**BEFORE THE**

**PUBLIC UTILITIES COMMISSION OF OHIO**

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| In the Matter of the Application of  The Dayton Power and Light Company to Increase Its Rates for Electric Distribution | )  )  ) | Case No. 15-1830-EL-AIR |
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| In the Matter of the Application of  The Dayton Power and Light Company for Accounting Authority | )  )  ) | Case No. 15-1831-EL-AAM |
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| In the Matter of the Application of  Dayton Power and Light Company for Approval of Revised Tariffs | )  )  ) | Case No. 15-1832-EL-ATA |

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| **DIRECT TESTIMONY OF DEVIN CRIST IN OPPOSITION TO STIPULATION AND RECOMMENDATION**  **ON BEHALF OF**  **INTERSTATE GAS SUPPLY, INC.** |

July 16, 2018

**Q. Please state your name and title.**

A. My name is Devin Crist. I am the Manager, Treasury and Risk for IGS Energy.

**Q. On whose behalf are you testifying?**

A. I am testifying on behalf of Interstate Gas Supply, Inc. (“IGS”).

**Q. Please describe your educational background and work history.**

A. I have a Masters in Business Administration (M.B.A.) from Capital University and a Bachelor of Business Administration (B.B.A.) from Ohio University. I am also a Certified Treasury Professional (CTP). I started my career working at American Municipal Power, Ohio (AMP) as an energy and billing analyst. I was promoted to the role of Director of Energy Accounting and Settlements where I was responsible for the energy settlements and billing between AMP and wholesale counterparties and the utilities. In 2004, I was hired in the role of Director of Energy Accounting and Controls with Accent Energy. At Accent Energy, I managed the margin accounting and settlements as well as serving as the company’s risk manager. In 2013, I assumed the role of Manager of Treasury and Risk at IGS Energy. In this position I manage the company’s credit and collateral position with utilities, RTO’s, and counterparties, oversee all treasury activity throughout the organization, facilitate the corporate insurance program and direct the middle office’s monitoring and valuing of IGS Energy’s energy trading program.

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

A. The purpose of my testimony is to respond to the Stipulation and Recommendation (“Stipulation”) and to support Objections to the Staff Report of Investigation filed on April 11, 2018. Specifically, I am recommending that Dayton Power and Light Company (Dayton) revise its credit requirements and calculation of collateral to ensure that these requirements do not disproportionately impact privately held, unrated companies relative to the risk they impose to Dayton.

**Q. Where are DP&L’s collateral and credit requirements addressed?**

A. Dayton’s credit and collateral requirements are addressed in the Alternative Generation Suppler Coordination Tariff (“Supplier Tariff”).

**Q. Does the Staff Report or Stipulation address these requirements?**

A. No, neither the Stipulation nor the Staff Report directly addresses these requirements. Due to the failure of the Stipulation to address this matter, IGS recommends that if the Commission adopts the Stipulation it should order additional refinements to Dayton’s credit requirements and collateral calculation.

**Q. What are you recommending?**

A. I recommend that the Public Utilities Commission of Ohio (“PUCO” or “Commission”) direct Dayton to modify its Supplier Tariff credit requirements to be more in line with the other electric utilities in the state.

**Q. What is the impact of your recommendation?**

A. My proposal would result in a lower credit requirement for privately held companies that are more consistent with publicly traded companies. The companies would still post collateral and the new calculation would be more in line with industry standards.

**Q. Why is there a credit requirement for electric suppliers?**

A. There is a credit requirement on electric suppliers in case of default. The utility must provide its customers a firm supply of electric generation service when there is a failure of a supplier to provide retail electric generation service. The credit requirement covers any costs the utility would incur taking on the responsibility of serving those customers.

**Q. Are all suppliers required to post collateral?**

A. No. Suppliers owned by public companies with investment grade long-term bond ratings are deemed to satisfy their creditworthiness and receive an unsecured credit limit.

**Q. Are privately owned companies required to post collateral?**

A. Yes. Privately owned companies which do not have bond ratings must make alternative credit arrangements with Dayton.

**Q. What are alternative credit arrangements?**

A. A guaranty of payment, an irrevocable Letter of Credit, a Prepayment Account with Dayton, a Surety Bond, or other mutually agreeable security or arrangement.

**Q. Why are you requesting a change in the calculation of the alternative credit arrangement?**

A. After the Finding and Order in Case No. 16-0395-EL-SSO, Dayton changed how it calculated the required credit amount, applying its credit requirements in a manner inconsistent with historical practice. This new calculation significantly increases the amount of collateral a supplier is required to post.

**Q. Does the Staff address the issue in its Staff Report?**

A. No.

**Q. What is Dayton’s new calculation for credit requirements?**

A. Dayton multiplies 30 days of the supplier’s estimated summer usage by the highest monthly average megawatt-hour price from the prior summer’s PJM Day Ahead market and multiplies by 30 days of the supplier’s capacity obligation by the final Dayton zonal capacity megawatt-day price for the upcoming delivery year. [[1]](#footnote-1)

**Q. Why is this new calculation burdensome to privately held companies?**

A. Calculating 30 days of exposure *and* including the capacity obligation significantly increases the amount that a supplier is required to post.

**Q. Does the Supplier Tariff state that the credit amount should be applied mechanically the same to all suppliers?**

A. No. The Supplier Tariff states that Dayton is supposed to account for actual risk and consider performance. The Supplier Tariff states that “[t]he amount of the security required must be and remain commensurate with the financial risks placed on the Company by that supplier, *including recognition of that supplier’s performance*.”[[2]](#footnote-2)

**Q. Does Dayton give any weight to the language in its tariff to consider actual risk and performance?**

A. No. IGS has over 25 years of experience serving retail customers in the state of Ohio and serves in total one million customers without defaulting on its obligations. Moreover, the IGS family of companies are involved in a diverse range of businesses. This diversity provides additional resiliency and strength to IGS’ balance sheet. These factors are not considered in any fashion when Dayton determines if or what level of collateral IGS must provide.

**Q. Regarding the calculation itself, do other electric utilities in the state of Ohio include capacity costs in their collateral requirements?**

A. No.

**Q. Can you explain how other electric utilities in Ohio calculate collateral?**

A. Yes. FirstEnergy requires a standard collateral payment in the amount of $250,000. Above that amount FirstEnergy uses a credit exposure formula. AEP and Duke calculate collateral based on estimated energy usage.

**Q. What is the FirstEnergy credit exposure methodology?**

A. FirstEnergy requires suppliers to post $250,000 in collateral. After that amount, they calculate any additional requirement based on peak summer energy usage for 5 days times peak pricing.

**Q. What is Duke’s methodology?**

A. Duke’s credit requirement for collateral is based on estimated summer usage for 30 days multiplied by July peak prices. Duke also provides a credit if the supplier is participating in the Purchase of Receivables program.

**Q. Is AEP’s calculation similar to Duke and FirstEnergy’s?**

A. Yes, it is similar in that it uses an estimate to calculate the collateral payment. AEP, however, estimates peak summer energy usage for 15 days and multiplies that times July peak prices.

**Q. Does FirstEnergy, Duke or AEP include capacity obligation in their collateral calculation?**

A. No.

**Q. Does FirstEnergy, Duke or AEP use the same number of days of exposure in their collateral calculation?**

A. No. FirstEnergy uses 5 days, Duke uses 30 days, and AEP uses 15 days.

**Q. Do you support AEP’s methodology over Dayton’s methodology for collateral calculation?**

A. Yes. I believe using an energy only estimate for the collateral would provide the utility with a reasonable amount in case of default. I also believe 15 days’ exposure is more reasonable than 30 days.

**Q. What is the impact of including capacity obligation and 30 days of exposure in the collateral calculation?**

A.Including capacity obligation at peak forward pricing and calculating energy and capacity exposure based on 30 days can potentially add millions to the collateral requirement.

**Q. Why is this an issue for suppliers owned by privately held companies?**

A. Having to post millions of dollars in collateral is unduly burdensome to privately held companies with strong balance sheets. Similar public companies with credit ratings are not required to post any collateral and yet, financially strong private companies are required to post collateral. Typically speaking, privately held, unrated companies such as IGS may have little or no business reason to get a credit rating; therefore, DP&L’s tariff is structured to the disadvantage of companies like IGS.

**Q.** **Has Dayton consistently calculated and applied its collateral requirements?**

A. No, at one point, Dayton did require a de minimus amount of collateral, but then changed it to zero.  It remained at zero until earlier this year, although it had a tariff-based method for calculating collateral requirements.

**Q. Was the change in collateral amount the only issue with having to post collateral?**

A. No. Dayton also unilaterally modified the time period upon which it may demand collateral must be paid following default. This is known as remedy timing.

**Q. What is remedy timing?**

A. It is the amount of time the surety has to pay the obligee any indebtedness the principal has incurred up to the promised amount stated on the bond.

**Q. What was the change Dayton required?**

A. The bond form Dayton had posted on its website stated a 30-day remedy period. When IGS submitted its collateral payment, Dayton informed us that the required remedy period was now five days. That shortened time period puts a lot of pressure on the bond company to commit to that obligation. It is also my understanding Dayton did not obtain Commission authorization to make this change.

**Q. What is a typical remedy period?**

A. I would say the standard is 30 days. An acceptable shortened time period would be 10 days.

**Q. Does the bond form on the Dayton website now reflect the change to 5 days?**

A. No. The bond form on the Dayton website now states a 2-day remedy period which is very aggressive.

**Q. Is the bond form, including timing and process, approved by the PUCO?**

A. No, I do not believe the PUCO approved the bond form. It is not included in the PUCO approved tariff that defined the collateral requirement.

**Q. What are your recommendations?**

A. I recommend that Dayton give full effect to the requirement in its tariff that the amount of the security required be and remain commensurate with the financial risks placed on the Company by that supplier, including recognition of that supplier’s performance. I further recommend that Dayton revise the collateral requirements to be more in line with the other electric utilities in the state. Either a standard collateral amount or a calculation based on energy only based upon 15 days’ exposure. I recommend more advance notice to changes on any large collateral requirements. I recommend that the remedy time on the bond form be set at no less than 10 days. And finally, I recommend Dayton obtain Commission approval before making collateral changes.

**Q. Does this conclude your testimony?**

A. Yes, it does. However, I reserve the right to further supplement my testimony.

**CERTIFICATE OF SERVICE**

The undersigned hereby certifies that a copy of the foregoing *Direct Testimony of Devin Crist in Opposition to Stipulation and Recommendation on Behalf of Interstate Gas Supply, Inc.* was served this 16th day of July 2018 via electronic mail upon the following:

*/s/ Joseph Oliker\_\_\_\_\_\_\_*

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1. DP&L Alternative Generation Supplier Coordination Tariff, sheet G8, page 24 of 30 [↑](#footnote-ref-1)
2. DP&L Alternative Generation Supplier Coordination Tariff, sheet G8, page 24 of 30 (emphasis added). [↑](#footnote-ref-2)