BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of The Dayton Power and Light Company For Approval of a Residential and Small Commercial Renewable Energy Credit Purchase Program Agreement	)))))	Case No. 10-262-EL-UNC

THE DAYTON POWER AND LIGHT COMPANY'S
REPLY IN OPPOSITION TO COMMENTS OF
VOTE SOLAR INITIATIVE

The Dayton Power and Light Company ("DP&L" or the "Company"), pursuant to Ohio Administrative Code ("OAC") Rule 4901-12(B)(1), hereby submits its reply to the Comments of the Vote Solar Initiative ("VSI") submitted August 18, 2010. DP&L urges the Ohio Public Utilities Commission ("PUCO" or "Commission") to reject the proposals set forth by VSI and approve DP&L's application without modification.

I. Introduction.

The key element to DP&L's proposal is that it is structured to balance interests between the producers of Renewable Energy Credits ("RECs") and all other customers. DP&L's program is structured to purchase RECs using an approach that is both fair to the producers of the RECs and does not create excessive costs that would be borne by other customers. DP&L opposes those aspects of VSI's comments that appear likely to create enhanced subsidies and excessive payments to producers of Solar RECs ("SRECs").

VSI's comments may also fail to appreciate that DP&L's application does not establish an exclusive program for purchasing RECs, including SRECs. REC producers, not DP&L, will continue to have the choice to participate in DP&L's program or to sell their RECs in the market. If a particular REC producer truly wants some provision that varies from DP&L's program, the option remains to pursue that objective with a willing buyer of the RECs in the market. Thus, while VSI makes unsubstantiated assertions that customers want fixed price multi-year contracts, the facts remain that if there are any SREC producers that truly want that kind of agreement, that option is available: the SREC producer can seek an individualized contract with DP&L or any other market participant who needs SRECs. DP&L's application merely establishes a balanced program that provides one option to an SREC producer and is fair to all other customers.

II. Specific Comments in Reply to VSI.

A. A Long-term Contract Cannot Be Appropriately Priced as Proposed by VSI.

At page 4 of its comments, VSI recognizes that establishing a price that is too low will discourage investment in rooftop solar, while too high a price does not make effective use of ratepayer money. VSI offers the following formula for establishing a fixed price for a 10- or 15-year contract that it thinks would be just right.

> An SREC price that best achieves that balance by approximating a market-based value can be determined by finding the delta between the cost of installing a solar energy system ($/KWh) and the value of the energy produced after any state and federal incentives have been applied.

The problem with this pricing formulation is that every part of it is indeterminable and speculative over a 10 or 15-year period. Most promoters of solar energy are strong advocates of a view that economies of scale and continued improvements in design will drive the costs per kWh down substantially over the next several years. If that is true, fixing the SREC price today for a 15-year term based on today's costs of installing a solar energy system will result in over-

payments over the life of the agreement. Additionally, what is the value of energy going to be 10 or 15 years from now? Fixing an SREC price today based on some guess as to what the value of energy may be 15 years from now will almost certainly result in an SREC price that is too high or too low. Will state and federal incentives remain the same over the next 10 or 15 years? That is certainly outside the control of any participant in this proceeding.

DP&L's proposal solves these problems by ensuring that the SREC producer will receive a fair market price throughout a five-year term. In year 3, for example, DP&L would pay the Ohio SREC producer the average price it paid in that year 3 for other Ohio Based SRECs that it purchased in the open market.[1]

Even if the pricing problem could be resolved, DP&L would oppose a requirement for a 10- or 15-year term. First of all, despite VSI's references to programs in other States, DP&L is not aware of any residential or small commercial REC producers within its service territory who are seeking long-term contracts. In fact, based on its current experience in trying to purchase RECs from such producers in 2009 and to date this year, many homeowner-generators are themselves hesitant to enter into long-term arrangements. This reluctance appears to be for one of two reasons: a) the homeowner has limited operating experience; and b) the homeowner believes that REC prices might be even higher in the future.

DP&L also submits that VSI incorrectly asserts as a justification for its proposal that residential customers need to be able to monetize a long-term fixed stream of revenue as part of their decision to install solar panels. VSI Comments at 3-4. That theory may have relevance in

[1] DP&L notes a typographical error in VSI's comments at 3 where it is incorrectly stated that the price DP&L would pay for a solar REC is based on the price of non-solar RECs. DP&L's proposal sets the price for Ohio solar RECs bought under this program against other purchases of Ohio solar RECs and non-solar RECs against other purchases of non-solar RECs. For completeness, DP&L further notes that there is also a default pricing mechanism to establish a price even if there were no matching form of RECs bought in the year.

the context of a large commercial or utility-scale project where bank financing might be obtained based on a business plan and cash flow projections backed up by an already executed purchase agreement. But the instant case involves small-scale installations that are either paid for up-front by the producer or financed through a finance agreement entered into primarily based on the producer's credit rating. It is also our understanding that, once federal and state tax credits and other incentives are taken into account, most small scale solar installations have a pay-back period of about 5-years, so the proposed 5-year period is in-line with the pay-back period.

B. A Lump-Sum Payment Requirement Is Unacceptable.

VSI proposes that DP&L and, in effect, DP&L's other customers, make a lump sum payment to the solar generator for the 15-year stream of SRECs that is presumed to be generated. It is not even clear whether VSI proposes that a present value discount be applied to reflect the upfront loan of funds to the generator that is repaid by SRECs that may be generated, if at all, 15 years later. Without such a present value discount paired with a security interest in the equipment, VSI's proposal is the equivalent of an interest-free unsecured loan. VSI does not explain what happens if the homeowner-generator moves and takes his or her solar panels to a new residence outside of DP&L's service territory. It is not clear what happens if the equipment is damaged and not replaced. It is not clear what happens if the equipment, for any reason, fails to produce the number of SRECs used in computing the upfront lump-sum payment. The Commission should reject this proposal.

C. VSI's Proposals Are Anti-Competitive.

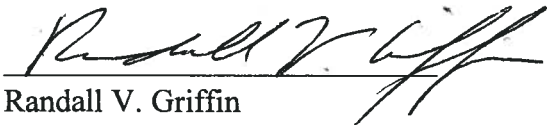
Long-term, fixed price contracts are generally not favored by buyers who are voluntarily participating in REC markets. Thus, the imposition of such a regulatory requirement on DP&L is inherently anti-competitive. That is, in the absence of market participants who would

voluntarily enter into an agreement to buy RECs for 15 years at a fixed price, DP&L will be the monopoly purchaser in the market. CRES providers and others who may be interested in obtaining those RECs for a shorter period of time that is more consistent with their tolerance for risk will be shut out of the market.

III. Conclusion.

The Dayton Power and Light Company, for the foregoing reasons, urges the Commission to reject the VSI's proposals in this proceeding and approve DP&L's form of agreement as submitted.

Respectfully submitted,

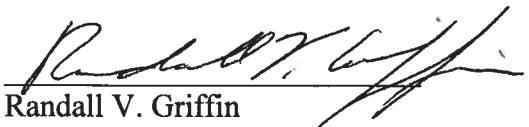


Randall V. Griffin
Judi L. Sobecki
Attorneys for
The Dayton Power and Light Company
1065 Woodman Drive
Dayton, OH 45432
937-259-7221
Randall.Griffin@DPLINC.com
Judi.Sobecki@DPLINC.com

DATED: August 30, 2010

CERTIFICATE OF SERVICE

I certify that a copy of the foregoing has been served either electronically or via first class mail, postage prepaid, this 30th day of August, 2010 upon counsel to the parties of record.



Randall V. Griffin
Chief Regulatory Counsel
The Dayton Power and Light Company

This foregoing document was electronically filed with the Public Utilities

Commission of Ohio Docketing Information System on

8/30/2010 4:25:28 PM

in

Case No(s). 10-0262-EL-UNC

Summary: Reply In Opposition to the Comments of Vote Solar Initiative electronically filed by Mr. Randall V Griffin on behalf of The Dayton Power and Light Company