481:7 2482:21 2487:1 2488:18 2493:22 2500:8 2501:1,10 2504:7,18 2506:20,22 2507:12 2510:12,17 2514:1 2522:6 2525:22 2528:18 2530:4,21 2531:4,10 2532:2,5 2533:2,7 2535:18 2544:17 2562:21 2586:6 2587:7 2588:2 2597:19 2608:21 2609:5 2610:21 2612:13,22 2616:16,20 2617:4 2618:6 2623:13 2629:12,15,17 2630:10,17 2646:16 2648:10,19 2649:13 2653:20 2654:3 2660:3 2661:12,15,18 2671:14 2674:7 2679:2,6,9,22 2680:3,6 2681:19,22 2682:3 2685:17,20,22 2690:9 2693:3,6 2695:8,11,14 2698:14 2701:10,12,17	2710:1 2719:13,14 2725:15,16 2730:12,14 2735:14,19,21 2740:14,19 2742:19 2747:1 2754:7 2763:14,16 2764:1,2,10,14,1 6 2768:11,14,16 2772:21,22 2773:2 2776:11 2783:6,16 2785:2,5 2787:9,13 2789:7,12 2792:20 2795:22 2796:6 2801:5,8 2825:9,12 jointly 2630:9 judgment 2595:9 2626:14 jump 2809:13 jumped 2809:14 June 2496:9,12 jurisdiction 2794:13 2801:1 2811:21 2820:18 jurisdictional 2758:10 jurisdictions 2618:15 2694:14 2721:16,22 2794:13 2800:1,20 2806:10,16 2807:6,7 2817:8 2823:10 justification 2488:13 2528:20	2530:7 justified 2489:5 2524:10 justify 2530:9 <hr/> K <hr/> Kane 2473:18 2480:2,11,15 2481:3,15 2482:16 2491:12,16 2494:3 2517:13,16,21 2536:19 2543:22 2549:6 2564:20 2565:2,6 2569:19 2570:12,15 2584:5,8,11,17 2621:10 2624:21 2630:22 2631:6,13 2633:5,9,11,13 2646:1,21 2647:21 2648:4,9,16 2649:3,11 2650:16,22 2651:14 2652:16,21 2653:18 2654:1,9,13,21 2655:2,8 2656:3,10,21 2657:3,11,14 2658:18 2659:6,20 2661:17 2676:16 2679:8 2680:5 2682:2 2685:21 2693:5 2695:13 2699:13,22 2700:6,10 2701:16	2707:11,14,16,1 9,22 2711:12,22 2712:14,17,20 2713:4,10,13,19 2714:12,15 2715:3,14,20 2716:12,15,20 2717:3 2718:2,6,10,13,2 0 2719:5,7 2728:3,5,8 2729:3,6,22 2730:7,13,17,21 2733:1,9,14 2738:3,12,16 2739:1 2743:21 2751:18 2752:8,11,14,16 2753:4,7,11,15,1 9 2758:20,22 2759:5,8,10,15,1 9 2760:1,17 2761:5 2762:16 2764:5,7,12,15 2768:15 2772:10,12,16 2773:1,4,7 2774:9,13,17 2776:7 2783:5 2785:4 2787:12,21 2789:11,19 2796:5 2801:7 2802:11 2808:13,21 2809:9 2810:14,20 2811:3 2812:16 2813:2,10 2814:2,13,21 2815:11 2816:1,8,17,19 2817:11,16 2818:4 2819:7 2820:3,20
---	---	---	--

(866) 448 - DEPO

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Capital Reporting Company
Formal Case No. 1119 04-20-2015

Page 42

2821:3,7,10,20 2822:2 2824:14,18 2825:4,11,14,17 2826:4,6,12,15,1 7 2827:14,16,18,2 1 2828:3,6 2829:1,6,9 2830:3,5,7 Kaye 2475:18 Kazakhstan 2513:3 Ken 2776:10 KENNETH 2474:7 Kevin 2533:5 key 2677:5 Keyspan 2540:12,15 Keystone 2573:21 2582:3 Khouzami 2492:18 2493:7 2630:4,9,15,19 2631:4 2740:14 2741:9 2743:8,21 Khouzami's 2632:4 2740:11 kill 2548:17 kilowatt 2791:15 knew 2713:16 2786:13 knowledge 2485:17 2486:1 2506:16 2602:10 2732:16 2751:2 known 2628:9	2652:12 2667:19 2669:13 2717:20 2756:7 2797:17 Kulak 2474:7 2477:20 2776:9,10,13,15 2783:1,8,20 2784:1 2785:1,7 2787:7,15 2789:6,14 2794:15 2796:3,8 2801:4,11 2802:4 2825:8 <hr/> L <hr/> lab 2690:2 2720:20 labeled 2482:6,8 2620:17 2783:15 labs 2689:16 lack 2489:6 2605:3 2652:13 2809:15 lag 2514:1 laid 2770:13 landscape 2781:18 language 2510:20,21 2512:1,7,11,20 2515:14 2516:11 2517:12 2528:9 2634:15 2683:15 Lapson 2477:3 2481:7,10,18,20, 22 2482:14 2485:14 2489:21 2491:9,10,15,21 2492:10 2494:7 2495:14,18 2496:7 2503:1	2507:9 2510:15 2516:14 2518:6 2519:7 2526:3,7 2533:11 2536:13 2537:2 2538:9 2539:10,22 2540:21 2541:10,15 2543:18 2544:4 2549:8 2550:14 2552:13 2560:2 2561:22 2564:12 2570:19 2571:13,18 2576:5 2578:5 2583:1 2584:22 2585:8 2591:5 2595:3 2603:2 2604:4 2614:11 2615:9 2617:3,17 2621:15 2623:1,16 2624:19 2626:1 2627:1 2629:5 2630:2,10,21 2631:1,10 2766:16 2767:21 2769:11 Lapson's 2482:2,5,7,9 2656:6 large 2485:3 2538:6 2542:10 2553:16,21 2605:21 2699:6 2794:3 2822:16 largely 2699:10 larger 2665:12 2671:20 2699:12 2766:4 2792:1 largest 2781:20 last 2522:20	2531:21 2533:12 2535:5 2540:4,17 2542:16 2556:8 2647:22 2675:5 2683:3 2692:11 2699:3,4 2716:11 2726:16 2727:19 2729:1 2751:7 2753:14,15 2754:1 2765:14,21 2786:13 late-arriving 2701:13 later 2664:1 2752:12 LAURENCE 2474:15 law 2476:8 2509:8 2649:4 2776:10 2777:2 2812:17,19 2814:3,6,14,15 Lawrence 2689:16 2690:1 2720:19 laws 2554:5 lawyer 2649:14 lead 2487:13 2801:15 2822:18 leading 2604:6 2625:21 leads 2583:17 lease 2559:11,12 leases 2568:21 least 2489:18 2630:2 2672:12,19 2678:17 2711:1
---	---	--	---

(866) 448 - DEPO

www.CapitalReportingCompany.com © 2015

Capital Reporting Company
Formal Case No. 1119 04-20-2015
Page 43

2726:21 2727:1,2,19 2744:18 2803:18,20 2820:11 2822:17 leave 2584:22 led 2502:11 2606:16 left-hand 2663:15,19 2703:16 legal 2483:9,13 2591:2 2624:15 2635:19 2637:9 2638:8 2641:6 2653:12 legally 2634:21 legislation 2806:19 legislative 2660:7 legitimate 2729:8 length 2646:4 2767:22 2802:21 lengthy 2531:16 2754:13 less 2505:16 2508:1 2579:16 2594:14 2607:16,22 2642:22 2650:15 2716:13 2803:19 2814:11 lessen 2555:22 lesser 2567:7,12 let's 2493:19 2519:20,21 2539:12 2540:11 2541:1 2542:6 2548:10 2553:5 2586:12	2592:16,17 2606:19 2615:8 2617:3 2631:19 2671:5 2696:18 2700:17 2763:12 2783:12 2790:6 2792:13 2798:2 letter 2780:19 2781:2 2789:18 level 2485:12 2488:15 2490:19 2528:14 2529:11 2534:21 2535:3,5 2579:17 2587:5,6 2595:16 2625:16 2647:12 2677:5 2710:21 2744:2 levelized 2813:21 levels 2496:4 2528:15 2687:20 2727:13 2806:5 leverage 2487:14 2489:22 2490:5 2505:2 2550:3,7 2556:14 2559:5,7 2566:9,17,21 2568:1,17,19 2617:18 2618:14 Lewis 2474:7 2776:10 liabilities 2509:5,14 life 2739:22 lightning 2577:20 likely 2487:6 2560:9 2575:20 2610:4 2671:20 2673:5 2712:6	2771:4 2823:18 limitation 2624:8 2625:10 2746:20 2747:15 limited 2482:12 2537:14 2538:3 2599:9 2607:1 2639:11,18 2640:2 2671:21 2683:1 2824:1 line 2502:16 2505:6 2515:9 2570:9 2576:15 2578:17 2579:20,22 2580:11 2583:19 2586:15,16,18 2608:14 2609:21 2617:6,9,13 2621:18 2659:11,14 2667:22 2670:13 2671:7,12,17 2673:10 2674:7 2677:3 2681:14 2683:6,19 2685:7 2687:16,17 2688:19,21 2689:11 2691:4,17 2701:1 2711:14 2712:3 2717:4 2720:14 2734:5,21 2812:15 2817:21 lines 2500:21 2501:7 2511:4 2515:1 2523:20 2524:5 2544:18 2586:7,14 2589:22 2590:6 2634:2 2640:7	2667:8 2668:19 2669:19 2674:16,21 2683:18 2691:22 2695:2 2696:19 2701:21 2708:7 2709:21 2734:13 2735:9,18 2736:4 2741:16 2742:7 2763:2 liquidity 2498:5,9 2499:2,4,11,13,2 2 liquor 2816:15,16,17 list 2502:10,17 2503:1,6 2506:11 2508:10 2532:19 2572:16 2573:17,19 2606:15,17 2637:22 2642:2 2692:7,11 2717:9 listed 2497:20 2503:19 2505:8 2508:8 2511:15 2516:18 2598:2 2606:15 2641:20 2680:21 2681:3,6 listen 2741:8 listing 2497:16,19 2502:10 lists 2501:2 2503:6,8 2660:6 literature 2665:20 litigious 2714:16 little 2492:13 2502:20 2504:11 2540:2 2550:18
--	---	---	--

Capital Reporting Company
Formal Case No. 1119 04-20-2015

Page 44

2554:2 2561:6 2567:14 2570:15 2574:14 2576:4 2580:10 2588:16 2594:9 2601:15 2620:3 2699:2 2706:19 2712:6 2719:9 2724:1 2728:9 2729:20 2734:2 2742:4 2744:8 2754:13 2756:9 2760:4 2763:13 2803:21 2805:14 2819:5 live 2621:19 2765:3 LLC 2473:5,6 LLP 2474:3 2475:18 load 2713:5 2778:3 2786:6,10,15 2803:19 2808:11 loan 2534:3 local 2480:19 2683:21 2717:15 2807:15 2808:8,10 2826:12 located 2500:11 2542:4 2588:7 2684:10,12,13 location 2500:13 2684:16 locations 2711:3 lock 2779:20 Loeb 2474:3 long 2487:21 2512:17 2513:4 2586:7 2609:2	2616:1 2766:9 2820:20 longer 2508:1 2590:14 2609:22 2630:16 2657:10 2729:20 2803:21,22 2816:16 longer-term 2671:13 long-term 2486:8,18 2504:20 2747:17 2748:2 2770:19 2776:18 2777:10 2778:12 2779:12 2780:22 2781:10 2784:17 2785:18 2799:17 2803:2 2804:3,14 2809:1 2810:3,13,15 2813:19 2814:4,9 2815:10 2817:3,4 Lopez 2474:16 2477:16 2761:12,13,16 2762:14 2772:11,13 Lorenzo 2474:3 2477:4,7,14,17 2480:10 2481:6,14,17 2482:1,17 2491:10 2502:22 2517:10,18 2549:1,3 2563:6 2564:1,6 2571:3,8 2620:18,20 2624:14	2629:9,19,22 2630:8 2631:3,13,16 2645:9 2653:1,16,19 2654:18 2656:4,5,11 2657:1,6,13 2733:14,15,17 2737:7,8,11,14,1 6 2738:11,13,18 2739:3 2751:15,20 2752:10,13,15,1 9 2753:6,10,13,17 2754:4,6,10 2758:18 2760:14 2762:17,18,20 2763:16,21 2764:6,9,13,18,1 9,22 2765:4 2768:13,18 2772:2,21 2776:8 2828:1,4 2829:20 2830:4,6 Lorenzo's 2613:5 lose 2587:19 losing 2483:6 loss 2582:14 2601:20 2744:9,20 2745:7,20 2746:6,9,21 2750:17 2751:4,11 2754:22 2755:12 losses 2581:17,19 2717:16 2747:7,8 lost 2582:21	2696:16 2747:15 lot 2489:10 2503:19 2505:14 2507:16,17,18 2664:19 2665:21 2702:7 2803:21 2807:17 2808:8 low 2537:18 2538:8 2539:5,8,20 2542:12,22 2543:16 2574:21 2591:15,20 2596:7 2672:14 2675:9 low-cost 2575:5 2817:22 lower 2535:2 2537:14 2538:4 2543:12 2557:6,10,11 2585:22 2769:22 2770:11 2771:7,13,14 2787:4 lowest 2795:8 low-income 2678:3,6 2826:3 lunch 2584:15 2646:2 2655:9,11 2830:11 Lynch 2571:16 <hr/> M <hr/> M&A 2662:14 2664:18,19 ma'am 2546:13,15 2593:17 2708:5,11 2709:10,19
---	---	---	---

(866) 448 - DEPO

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Capital Reporting Company
Formal Case No. 1119 04-20-2015
Page 45

2710:17 2711:11,21 2712:13,16,19 2713:3,8,17 2714:10 2715:1,13 2716:19 2717:2,22 2718:5,9,12,19 2719:2,6 2828:16 Macquarie 2703:8,17 2706:17 Madam 2738:2 2826:14 magnitude 2722:4 main 2673:11 2822:8 maintain 2510:1,3 2512:3,21 2513:3 2534:21 2567:20 maintained 2509:3 2513:13 2538:19 2561:18 2610:4 maintaining 2591:2 2605:14,21 2683:21 2711:8 maintenance 2624:8 major 2495:20 2497:18 2711:4 2785:20 majority 2679:16 2681:15 2682:10 2684:1 man 2593:10	management 2595:1 2612:9 2643:20 2711:4 2767:2,4,8,10 managements 2593:3 managing 2598:22 2639:20 mandatorily 2551:12 mandatory 2550:20 2551:2 2552:10,13 2553:3,19 2554:9 2555:2,11 2572:22 2574:9 2581:7,8 2583:11,16 manner 2515:20 Mara 2828:10 2829:2,15 2830:14 March 2493:14 2628:17 2659:1 2726:14 2732:3 2796:12 MAREC 2476:6 2633:11 2760:6 2775:8,10 2779:16 2780:3,19 2781:5 2782:7,13,17 2784:11,20 2785:16 2801:2 2824:21 2825:5 MAREC's 2780:9 Marie 2731:13 mark 2563:18	2658:11 marked 2478:1 2479:1 2482:10 2493:21 2494:1,3,4 2522:17 2536:17,19,21 2548:11,21 2563:3 2570:20 2571:5 2598:3 2618:3 2623:12 2627:4 2629:11 2630:12 2631:11 2632:2,12 2658:18,21 2661:11,15,17,1 9 2679:10,22 2680:5,7 2681:19,22 2682:2,4 2685:20,21 2686:1 2687:5 2690:8 2692:22 2693:3,5,7 2695:8,13,15 2700:2 2701:10,11,16,1 8 2719:14 2725:16 2732:19 2733:1,3,6,9,11 2763:14,16 2764:5,8,10,13,1 7 2768:11,14,15,1 7 2772:15,16,19 2775:8 2783:2,5,7 2785:3,4,6 2787:8,12,14 2789:7,9,11,13 2796:1,5,7 2801:6,7,9 market 2474:8 2499:15,19,20	2543:16 2545:16 2546:11 2552:15 2553:4,10 2748:12,14,18,2 2 2749:19 2750:7 2795:6,16,20 2799:9 markets 2487:22 2529:15 2799:11,13 2812:11 marks 2563:21 Maryland 2495:2,16 2503:14 2504:5 2536:11 2577:20 2589:10,16 2592:5 2619:8,10,12 2684:5,6 2688:11 2721:11 2722:9,18 2725:19 2726:11 2782:14 2793:18,19,22 2794:5 2800:22 2801:16 2806:13 2818:9,12 Massachusetts 2539:14,16 match 2687:1 material 2508:2 2512:16,18 2513:9 2535:5 2621:13 2702:3 materialize 2705:13 materially 2487:3 2511:7 2516:9,12 2542:22 2591:19
---	---	---	--

Capital Reporting Company
Formal Case No. 1119 04-20-2015
Page 46

math 2566:3 mathematics 2576:12 Mathur 2825:20,22 matrix 2704:20 matter 2473:3,13 2534:19 2547:1 2559:14 2560:4 2609:14 2610:5 2645:5 2650:13 2697:12 2773:19 matters 2480:9 2825:15 matures 2487:3 maximum 2606:6,20 2714:21 2813:14,17 may 2481:5,14 2523:13 2524:22 2525:3,5,8,14 2531:14 2534:16 2549:5,6 2571:5,9 2590:13 2591:6 2603:21 2609:22 2620:18,21,22 2657:14 2666:7 2671:16 2690:16 2694:7 2716:8 2718:10 2722:3,4 2725:11 2726:22 2730:1 2749:2,3 2786:12 2790:21 2793:3 2819:17,20 2824:1,9,10 2826:4,7 2827:12 2829:13 2830:16	maybe 2644:7 2670:9 2707:3 2711:2 2770:8 2786:14 2803:1 2830:2 McGowan 2533:6,7 2636:16 2752:5 2760:22 2761:1 2827:22 2828:8 2829:19,22 2830:8 McPherson 2475:18 mean 2503:19 2553:1 2556:22 2558:8 2561:21 2572:12 2579:7 2580:19 2582:22 2583:2 2585:16 2590:18 2620:7 2651:20 2652:5 2668:14 2669:1 2671:3 2675:6 2720:13 2729:16 2765:16 2766:8 2767:1,5,16,18 2771:12 2786:19 2788:11 2791:8,12 2798:7 2806:11,16 2814:13 2815:6 2816:12 2818:8 2823:5 meaning 2498:11 2559:5 2806:5 meaningful 2535:14 2550:2 meaningfully 2555:21 2556:17,22	means 2524:17 2558:10 2579:8 2593:10 2600:16,18 2605:10 2667:17 2760:22 2768:8 2769:6 2771:7 2803:20 meant 2558:15 2603:5 2651:8 measurable 2628:9 2667:20 2669:3,14 2717:21 measure 2499:2,5 2551:8 2559:5,6 2596:6 measured 2499:12 measurement 2691:5 measurements 2722:16 measures 2488:18,22 2500:1 2537:12 2538:18 2540:20 2552:1,2 2556:13,15 2605:13 2613:10 2642:15 2688:18 mechanics 2723:22 mechanisms 2605:22 2611:11 2721:14 medium-term 2803:2 meet 2665:10 2781:11 2803:15 2815:17 2817:11	meeting 2813:14 2815:3 meets 2777:13 members 2678:18 2708:17 2709:14,17 2779:16 men 2577:22 mention 2635:15 2636:8 mentioned 2487:8 2504:18 2505:18 2829:12 mentioning 2594:4 merchant 2539:7 2543:15 2575:1,4 2720:15 merely 2560:22 Merged 2665:10 merger 2473:7 2483:8 2488:7,8 2501:21 2503:13,16 2504:13 2521:10 2545:4,9 2546:12 2547:3 2548:6,13 2549:11 2557:9 2569:5,7 2573:6 2589:11,14,15,1 7 2606:3 2623:19,22 2638:16 2645:16 2661:7 2662:8 2663:21,22 2664:2,9,10 2666:2,4,7,11,13 2667:3,10,14 2669:12,17
--	---	--	---

Capital Reporting Company
Formal Case No. 1119 04-20-2015

Page 47

2670:1,15,20 2671:4,21 2672:3 2675:3 2678:11 2692:9 2702:18 2711:16 2714:4 2715:5 2717:7 2725:10,13 2736:11 2743:12,14 2747:22 2757:15 2765:15 2766:3,18 2769:1,12,15,17 2770:1,17 2771:20 2776:17 2778:5,7,8 2780:6,12,18 2781:6 2782:3 2784:12 2785:20 2804:8 2806:1 2818:19,20 2819:12,13,20 2821:8,13 merger-related 2662:10 2671:13,19 2701:4 mergers 2665:6,22 2668:2 2702:15 merging 2701:5 merit 2628:12 2698:6 merits 2663:21 Merrill 2571:16 met 2733:20 M-E-T-A 2689:14 meta-study 2689:14 2691:18 2720:20 2721:4 2722:19	methodology 2568:15 2692:1 metric 2499:16 metrics 2499:10 2530:15 2568:8 2575:21 mic 2751:18 mice 2577:22 MichCon's 2540:5 Michigan 2540:4 2731:14 Mid-Atlantic 2722:17 2723:15 2773:11 2775:5 middle 2538:1,15 2539:2 2541:3 2666:18 2678:13,14 miles 2820:21 militate 2610:15 million 2577:4,10 2579:12,13 2583:11 2600:6 2623:9 2645:15 2701:2 2704:20 2705:6 2745:17 2746:5,11,13 mind 2665:18 2668:9 2669:20 2675:11,14,16 2696:11 2697:9 2721:7 2723:20 minimal 2488:5 2824:2 minimized 2607:1 minimum 2666:4 2779:9 ministerial 2641:4 minor 2595:22	2596:10 minuses 2529:8 minute 2686:13 2690:16,17 minutes 2570:11,13 2614:11 2713:22 2760:6,16,18,20 2761:2 mishap 2699:2,15 miss 2505:11,22 2506:1,8 mistaken 2502:12 2727:17 mitigate 2809:3 2811:5 mix 2540:6 2567:16 2610:9,13,15 2803:17 2804:17 2805:1,7 mixed 2607:12 mixture 2803:1,4 model 2551:20 2555:10 2622:17 2652:1 2717:12 modeled 2511:6 models 2555:7 modest 2566:13 modification 2614:21 modified 2512:20 2513:1,2 2515:15 2525:3 modify 2525:6 modifying 2653:10 moment 2533:14	2538:13 2540:12 2542:7 2633:20 2699:2 2732:4 2744:21 2745:18 2746:1 2754:14 2788:1 2797:2 2798:3 2815:16 moments 2809:16 Monday 2473:10 2480:6 monetization 2566:10 money 2563:9 2577:8,18 2579:11 2611:11 2701:2 2814:4 monitor 2499:11 Montana 2602:2,18 2603:9,14,17 2607:11 2624:4 months 2675:2 2748:4 Moody's 2495:21 2496:2 2560:19 2561:2,5,18 2764:21 2765:6 2766:20 2767:13 2768:8 2770:18 Moreover 2685:7 Morgan 2474:7 2693:17 2694:5 2697:12,18 2698:3 2712:5,18 2776:10 Morgan's 2693:19 2696:7,10 2697:6,11,22 2712:2,4
---	---	--	--

(866) 448 - DEPO

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Capital Reporting Company
Formal Case No. 1119 04-20-2015
Page 48

morning 2480:2 2482:18,19 2491:17,21,22 2492:1 2544:4,7 2613:4 2621:18 2645:9 2659:2 2761:1 2826:8 2830:20 motivation 2484:2,3,6 move 2497:14 2567:11 2570:8 2653:19 2654:8 2674:15 2684:19 2688:14 2699:4 2730:4,11 2760:22 2772:21 2824:19 2825:9 2826:1 2830:4,5 moved 2519:13 2544:10 2567:9 2654:1,9 2759:19 2773:1 2825:11 movement 2771:11 moves 2654:15 2759:16 moving 2725:7 2773:7 multi-driver 2823:2 multi-page 2699:6 multiple 2497:20 2566:12 2720:8 multiplied 2750:10 multiply 2577:9 2747:17,22 2748:2	multiplying 2746:8 municipalities 2786:8 must-run 2807:19 2808:5 myself 2669:9 2672:21 2776:4 <hr/> N <hr/> NANCY 2476:3 narrative 2686:17 2699:17 2701:13 2703:4 National 2539:18 2540:16,18 natural 2586:1 2606:10 2809:15,18,20 nature 2657:9 2664:20 2665:16 2666:9 2683:4 2702:7 2717:11 2753:9 necessarily 2517:6 2518:9 2523:14 2534:7 2573:9 2626:10 2716:6 2718:1 2788:17 2789:2 2794:8 2804:6 2813:4 necessary 2512:11 2522:8 2592:11 2596:13 2611:14 2757:4 negative 2545:2,11,14 2546:18 2547:2 2559:20 2560:1,7,8,10,11 ,13,16 2561:11	2771:19 negatively 2677:7 negotiate 2798:12 negotiated 2506:20 2507:14 2531:10 negotiation 2799:1 negotiations 2515:22 2814:18 neighborhood 2600:5 2786:12 neither 2766:15 2831:10 net 2578:12,15 2579:2,15 2581:2 2583:3,18 2669:19 2670:2,3,7 2705:9 2734:16 2744:9,19 2745:7,19 2746:6,9,21 2750:17 2751:3,10 2754:22 2755:12 nice 2768:5 Nicole 2544:12 nine 2515:1 nitty-gritty 2656:17 NOL 2747:9 NOLC 2755:12,22 non-compliance 2813:13 2814:15,17 None 2480:10,11 2653:9	non-economic 2640:9 non-financial 2668:15,17 non-objection 2603:19 non-performing 2800:13 non-quantifiable 2663:2 2671:2 non-rate 2538:6 2542:11 non-rated 2537:16 non-rate-regulated 2542:21 non-regulated 2556:3,7,10 non-sequitur 2545:19 non-threat 2607:3 non-utility 2488:10 2515:7 2517:8 2518:11,20 2520:8,14,21 2521:6,20 2540:7 2605:15,17 nor 2512:13 2626:15 2645:13 2831:11,14 normative 2663:3 Northwest 2473:15 2474:4,12,17 2475:4,9,14,19 2476:4,8 northwestern
--	--	--	---

Capital Reporting Company
Formal Case No. 1119 04-20-2015
Page 49

2598:14,21 2599:9 2600:4 2601:10,22 2602:14 2604:5,6 2605:1,2 2606:7 2607:6,11 2624:4 2796:22 2797:1 NorthWestern's 2599:19,20 2600:12 2603:9,14,20 2608:9 nose 2809:19 notch 2538:17 2540:18 2560:19 note 2537:4 2548:21 2620:16 2621:1,6 2660:17 2662:21 2667:12 2673:10 2685:2 2690:15 2702:16 2711:15 2752:19 2760:4 2783:21 noted 2511:2 2659:2 2717:5 2722:9,14 notes 2712:5 nothing 2525:6 2594:10 2609:6 2633:3 2712:6 2747:8 2802:4 notice 2513:19 2535:22 2603:8,13 2664:15 2826:9 noticed 2724:15 notified 2710:8	notify 2710:15 notifying 2710:3 November 2731:19 2774:4,10 2825:2 nowhere 2694:4 nuances 2504:15 2749:11 nuclear 2720:16 2795:14 2799:11 2800:13 2805:8,18 2806:22 numerically 2516:17 numerous 2644:2 2757:6 <hr/> O <hr/> object 2606:20 2621:6 2624:15 2781:3,5 objection 2738:4 2752:18 2766:15 objections 2774:8 2825:3 objective 2663:2 obligation 2486:16,17 2597:2 obligations 2568:22 2641:6 obtaining 2515:7 2653:12 2777:15 obviously 2752:2 2766:8 2767:16,19 2791:17 2824:9	occasion 2697:21 occasions 2757:6 occupation 2761:20 occur 2505:1 2522:3 2553:11 2621:13 2709:8 2710:21 2806:1 occurred 2563:19 2599:8 2643:13 2652:12 occurring 2665:22 2670:1 October 2675:5 offer 2508:6 2656:14,18 2665:17 2681:13 2706:10 2777:4,14,17 2778:3,20 2779:3 2780:1 2802:14,22 2809:22 2810:17 2812:14 offered 2499:18 2503:15 2504:6 2508:6 2545:22 2666:10 2672:15 offerings 2499:18 offers 2777:3 2803:15 office 2474:16 2475:12 2563:13 2644:1 2657:17 2669:11 2710:16 2731:8 2761:13 officer 2619:21 2681:11 officers 2634:21 2636:1	2643:14,19 2681:2,8 offices 2476:8 2643:16,21,22 officials 2797:10 offset 2622:20 2750:4,5,13 oh 2496:14 2593:16 2607:11 2653:8 2691:9 2694:20 2697:17 2775:17 2796:18 2825:17 okay 2493:19 2494:21 2496:7 2497:1,11 2499:7 2501:20 2518:8 2524:3 2527:9,11 2528:17 2529:4 2533:11 2537:8 2539:12 2541:21 2544:16 2546:8,14,22 2547:13,21 2548:10 2549:13 2550:18 2552:11 2553:7 2554:2,22 2555:5 2556:12 2557:19 2559:1,16 2560:1,14 2561:20 2562:3,17 2564:5,10,14 2565:19 2566:1,7 2570:6,14,17,22 2571:20 2572:5,14 2574:13 2575:6,22
---	---	--	--

Capital Reporting Company
Formal Case No. 1119 04-20-2015

Page 50

2576:10	2707:8 2711:10	2478:9,20	2653:10
2577:1,7,12	2712:14,20	2479:2,6	2744:9,20
2578:4,18	2713:19 2714:14	2627:22 2628:5	2745:7,20
2579:19	2715:14 2717:3	2657:14	2746:6,9,21
2580:10,14,18	2720:17	2658:13,14,16,1	2750:17
2581:1,5,18	2726:1,10	7,19 2662:3	2751:3,10
2582:19	2735:15 2736:18	2673:11 2685:3	2754:22 2755:12
2583:6,17	2744:8 2746:12	2693:16 2695:3	2769:22 2796:21
2584:8 2585:15	2750:7,15	2696:14,21	operation 2554:5
2586:22	2752:18 2754:19	2711:14 2712:4	2578:9
2587:12,22	2757:2 2758:17	2714:2 2718:15	operational
2588:8,15	2773:7	2728:17	2791:10
2589:5,8,16,20	2783:14,17	2730:4,5,6,8	operations 2515:7
2590:6,12,18	2785:15 2788:3	2731:16,17,22	2518:20
2592:9	2790:8 2797:4	2732:20,21	2520:8,14,21
2597:3,6,14	2798:4 2801:22	2733:2,6,7,10	2521:20 2539:21
2598:3,8,20	2802:19 2816:8	2734:4 2744:16	2558:5 2559:6,8
2600:15 2602:22	2821:20 2826:12	2759:16,17,20	2616:19 2711:9
2603:4 2604:3	2829:6 2830:17	2762:5,6	opine 2624:20
2607:21 2608:11	old 2656:12	2772:10,14,18	opinion 2511:5
2609:14,20	2657:8	2802:5	2512:14 2557:17
2610:8 2614:19	Oliver 2482:21	OPC(A)-1 2730:5	2590:9
2615:8 2616:12	2486:6	OPC's 2662:2	2653:12,13
2617:15	omitted 2774:1,5	2673:16,22	2664:5 2675:9
2619:8,17	2825:1	2686:5 2729:8	2752:2,7
2620:13 2622:8	one-and-a-half-	open 2502:12	2757:5,12
2623:3,7	hour 2655:4	2531:17 2620:19	2764:21
2626:17 2652:21	onerous 2489:12	2653:4 2692:21	2765:6,11
2657:1,13	2525:1 2616:8	2741:18 2781:6	2813:6 2814:22
2659:5	2646:8	2792:20 2793:14	2819:15
2663:13,18	ones 2651:18	2799:4 2800:16	opinions 2557:18
2666:16 2667:8	2721:18	opening 2780:21	opportunity
2670:5 2671:10	one-third 2678:18	operate 2602:8	2507:10
2675:5 2676:18	2811:8	2649:5 2797:15	2566:8,16
2677:2 2680:14	one-time 2666:11	operating 2539:20	2577:17 2578:20
2683:3,16	2675:1	2545:3	2751:5 2803:9
2684:11	2718:16,17	2579:3,14	oppose 2678:5
2686:3,18,22	2729:2,13	2587:5 2588:22	2780:9,17
2687:2,12	one-year 2777:3	2589:6 2592:3	opposed 2592:14
2688:6,14	2803:4 2811:10	2593:7,21	2597:9 2698:10
2689:10	OPC 2474:10	2602:14 2603:1	2716:9
2690:21,22		2612:8 2618:17	2723:15,16
2691:10 2697:3		2627:16 2628:22	
2702:12 2703:3			
2704:13 2706:17			

(866) 448 - DEPO

www.CapitalReportingCompany.com © 2015

Capital Reporting Company
Formal Case No. 1119 04-20-2015
Page 51

2740:15,17 2778:5 2792:2 2793:18 2806:7 2808:17 opposing 2804:7 opposition 2697:14 2720:3,4 2795:11 2805:11 optically 2572:11 2574:20 optimistic 2577:15 oral 2482:13 order 2482:2 2503:14 2504:5 2510:1 2514:1 2515:8 2524:8 2533:17 2534:17 2569:9 2584:12 2589:17 2606:6 2613:9,14 2627:20 2628:3,16 2632:15 2641:13 2656:19 2658:11 2667:9 2668:2,5 2669:5,6 2722:3 2743:16 2747:9 2756:21 2757:14 2758:6,13 2793:20 2795:6 2815:17 2823:1,6,13,17 ordered 2713:6 2798:12 2799:19 organization 2500:6 2502:3 2588:10 2590:22 2591:6 2815:19 organizational 2500:14	organizations 2591:3 organization's 2500:10 original 2508:1,21 2526:14,20 2531:2 2532:8,11 2700:20 2799:16 originally 2503:5 2532:14 2616:15 origins 2506:12 others 2608:5 2661:1 2665:3 2829:2 otherwise 2505:4 2552:15 2702:10 2825:22 2831:15 ought 2587:4 2613:8 outages 2722:22 outcome 2831:15 outcomes 2669:16 outline 2694:20,22 outlined 2672:21 2720:7 outright 2738:15 2740:1 outstanding 2577:2 2583:3 2623:9 2749:16 2754:17 outweigh 2692:8 2717:6 2728:14 outweighing 2728:12,13 outweighs 2729:7 overabundance	2586:1 overall 2670:6 2689:2 2717:1 2725:13 2728:21 2794:8 oversight 2717:15 owned 2588:10 2605:17 owner 2545:12 2588:9 2591:9 2601:13 2602:1 ownership 2545:8,12 2607:13 <hr/> P <hr/> P.C 2474:12 p.m 2655:2,11 2656:2,4 2761:6 2830:21 package 2501:9,15 2502:1 2503:22 2504:4 packet 2494:13 page 2474:22 2475:22 2478:22 2500:17,21 2501:7 2502:16 2505:6 2511:4,18,20,22 2514:15 2523:20 2526:14 2528:5 2537:3,5,6,7,21 2538:1,12,22 2539:12 2540:3,11 2541:1,3 2542:6,16 2543:11 2544:18,20,21 2564:17	2565:12,16 2574:17 2575:7,8,10 2585:2 2586:7,10,12,14, 15,17,18 2589:22 2590:6,12 2598:9,12 2609:21 2617:6,9,13 2621:18 2622:9,12 2633:19 2634:1 2637:15 2653:6 2659:10,14 2660:16 2662:19,20 2663:8,9 2664:15 2666:16 2667:5,21 2668:18 2669:18 2670:9,10 2671:6 2673:9 2674:5,15 2676:3,19,22 2677:2 2678:9,14 2680:17,18 2681:1,6,8,14 2683:5,11,13,17 2684:20 2685:6,7 2686:17 2687:6,11,13,14 2688:5,7,9,14,15 2689:7,11 2690:10 2691:2,7,8,9,14 2692:6 2695:2 2696:18 2700:17 2701:21 2703:20 2704:1,16 2705:22 2706:8 2707:1 2708:7
---	--	--	--

Capital Reporting Company
Formal Case No. 1119 04-20-2015
Page 52

2709:20 2711:13,22 2712:3 2715:15,17 2717:5,9 2719:18 2720:18 2724:10 2725:21 2726:6,9,13 2734:3,12,21 2735:9,11,17 2736:2,3 2741:16 2742:7 2744:15,17,18 2756:13 2763:1 2765:10,18 2769:14 2771:16 2774:2 2777:1,8 2781:17 2784:6 2785:14,16 2787:1,22 2788:2 2790:2,6 2792:21 2793:17 2798:2 2801:17 2803:13 pages 2508:12 2526:6 2537:4,5 2586:17 2699:10 2700:7 2702:6 2731:17 2732:1 2797:3 paid 2526:22 2571:22 2576:2 2645:18 2742:15 2749:20 paper 2773:20 papers 2720:8 paragraph 2533:18 2537:10,11 2538:14 2539:3 2542:19 2549:13,20 2550:19	2555:14,15 2556:13 2559:19 2572:5 2574:18 2575:7 2585:3,19 2598:12 2653:6 2663:10,17 2665:10 2736:5 2765:18,21 2769:15 paragraphs 2653:13 parallels 2644:15 pardon 2505:12 2546:10 2554:2 2600:3 parent 2498:7,15 2509:2 2510:5 2537:15 2538:5,17 2539:18 2540:16 2541:7 2542:3 2592:20 2593:6 2606:12 2612:6 2642:21 2643:16 2647:10,11 2769:18 parent's 2540:6 2542:10 parlance 2558:9 2560:2 2561:21 participated 2599:10 participating 2633:15 2799:9 particular 2483:10 2502:6,13 2512:14 2517:16 2518:1 2525:11 2534:7,9,17 2568:16 2608:17	2621:12 2639:16 2664:6,11 2666:11 2669:8,13 2710:21 2716:21 2718:17 2720:9 2721:12 2778:10 2789:3 2790:12 2794:2,6,9,14 2798:22 2799:15,17,20 2800:3,15,20 2802:22 2803:10 2808:2 2809:10,15 2812:10 2821:19 2822:13 particularly 2486:13 2557:20 2559:19 2562:22 2634:7 2720:15 2742:7 2782:19 parties 2480:8 2506:6,20 2507:9,14 2508:19 2525:8,22 2599:15 2646:7 2753:1 2780:11 2825:19 2827:1 2831:12,14 part-time 2643:19 party 2508:20,21 2509:6 2512:12 2515:22 2516:1 2529:3 2532:8 pass 2774:6 passage 2507:4 passed 2616:10 2645:3 2666:21 2740:8 2743:4 2787:3	passing 2792:2 past 2490:13 2521:5,12 2627:19 2676:1,2 2685:3 2687:19 2688:18,22 2698:9 2809:19,20 patents 2626:11 patterned 2483:16 Patton 2476:3 pay 2499:3,8 2509:5 2535:22 2536:1 2779:22 2822:12 2828:20 paying 2504:19,20 2529:14 2645:16 2750:1 payment 2526:16 2527:13 2528:13 2559:13 2623:21 2624:5 2674:22 2718:17 2729:2 2794:17 payment/ distribution 2675:1 payments 2490:18 2559:11,12,13 pays 2653:3 PE 2566:12 PECO 2486:3 2537:22 PECO's 2538:3 Pembroke 2474:11 pending 2769:16 peninsula 2821:18
--	---	---	--

Capital Reporting Company
Formal Case No. 1119 04-20-2015

Page 53

Pennsylvania 2474:8 2476:8 2542:18 2543:5,6,8,11 2573:22 2762:1	2647:12,16 2648:11,22 2653:11,14 2659:16 2660:12 2662:2 2681:8 2686:6,10 2693:11 2695:19 2724:6 2734:14 2735:1 2742:12,15 2743:5 2745:2,17 2749:16 2755:21 2756:17 2757:8 2763:7 2766:2,18 2769:1,21 2770:9,12 2777:2,13,21 2778:1,16,19 2782:5 2805:19 2815:16	2744:19 2751:6 2755:18 2757:16,21 2767:16 2770:7 per 2569:8,9 2572:9 2575:11,17 2576:21 2579:1 2580:7 2581:17,19 2582:14,21 2583:18,20,21 2620:5 2623:4,5 2703:10 2704:18 2705:2 2706:5 2715:10 2784:11 2791:15 percent 2528:15,18,20 2529:7,11 2530:5,7,9,11 2531:1,9 2533:17,22 2534:1,19 2535:1,2,4 2545:15 2546:5 2552:5 2555:9,11 2580:19 2594:11,13,14 2706:14,19 2707:1,6 2714:20 2724:20 2727:18 2748:7,9 2750:10 2786:15,21 2803:19 2804:13,17,18,1 9 2805:5,16 2806:7 2808:11 percentage 2529:14 2530:18 2534:15	2551:9,14,18 2568:9 2628:2 2786:9,16 2803:15 2805:1,7 perfectly 2621:11 perform 2635:6 2639:4,7 2643:20 2687:21 2688:20 2704:5 performance 2666:7 2685:2,9 2687:19 2688:22 2717:10 2726:17 2727:12 performance- based 2666:3 performed 2551:19 2689:16 perhaps 2499:9 2541:12 2557:13,14 2567:10 2616:5 2636:16 2652:8,9 2773:21 period 2554:17 2608:16,21 2664:19 2705:12 2709:9 2710:12 2722:1 2729:1 2734:8,15 2736:12,16 2737:19 2738:20 2739:6 2740:7,16 periods 2601:6 2741:10 permissible 2793:6 permission
penny 2580:7 people 2505:15 2507:17 2548:17 2595:11 2596:15 2634:22 2652:6 2710:20 2828:12 people's 2474:16 2491:12 2657:17,18 2731:8 2752:17 2761:14 2827:3 PEPCO 2473:4 2480:5 2483:2,6,12,19 2484:1,18 2485:1,3,4,6,8,1 3 2486:9,14,21 2487:15,18,20 2488:2,6,12,15 2490:14 2509:18 2510:2 2512:21 2514:14 2517:8 2518:11 2520:16 2521:1,21 2523:5 2524:12 2525:16 2535:19 2536:8,10,11 2557:3 2569:8 2571:17 2576:15,17 2578:4 2579:1,2,6,7,14, 21 2587:8 2597:9,10,11 2619:6 2625:16 2627:21 2628:2,11 2645:13	PEPCO/Conectiv 2667:14 2706:21 PEPCO/Conectiv/ Delmarva 2821:13 PEPCO's 2483:3 2485:1 2486:10,14 2513:13 2530:19 2533:12 2625:4,17 2626:19,21 2628:12,13 2678:18 2679:16 2680:11,20 2681:2 2682:18 2683:8,9 2684:1,3 2685:2,9 2687:18 2688:18 2710:1 2712:8 2717:14 2727:11		

(866) 448 - DEPO

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Capital Reporting Company
Formal Case No. 1119 04-20-2015

Page 54

2563:13 2765:1,2 permitted 2593:1 2614:5 2735:1 persist 2718:8 persistence 2728:18 2729:9 person 2502:3 2636:5 2640:13 personal 2616:14 personnel 2643:22 perspective 2505:10,22 phased 2816:19 PHI 2480:5 2483:2,12,21 2484:13,18 2485:6,8 2486:8,16,20,22 2487:2,9,14,19,2 0 2488:2,12 2490:17 2500:10,13 2504:19,21,22 2512:4 2515:6 2517:7 2518:10 2519:15 2520:13,20 2521:5,6 2522:7 2523:4,9,13 2524:12 2545:2,12 2546:1 2550:10 2555:21 2557:3 2563:10 2572:16 2577:9 2578:14 2579:8,16,17 2587:4,6,9 2588:9,10 2590:7,8 2591:16 2592:3,11	2620:4 2621:22 2622:20 2623:5,8 2628:14 2632:18 2645:10,16 2647:19 2648:6 2650:20 2681:11 2708:8 2709:12 2710:14,15 2743:1,10,17 2744:1 2745:1 2746:15,16,17 2747:16 2749:16,20 2755:20 2757:10 Philadelphia 2474:8 Phillips 2473:20 2652:19,20 philosophically 2692:13 2717:17 philosophies 2694:21 philosophy 2693:14 2694:6,17 2695:4 2696:1,15,21 PHI's 2488:9 2491:3 2518:19 2520:7 2521:19 2622:22 2659:15 2681:15 2683:8 2708:14 2755:12 2766:5,21 2768:7 phrase 2508:13 2513:19 2562:4 2670:11 physical 2724:5 2725:3	pick 2534:7 picture 2651:19 piece 2800:11 2824:5 pieces 2496:17 piercing 2595:6 PJM 2586:2 2807:18 2817:21 2818:15,17,20,2 1 2820:2,13 2821:15 2822:18 2824:3 placed 2545:2,10,13 2560:8 2587:4 2699:16 placement 2487:19 2552:18 2589:8 places 2551:11 2587:16,17 2723:11 Placing 2553:16 plan 2549:14,17,19 2603:20 2666:3 2739:17 2753:7 2817:17 2820:4 2825:21 planned 2821:15 planning 2820:9 2822:16 2824:12 plans 2520:13,20 2521:19 2577:21 2684:15 plant 2573:19 2795:18 2797:10,11,15,2 2 2799:4 2806:18,19	2807:15 plants 2573:22 2795:14 2799:11 2800:2,15 2806:22 2807:9 play 2547:2 playbook 2615:11 played 2635:11 PLC 2539:18 2540:16 please 2481:15,18 2482:16 2487:20 2488:19 2493:1 2497:11 2498:9 2500:2,17 2508:3,15 2509:20 2510:8 2511:18 2512:10 2513:22 2514:15,16 2516:21 2518:7 2520:17 2522:14 2523:18 2525:19 2526:5,13 2528:1 2535:16 2537:3,8,21,22 2538:11,22 2539:12 2540:2,11 2542:6,16 2543:8 2564:18 2565:20 2569:20 2587:14 2622:15 2631:12 2658:7 2702:10 2720:1,22 2721:6 2725:21 2726:5,8 2731:11 2739:2 2751:19 2761:19 2774:19 2775:1 plus 2560:22
---	---	---	--

(866) 448 - DEPO

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Capital Reporting Company
Formal Case No. 1119 04-20-2015
Page 55

2750:9 2811:22 2829:12 2830:9 pluses 2529:8 point 2490:3,15 2507:22 2513:7 2523:13 2534:10 2535:20 2587:11 2603:22 2611:15 2633:3 2694:16 2702:19 2709:1,5 2712:22 2741:4 2745:11 2789:5 2809:21 2812:2 2813:9 2814:7,9 2816:13 2817:9 pointed 2739:15 pointing 2666:1 points 2656:5 polar 2809:12 policies 2676:1 policy 2665:1 2673:11 2718:14 2720:8 2766:6,22 2767:3,9 2768:5,8 2824:5 policy-making 2725:9 poor 2605:4 poorly 2687:21 Poor's 2543:12 2557:8,9,18 2558:18 2560:20 2561:2,6,19 2566:20 2567:3,9,21 2568:14 portfolio 2776:20 2802:16,17	2804:10,16,21 portion 2559:11 2674:17 2678:6 2696:2 2778:2 2781:9 2792:1 2823:4 portions 2563:19 2590:19 Portland 2642:7,16,18 2643:5,8,14,15,1 9,22 2644:11,16 position 2507:13 2518:15 2520:3 2673:8 2691:5 2698:5 2720:22 2721:6 2782:20 2804:6,9 2818:11 positions 2692:12 2694:6,12,13,16, 18 2717:16 positive 2489:1 2669:16 2734:17 2767:12 2771:6,10,12 positively 2765:15,17 positives 2770:5 possibility 2487:9 2524:4 2596:10 2607:2 2807:20 2820:6 possible 2487:6 2507:20,21 2519:3 2572:12 2574:20 2606:6 possibly 2488:6 2779:14 2808:3 post-merger	2488:19 2500:6,14 2515:6 2588:1 2734:9,15 2755:5 potential 2486:10 2488:17 2664:8 2670:15,20 2671:18,21 2672:6 2718:3,5,21 2722:10 2754:21 2758:12 potentially 2729:14 2734:18 2779:16 2780:20 Potomac 2473:4 2539:1 2765:7 2767:17,20 Potomac's 2539:4 power 2473:5 2537:18 2542:18 2543:1,5,9,11 2559:13 2586:1 2602:3 2607:11 2651:4 2765:7 2776:18 2779:6,10 2782:4 2784:17 2786:4,5,6,11,18 2809:1 2810:15 practice 2521:13,14,16 2534:20 2612:8,9,10 2618:22 practices 2619:12 2629:3 2676:1 precede 2700:7 precedence 2528:16	precedent 2624:16 pre-close 2734:8 precluded 2644:4 precludes 2712:10,22 predicted 2581:13,19 prefaced 2808:16 prefer 2531:14,15 2675:19 preferable 2758:13 preferred 2485:7,8 2487:9,10 2499:22 2645:11,13,19 prefers 2529:20 prefiled 2658:12 2659:1 2731:18 2732:2 2774:3 preliminarily 2482:8,10 2492:4 2493:2 2510:9 2525:20 2661:11 2668:5 2679:2 2692:22 2695:8 2764:10 2775:8 preliminary 2480:9 2545:21 2773:19 2820:11 pre-marked 2762:4 premature 2741:21 premium 2545:15,22 2546:3,8,11,15
--	---	---	--

Capital Reporting Company
Formal Case No. 1119 04-20-2015

Page 56

2552:19,22 2571:22 2666:20 2706:10,19 2707:1,5 2742:10,13,15 prepare 2776:1 prepared 2632:15 2693:20 2732:7 2751:1 2762:8 2776:2,4 2802:1 preparing 2673:20 prescriptive 2614:20 presence 2683:21 2711:8 present 2481:5 2483:21 2485:9 2488:4 2521:6,11 2534:16 2606:13 2643:1 2644:11,12,16 2749:12 presentation 2508:6 presented 2507:1 2513:11 2532:19 2660:8 2662:7 2686:9 2688:11 2690:12 2782:18 presents 2498:2 president 2475:3 2565:22 2619:21 pressure 2552:16 2553:14 2554:3,4 2807:17 pressured 2539:7,8	2542:22 2543:14,16 2554:1 pressures 2795:15 presumably 2596:18 2605:4 2673:20 2697:10 2702:20 2739:22 2745:6 2753:19 presume 2514:13 2603:5,21 2608:4 2668:16 presumption 2626:20 2627:1 pretty 2604:7 2756:22 2794:3 2824:5 pretzel 2607:19 prevail 2549:2 2610:10 prevent 2594:17 2604:18 2613:13 2747:6 prevented 2605:9,12 previous 2598:1 2697:5 2737:17 previously 2492:3 2501:17 2641:19 2660:17 2685:13 2763:14 2768:11 2785:2 2796:1 price 2484:14 2538:8 2542:22 2543:16 2545:16 2546:11 2552:18,19,22 2553:2,3,4,9,10, 14 2554:1 2582:10,12,17	2626:5 2706:15 2747:22 2748:18 2749:21,22 2777:3 2779:17 2788:5,20,22 2790:10,16 2791:18 2795:8 2810:2,4,6,10 2812:8 2813:8,20 2814:10 prices 2537:18 2539:9 2542:12 2554:4 2586:1 2788:13,16,18 2789:4 2790:13 2809:18 2810:13 2811:22 2812:4,6,13 2813:5,22 2814:3,6,14 2817:10 pricing 2791:10,19 primarily 2672:14 2811:17 primary 2484:22 2678:4 principle 2628:15 2823:11 principles 2490:12 2708:14 print 2551:10 2699:10 prior 2520:12,20 2521:18 2527:5,19 2599:9 2629:2,10 2669:5,6 2682:18 2687:20 2690:5 2704:9	2721:3,7 2726:20 2727:2,13 2734:16 2747:20 2748:4 2756:21,22 2758:9 2826:22 private 2499:15 privately 2480:17 probabilities 2591:19 probability 2591:16,20 2596:8 probably 2570:10 2584:3 2599:10 2673:6 2687:7 2726:19 2786:21 2809:7 2816:13 2828:19,20 problem 2629:22 2652:12 2736:10 2738:22 2820:17 problematic 2486:20 problems 2695:3 2696:14,20 2697:9 procedural 2825:15 procedure 2699:20,22 2728:6 2748:20 2777:18 procedures 2514:4 proceed 2481:14 2482:15 2549:6 2721:8 proceeding 2489:1
---	--	--	--

(866) 448 - DEPO

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Capital Reporting Company
Formal Case No. 1119 04-20-2015
Page 57

2500:9,19 2501:11 2504:7 2507:2 2510:22 2513:16 2516:2,7,12 2530:8 2536:11 2591:14,17 2626:16 2642:6 2660:4 2662:8 2664:7 2667:14 2668:6 2687:18 2722:13 2724:18 2731:19 2732:2 2742:1 2766:4 2776:16 2777:20 2778:5 2780:20,21 2781:6,15 2782:11 2784:16 2800:22 proceedings 2495:1,2 2563:14 2660:7,21 2661:6 2666:15 2686:9,16 2702:18 2722:13 2741:4 2756:8 2780:4,11 2782:2,7 2784:9 2830:22 process 2721:20 2741:19 2778:18 2781:8 2807:18 2810:17 2811:14 2813:18 2818:15,17,18,2 1 2820:2 2822:18 2827:9 procurement 2777:22 2781:9 2804:3 2809:2 2810:17,21	2811:7 2814:18 produce 2481:1 2514:2 2563:14 2613:15 2614:6 2626:8 2667:10 produces 2489:18 2613:17,18 producing 2668:3 product 2563:7 production 2697:16,19 2698:11,20 2719:20 2720:3,5 2782:21 2791:4,18 2806:6 profession 2637:9 professor 2762:1 profile 2539:4,17,19 2540:15 2556:18,19 2557:1,2,6,12 program 2712:11 2713:5,11 2724:8 2725:6 2802:14,15 programs 2692:3 2711:19 2713:2 2721:17 2739:21 2740:1 progressed 2665:3 progressing 2665:1 prohibited 2646:14 2647:1 2648:18 project 2820:1	2821:16 2822:17 projected 2550:4 2552:2 2575:21 2580:4 2665:11 2734:7 projection 2551:20,21 2552:6 2555:7 projects 2792:1 prolong 2590:14 2610:1 promote 2498:3 2817:19 promoting 2497:16 promulgated 2649:17 pronounce 2541:19 2806:18 properly 2700:2 property 2602:9 proportion 2717:1 proportioned 2723:13 proposal 2627:22 2646:14,16,18 2648:10 2649:13 2666:3,10 2677:6 2735:20 2804:2,6,7 2810:18 2818:9 proposals 2507:13 2525:6 2649:13 2665:8 2721:13 propose 2501:11 2752:11 proposed 2473:7 2480:4 2506:22 2507:10 2532:10	2535:17 2545:3 2550:1 2572:15 2587:7 2588:1,2,6 2595:15 2608:22 2609:5,7 2616:15 2628:11 2632:18 2643:9 2648:20 2649:12 2663:21 2669:17 2670:4 2677:17 2692:2 2700:20 2717:7 2778:13 2785:20 proposes 2587:5 proposing 2480:17 2530:20,21 2612:22 2777:21 2779:5,11 proprietary 2563:8 protect 2510:6 2819:16 protected 2498:5,10,11,18 2499:11 protecting 2640:11 protection 2501:13 protections 2613:2 2646:10,13 protective 2607:16,22 2611:19 provide 2485:11 2495:9 2526:21 2527:5,18 2535:22
---	---	---	--

Capital Reporting Company
Formal Case No. 1119 04-20-2015
Page 58

2606:18,21 2625:22 2635:5 2640:13 2644:22 2702:9 2745:1 2749:8,10,14 2757:19 2766:5 2801:13 2803:8 provided 2492:3 2513:18 2516:22 2518:17 2519:15 2520:4 2528:20 2530:6 2536:10 2601:14 2672:13 2699:8,18 2701:14 2702:2 2722:1,12 2749:11 2755:8 2780:19 2787:18 2788:15 2790:20 2791:3 2812:6 2822:9 provider 2815:1,2,16 provides 2510:11 2551:8 2595:16 2616:9 2777:8 providing 2501:12 2634:21 2641:4 2777:17 2779:2 2816:13 provision 2508:8 2526:19 2527:18 2609:16 2611:4,16 2614:1 2615:9,13 2616:8,17 2643:8,14 2646:11,19 2777:8 2803:16 2821:18 provisions 2501:10 2502:2	2504:1,4,6 2506:11 2507:1,11 2509:16 2519:8 2524:10 2526:8 2535:17 2610:3 2611:1 2612:12 2614:22 2635:20 2642:11 2643:3,4,6,9 2646:5 2647:15,16 2649:4,9,10,15,2 0,22 2650:2 2747:12 2777:2 proximate 2599:18 prudence 2610:5 PSC 2796:11 PTC 2698:5,7 2782:21 2787:2 2790:21 2791:11,13,14 2792:1,7 2793:22 2794:1,4,10,22 2795:12 2801:15 2805:11 public 2473:1,14 2489:8 2490:12 2499:15 2503:14 2514:3,11 2515:12,17 2516:22 2517:2 2518:16,18 2520:4,6,12,19 2522:8,9 2542:7 2549:5 2571:10 2589:10 2597:8 2602:6,11 2603:17 2605:6 2607:18,20 2619:8,10,13	2624:4 2662:22 2669:11 2672:22 2687:10 2688:11 2690:13 2692:19 2704:11 2780:4 2782:3 2793:8,9,13 2798:10 2800:8 2811:13 2815:22 2819:12 2824:5 publicly 2496:5 2567:10 2682:15 publish 2502:8,9 published 2485:21 2536:15 2662:9 2766:9,10 PUCs 2666:18 Puget 2703:17 2706:1 pull 2736:18 pulled 2591:17 2703:7 pulls 2723:11 punt 2675:20 punting 2674:9 purchase 2484:8 2490:17 2546:1 2559:13 2645:19 2742:22 2744:1 2776:19 2779:6,10 2784:17 2804:3 2809:1 2810:15 2815:17 purchased 2602:2 2626:5 purchases 2804:13 2805:4 2806:4 purchasing	2812:9 pure 2816:10 purpose 2473:6 2487:19 2490:22 2509:7 2587:3 2588:6,9 2592:10,14,20,2 1 2593:6,11 2594:5,7,9,16,18 2595:12,15,19 2596:5,17,18,21 2604:11,15,16,2 0 2605:10 2612:21 2613:20 2626:7 2634:20 2635:1,17,20,22 2637:14 2638:11 2639:15 2643:11 2648:6 purposes 2519:20 2672:3 2678:1 2702:9,21 2725:9 pursuant 2482:1 2658:10 pursuing 2720:13 2806:20 push 2743:10 push-down 2742:5,20 pushed 2742:9,10 2799:19 pushing 2744:1 puts 2561:11 putting 2560:16 2605:15 <hr/> Q <hr/> Q&A 2563:18 2669:8
--	---	---	--

Capital Reporting Company
Formal Case No. 1119 04-20-2015
Page 59

qualified 2597:4 2624:19	2625:2,13 2626:2 2627:2,9 2628:18,19 2632:10 2638:7 2649:11 2651:15 2653:3 2657:7 2683:3 2684:3 2691:11 2696:16,19 2697:8 2699:16 2702:10 2711:15 2713:20 2714:1 2717:5 2720:18 2721:2 2728:11 2737:7,17 2738:15,22 2739:1 2754:17 2758:1 2768:6 2774:12 2792:13,14,15 2794:16,21 2800:5 2815:11,12 2822:3 2823:17 2825:21	2707:13,15,17,2 0,21 2708:1 2711:13 2713:14 2719:8,20 2727:21 2753:8 2758:21 2759:1,4,6,7,11 2772:3,4,5,7,8,9 2802:5,6,8,9,10, 11 2821:22 2825:22 2826:7 2829:12	2488:16 raising 2611:12 Ramas 2477:12 2730:22 2731:2,11,13 2732:19 2733:5,12,18 2738:15 2754:11 Randall 2477:15 2761:8,21 range 2546:4 2558:1 2671:18 2672:20 2786:14 rapidly 2489:9 rate 2490:13 2527:2,15 2530:20 2531:21 2533:12 2534:17 2538:16 2540:17 2563:14 2567:5 2619:6 2627:21 2629:5 2661:3 2663:17,22 2664:1 2665:6 2675:22 2677:3,13 2714:19 2716:5,11 2734:14 2740:3,21 2741:22 2747:18 2748:3 2756:11,22 2771:13,15 2779:20 2811:11
quantifiable 2663:2 2668:20 2669:1,4,14 2670:12,18 2672:5,16			
quantified 2667:20 2671:1 2672:9		quick 2646:1 quite 2487:6 2504:15 2505:4 2509:11 2516:20 2530:13 2536:3,4,6 2557:17 2604:15 2616:22 2664:16 2812:13 2817:4	
quantifies 2723:10		quote 2523:2 2537:11 2551:11,13 2562:4 2662:9 2667:8,10,13 2668:3 2711:17 2781:2,4,17 2785:19 2787:3 2795:15	
quantify 2670:22 2722:2		quoted 2756:20 quoting 2781:4	
quantifying 2673:7		<hr/> R <hr/>	
quarter 2627:21		rain 2830:19	
quarters 2534:13		raise 2688:19 2758:6	
question 2489:21 2507:6 2517:4,15,16 2518:3 2519:21 2520:2 2521:13,16 2526:18 2527:8 2529:22 2530:2 2545:21 2549:5 2561:9 2562:6,21 2563:17 2566:2 2569:10,12,13,1 6,20 2571:9 2576:4 2585:1,17 2596:14 2597:7 2613:5 2621:8,12 2622:5	questioned 2646:3 2698:3 questioning 2570:10 2805:15 questions 2480:20 2491:14 2517:22 2529:6 2543:21 2544:7 2571:1 2572:3 2576:11 2578:21 2584:6,10,12 2621:13 2633:8,10,12,18 2638:13 2645:22 2646:2 2652:17,20 2656:15,20 2662:17 2667:2 2688:20	raises 2487:17	
			rated 2599:3 2770:9 rate-making 2528:16 2667:19 2676:1 2677:22 2721:14

Capital Reporting Company
Formal Case No. 1119 04-20-2015

Page 60

ratepayer 2668:20	2558:10	2624:9,13,17	reask 2696:16
ratepayers	2560:1,3,5,6,7,1	2625:10,11	reason 2488:1,11
2520:16	1,18	rational 2484:12	2509:4 2517:5
2521:1,22	2561:2,5,14,16,1	rationale 2489:4	2518:1,8,13
2535:19 2645:4	7,18 2562:14	ratios 2530:14	2520:10 2531:14
2664:11 2666:5	2563:16 2567:20	2534:14 2551:21	2561:4
2667:11 2668:4	2568:14	2559:4 2566:22	2567:8,15
2669:22 2671:12	2599:9,11	2567:21	2591:21 2594:15
2712:8 2720:11	2635:18 2638:5	2568:5,7	2600:1 2606:22
2735:3 2742:15	2765:11,14	reached 2780:10	2630:10 2639:18
2767:8,10	2767:13 2768:19	readily 2679:18	2709:16 2747:13
2768:3 2769:7	2771:9,17,19	reading 2627:9	2757:17 2788:9
2770:5,12,15	ratings 2486:21	2688:19 2702:15	2805:12 2817:6
2771:2 2787:3	2495:19,20	2742:2 2744:3	reasonable 2484:4
2794:6 2800:15	2496:4 2499:19	2754:19 2765:20	2509:10 2530:16
2818:1 2819:17	2523:2,4,13,15	2823:2	2531:6,12
2822:5	2524:12 2536:8	reads 2678:17	2601:3 2606:10
rate-regulated	2539:16 2540:14	2692:11 2696:20	2608:20 2677:5
2539:5 2543:13	2541:5,8,9	ready 2544:11,14	2781:5
rates 2627:17	2542:20 2545:10	2559:21 2565:10	reasonably 2513:6
2629:1 2664:10	2547:2 2548:13	2598:18 2617:7	reasoning 2530:10
2665:7 2716:7	2549:10 2550:19	real 2593:3,12	reasons 2509:9
2735:2,4	2551:19,22	2729:13	2531:15 2596:9
2742:14 2746:8	2552:7 2555:15	realize 2649:14	2747:6 2780:17
2771:7 2807:1	2559:18	2682:22 2807:13	2782:1 2791:9
2809:12 2811:15	2560:15,19,22	realized 2495:4	2797:16
2820:19	2561:5 2562:12	2773:22 2795:1	reasserts 2489:22
rather 2515:15	2563:3 2566:20	really	rebuttal 2482:3,7
2593:22 2599:14	2575:15,19	2483:11,14,18	2496:15 2523:19
2615:6 2617:21	2599:1 2605:20	2504:8 2518:14	2547:18 2586:9
2736:18 2761:1	2638:7	2559:14 2566:8	2617:4 2621:17
2829:20	2767:13,15,19	2574:1 2589:14	2740:11 2769:10
rating 2486:19	2768:1,2	2592:9 2594:20	REC 2805:4
2498:16 2502:7	2770:6,7,20,21,2	2595:21 2597:2	2811:22
2503:7,9	2 2771:3,5,14	2612:1 2625:1	2812:4,6
2529:15 2530:15	ratio 2527:1,13,14	2650:8 2683:4	2813:11,15,22
2536:7 2537:13	2529:9,18,19	2736:5 2739:19	2814:3,6,14
2538:3,15	2530:12 2531:20	2766:16 2767:4	2817:10
2540:5 2542:9	2533:12,22	2811:16 2819:7	recall 2507:3
2545:1,14	2534:7,8,9,21,22	2827:9	2548:4,7 2569:3
2546:22 2549:16	2536:2,3		2570:1,4
2555:8,10	2550:16 2558:19		2572:14,21
2557:14,16	2559:9		
	2567:17,18		

(866) 448 - DEPO

www.CapitalReportingCompany.com © 2015

Capital Reporting Company
Formal Case No. 1119 04-20-2015

Page 61

2573:5,12,18,20 2574:1,10 2599:18 2600:9,11 2602:5 2608:10 2614:17 2620:6,12 2646:8 2650:1 2695:1 2697:20 2705:8,11,14 2706:7 2708:22 2719:20 2720:17 2721:4 2726:19 2727:7,8,15 2735:10 2736:14,16 2742:2 2743:7 2744:3 2751:9,13 receive 2485:4 2551:4 2822:13 received 2478:1 2479:1 2486:5 2493:4 2510:10 2654:5,12 2655:1 2730:10,15 2759:21 2772:20 2773:3 2825:6,13 recent 2518:3 2521:5 2527:2,15 2530:19 2619:5 2748:10 recently 2531:8 2628:16 2724:18 2736:15 2788:12 2809:18 receptivity 2499:19 recess 2584:16	2655:11 2761:4 recognition 2601:20 2603:10 recognize 2600:4 2669:16 2686:5 2688:10 2693:10 2695:18 2701:2 2775:16 recognized 2600:13 2722:17 recognizes 2502:16 recollection 2573:12 2583:12 2601:10 2602:20 recommend 2487:12 2531:22 2532:6,9 2609:18 2714:2,3 2725:10 2755:1 recommendation 2593:8,9 2675:18 2677:18,19 2678:17 2681:13 2683:7,22 2710:6 2715:4 2755:7 2756:6 2803:6 2820:4 recommendations 2673:17 2674:18 2709:21,22 2756:11 recommended 2609:11 2678:11 2738:20 2754:20 2756:14 2757:17 2808:19 recommending 2674:8 2684:8	2728:17 2736:14 reconciled 2709:2,4,7 reconsidered 2665:15 reconvene 2655:9 record 2480:6 2481:19 2482:5 2492:7 2494:2 2508:14 2522:18 2525:22 2536:18 2537:4 2563:2,20 2565:20 2569:21 2571:10,14 2584:17 2620:17 2653:7 2656:3 2658:8 2661:15 2676:14,17 2681:22 2690:8 2693:3 2700:6 2701:12 2716:16 2724:18 2725:16 2731:12 2761:5 2775:1 2783:20 2831:9 records 2512:4,15,22 2513:13,17 2514:2,5,12 recover 2666:19 2740:22 2741:6 recovery 2599:6,7 RECROSS 2477:2 RECs 2777:16 2790:10,13 2812:10,19 2816:13 redirect 2477:2 2652:18,22 2719:9,10	2728:2 2759:8,9,10 2772:10,11 2824:15,16,17 red-line 2510:19 reduce 2486:17 2504:19 2611:17 2628:1 2818:2 2823:20 reduced 2567:1 2791:18 2831:6 reducing 2628:4 reduction 2487:14 2488:8,14 2556:18 2557:2 2717:12 redundancy 2594:1 refer 2497:4,7 2502:13 2511:14 2523:21 2568:2 2638:12 2662:15 2668:2,20 2685:16 2690:9 2691:16 2695:7 2703:8 reference 2497:3 2511:13 2515:10 2523:19 2524:4 2569:2 2588:17 2630:12 2634:17 2659:14,15 2712:1 2716:2 2719:18 2720:19 2738:16,18,19 2739:2,4 referenced 2561:14 2630:5,6,8,18 2701:21 2705:15 2721:11 2750:14
--	--	--	--

(866) 448 - DEPO

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Capital Reporting Company
Formal Case No. 1119 04-20-2015
Page 62

2774:2 references 2792:19 referencing 2712:18 2775:20 referred 2503:12 2653:12 2669:19 2696:2,7 2697:4,6 referring 2503:1,13 2550:13,15 2562:9 2566:15 2568:15 2610:13 2625:3,4,5,7,8 2668:1 2692:18 2809:6 2810:16 refers 2515:11 2550:19 2568:14,17,21 2574:20 2575:4,6,7 refinements 2507:12 reflect 2500:12 2551:13,17 2618:18 reflected 2494:20 2552:5 2555:9 reflecting 2539:5,19 2540:19 reflects 2628:9 regard 2512:16 2514:14 2533:3 2543:10 2650:21 2651:2 2694:17 2726:15 regarding 2488:17 2653:3 2656:7	2667:3 2691:5 2695:4 2696:22 2721:3 2755:4 2756:16 2782:20 2785:18 regards 2694:12 2697:15 2711:9 2742:20 2743:3 region 2722:17 2723:15 2817:8 regs 2802:18,19 regular 2596:4 regulate 2597:9 regulated 2537:17 2538:6 2542:11 2597:12 2607:13 2614:12 regulation 2605:5 2607:20 2717:15 2803:8 regulations 2649:7,17 2802:15 2803:10 regulator 2606:3 regulators 2604:8 2662:22 regulator's 2662:14 Regulators 2663:14,15,20 regulatory 2540:19 2561:21 2562:4,7,10 2660:7 2662:10 2673:2 2680:12 2757:5 2766:2 reiterated 2685:8 reject 2615:19 rejected 2619:7	2627:22 rejoinder 2482:13,14 2645:9 relate 2526:16 2582:11 2586:11,20 2604:14,16 related 2501:19 2532:16 2543:3 2621:5 2678:2 2720:9 2766:11 2791:10 2806:9 2823:22 2831:11 relates 2486:10 2524:15 2582:14 2604:11 relating 2501:2 2547:17 2780:5 2782:4 2784:16 2800:22 relationship 2641:9 2647:10 2650:20 2729:16 relative 2521:9,10 2522:3 2523:8,10 2525:7 2559:6,8 2588:6 2673:5 2687:21 2701:3 2706:15 2710:10 2720:13,15 2722:4 2725:12 2727:10 2831:13 relatively 2539:20 2672:14 2697:13 2717:1 2721:13 2725:2 relax 2523:1 2613:9 relaxation 2524:9	relevance 2546:20 relevant 2483:11,18 2546:19 2621:4 2657:5 reliability 2685:2,9 2688:18 2689:22 2691:5 2692:2 2717:10 2721:15 2722:5 2726:17 2727:11 2797:15,17,21 2798:11 2800:9,11,18 2807:19 reliability- oriented 2673:3 reliability-related 2687:19 2689:3 reliant 2806:3 relied 2621:3 2689:19 relief 2766:5 2795:19 relocate 2710:1 remain 2523:15 2524:13 2549:4 2556:16 2571:9 2681:15 remains 2556:11 2585:9 remarkably 2616:1 remember 2488:20 2496:20 2600:8 2611:4 2643:12 2649:8 2709:5 reminds 2571:15
---	---	---	--

Capital Reporting Company
Formal Case No. 1119 04-20-2015

Page 63

remoteness 2541:7	2538:2,12	2510:13,18	2808:16,22
removal 2488:18	2539:1,3,13,15	2511:3,19	2823:13
2524:4,9	2540:13 2541:4	2522:21	requirements
remove 2523:1	2542:9,17	2547:14,15	2709:14
removing 2488:21	2543:12 2561:3	2548:2 2571:4	2756:12,15,19
remuneration	2563:3	2597:19	2757:7,8
2799:15	2620:8,12	2618:7,9	2758:4,15
renewable	2656:9 2657:4,7	2623:15 2627:5	2777:14 2778:2
2692:12 2717:17	2680:11 2754:21	2629:13,16,18	2781:11 2814:8
2773:11 2775:5	2755:2,3 2757:8	2631:21 2656:19	2815:4,18
2776:20	2768:20 2771:17	2662:2	2816:5
2777:10,15	2787:19,22	2679:4,15	requisite 2777:15
2779:2,6,10,21	2788:2 2790:15	2682:7 2683:5	research 2503:21
2781:10 2784:17	reported 2473:22	2686:6,8,15	researched 2747:3
2788:6 2790:22	2756:7 2789:1	2693:11,13	researchers
2814:22	reporter	2695:20,22	2722:22
2815:3,5,20	2569:17,19,21	2696:6 2697:5	reserve 2633:2
2816:2,3	2760:19	2701:20 2747:1	reside 2683:8
2817:20 2822:21	2831:1,3,20	2750:19	2684:2,5
2823:22	reporter's 2582:5	2751:6,21	residential
renewables	reporting 2755:7	2752:1,3,20	2714:17 2715:9
2693:15	2756:14	2753:14,16	2716:22 2786:19
2694:6,8,17,19	2757:7,8 2758:4	2754:8 2755:9	2811:8
2695:5	reports 2495:19	2781:6 2799:16	residual
2696:2,22	2496:3	2801:12	2573:4,9,10
2804:13 2820:17	2551:10,11	requested 2569:22	resolution
renewals 2697:15	2702:7 2704:11	2721:14 2749:9	2785:19
rental 2559:11,12	2791:22	require 2483:1	resolved 2480:11
rents 2651:20	represent 2699:8	2513:12 2616:1	resources 2490:19
reorganization	2706:13 2773:10	2647:9 2776:18	2509:4 2776:20
2603:20	representation	2777:2	2777:10 2809:2
repeat 2520:17	2587:22	2819:16,19,22	2815:5 2816:4
2683:14 2735:7	represented	2820:4,5	2817:1
2764:7	2554:11,12	required 2504:4	respect 2487:17
replace 2501:15	representing	2589:10,14	2518:19 2520:7
2515:15	2660:3 2761:13	2600:2,4 2602:7	2528:10 2599:20
replacing 2504:20	represents 2489:6	2613:9 2755:2,8	2600:6 2624:3
replicate 2724:17	2533:7 2701:3	2757:19 2817:17	2662:18
report 2536:14	2703:10 2815:19	2819:8 2821:14	2694:7,18
	request 2492:10	requirement	2699:3 2766:17
	2494:1	2483:10,13	
		2515:16 2528:11	
		2710:14 2714:22	

(866) 448 - DEPO

www.CapitalReportingCompany.com © 2015

Capital Reporting Company
Formal Case No. 1119 04-20-2015

Page 64

2778:9,12 2800:9 2801:14 respond 2488:19 2656:18 2763:10 responded 2679:17 2693:15 2696:3,4 2747:1 responding 2621:16 responds 2566:1 response 2492:17,20 2493:10,14,22 2495:6,11 2510:12,14,18 2511:2 2522:20 2547:14 2548:2 2564:4 2571:5 2597:19 2613:5 2618:6,10,12 2623:14,16,18 2627:5,7 2629:13,15,17 2631:20 2632:11,12,21 2662:2,6,13 2679:4 2682:7 2686:5,20 2688:4 2693:11 2694:1 2695:19 2696:5 2697:5 2699:17 2702:13,16 2703:4 2711:18 2714:1 2719:18 2744:22 2746:22 2750:18,20,22 2751:6,17,21 2754:7 2755:9,11,14 2756:1,2 2819:1 2822:9 responses 2492:2	2800:22 responsibility 2650:9 2716:4 restricting 2663:20 restriction 2523:2 2623:21 2624:5 2803:12 restructured 2599:12 2807:3,6 2811:16 result 2483:7 2488:8,14 2521:9 2545:9 2547:3 2612:15 2626:21 2666:20 2737:2 2743:18 2769:22 2771:19 resulting 2501:4 results 2550:2 2601:6 2689:18 2690:1 2722:21 2723:3 2787:2 resume 2637:12,16 resuming 2480:3 retail 2537:17 2538:7 2542:21 2786:10 2815:2,15 retailers 2815:1 retained 2485:1,2 2640:12 2673:11 retention 2485:19 retirement 2739:17 return 2484:4 2618:17 2716:7	returns 2507:22 revenue 2714:21 2715:12 2716:3,4,17 2746:19 2748:20 revenues 2806:21 review 2485:20 2507:10 2518:17,22 2519:12 2520:5,12,20 2521:5,19 2522:6 2529:5 2611:16 2612:13 2615:18 2621:20 2629:2 2635:19 2646:7,9 2650:11 2664:2 2671:8 2682:19 2693:19 2697:21 2700:15 2740:10 2741:8 2751:5 2754:12 2788:1 2797:2 2824:9 reviewed 2529:5 2532:9,20 2600:20 2649:8 2654:19 2673:21 2751:13 2790:11 2798:20 reviewing 2646:4 2648:20 2773:20 revisions 2507:12 reward 2666:8 RF 2588:18,20 2589:1,9 2592:5 RFP 2778:1 2798:5 2803:17 RG&E's 2541:8 Rhode 2475:9	RICHARD 2474:3 right-hand 2508:5,12 2622:10 2662:21 2663:12 2665:9 2704:19,22 Ring 2613:13 ring-fenced 2596:2 2624:9 ring-fencing 2483:14 2486:7 2488:2,12,14,18, 21 2495:4 2501:2,10 2502:1,8,17 2504:1,4,6 2506:11,22 2507:11,13 2508:7 2510:20,21 2511:15 2512:16 2519:7 2522:22 2523:1 2524:5,9,18,19 2526:8 2532:21 2535:17 2587:1 2588:2 2596:16 2603:18,22 2604:4,10,13 2605:13,22 2609:16 2610:16 2611:1,5,6 2612:1,2,3 2613:10,12,13,1 6,20 2614:1,4,15,22 2615:13 2624:2 2625:9 2632:18 2642:14 2643:1 2644:4 2646:5 2647:14,15 2648:9,21
--	--	--	--

(866) 448 - DEPO

www.CapitalReportingCompany.com © 2015

Capital Reporting Company
Formal Case No. 1119 04-20-2015
Page 65

2649:9,12,20 2650:2,4 ring-fencing-related 2500:8 rise 2490:8 2495:3 2550:7 2817:14,15 risk 2488:5,14 2539:4,5,19,20 2543:13 2555:14,22 2556:2,6,19 2557:2,6,10,11 2595:21 2611:8 2673:1,2,3 2717:11 2728:19 2729:10,11 risks 2523:8,10 2610:10 2672:21 2717:19 2718:20 2728:12,22 2738:9 risky 2545:12 2557:4,5,15 River 2573:19 road 2653:7 2816:10 Robert 2577:21 robust 2516:20 2532:21,22 Rochester 2541:2,5 2542:3 2797:6 2798:5,12 2799:5,7 Rockland 2796:10,19 2797:6 role 2635:12 2810:22 2815:2	roles 2643:20 rolling 2811:19 room 2505:16 2753:20 2774:18 roughly 2767:18 RPR 2473:22 RPS 2776:21 2777:14 2778:2 2781:11 2787:4,19 2789:20 2790:22 2791:6 2793:19 2809:3 2814:8 2815:4,17 2816:5 RSSA 2798:13,15 rub 2616:7 rules 2615:12 2824:4 running 2687:17 2724:21 2748:6 runs 2490:9,11 <hr/> S <hr/> S&L 2704:14 S&P 2495:21 2496:2 2536:14 2538:2,12,22 2539:3,13,15 2540:13 2541:4,12 2542:17 2767:19 S&P's 2542:9 SA 2541:7 safeguard 2529:13 SAIDI 2727:15,16 SAIFI 2727:16 salaries 2579:17	sale 2573:1 2582:9,17 sales 2574:6 2575:2,4 2581:14,22 2582:5,11,21 satisfy 2529:14 2819:3 save 2814:4 saved 2790:21 2791:5,8 savings 2622:19 2664:2 2665:11,12 2666:5,13,20,21 2703:11 2704:21 2705:5,7,13 2734:7,16,18 2735:4 2736:11 2739:10 2740:5 2741:1,7 2787:2 2792:3 2794:18 2795:1 saw 2489:3 2532:14 2664:17 2698:1 2805:3 2808:15 scale 2816:12 scenario 2808:6 schedule 2760:5 scheduled 2555:12 schedules 2827:3 2828:7 scheduling 2828:22 Scholer 2475:18 scoping 2665:19 scrambled 2541:12	scratch 2530:20 screwed 2633:14 sea 2806:1 Sears 2474:15 2477:13 2731:6,7,10 2732:18 2733:4,12 2759:9,16 second 2496:18 2574:17 2585:2 2597:7 2612:17 2615:9 2640:21 2656:14 2663:8,10 2665:9 2676:7,15 2703:20 2715:19 2788:1 secretary 2481:12 2658:1 2700:1 2731:4 2754:3 2761:10 2773:16 section 2497:18 2498:2 2556:9 2572:2 2602:6 2678:10,12 2708:12 2746:20 2747:3,6 2750:6 2756:15 sections 2497:18 sector 2551:3 2601:17 2605:8 securities 2486:9 2551:2 2552:14 2554:9 2555:2 seed 2701:2 seeing 2656:22 seek 2740:22 2741:6 2799:13
---	--	--	---

Capital Reporting Company
Formal Case No. 1119 04-20-2015

Page 66

2800:14 seeking 2795:14,19 seem 2489:13 2495:17 2512:15 2513:8 2743:7 seemed 2530:16 2675:9 seems 2491:4 2495:16 2521:7 2529:10 2593:7 2616:1,10 2760:12 seen 2564:11,13 2572:13 2594:12,13 2621:3 2622:3,6 2632:22 2638:14,19 2664:20 2665:5 2741:12 2743:11 2745:10 2784:2 2800:1,2 segment 2576:13 select 2636:12 2637:20 2803:14 selected 2634:8 selecting 2652:2 selections 2755:5 selects 2636:15 self-explanatory 2757:1 sell 2563:10 selling 2573:16 senior 2475:3 2554:13 2619:20 seniors 2677:7 sense 2585:18 2594:3 2637:18	2703:6 2744:13 2794:7 2804:20 2813:11 2820:12 2824:2 senses 2747:10 sensitivities 2771:18 sensitivity 2657:9 sent 2710:15 2787:20 2798:22 sentence 2515:4,11 2522:20 2540:5,14,17 2551:1,7 2556:9 2557:19 2636:9 2666:17 2671:11 2683:19 2700:22 2701:22 2765:21 separate 2509:14 2605:14,16,18,1 9,20 2612:7 2640:12 separated 2487:18 separateness 2604:18,22 2610:4 2613:3 separating 2488:2 separation 2497:17 2498:3 2509:3,10 2591:22 2595:17,18 2596:6 2604:17 2605:3 2606:1,6,11,18,2 2 2612:6 2644:3 separator 2594:19,20 September	2496:18 2497:3,13 2502:15 2526:10 serious 2688:19 serve 2510:2 2640:13 2673:11 served 2683:22 2786:6,7,10,17 service 2473:1,14 2490:12 2500:10,13 2503:14 2514:3,11 2515:18 2517:2 2518:16 2520:4,12,19 2522:9 2542:7 2558:8 2589:11 2591:13 2597:8 2603:18 2619:9,10,13 2624:4 2625:22 2677:10,22 2683:9 2684:4 2687:10 2688:11 2690:13 2692:19 2714:8,21 2716:2,7,8 2742:11 2743:1,4,10,17 2745:1 2757:10,17,21 2758:3,15 2764:21 2765:6 2777:4,15,17 2778:3,20 2779:3 2780:1 2782:3 2797:22 2798:10 2800:8 2802:15,22 2809:22 2810:17 2811:13 2812:14 services 2641:4	2797:18 servicing 2486:10 session 2549:5 2620:19 2656:1 2792:20 sets 2530:22 2726:15 2747:11 2813:14 setting 2624:17 2627:17 2629:1 settlement 2511:7 2512:2 2516:13 2780:10 2781:16 2784:8,11,21 2799:20 2821:13,19 set-up 2656:15 seven 2809:20 seventh 2622:16 several 2508:12 2660:11 2702:18 2733:21 2739:15 2756:14 2791:9 2816:9 2826:19 severe 2821:17 shake 2615:1 shaking 2615:2,6 2713:12 Shane 2828:10,17,21 2830:1 shape 2808:1 share 2569:9 2572:9 2575:11,17 2576:21 2577:13 2579:1,12,13 2580:7 2581:17,20
---	---	---	---

(866) 448 - DEPO

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Capital Reporting Company
Formal Case No. 1119 04-20-2015
Page 67

2582:15,22 2583:18,20,21 2590:16 2593:5 2610:2 2620:6 2623:4,5 2640:10 2665:12 2677:15 2706:15 2716:4 2749:22 shared 2643:21,22 shareholders 2737:12 2738:10 shares 2545:16 2553:8,20,22 2554:21 2577:2,10 2579:12,13 2583:3,5 2623:9 2748:1 she'd 2569:18 sheet 2600:12,19,22 2601:1 2686:15 she's 2517:11 2544:12 2562:19 shifting 2711:5 shoe 2616:7 short 2584:16 2653:2 2761:4 2830:10 shortage 2814:22 2815:3,18 2816:3 2817:9 shorter-term 2803:1 shorthand 2558:4 2831:6 short-term 2628:5 2812:11 showed 2503:5	2794:3 showing 2578:16 2613:8 2614:14 2683:20 2791:17 shown 2649:6,9 2791:21 2799:10 shows 2510:19 2790:9,16 shut 2531:17 sic 2485:14 2489:16 2510:5 2537:16 2540:15,18 2560:6 2613:7 2624:18 2632:2 2669:11 2711:16 2724:13 2739:18 2766:17 2770:18 signature 2784:5 2785:11 signed 2563:7 2753:1,21 significance 2602:22 significant 2486:18 2556:8,11,18 2557:2 2595:21 2604:17 2650:2 2709:15 2719:1 2794:5 2798:21 2812:14 2824:5 significantly 2535:2 2727:14 2746:10 2809:13 2811:18 2812:1,20 similar 2483:15 2502:10 2504:16 2523:13,16 2524:13 2530:11	2561:5 2568:22 2692:1 2709:17 2721:18 similarities 2632:17 similarly 2562:3 simple 2611:20 simply 2499:1 2525:8 2593:12 2599:2 2615:5 2651:8 single 2502:17 2508:19 2519:11 2579:7 2592:13 sir 2544:20 2546:10 2659:17 2660:10,15,20 2661:4,8,22 2662:5,16 2663:5,7 2667:1,15 2668:8,12,22 2670:8,16 2672:2 2673:13,19 2674:1,4,11,14,2 0 2675:4 2677:1,12 2678:7,16,21 2679:14,20 2680:13,16,19,2 2 2681:4,9,12,17 2682:8,12,17 2683:10 2684:22 2685:5,12,15 2686:7,12 2687:15 2688:2,13,16 2689:5,12,15,17 2690:7,14 2691:20 2692:5,10,16,20 2693:12,18,21	2695:6,21 2696:9 2697:2 2698:8,12,17,22 2701:8 2702:22 2703:12,19 2704:3 2705:4,20 2706:3,11,20 2707:2,7 2719:22 2720:21 2721:5 2725:20 2726:4 sit 2582:1 siting 2821:7,9 sits 2588:20 2589:3 sitting 2791:20 situation 2504:22 2596:6 2605:1 2614:12 2632:19 2799:18 2800:4 six 2622:16 size 2499:17 2546:8,15 2600:11 2699:7 skipping 2557:21 slightly 2503:8 2534:16 2567:18 2568:8 2800:7 slip 2757:18 2758:8 slow 2554:2 small 2504:11,15 2544:12 2566:3 2701:3 2717:1 2810:8 2811:9 Smith 2828:10 2829:2,15 2830:14 solar 2812:20
--	---	--	--

Capital Reporting Company
Formal Case No. 1119 04-20-2015

Page 68

2815:13,14 solely 2490:22 solicit 2777:3 solidly 2556:16 solution 2736:10 solutions 2735:22 solvency 2499:9 somebody 2507:20 2710:15 somehow 2739:13 2743:13 someone 2641:14 2644:22 2652:8 someplace 2519:18 somewhat 2674:7 2721:20 somewhere 2519:14,22 2520:1 2546:4 2612:18 2661:10 2672:17 2702:5 2722:8 2786:12,14 2791:17 2805:4 sorry 2492:12 2493:15 2496:10 2502:20 2503:3 2517:19 2520:17 2527:7 2543:8 2545:19 2548:14 2549:16 2562:5 2564:20 2565:3 2569:15 2581:18 2582:7 2585:11 2589:1 2592:18 2600:2 2610:11 2619:22 2636:14 2637:2,4,21 2647:19 2652:18	2663:12,15,16 2676:20,22 2691:1 2696:17 2736:2 2737:14 2738:2 2751:20 2790:3 2793:2 2824:15 2827:11 sort 2502:12 2538:1 2545:19 2546:17 2565:15 2575:16 2630:20 2651:19 2652:1 2656:16 2741:18 2747:6 2828:4 SOS 2802:14 2811:7 2815:1,15 sound 2523:14 2607:10,21 2746:13 sounds 2746:17 source 2484:22 2485:10 sourced 2776:18 2808:22 2810:15 sources 2484:18 2498:12 2622:12 2704:8,10,12 south 2602:14 2723:16 Spain 2542:4 spans 2684:4 SPE 2592:2 2593:20 2596:2 2634:3 2637:20 2638:15,20 2639:20 2640:8,9,14 2644:20 2647:11,19 2651:16,21	2652:13 2653:3,10 2656:16 speak 2714:13 2728:12 2751:18 2810:14 speaking 2546:10,11 2595:7 2714:11,12 2716:1 2729:3 special 2473:6 2487:19 2587:3 2588:6,8 2592:10,13,14,1 7,20,21 2593:5,11 2594:5,7,8,16,18 2595:12,15,19 2596:5,17,18,21 2604:11,15,16,2 0 2605:10 2612:21 2634:22 2635:17,20,22 2637:14 2638:8,10,11 2639:15 2643:11 2648:6 specialties 2637:12 specific 2490:6,20 2491:5 2504:21,22 2505:3,9,13,14,1 9,20 2506:4 2516:16 2524:22 2525:2,14 2563:19 2611:10 2612:12 2673:4 2674:8 2675:8,15 2694:6 2697:9 2698:4 2701:5	2702:19 2723:9 2727:7,15 2739:10,20 2755:1 2756:15 2757:16 2766:2 2781:1 2791:7 2792:5 2795:3 specifically 2488:15 2490:7 2533:1 2540:7 2573:13 2598:5 2625:8 2627:6 2634:20 2635:9 2649:20 2650:5 2654:16 2660:16 2667:22 2668:19 2703:14 2729:4 2742:22 2751:10 2756:20 2757:13 2806:16 specificity 2708:14 specifics 2651:13 specify 2758:14 speculate 2747:11 speech 2612:18 2768:6 speed 2821:15 spell 2775:1 spelled 2757:13 2761:22 spells 2748:16 SPENCER 2475:17 2633:7 2707:17 2759:3 2772:7 2802:9 spent 2655:3 SPEs 2590:7 2591:18,22 2640:11 2641:22
--	--	--	---

(866) 448 - DEPO

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Capital Reporting Company
Formal Case No. 1119 04-20-2015

Page 69

2642:3 2651:20 spinning 2614:11 splitting 2711:3 spoke 2646:5 sponsor 2492:9 2493:11,15 2494:8 2618:9 2627:7 2630:17 2639:17 sponsored 2493:16 2519:8 2630:1,4,9 2693:16 2800:21 sponsoring 2516:6 sponsors 2492:17 2493:7 sponsorship 2630:11,17 spreadsheet 2699:7 2700:8 2701:15 2703:2,13 spreadsheets 2724:6 spring 2726:22 Squire 2476:3 stab 2673:7 stable 2560:12 2810:2 staff 2629:14,16 2631:21 2632:9 2753:22 stages 2548:15 stand 2481:8 2630:16 2631:4 2752:5 2818:13 stand-alone 2537:11,14	2538:4,16 2541:6 2550:4 2556:17 2557:1 2755:20 standard 2489:20 2501:12,14,18,2 2 2514:6 2529:11 2530:15 2531:6 2534:20 2543:12 2557:8,9,18 2558:18 2560:20 2561:2,6,19 2566:20 2567:1,3,7,9,11, 20 2568:14 2613:21,22 2614:7 2615:15 2663:1 2667:3 2669:4 2670:14,19 2776:20 2777:4,14,17 2778:3,20 2779:2 2780:1 2802:14,22 2809:22 2810:17 2812:14 2813:14 2819:13 standards 2502:13 2531:13 2536:4,5,7 2664:22 2665:1 2793:19 stands 2489:14 2588:12 start 2492:1 2537:2 2631:12,19 2696:18 2739:1 2760:22 2828:9 2829:14,21 2830:7	started 2570:15 2612:1 2629:20 starting 2480:7 2572:20 2677:3 2712:2 2715:16,17 2717:4 starts 2689:10 2812:20 2830:19 state 2481:18 2515:5 2522:21 2529:3 2530:1 2543:3 2545:1 2623:18 2627:2 2658:7 2663:14,19 2665:10 2671:12,17 2673:15 2674:21 2677:3 2683:6,8 2685:7 2687:17 2731:11 2742:22 2761:19 2762:1 2775:1 2785:16 2787:2 2795:19 2797:10 2814:13 2821:10,11 2823:14 stated 2530:1 2628:15 2688:21 2700:22 2740:20 2741:14 2778:6 statement 2498:8 2511:12 2569:11 2578:19 2595:13 2648:16,17 2650:17 2734:6,13 2741:6 2766:20 2769:3 2823:14 statements 2485:21 2534:14 2766:13	2831:3,5,10 states 2498:5 2511:5 2513:6 2536:6 2537:10 2538:3,15 2539:3,15 2540:13 2541:4 2542:9,19 2618:15 2781:2 2785:17 2823:13 state-subsidized 2799:14 stating 2691:22 statistics 2701:4 2724:22 status 2522:4 2665:20 statute 2712:10 stay 2827:17 stay-out 2608:16,21 2609:12 2615:9,12,20 2646:11 step 2576:10 steps 2606:5 2819:22 stick 2828:20 stipulate 2629:10,20 2654:19 stipulated 2482:4 2631:13 2741:17 stipulation 2506:13,15 2507:15 2826:1 stock 2485:7,8 2487:9,10 2499:22 2546:12
--	---	--	--

(866) 448 - DEPO

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Capital Reporting Company
Formal Case No. 1119 04-20-2015

Page 70

2552:16 2553:15 2554:1,4 2645:11,13,19 2747:22 2748:17,18 2749:21,22 2771:21 straight 2622:5 strange 2593:8 2616:11 strategy 2619:21 2799:10 streamline 2728:9 Street 2473:15 2474:8,12,17 2475:4,14,19 2476:4 strength 2525:7 2763:6 2766:14 2767:6 stricken 2512:2,7 2515:1,5,15 strike 2512:11 2737:17 2755:19 striking 2516:11 stringent 2489:1 strong 2516:10,20 2536:3 2646:12 2683:20,21 2800:19 2819:12 stronger 2540:19 2643:9 2644:8,10,18 2769:18 2770:10 strongly 2804:20 struck 2666:18 structural 2605:10 structurally	2487:18 structure 2490:18 2491:2,4 2500:10 2588:1 2589:9 2591:1,7,18 2592:19 2605:4,7,8 2607:15,16,17,1 9 2608:1 2613:1 2618:16 2624:10,11 2628:8,11,13,14 2642:6 structured 2483:15,17 2594:13 2601:12 2635:1,3 2637:13 2638:6,9,10 2646:16,18 2718:16 structures 2504:14 studies 2721:22 2722:20,21 2723:7,14 stuff 2607:6 2699:11 subject 2496:20,21 2503:19 2531:16 2533:16,19 2548:9 2554:15 2577:4,6 2596:22 2612:13 2615:20 2618:14 2623:3,7,10 2641:5 2680:9 2681:10 2683:12 2686:22 2694:4 2698:2,15,20 2704:17 2705:2	2736:17 2740:13 2741:13 2743:20 2744:10 2746:12 2749:15,18 2758:12 2774:15,18 2812:4 subjectively 2672:20 subjects 2786:22 submitted 2519:8 2532:3 2661:6 2673:21 2724:17 2752:20 2774:3 2826:2 Subodh 2825:20 subpart 2627:6 2702:15 Sub-quality 2717:10 subscribe 2665:13 subscriptions 2496:1 subsection 2497:20 2498:1,2,5 2678:13 subsections 2497:19 subsequently 2798:9 subsidiaries 2485:16,18,20,2 2 2486:3,22 2601:14 2605:16,18 2627:17 2628:22 subsidiary 2498:6,10 2499:11 2596:12	2599:21 2600:7 2606:12 2618:18 2682:10 subsidiaries 2795:14 subsidy 2800:14 substantial 2506:21 2524:11 2535:13 2545:22 2630:15 2809:2 substantially 2507:3 2687:20 2792:2 substantive 2508:13,16,17 2509:17,21 2535:6,20 2594:17 2595:4,20 2596:1,3,8,10,22 2604:19 2607:2 2642:20 substantively 2508:22 2516:8 2535:10 substitute 2611:19 2615:2 sufficient 2606:1 2702:9 2824:11 sufficiently 2817:2 suggest 2501:9 2507:8 2533:5 2818:14,16 2829:14,21 suggested 2530:17 2628:5 2736:9 2808:18 suggesting 2716:3 2811:3 2818:7 suggestion 2613:6 2817:16
--	---	---	--

(866) 448 - DEPO

www.CapitalReportingCompany.com © 2015

Capital Reporting Company
Formal Case No. 1119 04-20-2015

Page 71

suggests 2689:1 suite 2474:4,13,17 2475:5,14 2476:4 2766:4 sum 2516:19 summarize 2673:17 2735:18 summarizing 2674:18 summary 2608:19,20 2672:7 2742:16 2799:3 summed 2521:12 SUN 2475:16 2633:6 2707:16 2802:9 sunset 2609:16,19 superior 2504:3 supervision 2732:8 2762:9 2776:3 2802:2 supplement 2495:7 2806:20 supplemental 2482:2,3,5,10,20 2490:1 2495:10 2496:17 2497:3,5,6,8,13 2500:3,18,22 2501:8 2504:2 2505:7 2511:4,8,14 2526:10 2531:3 2544:17 2586:5 2589:21 2608:13 2613:7 2658:15 2676:3,12 2678:4 2683:17 2719:4 2731:21	2733:5 2735:8,13,17 2736:3 2739:17 2742:18 2743:2 2780:8 2781:14,18 2796:12,15,17 supplied 2485:15 supplier 2815:15 suppliers 2777:16 2812:7 supply 2484:17 2554:5 2586:2 2611:13 2641:2 supplying 2808:3 support 2702:1 2784:20 2797:17 2801:14 2817:19 supported 2697:18 supporting 2658:14,16 2683:22 2732:1,21 2733:7 2772:14 2784:12 supports 2765:18 suppose 2591:9 2592:2 2605:13 supposed 2620:5 2684:12 2729:16 2767:2,6 2798:16 sure 2518:22 2531:19 2552:21 2564:6 2574:8 2581:11,13 2604:9 2606:2,10 2619:14,16	2621:10 2625:3 2626:13,18 2631:19 2638:18 2651:3 2699:21 2715:20,22 2728:11 2737:7 2745:18 2746:2,3,19 2750:22 2769:5 2775:2 2784:4 2791:3 2801:20 surely 2652:14 sur-rebuttal 2621:19 surrendered 2554:20 survey 2722:20 2723:5,13 surveys 2665:19,20 2723:8 sustainability 2728:19 sustainable 2713:16 Switching 2742:4 sworn 2481:12 2658:1 2731:4 2761:6,10 2762:12 2773:16 synergies 2566:3,12 2579:21 2580:1,3 synergy 2736:11 synthesis 2503:8 synthesizing 2503:6 system 2602:2	2806:8 <hr/> T <hr/> T&D 2766:5 tab 2783:18 table 2508:2 2568:7 2575:10 2576:6 2583:19 2665:17 2712:7 2788:2,4 2790:12,16 tables 2725:4 taking 2650:8 2748:15 2789:2 tale 2606:4 talk 2597:22 2691:19 2734:2 2742:4 2744:8 2756:9 2779:13 2790:13 2792:7 2816:15 2827:1,4 talked 2779:12 2780:13 2811:5 talking 2500:5 2524:21 2525:12 2554:3 2558:17 2574:10 2578:11 2579:11 2587:19 2594:1 2608:15 2614:17 2634:3 2640:5 2647:14 2651:17 2694:15,16 2696:14 2708:7 2715:9 2728:16 2798:8 2802:13 2804:16 2805:19 2806:2,17 2816:21,22 talks 2572:5
--	--	---	---

(866) 448 - DEPO

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Capital Reporting Company
Formal Case No. 1119 04-20-2015
Page 72

2574:19 2634:4 2793:1 tangible 2668:3,10 2669:15 2670:12,19 target 2574:15 2704:21 2725:7 2734:7 targets 2803:15 tax 2581:2 2697:16,19 2698:11,21 2719:20 2720:3,5,9 2745:21 2746:7,8 2747:7,8 2755:4 2782:21 2791:5,19 tax-deductible 2580:22 taxes 2752:21 tax-exempt 2747:17 2748:3 taxpayers 2720:10 team 2638:8 temp 2651:21 ten 2488:22 2608:22 2609:2 2615:22 2616:10,13 2643:3 2648:1 2736:13 2737:19 2739:6,14 2740:2 2760:3,20 tender 2659:19 2776:6 ten-minute 2584:13 2760:19	Tennessee 2618:22 2619:12,14 tenth 2707:4 ten-year 2489:4 2736:20 2738:20 term 2779:9 2798:15 2799:15 2813:21 2814:7,12 terminologies 2647:20 terms 2667:19 2710:8 2716:1,7 2727:11 2769:6 2770:11 2779:6 2790:22 2791:5 territory 2586:2 2683:9 2684:4 test 2489:2 2734:15 testified 2481:12 2495:15 2658:1 2660:17 2685:14 2687:18 2688:17 2731:4 2751:8 2757:6 2761:10 2773:16 testify 2501:1 2505:8 testifying 2775:3 testimonial 2598:1 testimonies 2721:10 2722:8 2724:2 2725:18 testimony 2482:4,6,7,13,20 2489:3 2490:1 2496:8,12,16,17 2497:4,5,6,7,8,1	3 2500:4,18,22 2501:9 2502:16 2505:7 2508:4 2511:4,9,14 2516:6,14,15 2523:19 2526:10 2528:2 2530:8 2531:3 2535:11 2544:17 2563:18 2586:6,9 2590:20 2594:2 2606:15 2608:13 2610:14,19 2612:3 2613:7 2616:13 2617:4,19 2621:5,15,17 2636:18 2640:8 2645:8 2653:4 2656:6 2658:12,13,16 2659:1,4 2660:6,8,17 2661:6 2662:7,8 2667:5,22 2668:19 2669:18 2670:11 2671:6 2672:17 2673:10,17,20,2 1 2674:2,6,16,17 2676:4 2678:9 2681:14 2683:6,14,18 2684:21 2686:10 2687:9,14 2688:10 2689:7 2690:5,12 2691:3,19 2692:7 2693:16,19 2694:5 2696:3,7,11,13,1 9 2697:6,11 2700:18 2701:21 2708:3 2711:14	2712:1,2,4,5 2715:16 2719:4 2720:19 2721:3,7 2722:9 2726:11,16,21 2727:13 2731:16,22 2732:6,11,14,19 2733:5 2734:4 2735:8,13 2736:7,15,18 2738:8,14,17,19 2739:5 2740:11,19 2741:18 2742:6,18 2743:3 2744:15,16 2749:9,13 2754:20 2756:13 2758:7 2762:4,8,11,12 2763:2 2766:11,15 2769:10 2773:20 2774:3,5,6 2775:9,12,20,21 2776:1 2777:1 2780:8,13 2781:4,14,18 2782:10,19 2787:1 2788:16 2790:19 2792:9,17,18,21 2793:7,8,9,10,13 2795:10 2796:12,17 2799:2 2801:1 2803:13 2805:15 2824:20 2826:1,2 2831:4,5,10 text 2515:1,5 thank 2481:3,6
---	---	---	--

Capital Reporting Company
Formal Case No. 1119 04-20-2015
Page 73

2484:16 2486:6	2764:15 2772:6	2725:6 2727:21	theoretical 2626:2
2488:16	2776:7 2782:16	2729:16 2735:15	theory
2491:9,12	2795:5	2736:8 2737:8	2490:4,6,10
2492:14	2808:12,13	2738:7	2491:8
2493:16,19	2821:20	2741:2,19	thereafter 2831:6
2495:13 2517:18	2824:14,18	2744:14 2745:19	thereby 2717:13
2518:4 2524:2	2825:7	2748:6 2749:12	therefore 2496:2
2536:20	2826:5,13	2750:1,12	2530:16 2810:2
2543:20,22	2827:19	2755:16,22	there's 2493:14
2547:12 2552:11	2830:17,19	2756:2,18	2505:14 2509:13
2554:8	thanks 2561:8	2758:6,18	2551:1,11
2555:5,13	2633:7	2760:8 2761:22	2581:9 2585:3
2556:12 2559:16	that's 2496:14	2763:11,12	2590:21 2592:17
2564:5	2498:20 2500:15	2765:20 2774:8	2601:3 2609:5
2569:1,20	2504:2 2508:4	2776:22	2613:2
2571:11	2511:1 2513:15	2777:9,18	2615:10,11
2579:9,19	2521:16	2779:19 2780:2	2652:9 2659:14
2582:19 2584:20	2523:7,17	2781:13	2670:7 2676:9
2586:4 2588:15	2526:14,15	2782:1,6,9,22	2719:18 2724:20
2597:6 2599:17	2543:21	2784:7,14	2743:15 2746:20
2601:9 2608:11	2547:14,17,20	2785:22 2787:6	2771:1,5,6,13
2619:17 2622:21	2548:3 2549:12	2788:8,9,19,21	2786:3 2795:8
2629:4 2633:1,5	2551:6 2561:14	2789:1,3	2803:11,12
2637:4 2646:1	2573:9	2790:15 2791:17	2807:19
2652:16	2578:1,16	2793:10 2794:21	2808:8,10
2653:8,16,18	2580:11,17	2795:21	2810:7 2815:10
2654:21 2655:6	2581:1 2584:2	2797:8,13,19	2819:12 2820:15
2657:11,16	2587:10 2598:16	2798:1,7,14	2821:9 2822:18
2659:13,21	2599:16 2608:21	2802:3 2803:7	2823:6 2824:17
2679:11 2686:2	2616:13	2806:2	thereto 2831:14
2695:16 2699:22	2617:20,21	2807:5,11,13,16,	Thesis 2585:3
2707:11	2621:4 2624:1	18 2808:4,20	they'll 2817:14
2711:10,12	2631:15 2632:5	2809:11	they're 2480:17
2715:14 2717:3	2636:10	2810:18,20	2502:12 2504:8
2719:5 2720:17	2640:2,4,11	2811:2	2505:4,10,14
2725:14 2726:8	2641:16 2645:5	2812:7,21	2506:4 2524:19
2727:20 2728:4	2648:8 2649:1	2813:8,16	2535:10 2554:12
2729:22	2653:16 2659:5	2820:9,22	2572:17 2592:22
2730:16,19	2661:8 2662:12	2824:4 2826:13	2637:5,7,8,9
2733:15 2737:13	2665:17 2670:13	2829:8	2651:20,21
2738:22 2742:3	2673:8 2675:19	Thayer	2652:11 2670:2
2752:15,18	2677:21 2684:9	2565:17,19	2700:2 2756:22
2754:16 2756:4	2689:21 2691:11	2566:1,7,15	
2758:20 2759:13	2694:9 2707:10	Thayer's 2569:3	
2762:16,18			

Capital Reporting Company
Formal Case No. 1119 04-20-2015
Page 74

2758:5 2799:12 2806:9,11,15,20 2807:21 2811:10 2812:9,12 2816:12 2827:5 they've 2507:19 2582:8 2638:18 2722:16 2727:14 2789:4 third 2775:15 2781:20 2817:16 THOMAS 2474:6 thoroughly 2597:13 thoughts 2571:17 three-and-a-half 2655:3 2830:9 three-year 2803:5 2811:8,18 2812:5,8,13 threshold 2528:21 2530:7,10 2531:1 ticker 2771:21 tie 2491:6 2624:7 2625:18 tied 2490:7,21 2530:18 2531:21 2625:10 tier 2815:13 2816:14 Tierney 2689:19 2722:12 2723:22 title 2754:5 today 2480:6 2551:17 2553:9 2582:1 2622:22 2633:14,15 2634:4 2664:21	2679:17 2724:9,17 2731:15 2743:6 2751:8 2760:11,21 2775:4 2791:20 2794:19 2816:6 token 2594:10 Tom 2660:2 tomorrow 2826:19,20,21 2827:3,6,10,21 2828:9,14 2830:8,20 top 2480:21 2537:5 2712:3 topic 2494:20 2586:11,20 topics 2502:8 2586:4 2617:3 2742:4 total 2600:11 2786:9 2803:19 totalled 2702:5 totally 2613:22 touched 2805:14 towards 2537:10 town 2826:10 Township 2731:14 traceable 2667:11,17 2668:10 2670:12,18 2672:5,13 2766:17 2767:1 2770:14 2771:1,6 trades 2711:2 trading 2540:8	2643:21 traditional 2552:14 trafficking 2747:7 transaction 2473:7 2490:8,9 2491:7 2502:6,14 2509:7 2529:3 2532:15 2566:4,10,18 2594:22 2604:14 2626:4,18,22 2643:1 2644:17 2649:4,7,10,22 2650:7,9,10 2651:3,11,13 2670:4 2703:7,15 2706:16,18,22 2826:3 transactions 2483:16 2501:3 2594:13 2635:2,3,11 2638:9 2639:21 2652:12 2702:20 transcript 2565:5 2741:15 2743:22 2744:4 2831:5,9 transcription 2831:7 transcripts 2741:11 transition 2709:8 2710:12 transmission 2602:1 2817:18 2818:6 2819:9 2820:1,22 2821:4,15,16	2822:4 transmitted 2817:20 transparency 2505:15 2560:4 2562:15 transparent 2506:5 2562:16 transpired 2702:17 Transportation 2705:18 Travers 2547:7 2586:8 2597:16 2699:19 treat 2508:19 2509:14 2555:1 trick 2505:11,22 2506:1 2691:11 tricked 2590:4 trickling 2828:4 Tricky 2505:18 trigger 2560:1,7,11,12 2561:14,16 2646:6,7 triggered 2601:11 triggering 2739:11 triggers 2559:18 triple-B 2556:16 2560:22 2561:1 2567:20 2770:9 true 2492:20 2493:10 2494:11,14 2552:12 2582:16 2586:3 2599:16 2716:6 2732:15
---	---	--	--

Capital Reporting Company
Formal Case No. 1119 04-20-2015
Page 75

2831:9 truly 2716:15 trust 2652:5 trustees 2635:5 2652:7 trusts 2652:7 truthfulness 2654:20 try 2495:19 2529:21 2673:6 2724:16 2806:12 trying 2491:6 2514:20 2557:13 2625:18 2640:5 2643:12 2650:16 2651:18,22 2666:13 2722:2 2738:13 2761:1 2793:17 2806:10 2814:2 turn 2489:11 2497:11 2500:2,17 2508:3 2510:8 2511:18 2514:15 2522:14 2526:5 2528:1 2537:21 2538:11 2539:12 2540:11 2542:6 2587:14 2588:10 2661:9,10 2667:5 2674:5 2676:4 2679:1,21 2680:17 2681:18 2684:20 2687:4,13 2688:3,7 2689:6 2697:6 2703:20 2705:21 2706:8 2708:6 2715:16 2725:21 2726:8	2734:3 2763:13 2768:10 2790:2,6 2795:22 2798:2 2801:5 turning 2717:4 two-column 2508:5 two-page 2700:7 2701:13 two-year 2777:3 type 2575:13 2576:7 2606:18 2611:12 2635:4,14 2636:7 2637:19 2682:14 2721:9 2800:4 types 2483:15 2610:20 typical 2639:6 typically 2534:18 2551:3 2552:1 2553:4 2560:3 2568:21 2773:21 2819:17 <hr/> U <hr/> U.S 2530:12 Uh-huh 2691:15 UK-based 2539:18 2540:16 ultimate 2539:17 2540:16 2541:7 2642:21 ultimately 2787:3 2791:16 2799:19 unable 2484:17 unalterable	2828:21 unavailable 2498:14 2830:1 uncertain 2671:20 2672:6 undergrounding 2724:8 underlying 2490:5 2552:16 2576:12 2723:5,7 underneath 2579:20,21 understand 2497:9 2505:15 2506:6,19 2521:12 2529:21 2531:19 2541:11 2545:21 2578:22 2583:2 2593:11 2611:22 2615:21,22 2616:5,16 2632:16 2636:6,19 2644:5 2647:21 2656:11 2673:8,14 2708:16 2710:13,19 2777:13 2781:1 2798:19,20 2802:17 2807:2 understanding 2490:10 2492:12 2515:13 2524:16,17 2566:19 2578:6 2585:8 2597:11 2636:13 2641:17 2650:11 2663:6 2667:16 2694:9,10,11	2697:17 2720:4,11 2727:10 2738:21 2750:12 2778:19 2788:12,18,19,2 2 2789:3 2797:5 2798:1 2814:5 2818:5 2819:8 2826:18 understandings 2549:1 2571:7 understated 2581:6 understood 2552:21 2651:17 undertake 2621:19 undertakes 2652:8 undrawn 2499:13,17 unfair 2621:7 2630:20 unfortunately 2629:18 2709:4 2773:21 unintended 2525:1,10 unit 2551:12 2554:12 2808:2 United 2513:6 2536:6 2618:15 units 2551:4,15 2552:3 2808:2 University 2762:2 unless 2613:15 2647:8 2648:18 2703:21 2792:10 2810:8
---	---	--	---

Capital Reporting Company
Formal Case No. 1119 04-20-2015
Page 76

unnecessary 2590:9,21,22	2516:22 2518:19 2520:7 2522:8 2529:12 2530:12 2536:14 2545:9 2552:13 2557:15,16 2567:16 2590:8 2595:21 2612:8 2666:19 2687:22 2705:17 2766:5 2780:5 2781:21 2786:2	2812:3 2816:12 utility's 2542:9,19 2543:14 2604:7 utilizes 2566:20 <hr/> V <hr/>	versa 2728:14 versed 2597:13 version 2506:14,17 2526:14,21 2528:9 2699:12 2825:1 versions 2658:22 2699:15 versus 2529:9 2587:9 2632:18 2723:21 via 2656:19 viability 2498:7 2510:2,4,7 2536:5 2612:7 2613:3 viable 2711:8 2820:1 vice 2475:3 2565:22 2619:20 2728:14 view 2490:15 2535:6 2604:4 2613:11 2616:14 2665:13 2729:9 2769:1 2777:7 viewed 2765:15,17 2770:17 views 2494:20,22 2585:12,13,14 2610:20 2618:14 violate 2753:8 violations 2797:21 virtue 2561:15 vitae 2660:6 volatility 2567:1,2,7,11,12 2810:11
unquote 2523:4 2781:11 2785:21 2795:16 unreasonable 2606:21 unregulated 2607:13 unrelated 2641:2 unscramble 2509:13 untenable 2766:6,21 2767:3 2768:5,7 unwilling 2484:17 Updated 2571:16 upgrade 2771:13 2817:18 2822:4 upon 2490:17 2498:13 2512:14 2525:17 2528:15 2530:10 2531:5,8 2532:3 2566:22 2573:11 2578:10 2603:21 2624:16 2723:5 upper 2622:10 urged 2628:6 useful 2611:16 2625:22 2626:7,14 usual 2549:1 2571:6 usually 2563:12 2634:20,21 2636:14 2773:21 2810:6 2813:13 utilities 2515:12	utility 2485:15,18,21 2486:2 2488:3 2489:8,9 2495:19 2534:18 2536:4,5 2539:6 2551:3 2568:9 2579:7 2588:21 2589:6 2591:11,12,16 2595:19 2596:1,12 2601:13 2602:1,6,7,8,9,1 2,14,17,18 2604:22 2605:6,8,18 2606:11 2607:18,20 2610:8 2612:6,9 2613:3 2615:16,18 2616:19 2619:2 2626:1,15 2639:21 2661:7 2666:6 2682:20 2683:1 2708:15 2712:10 2713:16 2778:16 2786:3,4 2792:6 2796:21 2808:8,10	valid 2794:7 valuable 2486:14 valuation 2601:4 2626:6,11 valuations 2599:6 value 2566:11 2601:1,2,4,15,20 2626:13 2722:22 2747:15,19 2748:1,12,14,18, 22 2749:20 2750:8 2794:10,11 valued 2600:19 values 2581:13 variance 2557:17 varied 2723:17 variety 2709:15 2721:17 various 2503:7,9 2547:18 2678:11 2704:8 2723:4 2746:8 vary 2534:16 2704:10 varying 2503:8 vehicle 2635:4 veil 2595:6 verification 2496:22 verify 2492:20	

Capital Reporting Company
Formal Case No. 1119 04-20-2015
Page 77

volume 2473:7 2547:11 2676:9,10	2736:9 2759:5,6 2802:10	2525:12 2533:3 2554:3 2561:10 2564:2 2575:20 2579:11 2584:17 2608:15 2611:9 2629:6 2640:4 2647:14 2656:3 2694:15,16 2703:5 2704:19 2735:15 2761:5 2763:17 2804:7,16 2805:19 2813:18	2547:18 2548:4 2549:1,9 2558:20 2564:11 2567:1 2571:5 2573:18 2574:5 2582:2,5,8 2585:9 2587:3 2595:11 2596:16 2600:21 2603:17 2619:1 2620:18 2621:11 2624:2,22 2626:10,14 2627:14 2628:19,20 2629:10 2639:10 2645:2,6 2670:2,7 2677:6 2679:15 2690:3 2705:6,9 2712:21 2716:17 2750:16 2751:3 2791:22 2820:12 2822:22 2823:2
voluminous 2705:15	watermark 2501:18		
von 2619:20 2620:1	ways 2513:2		
vortex 2809:12	weakening 2717:13		
vouch 2750:13 2752:4	weaker 2556:17,22		
	web 2724:10		
	we'd 2482:13 2656:21 2741:18	western 2573:22	
<hr/> W <hr/>	Wednesday 2826:22 2828:14,18 2829:17 2830:1,16	we've 2519:10 2524:21 2576:20 2611:4 2621:16 2647:22 2679:21 2725:5 2733:20 2741:16,17 2760:3 2779:12 2799:22 2800:1 2828:9 2830:8	
wait 2774:7	week 2631:5		
waive 2480:18	weeks 2724:19		
waived 2825:20	weigh 2544:13	whatever 2529:9,19 2563:21 2611:14,20 2615:19 2618:13 2625:14 2750:7 2793:12	whipping 2544:12
warn 2597:16	weighed 2507:18		White 2476:3 2633:10 2707:20 2737:6,9,12 2738:2,3,4,21 2759:6 2772:8 2802:10 2826:14,16,18 2827:7 2829:3,4,8
warning 2560:20,21	weighs 2544:13	whatsoever 2489:4	
WASA 2476:2 2633:9 2707:19	weighted 2788:5	whenever 2726:20	
Washington 2473:9,15 2474:5,13,18 2475:5,9,15,19 2476:5,9 2512:5 2705:17	Weinberg 2474:11	whereas 2648:7 2718:20 2729:1	whoever 2774:15
wasn't 2505:2 2513:4 2532:8 2593:14 2609:3 2625:7 2629:18 2650:8 2716:12 2729:3 2740:17 2757:15 2815:11 2819:2	welcome 2764:18	Whereupon 2481:9 2584:16 2655:11 2657:20 2731:1 2761:4,7 2773:13 2830:21	whole 2567:22 2613:20 2683:19 2790:11
watch 2545:2,10,14 2546:18 2547:3 2560:8,10,13,16 2561:11	we'll 2564:3 2584:11,13,14 2620:21 2699:7 2707:3 2730:1 2744:12,13 2760:22 2789:9 2830:7	whether 2483:11 2485:15 2521:17	wholesale 2777:16 2778:21 2795:16 2812:7
Water 2523:21	well-known 2637:1,6,7,8,9		whom 2481:21 2591:4 2634:10
	well-operated 2596:11		
	well-run 2596:11		
	we're 2507:21		

Capital Reporting Company
Formal Case No. 1119 04-20-2015
Page 78

2641:2 who's 2757:6 2827:10 whose 2625:3 2682:11 2775:3 wide 2671:18 2672:20 William 2619:20 WILLIE 2473:20 willing 2743:9 2823:10 Wilson 2480:19 2487:17 2488:16,20 2489:22 2587:2,5 2608:22 2612:19 2617:17 2621:16 Wilson's 2490:4 2593:9,14 2613:6 2617:22 wind 2697:19 2698:10,20 2778:14 2779:15,20,21 2782:20 2788:6 2790:10,13 2791:4,9,10,11,1 9 2805:2 2810:1,3 2812:22 2813:1 2815:8,13 2816:10,11 2817:1,6,22 windstorms 2830:18 wires 2805:20 wish 2525:16 2610:21,22 2615:2 2617:8	2651:8 withdraw 2622:4 Withdrawn 2562:5 withheld 2486:1 witness 2477:2 2480:18 2481:5,11 2482:21 2486:6 2487:16 2503:3 2516:1,2,7 2517:22 2523:21 2569:15 2570:1 2584:14 2587:2 2621:2,8,10 2624:21 2625:1 2631:1,17 2633:4,8,20 2634:1,12,19 2635:16 2636:10,14,16,1 9,22 2637:4,8,17,21 2638:3,17,21 2639:2,8 2640:17 2641:1,10,12,16 2642:1,9,13 2643:7 2644:8,14,21 2645:5,12,20 2646:15 2647:4 2648:2,5,14 2649:1,6,19 2650:21 2651:2 2652:4 2655:4,6,7 2657:15,22 2659:19 2673:12 2676:6,11,18 2686:3 2693:17 2700:3 2708:5,11,19,22	2709:10,19 2710:7,17 2711:1,11,21 2712:4,13,16,19 2713:3,8,12,17 2714:10,14 2715:1,13,18,21 2716:13,19 2717:2,22 2718:4,9,12,14,1 9 2719:2,6 2728:20 2729:5,11 2730:1,17,19,20, 21 2731:3 2732:19 2733:5,12 2736:9 2752:1 2753:3 2754:2 2759:13,14 2760:5,6,10 2761:6,9 2762:14 2763:19 2773:6,12,15 2774:12 2792:22 2793:7,11,16 2801:10 2802:19 2803:7 2804:5 2805:3,9,13 2806:17 2807:5,11 2808:7,20 2809:7,10 2810:18 2811:2,12 2812:21 2813:3,16 2814:5,16 2815:6,21 2816:6,9,18,20 2817:13 2818:2,8 2819:10 2820:8 2821:2,5,8,11 2822:7	2823:5,8,19 2825:20 2827:12,18,20 witnesses 2484:21 2547:18 2633:14 2662:4 2669:10 2672:22 2673:16,22 2674:3 2770:13 2826:19 2829:17,22 2830:12,14 won 2779:15 wonder 2585:4 2596:13 2691:9 wondered 2827:1 Woolridge 2477:15 2760:5 2761:8,17,22 2762:21 2765:5 2773:5 W-O-O-L-R-I-D- G-E 2761:22 Woolridge's 2760:15 worded 2758:6 work 2634:17 2704:9 2710:9 2820:11 2824:11 worked 2643:6 working 2599:14 2602:10 2641:15 2818:21 works 2619:19 2792:6 worth 2601:18 2611:11 2822:16 wrinkle 2507:21 write-down
---	--	---	---

Capital Reporting Company
Formal Case No. 1119 04-20-2015

Page 79

<p>2601:7</p> <p>writing 2743:11</p> <p>written 2495:10</p> <p>2513:20 2515:8</p> <p>2565:21 2583:22</p> <p>2601:5 2620:10</p> <p>2664:14</p> <p>wrong 2609:6</p> <p>wrote 2560:18</p> <p>2561:3 2607:15</p> <p>2610:7 2612:3</p> <p>2666:17 2675:5</p> <p>2743:2</p> <hr/> <p>Y</p> <hr/> <p>yellow 2676:8</p> <p>yep 2570:17</p> <p>2573:2 2581:21</p> <p>2587:10</p> <p>2620:9,11</p> <p>2790:18</p> <p>yesterday 2748:8</p> <p>yet 2484:1 2518:2</p> <p>2638:18</p> <p>yield 2580:19</p> <p>York 2474:4</p> <p>2795:18 2796:11</p> <p>2797:1,20</p> <p>2798:9,11</p> <p>2800:8,9</p> <p>2806:19</p> <p>2807:13,14</p> <p>you'll 2492:10</p> <p>2565:16 2592:1</p> <p>2664:15 2699:21</p> <p>2743:20 2745:22</p> <p>2747:5</p> <p>2748:6,11</p> <p>2755:10 2764:20</p> <p>2765:9 2771:16</p> <p>2790:7</p>	<p>yourself 2547:16</p> <p>2549:14,20</p> <p>2555:17 2559:20</p> <p>2571:21 2572:2</p> <p>2585:5 2586:19</p> <p>2597:16 2598:12</p> <p>2617:5 2635:14</p> <p>2695:3 2704:6</p> <p>2763:5 2776:2</p> <p>2782:10</p> <p>you've 2480:11</p> <p>2501:22 2521:12</p> <p>2564:11 2636:6</p> <p>2660:8,22</p> <p>2661:5 2664:20</p> <p>2665:5,14</p> <p>2671:8 2700:14</p> <p>2702:14 2716:5</p> <p>2754:11 2763:3</p> <p>2776:16 2778:13</p> <p>2784:2 2787:18</p> <p>2811:5</p> <hr/> <p>Z</p> <hr/> <p>zero 2580:3,4</p> <p>zones 2593:13</p>		
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